Crest NICHOLSON

CREST NICHOLSON

OUR PERSPECTIVE

ANNUAL INTEGRATED REPORT 2018

PERFORMANCE HIGHLIGHTS

£1,136.6m
sales[1]
(2017: £1,065.6m)

£176.4m
profit before tax
(2017: £207.0m)

3,020
homes legally completed
(2017: 2,935)

23.0%
return on average capital employed
(2017: 29.7%)

55.7p
basic earnings per share
(2017: 66.1p)

33.0p
dividend per share
(2017: 33.0p)

9%
reduction in total carbon emissions from our offices compared to 2017

115
trainee site managers and apprentices in our workforce
(2017: 125)

342
Annual Injury Incidence Rate (AIIR)
(2017: 416)

[1] Sales is a combination of statutory revenue as per the consolidated income statement (£1,136.1m) and the Group's share earned by joint ventures (£0.5m). See page 29 for more information.

CONTENTS

APPROVAL

The strategic report for the financial year 2018 as presented on pages 12 to 67 was approved by the Board of Directors on 29th January 2019 and signed on its behalf by:

Kevin Maguire
Group Company Secretary

THIS IS OUR PERSPECTIVE

Our mission is to design and deliver high-quality homes, workplaces and retail and leisure spaces where people aspire to live, work and play. We aim to create a lasting legacy in the communities where we build. We're committed to considering our longer-term impacts, environmentally, socially and economically. These ambitions underpin our approach to business. Our high standards for design and clear commitment to quality and effective working relationships with partners and our supply chain help us to earn the trust of customers, landowners, local authorities and communities.

FINBERRY, ASHFORD

WE'RE BUILDING HOMES MORE EFFICIENTLY

We provided 3,020 homes this year, across a broad range of tenures. We are working to improve our operational and build efficiency through a number of measures, including the introduction of new house type designs, which will help us to better balance quality and costs. We are also exploring the value that modern construction methods, including off-site manufacturing (OSM), can have on our productivity. Our trials suggest these methods improve quality, reduce waste and shorten build programmes and the supply chain bottlenecks that can arise from labour shortages. In 2019, we aim to build 300 homes using cold-rolled steel off-site manufactured components.

PAINTWORKS, BRISTOL

3,020
homes delivered in 2018

74
new house type designs created

90%
faster to make prototype OSM homes weathertight than traditional masonry build

WE'RE SUPPORTING

NEW COMMUNITIES

We design our homes and developments with the future in mind. We want to leave a positive legacy for the people and communities where we build. We do this by combining the strongest features of town and country living to create well-planned, healthy and vibrant communities. Our Tadpole Garden Village is one such development in North Swindon, Wiltshire. It will feature new shops, a school, a public house and a 40-hectare nature park, as well as tree-lined avenues with a mix of traditional and contemporary quality new homes. It was recently named Best Housing Scheme (500 homes or more) at The Planning Awards 2018.

TADPOLE GARDEN VILLAGE, SWINDON

412
homes built in garden villages

23%
of homes have sustainable transport initiatives

£215m
committed combined Section 106 and Community Infrastructure Levy payments

WE'RE CREATING

NEW OPPORTUNITIES

We're tackling the industry-wide shortage of skilled labour and creating opportunities within our business for talented people to thrive. Through training programmes and mentoring, we invest in our people to strengthen an already skilled, diverse and passionate workforce, and create a strong talent pipeline for the future. This is supported by our Apprenticeship Scheme, award-winning Graduate Programme and Site Management Academy. In 2018, participants in these programmes made up 14% of our workforce. We're proud to have been awarded the Princess Royal Training Award for our commitment to tackling the skills gap in our industry.

LANCASTER GRANGE, BRICKET WOOD

£1.5m
total investment in training

52
trainee site managers

63
apprentices

26
graduates

PRINCESS ROYAL
TRAINING AWARD
2018

WE'RE USING OUR KEY STRENGTHS TO BUILD A RESILIENT BUSINESS

We're proud of our brand reputation, ambitious for the future and well-placed to take full advantage of the opportunities that lie ahead. We continue to focus on providing a great customer experience and responding to home owners' needs and the trends in our marketplace. Our commitment to operational efficiency and quality is matched by our focus on building effective partnerships to deliver more homes. We also continue to engage with employees and wider stakeholders to ensure that the fundamentals of our business remain resilient.

BATH RIVERSIDE, BATH

£1,136.6m
sales[1]

4*
customer satisfaction rating

3,174
plots in our portfolio under a partnership

[1] Sales is a combination of statutory revenue as per the consolidated income statement (£1,136.1m) and the Group's share earned by joint ventures (£0.5m).

Chairman's statement

QUALITY, OPERATIONAL EFFICIENCY AND A NEW BUSINESS STRATEGY

Although the housing industry's fundamentals remain strong, growing market uncertainty created a challenging sales environment during the year. The 'Brexit effect' has introduced caution to the housing market, particularly in the southern part of the country where we focus our operations. It has also consumed considerable amounts of Government time.

However, housing has remained the number one issue on the domestic political agenda. This year's White Paper on housing set out the Government's plan to reform the market and brought some improvements in the planning regime, and the recent Letwin Review analysed the causes for the gap between housing completions and the amount of land allocated to building homes.

At Crest Nicholson, we have experienced pressure on margins from flat pricing and rising build costs and we know that affordability for home buyers is stretched.

Despite this backdrop, we continue to demonstrate our underlying resilience as a business, increasing turnover compared to last year as well as increasing our units delivered by 3%.

Since I became Executive Chairman in March 2018, we have continued to engage with our shareholders, holding a number of meetings to address their legitimate concerns about business performance in a tougher market. We have made clear to our shareholders and other stakeholders that our focus remains on quality, operational efficiency and a business strategy that responds to the challenges we face. This includes increased levels of partnering, rolling out our new range of house designs, increasing our focus on operational efficiencies and maintaining our commitment to cash generation.

We are also committed to being a developer and employer of choice in the industry, and to maintaining our reputation as a design-led quality housebuilder that believes in good place-making.

Our aim to regain our status as a five-star housebuilder has not changed and I was pleased to see our customer satisfaction rating edging ever closer to achieving the 90% level required.

Health and safety remain a priority, and this is supported by a dedicated Health & Safety Committee. The tragedy at Grenfell Tower in 2017 led to an independent review of Building Regulations and Fire Safety being announced by the Government. Crest Nicholson has welcomed this review and the Board will take full account of its findings. Our Technical Committee is focused on fire safety initiatives for the Group.

The Board has proposed a final dividend of 21.8 pence per share (2017: 21.8 pence) for the financial year ended 31st October 2018. The proposed dividend, together with the interim dividend, is covered 1.7 times by earnings. This is in line with our commitment to deliver sustainable value for investors over the long term, prioritising dividends and maintaining levels with those in the prior year of no less than 33 pence per share for the year. Subject to no material deterioration in current market conditions, we expect to pay dividends at a similar level for 2019.

Given some of the challenges outlined above, it is no surprise that there has been considerable Board focus on operational efficiency to preserve margins, prioritising cash flow and dividends, and maximising the value in our land and development portfolio. During the year, there was also continued focus on senior succession planning and several significant Board changes.

The appointments of Patrick Bergin as Chief Executive, Leslie Van de Walle as Deputy Chairman and Senior Independent Director, Louise Hardy and Lucinda Bell as Non-Executive Directors and myself as Executive Chairman were all part of the implementation of our long-term succession plan to ensure key Board positions transition smoothly. With these changes, the Board has broadened its range of skills, particularly in the areas of finance, strategy, marketing and construction. This new Board brings with it a fresh perspective and new levels of rigour and challenge. I would like to take this opportunity to thank William Rucker for his service as Chairman of the Board from September 2011 until he stepped down at the Annual General Meeting in March 2018. Jim Pettigrew and Pam Alexander also left the Board this year.

Unfortunately, not all of our succession planning has worked as intended. On 16th October 2018, Robert Allen stepped down as Group Finance Director. Recruitment for a successor is underway.

OUTCOMES OF BOARD EVALUATION PROCESS

This year the Board's performance evaluation was externally facilitated. The process concluded that although relationships continue to evolve with several significant changes taking place during the year, the Board operates in an open and collective atmosphere, taking decisive action and continuing its strategic development.

The Board continues to place a strong focus on our business ethics. I was pleased to see Patrick holding Group-wide roadshows to provide employees with a clear framework and insight into how we can all work together to achieve our strategic objectives. The roadshows have also been an opportunity to reaffirm that, while we are experiencing some challenging market conditions, we remain a strong business with a strong core value proposition. We must continue to create the right corporate culture and encourage the right behaviours within the Group and externally.

Under Patrick's leadership and with my support, we are committed to increasing shareholder returns and profitability. We will work together to enable the Board to continue to take decisive, pragmatic action that allows us to capitalise on the opportunities ahead.

In 2019 the Board will continue to work closely with the Executive Management Team to improve performance across the Group, while building on the trust and confidence of our shareholders, customers, partners and employees. We are committed to executing the Group's new strategy, creating a quality product, and continuing to strengthen the industry skills and experience at our senior and Board levels.

Stephen Stone
Executive Chairman

Results and dividends

£142.8m

The Group's consolidated profit after taxation for the financial year ended 31st October 2018 (2017: £168.6m).

21.8p

Proposed final dividend for the financial year ended 31st October 2018 (2017: 21.8p).

Together with the interim dividend of 11.2 pence per share paid in October 2018, the total dividends for the year were 33.0 pence.

Corporate governance highlights

- Board succession
- Stakeholder engagement
- Externally facilitated Board evaluation

Information on the Group's governance, audit and remuneration can be found in the Governance section on pages 68 to 115.

The Board's focus this year

- Macro-economic environment
- Health and safety (and fire safety)
- Core house type range and off-site manufacture
- Changes to the Board
- London and South East
- Internal cost controls
- Cash generation
- Financial performance
- Cyber security

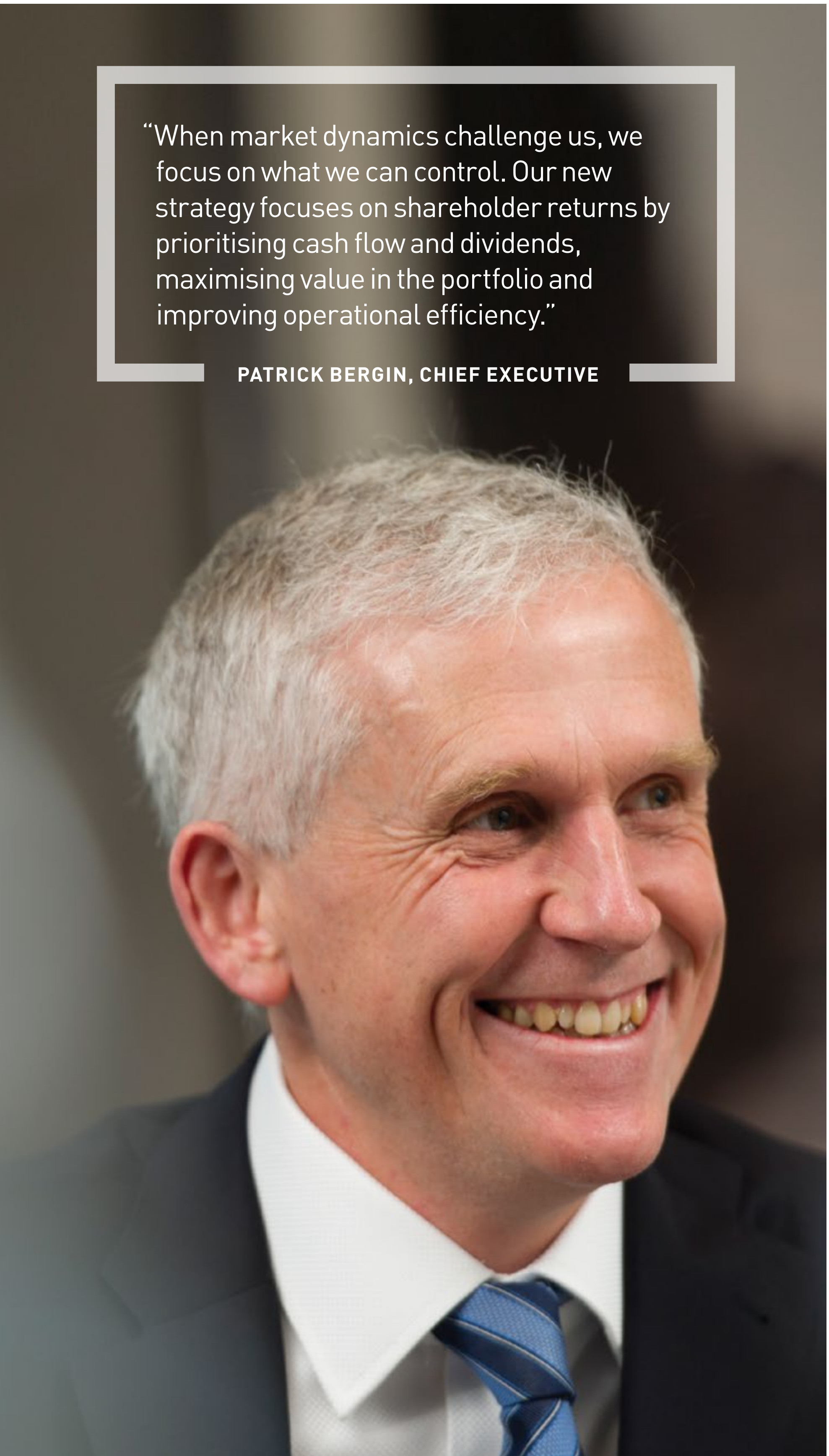
Information on the Board's priorities and activities during the year can be found in the Governance section on pages 68 to 115.

The Board's focus areas for 2019

- Cash generation
- Strategic partnering
- Operational efficiency
- Strengthening senior management resource
- Commercial cost disciplines

Chief Executive's strategic update

SHAPING UP TO BE A MORE RESILIENT BUSINESS



"When market dynamics challenge us, we focus on what we can control. Our new strategy focuses on shareholder returns by prioritising cash flow and dividends, maximising value in the portfolio and improving operational efficiency."

PATRICK BERGIN, CHIEF EXECUTIVE

Q: THIS HAS BEEN YOUR FIRST YEAR AS CHIEF EXECUTIVE – WHAT ARE YOUR PRIORITIES?

A: My central objective is to make sure that the business is in great shape to address the opportunities and challenges it will face in an evolving and cyclical market. For me, this is about building resilience in our organisation, while maintaining the highest standards of health and safety, build quality and customer service.

However, it has been a challenging year in a difficult market, with Brexit and political uncertainty impacting consumer confidence and breeding unease.

In addition, the second-hand market has slowed, and the high cost of stamp duty is weighing on many home buyers' decisions to move. This has influenced discretionary purchasers in the south east and is likely to continue until the uncertainty of Brexit has passed. Nonetheless, I remain confident in our market position as a quality housebuilder focused on the southern half of the UK and in our strategy to address these challenging market conditions.

I want us to be the employer of choice in our industry. We treat our staff fairly and with respect, provide challenging work, reward well and support them in developing their potential. I believe this is the recipe for a great place to work, and this was echoed in this year's Employee Engagement Survey, in which our employees resoundingly confirmed that they take pride in the jobs they do and the homes that we build.

Q:HOW HAS THE BUSINESS PERFORMED DURING THE YEAR?

A: We delivered 3,020 new homes in 2018 (3% higher than in 2017), achieving an average selling price of £393,000 on open market sales. We secured significant contributions to volumes from the Private Rented Sector (PRS) as well as achieving good planning outcomes and an encouraging number of strategic conversions.

The first half of the year was characterised by generally strong trading volumes, but we saw slower than anticipated sales rates in the second half of the year. The business took decisive action to mitigate the loss of sales volumes by accelerating bulk sales to Registered Providers and PRS investors, selecting land sales on long tail sites and adjusting our build programmes. However, these measures, taken together with flat pricing in the market and continuing build cost inflation, had an adverse impact on margins.

The experience of adverse build costs was most significant in London where internal controls over cost estimation and recording did not operate as intended.

Despite these challenges, we have ended the year with 19,291 plots in our short-term land pipeline and a clear strategic priority to unlock that value through the increased use of partnerships.

Q: HOW ARE YOU RESPONDING TO THE CHALLENGES THE BUSINESS FACES?

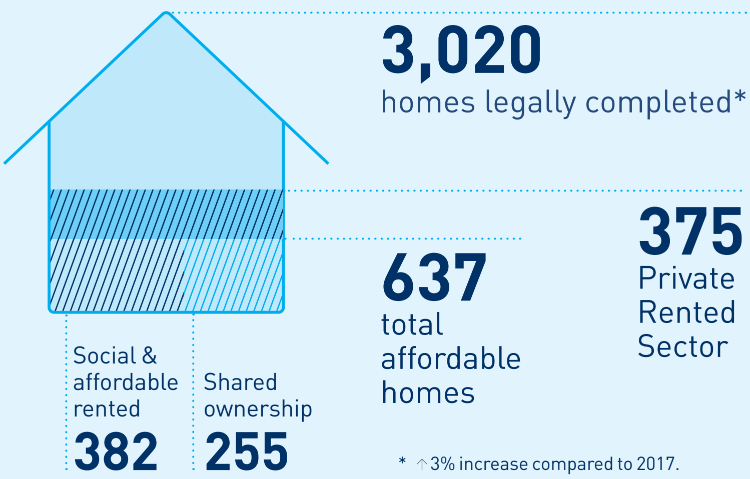
A: When market dynamics challenge us, we focus on what we can control. The business is cash generative, so we are managing our build stock, as well as resizing our land buying programme in line with lower demand. Across Crest Nicholson, we are looking at how to make us a leaner and more efficient business.

As stated before, cost inflation, along with flat pricing, particularly in the south of England, has adversely impacted our operating margin, albeit it remains healthy at 16.7% (2017: 20.3%), reflecting the strong margins in our land pipeline. Nonetheless, it is important to remain focused on how we maintain a healthy margin in the face of continuing, but moderating, build cost inflation and market uncertainty. We have taken a number of actions in our supply chain and reviewed our own processes to offset build cost pressures, as well as making improvements to the way we capture and manage our build quality and performance data on site.

We are investing in areas to improve operational efficiency as well as mechanisms to improve housing affordability. Building on our strong existing portfolio, we have developed a new range of designs for both our houses and apartments, which will complement our traditional product. These designs offer significant cost efficiencies through some standardisation and will make procurement and construction easier over time. However, they are flexible enough to meet most local needs and to fulfil detailed planning requirements.

We are also expanding our use of off-site manufacture (OSM), where house components, typically pre-insulated cold-rolled steel frames, are built in a factory and then erected on site. The use of this modern method of construction can reduce the amount of on-site labour required, significantly reduce waste and make us less reliant on traditional brick-based construction. It also allows us to change the sequencing of work done on site more easily, offering works planning and productivity benefits.

New homes delivered in 2018



* ↑3% increase compared to 2017.

Q: WHICH ARE THE AREAS YOU THINK THE BUSINESS CAN IMPROVE ON?

A: We always strive to improve in the most important areas – health and safety, the quality of our product and places, customer service and developing talent for the future. We have continued to focus on regaining our five-star customer service status as we have worked hard to balance quality with increasing volumes and faster delivery.

Our people work hard every day to put customers at the heart of what they do. This dedication is starting to pay off, with a small increase in our overall customer satisfaction score. We hope to see a further improvement next year by continuing to focus on what is most important to our customers – timeliness, quality, affordability and communication.

I mentioned how we want to be an employer of choice and the importance of engaging our people. Our Employee Engagement Survey shows that we have a very engaged workforce, but there is more for us to do in this area. I am committed to continuing to communicate with our employees, including through roadshows that promote the values and culture we share at Crest Nicholson.

We have also been working on an engagement strategy that keeps health and safety at the forefront of all employees' day-to-day working lives. This has led to the creation of our new health and safety brand, 'Be Safe', which was developed during the year and will be rolled out across the business in 2019.

Q: HOW IS YOUR REGULATORY AND OPERATING ENVIRONMENT CHANGING?

A: The most important area this year – and something that affects the whole industry – are the changes to fire regulations following the tragedy at Grenfell Tower in 2017. We believe these changes are important and we welcome them. The clarifications to the Approved Document B of the building regulations are expected to be published in early 2019 with a consultation expected to commence shortly thereafter, with which we look forward to engaging.

Chief Executive's strategic update

Strategic areas of focus

During the year, we reviewed our business strategy to ensure we respond effectively to current and potential future challenging market conditions. This has resulted in clear strategic priorities around delivering long-term shareholder value and maximising operational efficiency. These strategic priorities are supported by four other areas of focus.

STRATEGIC PRIORITIES

See KPIs on pages 24 to 25

DELIVER LONG-TERM SHAREHOLDER VALUE AND MAXIMISE OPERATIONAL EFFICIENCY

We are prioritising cash generation and dividends, maximising value in the portfolio and improving operational efficiency.

AREAS OF FOCUS

ENSURE HIGH LEVELS OF CUSTOMER SATISFACTION, PRODUCT QUALITY AND PLACE-MAKING

We build high-quality, well-designed homes for our customers and create communities that deliver a lasting economic, social and environmental legacy.

ATTRACT, DEVELOP AND RETAIN HIGH-PERFORMANCE INDIVIDUALS AND ENSURE THE HIGHEST SAFETY STANDARDS

We promote a strong culture of health and safety and are focused on recruiting and supporting the best people in our industry.

CONTINUALLY IMPROVE ENVIRONMENTAL, SOCIAL AND GOVERNANCE PERFORMANCE

We deliver quality homes responsibly, integrating economic, social and environmental considerations throughout the business.

DEVELOP LASTING RELATIONSHIPS WITH PARTNERS AND THE SUPPLY CHAIN

We create mutually beneficial and strategic partnerships with landowners, financial institutions and our supply chain to create new opportunities, help secure planning and bring forward developments in a timely and efficient manner.

Health and safety in our day-to-day operations and the ongoing safety of all residents and users of our buildings are of paramount importance to us.

Alongside our peers, we have changed the way we work since the Grenfell tragedy, making new provisions to further mitigate the fire risks inherent in tall buildings. For example, we have reviewed our specification of materials to be used in insulation and external facades, particularly for buildings over 18 metres high.

Our regulatory and operating environment continues to evolve, with a particular focus from the Government on affordable housing and the perception that some developers are 'land banking' – buying undeveloped land purely as an investment, with no specific plans for its development.

That certainly is not what we do at Crest Nicholson. We make strategic investments in the land we believe offers us the best potential for development and sales, where we can develop a higher proportion of more affordable homes and broaden our portfolio to include more PRS and shared ownership homes, often in partnership with companies like M&G, Registered Providers or local housing trusts.

Our Kilnwood Vale and Arborfield developments are among the first in the UK with suburban purpose-designed build-to-rent phases, providing the scale required to maximise the PRS opportunities, while still meeting the needs of a broader market. We are also seeking to deliver units more quickly, in line with Government thinking, following the trial use of off-site manufacturing in our apartment blocks at Arborfield.

These initiatives also support the aims of the All-Party Parliamentary Group (APPG) Inquiry into the quality of new homes. Its Inquiry has examined how developers can offer a fairer deal and improve transparency in home buying. Working alongside the Home Builders Federation (HBF), we have helped the APPG put its report together and we support its recommendations, such as significantly increasing skills training programmes, introducing the HBF's new industry Customer Charter, the evolution of the Consumer Code and setting up a New Homes Ombudsman.

Q: HOW HAS YOUR BUSINESS STRATEGY CHANGED THIS YEAR?

A: We operate in a cyclical market that makes business efficiency a critical factor, especially when market conditions are less favourable.

We are proactively responding to current conditions by making changes to our business strategy to focus on shareholder returns by prioritising cash flow and dividends, maximising value in the portfolio and improving operational efficiency. The changes will shift our focus from growth towards greater cash generation, with a strong emphasis on partnering to deliver more homes.

We recognise that housing affordability is an important issue, and we are considering how we can supply housing across a broader tenure mix that meets both our quality aims and our customers' expectations. This includes partnering on some of our larger schemes with Registered Providers.

Opening our newest division in the Midlands has been an important strategic move for the Group, widening our operations into areas that offer home buyers greater affordability. As stated last year, we are continuing to step back from the London market, focusing instead on the locations where market conditions and affordability are more favourable. As a result, we have chosen to close our London division with our other Home Counties divisions taking on existing projects in the area and able to invest in London when conditions are more favourable. We have also postponed the opening of our new South East division while market and political uncertainties continue.

Q: HOW ARE YOU TACKLING THE MUCH TALKED ABOUT 'SKILLS GAP' IN THE INDUSTRY?

A: There is a fierce battle in our sector for the people with the skills we need. We were disappointed to see our turnover rate increase in the year to 25% (2017: 22%). Our focus remains on becoming the employer of choice in our industry and making sure that once people have joined our team they are given the right support to progress in their career with Crest Nicholson. This includes improving gender diversity, recruiting women into key roles and supporting female employees in building their career at Crest Nicholson. We have also signed up to the Home Building Skills Partnership, which is developing a programme to provide the workforce and skills the industry needs.

Our Graduate Programme, Apprenticeship Scheme and Site Management Academy all play an important role in our own efforts to fill the 'skills gap' in our industry. We have now recruited 62 graduates since 2014, while 20 people have enrolled in our Academy this year and 72% of our apprentices completed their apprenticeships in 2018.

Of course, retention of the best people is so important, which is why I was pleased to see an overall engagement score of 88% in the Employee Engagement Survey; and when we set up our Midlands division last year, I was delighted to see 13 people return to the business, following a period working elsewhere. For a company of our size, we have a 'family feel' – I want our people to continue to feel valued and build their careers here.

Culturally, the pursuit of high-quality product and customer service and our responsible approach to business are key parts of our shared values. But I want to see more consistency in these areas with our focus on operational efficiency and procedural rigour playing a role. I am clear that fostering effective and lasting relationships with our supply chain sits firmly within our cultural values. It is this collaborative and fair approach to business that has allowed us to work closely with our partners to share the burden of rising costs.

Q: WHAT PROGRESS HAVE YOU MADE ON YOUR SUSTAINABILITY AGENDA DURING THE YEAR?

A: For me, sustainability is about more than just doing something that is 'good enough' to maximise returns. It is about building long-term value and legacy for our stakeholders, wider society and the environment. It is also about putting the right things in place to ensure our business model of high-quality place-making is sustainable, even in a tougher business environment. I am delighted to say that we retained our position in the FTSE4Good Index, improving our score on last year.

Our commitment to a stronger culture of health and safety remains one of my keenest priorities. Our efforts are supported by ongoing engagement with the Executive Management Team through our regular Health & Safety Committee meetings. I was pleased to see that our Annual Injury Incidence Rate (AIIR) fell by 17.8% in the year, and our new 'Be Safe' campaign will be rolled out across the business in 2019, using clear language and messaging to set out our standards and raise awareness of health and safety risks.

Following the completion of our three prototype plots at Arborfield Garden Village using off-site manufacture we are now conducting a post-occupancy evaluation to make sure that the homes not only perform as they were designed but that the air quality and thermal comfort support our customers' health over the long term.

We have a strong belief in our responsibility to our customers and their communities. That's why we remain committed to reducing our impacts – through less waste and lower CO_2 emissions – and we use flood risk assessments and overheating modelling when designing our developments. More and more, we are factoring in future risks around climate change, an increasing priority for our investors and wider stakeholders. We regularly review the key environmental, social and governance matters affecting the business to ensure we respond to risks and opportunities, new regulations and wider societal expectations.

Q: HOW DO YOU VIEW THE FUTURE FOR CREST NICHOLSON?

A: In the context of an unresolved Brexit, I expect the first half of 2019 to be difficult. However, I believe our new strategy will ensure the business is fighting fit and equipped to deal with any challenges it faces.

Current market uncertainty is making it hard to look too far ahead, so while we are optimistic about the longer-term prospects of the sector, we continue to remain vigilant and responsive. Our focus on the south of England housing markets remains a long-term strength, land remains in good supply and we have strong plans in place to meet the demand for affordable housing.

Overall, Crest Nicholson presents a resilient financial proposition and I am excited about our future. We have made good progress this year and I look forward to working with the dedicated and talented people we have across the organisation as we strengthen the business further in 2019.

Patrick Bergin
Chief Executive

Chief Executive's strategic update

OPERATING ENVIRONMENT

We work in a complex operating environment, as government policies, employment trends, economic prospects and changes in regulations affect most aspects of the way we work. Our approach ensures we are ready to respond to challenges and opportunities.

KEY ISSUES THAT AFFECT US

1. Economic and political uncertainty

The ongoing negotiations around the terms of the UK leaving the EU have yet to offer a clear picture of what this will mean for domestic businesses. As a result, we have seen a protracted period of economic and political uncertainty that has increasingly affected consumer confidence, not just in our industry, but across many sectors. However, the fundamental strengths in our market remain, and the underlying demand for housing continues to be strong in most parts of the country.

Our response

We are continuing to monitor levels of sales and adjusting production and land buying activity to maintain cash flow. We have also consulted with our key suppliers to ensure they have robust contingency plans in place (including stock levels and alternative transport routes) for a variety of Brexit outcomes as well as identifying any changes to prices from exchange rates or newly imposed tariffs. Exact details on how EU citizens will be affected by Brexit is still not clear, although the Government's policy paper on safeguarding the position of EU citizens living in the UK provides some reassurance. At an industry level, we are collaborating with colleagues to anticipate further changes and uncertainty in the market.

2. Constraints on labour and skills

The lack of skilled labour remains a significant challenge for our industry. The uncertainty about the future of EU workers in the UK has added to this problem, with some people returning to their country of origin and others unsure they can stay. Most home builders recognise the need to attract a diverse workforce and are making significant investments in the skills needed – from the construction skills required on site to more technical-based design, architectural and surveying skills.

Our response

We are working with the industry, generally through the Homebuilding Skills Partnership, to broaden the diversity and attract younger people to the industry. At Crest Nicholson we continue to develop our employees' skills and provide opportunities for career development, including through our Apprenticeship and Graduate Schemes and our Site Management Academy. We are also investing in training, development and mentoring for other roles as well as gender diversity, to ensure that we have a strong talent pipeline for the future.

3. Shortage of housing stock affordability

Many years of undersupply in the market has led to a strong demand for homes. Reducing the UK's considerable shortfall of homes is one of the Government's highest domestic priorities, and it has increased the target for new homes built from 220,000 a year to 300,000. There is a particular and growing need for additional affordable homes and the Government has provided additional long-term grants to Registered Providers to support this objective.

Our response

We support the Government's ambitions to increase the building rate at large (above 1,500 units) sites, and agree that a diverse range of tenure types will help achieve that. But increasing tenure diversity (such as Build to Rent) doesn't work in all locations; the market conditions have to be right. We have made a conscious effort to provide a wider mix of tenures on our sites that includes affordable housing, homes for the Private Rented Sector and homes that are made available for shared ownership. We have also begun using more modern methods of construction on some sites to accelerate our build programmes.

4. Supportive Government policy

The Government's current Help to Buy equity loan scheme remains in place, helping buyers to purchase a new-build home under £600,000. Recent announcements confirm that the scheme is to be extended to 2023, albeit restricted to first-time buyers and with a reduced value cap equivalent to 1.5 times the average first-time buyer property in the region concerned. The Government has given Registered Providers greater business certainty and committed additional grants for shared ownership and affordable housing. It also introduced the £5 billion Housing Infrastructure Fund, which is a capital grant programme to help unlock new homes in areas with the greatest housing demand.

Our response

Help to Buy is an important driver of sales for us, so we are pleased with the decision to extend it. However, PRS and shared ownership also represent opportunities to work in partnerships with investors and Registered Providers to deliver more sales and affordable homes. We also work closely with Homes England, Local Enterprise Partnerships and local authorities to facilitate the regeneration of their towns and cities.

5. Mortgage rates, employment and stamp duty

Access to mortgages remains good, though the deposit required is out of reach for many and changing patterns of work can affect an individual's eligibility. Interest rates remain low and employment levels are good, but average earnings have been falling in real terms, affecting affordability across the country. High levels of stamp duty on high value properties has contributed to the stalling of the second-hand market, which has a knock-on effect to the higher priced segments of the new home market as buyers decide to stay put, or find that they struggle to sell.

Our response

We seek to build our developments in areas with high demand, and we offer high-quality homes that not only meet our customers' needs but offer attractive long-term mortgage opportunities for lenders. Our sites typically feature good transport links, high-speed broadband and excellent commuting options. Whilst taking a disciplined approach to Part Exchange, this and other arrangements help reduce some of the impact of a slower second-hand market.

6. Changing regulatory requirements

The industry's focus on regulatory changes over the past year has understandably been dominated by new fire safety requirements following the tragedy at Grenfell Tower in 2017. However, there was also a broader consultation around the updated National Planning Policy Framework (NPPF), which put a stronger emphasis on place-making, design and digital technology, as well as recognising the role of planning in creating healthy and safe communities. Far reaching changes to Leasehold arrangements have also been proposed, including caps on the levels of ground rent that could be charged on apartment schemes.

Our response

We have welcomed the new regulations on fire safety and believe the industry must embrace the adoption of much more stringent standards to support the delivery of safe buildings. We also welcomed the new NPPF, which acknowledged the role of the build-to-rent sector in delivering more high-quality rental homes to the market and linked building decisions to the Climate Change Act (2008). The Group had £20.9m of freehold reversions included within the inventory. We are working to ensure that the Leasehold reforms do not inadvertently undermine the sustainability of high-quality legacy arrangements, or the role of institutional investors in owning and properly managing leasehold apartments.

7. Good land and planning environment

Availability for land with pre-existing planning permission remains good. The strategic land market is still influenced by 'land promoters', who seek to promote sites with medium- or long-term planning potential for residential development, but do not have delivery skills. Despite some improvements to the planning system in recent years, it remains bureaucratic and inefficient, and in many regions planning authorities continue to be seriously under-resourced. These are major challenges for housebuilders as we seek to clear conditions, secure implementable consents and increase our output to meet the Government's increasing new homes target.

Our response

Our strong relationships with local government and public bodies are important in enabling us to secure detailed planning consents and technical approvals. We have good access to land, including through our partners, and have a particular strength in promoting and delivering larger sites. Our relationships with landowners like the Defence Infrastructure Organisation (DIO) and many established estate owners mean we can demonstrate a track record for planning and creating great places that not only add and sustain value to communities but also deliver good margins for shareholders.

Chief Executive's strategic update

ENGAGING WITH STAKEHOLDERS

Understanding and responding to our stakeholders' needs and concerns is a crucial part of strengthening our business and making it fit for the future. This engagement takes many forms and involves people at every level of our business.

INVESTORS

We engage with our investors through a programme of presentations and investor meetings, ensuring we set out a clear plan for delivering long-term, sustainable value.

What matters to investors

- Solid dividend performance and long-term sustainable value
- Operational efficiency
- Robust corporate governance and business ethics

CUSTOMERS

We engage with customers throughout the purchasing process to ensure their experience with Crest Nicholson is excellent and participate in the National House Building Council (NHBC) customer satisfaction survey.

What matters to customers

- Quality homes delivered on time, with excellent service and after care
- Amenities, infrastructure and open spaces
- Strong social and environmental legacy

EMPLOYEES

In 2018 we have engaged with our employees in several ways, including through our Employee Engagement Survey, the Chief Executive's vlogs and a Company roadshow.

What matters to employees

- Supportive and diverse environment
- Fair reward, development and career opportunities
- Challenging and interesting work
- Benefits and rewards

SUPPLIERS AND PARTNERS

We actively engage with our suppliers and partners, working closely with them to address shared challenges, production capacity, skill shortages, risk, knowledge and good practice.

What matters to suppliers and partners

- Mutually beneficial relationships, sharing risk and reward
- Projects delivered on time
- Projects that create great outcomes for the local area

LOCAL COMMUNITIES

We engage proactively with local communities through public meetings, consultations and publicly available documentation to meet local needs and provide quality place-making.

What matters to local communities

- Well-designed, quality homes with character
- Advanced investment in infrastructure
- School and health facilities

GOVERNMENT AND INDUSTRY

We engage with the Government and our peers by participating in industry bodies and meetings to discuss emerging policy, regulation, best practice and increasing the delivery rate of new homes.

What matters to the Government

- Increasing the number and types of affordable and well-built homes
- Support for small- and medium-sized enterprises, and faster housing delivery
- Developments that support biodiversity and climate change priorities

For more information go to pages 80 and 81 in the Governance section

Our regional focus

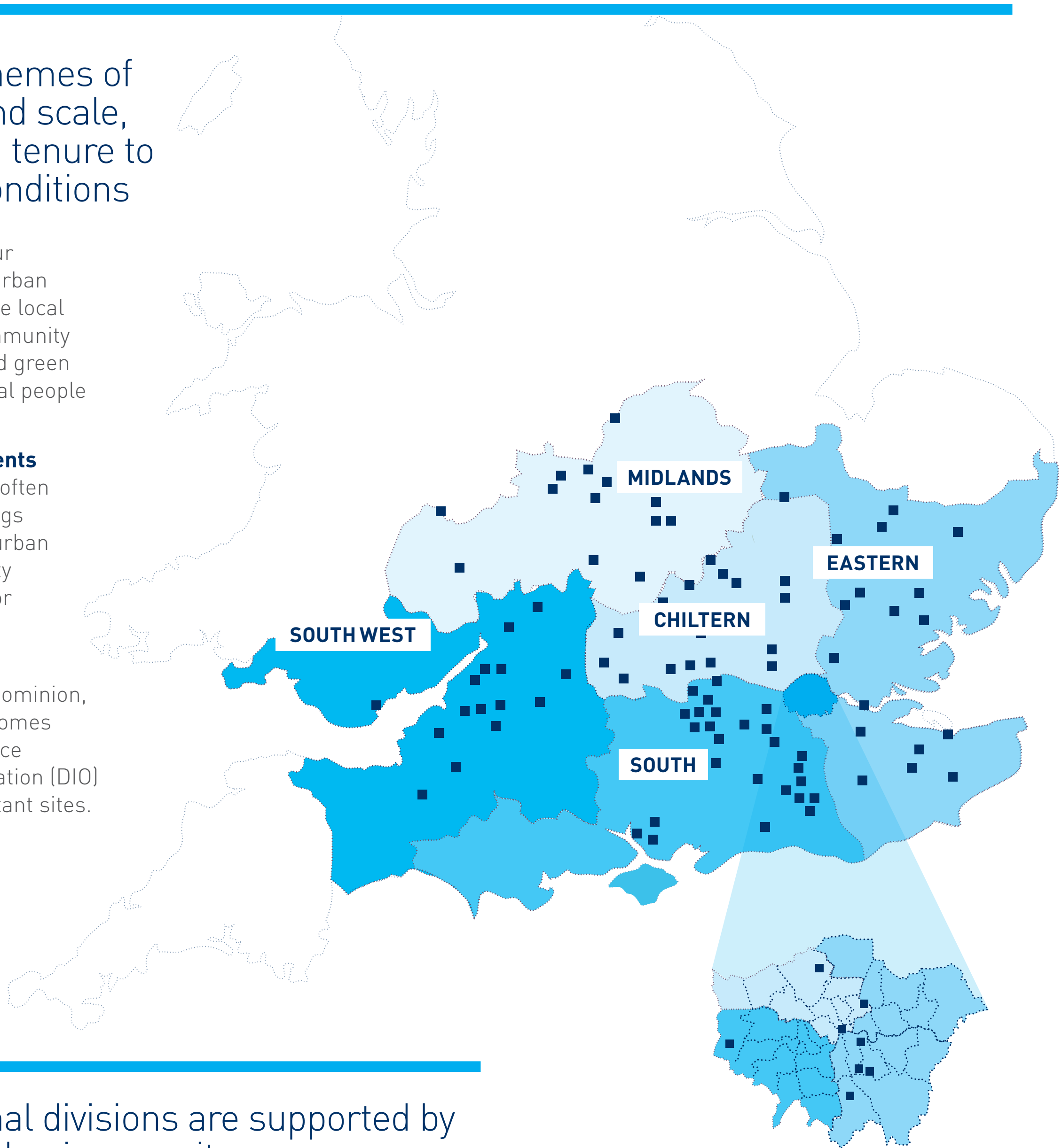
The diversity across our portfolio is a key strength that enables our divisions to prosper in our cyclical market. Our delivery model, together with our skills and expertise, ensures we remain sensitive and responsive to local needs.

We deliver schemes of varying size and scale, offering mixed tenure to suit market conditions

Garden Villages are our larger 'backbone' suburban sites delivering valuable local infrastructure and community facilities, and increased green spaces that benefit local people and the environment.

Brownfield developments are high-density sites, often restoring iconic buildings or regenerating large urban areas, with great quality design and solutions for modern living.

Partnering with large organisations like A2Dominion, Clarion, Aviva, M&G, Homes England and the Defence Infrastructure Organisation (DIO) helps us unlock important sites.



Our five regional divisions are supported by two additional business units

Crest Nicholson Regeneration specialises in large-scale developments and urban regeneration projects with public and private partners. **Crest Strategic Projects** is our strategic land team that sources unallocated sites, secures valuable planning permissions and creates places through the delivery of the social and physical infrastructure for housing development to then be delivered through our divisions.

Following the closure of the London division, the surrounding Home Counties divisions have taken responsibility for these developments.

Our business model

Our business model enables us to create long-term value for our business, our customers, our people, our shareholders and other stakeholders, and to achieve our strategic objectives and outcomes.

WHAT MAKES US DIFFERENT

From the earliest stages, we carefully consider the ingredients that are essential for adding value to existing local communities.

Our masterplanning and technical skills help us to take on complex regeneration and brownfield developments alongside delivering our Garden Village projects.

Quality and operational efficiency are two of our biggest priorities. We have digitised many of our processes across the Group while being innovative in our approach to construction.

We understand what buying a new home means for our customers and aim to help them through the process with excellent service, support and aftercare.

We put in place management companies or Community Interest Companies to ensure that our developments are effectively managed in the long term and to ensure that vital social and environmental aspects are cared for.

OUR MISSION

To design and deliver high-quality homes, workplaces and retail and leisure spaces where people aspire to live, work and play.

OUR INPUTS

→ **Natural and physical resources**
Well-located land and the materials and natural resources we use to build homes.

→ **People in the business**
The skills, knowledge and experience of our employees and our supply chain, and our expertise in masterplanning, design and build.

→ **Stakeholders and partners outside the business**
Relationships with customers, landowners, the Government, local authorities, housing associations, industry bodies and communities.

→ **Financial inputs**
Working capital, cash flows and our balance sheet.

OUR STRATEGIC PRIORITIES

Deliver long-term shareholder value and maximise operational efficiency

OTHER KEY AREAS OF FOCUS:

Ensure high levels of customer satisfaction, product quality and place-making

Attract, develop and retain high-performance individuals and ensure the highest safety standards

Continually improve environmental, social and governance performance

Develop lasting relationships with partners and the supply chain

OUR BUSINESS SET-UP

Two specialist business units provide major project skills and experience and enhance opportunities for partnerships

Crest Nicholson Regeneration

Crest Strategic Projects

Five divisional house building businesses

Chiltern, Eastern, Midlands, South, South West

Group Services

Support the business to operate efficiently, consistently and responsibly

OUR BUSINESS ACTIVITIES

→ **Targeted and strategic land purchases**

→ **Outstanding planning, design and place-making**

→ **Effective community and stakeholder engagement**

→ **Quality construction and innovation**

→ **Taking care of our employees and customers**

→ **Putting in place effective legacy and stewardship mechanisms**

→ **Running our business efficiently and responsibly**

CREATING VALUE FOR OUR STAKEHOLDERS

Financial value
Returns for our investors, wages and salaries for our employees, income for our suppliers and tax revenue for governments.
See page 26

Social value
Employment and training opportunities, addressing the industry's skills gap, meeting customer needs for quality-built homes and public open spaces, infrastructure and community assets.
See page 36

Environmental value
Reducing our greenhouse gas emissions, building low impact new homes, reducing waste, creating and regenerating beneficial and accessible green spaces that support local nature and people's well-being.
See page 54

Measuring our performance

KEY PERFORMANCE INDICATORS

The following is a summary of our key performance indicators (KPIs) and how we performed against them in 2018. We use these measures to assess our overall performance in our key areas of focus as a business.

To ensure management's focus is aligned with the interests of our shareholders, some of our KPIs are reflected in our management incentive schemes. Taken as a whole, they reflect our performance across our five strategic objectives, and help us to improve the quality of our business and ensure that we can deliver long-term value to our shareholders and other stakeholders.

As part of our renewed focus on cash generation, we are considering introducing a cash flow KPI in 2019.

Key performance indicators

Deliver long-term shareholder value and maximise operational efficiency

Sales

Sales is a combination of statutory revenue as per the consolidated income statement and the Group's share of sales earned by joint ventures.

2016	£1,000.3m
2017	£1,065.6m
2018	£1,136.6m

Basic earnings per share

This measures the amount of profit allocated to each share of our stock in 2018.

2016	62.0p
2017	66.1p
2018	55.7p

Return on average capital employed

The return on average capital employed reflects our disciplined investment in new divisions and ongoing focus on cash generation to deliver sustainable shareholder returns.

2016	31.3%
2017	29.7%
2018	23.0%

Profit before tax

With pressure on gross margins in 2018, profits before the payment of corporation tax fell by 14.8%.

2016	£195.0m
2017	£207.0m
2018	£176.4m

Dividends per share

We have 1.7x dividend cover in 2018.

2016	27.6p
2017	33.0p
2018	33.0p

Strategic land bank

This is the proportion of the short-term land bank that originates from the strategic land bank.

2016	36%
2017	44%
2018	42%

The Profit before tax, Basic earnings per share and Return on average capital employed KPIs above are directly linked to remuneration (for more information please refer to the Directors' Remuneration Report, pages 92 to 112).

Key performance indicators

Attract, develop and retain high-performance individuals and ensure the highest safety standards

Annual Injury Incidence Rate (AIIR)

In 2018, our AIIR was 342, which is a 59% reduction on the baseline of 832, set in 2008.

2016	31% reduction
2017	50% reduction
2018	59% reduction

Target: **Consistent reduction against the 2008 baseline.**

Apprentices in total workforce

In 2018, we saw more apprentices completing their training than entering the Scheme, while the closure of the London division and infancy of our Midlands division meant we had fewer spaces to offer.

2016	9%
2017	11%
2018	6%

Target: **10%**

Staff turnover*

We were disappointed to see our turnover rate increase this year, despite continued efforts and initiatives to respond to work pressures and other concerns. We remain committed to reducing this rate in 2019 against the backdrop of a competitive market for talent and strong demand for skills in the industry.

2016	24%
2017	22%
2018	25%

*Turnover at Year-End.

Key performance indicators

Ensure high levels of customer satisfaction, product quality and place-making

Customer satisfaction rating (HBF survey)

Our customer satisfaction rating is directly linked to remuneration (for more information please refer to the Director's Remuneration Report, pages 92 to 112).

2016	4*
2017	4*
2018	4*

Target: **5***

People who would recommend Crest Nicholson to a friend

Recommendations to a friend scores are measured through a nationwide survey run by the National House Building Council in conjunction with the Home Builders Federation.

2016	9/10
2017	9/10
2018	9/10

Units delivered

Our aim is to increase the number of legally completed units we deliver to help meet our own targets and contribute to the alleviation of the housing shortage.

2016	2,870
2017	2,935
2018	3,020

Key performance indicators

Develop lasting relationships with partners and the supply chain

Percentage of total budget for direct materials spent with Group-approved suppliers and through GTAs

In part, this reduction is a result of us using more non-Group approved suppliers for stock bricks, during the year. We are seeking to bring more partners on board under Group Trading Agreements (GTAs).

2016	58%
2017	56%
2018	55%

Number of plots in our portfolio under a partnership

In the year we were selected on several new developments under proposed partnership arrangements. These were on larger suburban projects, which will exchange in early 2019. In the meantime, maintaining a ratio of around a fifth of our plots being held in partnership helps to manage the risk in our short-term land pipeline.

2016	4,181 (27%)
2017	3,827 (24%)
2018	3,174 (16.5%)

Key performance indicators

Continually improve environmental, social and governance performance

Total tCO_2e per 1,000 sq ft delivered (market based)

The normalised carbon footprint reflects the whole of our energy use, including at our offices, transport and diesel used on our construction sites. The increase in 2018 is partly due to an increase in the scope of data acquired from sites as well as a change to the fuel mix of our largest energy supplier. Diesel use also increased in the year.

2016	3.32
2017	3.38
2018	4.21

Construction waste volume (yd^3 per 1,000 sq ft)

We continue to aim to reduce our waste across our operations and roll out Group-wide initiatives to continue to drive all waste streams down, compared to the baseline set in 2013. Details of the reasons behind this increase can be found on page 56.

2016	41.60
2017	43.57
2018	47.57

2018: 14% increase against baseline 2013 (41.85)

FINANCIAL REVIEW

The business delivered £1,136.6m of sales including joint ventures (2017: £1,065.6m). In response to the current operating environment, we have reviewed our business strategy to prioritise cash generation and dividends, generating value from our land pipeline and securing further operational efficiencies.

CENTENARY QUAY, WOOLSTON

Finance review

Following the departure of our Group Finance Director, Robert Allen, in October 2018, the Chief Executive assumed responsibility for finance matters while a recruitment process is underway. The Group has added interim finance support pending conclusion of the process to secure a successor to Robert Allen.

The business delivered £1,136.6m of sales including joint ventures (2017: £1,065.6m). The business continues to use total sales, including those from joint ventures, as a core management measure to reflect the full extent of our business operations and responsibilities. During 2018, the £1,136.6m (2017: £1,065.6m) of sales comprised £1,136.1m of statutory revenue and £0.5m (2017: £22.4m) of sales through joint ventures.

Statutory revenue was 8.9% higher than the £1,043.2m achieved in the prior year. Overall unit volumes were up 2.9% at 3,020 (2017: 2,935), with affordable completions 7.3% lower at 637 (2017: 687) and open market completions 6.0% higher at 2,383 (2017: 2,248).

Whilst lower than initially expected, we saw average selling prices (ASPs) for open market plots increase slightly, up 1.3% year on year at £393,000.

During the first half of the year Crest Nicholson achieved generally strong trading volumes and revenues. This was against the backdrop of flat pricing and increasing build cost inflation, which combined to have an adverse impact on margins and return on capital.

In some locations, including London, sales volumes were more subdued than others, particularly at higher price points. Weakening consumer confidence and the impact of a slowed second-hand market on housing chains were clearly unhelpful. In common with the rest of the UK housebuilding industry, activity occurs throughout the year with peaks in sales during the spring and autumn. This creates seasonality in the Group's trading results and working capital. The exceptionally hot summer accentuated the traditional seasonal slowdown, and sales volumes did not pick up in the traditionally stronger Autumn selling season.

Outside of London, this reduction in sales continued to be at higher price points, where the purchasing decision is typically more discretionary. Persisting uncertainty about the political and economic direction of the country, largely 'Brexit' related, appears to have inclined many discretionary purchasers to refrain from making a buying commitment.

In London, stretched affordability has started to have an impact on both prices and volumes and – combined with media stories about the potential for price reductions post-Brexit – has resulted in the emergence of a much more difficult market in zones 1–3, where we have been selling.

New-build market conditions remain generally robust and underlying demand is strong. We are continuing to monitor the political and market conditions closely, as well as our levels of sales, and will adjust production and land buying to maintain cash flow.

Contributions to revenue from sales of land and mixed-use commercial property increased slightly to around 6.7% of overall operations, together accounting for £76.4m (2017: £72.4m). The business routinely sells land to fund infrastructure investment and increase the speed at which housing can be delivered across the portfolio, which supports our strategy and helps to meet societal expectations on the delivery of housing.

Overall, sales price inflation has been mixed across the south of England, with locations in the Midlands achieving some elements of pricing growth.

Build cost inflation has had a negative effect, putting margins under pressure as we continue to experience the effects of the weakness of sterling combined with continued pressure on wage and salary costs driven by the overall shortage of skilled labour serving the industry.

Gross margins for the year were lower at 22.4% (2017: 26.4%). Pricing softness and cost overruns in London had the most individually significant impact, with a number of projects exceeding initial cost estimates. In addition, our action to mitigate the loss of sales volumes by accelerating sales to Registered Providers and PRS investors, and selected land sales on long tail sites have also contributed to this reduction in gross margin.

Operating profits of £189.8m (2017: £211.6m) were 10.3% lower than the prior year, reflecting the reduction in gross margins, which fed through to operating margins, which were lower at 16.7% (2017: 20.3%). Administrative expenses as a percentage of revenues reduced to 5.7% (2017: 6.1%).

FINANCE EXPENSE AND TAXATION

Net financing expense of £12.0m (2017: £8.3m) is £ 3.7m higher, primarily due the first full year's impact of the private placement interest charge, and an expected reduction in interest credits arising from shared equity loan redemptions as the shared equity loan portfolio continues to redeem over time.

Income tax expense in the year of £33.6m (2017: £38.4m) represented an effective tax rate of 19.0% (2017: 18.6%).

PROFIT BEFORE TAXATION

Profits before taxation for the year of £176.4m (2017: £207.0m) were 14.8% lower than the prior year, due to the pressures on margins during the year, as outlined above.

DIVIDEND

The Board proposes to pay a final dividend of 21.8 pence per share for the financial year ended 31st October 2018, which, subject to shareholder approval, is expected to be paid on 18th April 2019 to shareholders on the register at the close of business on 22nd March 2019.

If approved, the total dividend paid from 2018 earnings of 55.7 pence per share would be 33.0 pence per share, equal to the dividend paid for 2017.

Our business strategy prioritises cash flow and dividends. We will increase cash generation, while maintaining financial discipline and a strong balance sheet. Our objective is to generate a cash reserve and allocate this to maximise shareholder returns. We are committed to paying this ordinary dividend of 33.0 pence for 2018 and, subject to no material deterioration in current market conditions, again for 2019.

CASH FLOW AND FINANCIAL POSITION

The Group had net assets at 31st October 2018 of £878.6m (2017: £817.8m), an increase of 7.4% compared to the prior year.

Inventories have increased by 9.2%, from £1,086.5m at 31st October 2017 to £1,186.2m at 31st October 2018, reflecting the ongoing growth of our newer divisions in Chiltern and the Midlands. Land inventory continues to represent approximately two-thirds of the inventory balance.

Stocks of completed units have risen to £168.1m (2017: £136.2m) due to slower than expected sales in the second half of the year. About one fifth (2017: quarter) of the stock of completed units was represented by show homes.

Net cash flows from operations amounted to an inflow of £62.3m (2017: £23.3m), reflecting our commitment to maintaining financial discipline and a strong balance sheet, with an increased focus on cash generation in line with our new business strategy. Reduced operating profit meant the return on average capital employed (ROCE) achieved by the business in the year decreased to 23.0% (2017: 29.7%).

During 2018, the Group extended its bank revolving credit facilities for a further year to June 2023 (2017: the Group amended and extended its revolving credit facilities for five years to June 2022 and completed a £100.0m private placement of 7- to 12-year senior loan notes). The revised financing arrangements provide the flexibility and liquidity needed to build greater business resilience and ensure we can generate a cash reserve. At 31st October 2018, the Group had net cash of £14.1m (2017: £33.2m) and was ungeared (2017: ungeared).

Upper Longcross, Chertsey

OUR ALTERNATIVE PERFORMANCE MEASURES

Sales

The business uses sales as a core management measure to reflect the full extent of our business operations and responsibilities. We define sales as a combination of statutory revenue as per the consolidated income statement and the Group's share of sales earned by joint ventures. During 2018, the £1,136.6m (2017: £1,065.6m) of sales comprised £1,136.1m of statutory revenue (2017: £1,043.2m) and £0.5m (2017: £22.4m) of sales through joint ventures.

Return on average capital employed

The business uses ROCE as a core management measure to reflect the profitability and efficiency with which capital is employed in our business. ROCE is calculated as operating profit divided by average capital employed (capital employed = equity plus net borrowing or less net cash). The Group has long-term performance measures linked to ROCE.

ROCE achieved by the business in the year decreased to 23.0% (2017: 29.7%).

Chief Executive's finance review

LAND BANK AND PIPELINE

Maximising the value in our land portfolio is central to our new business strategy. 2018 was a particularly strong year for conversions from our strategic land bank. Our resulting land and development pipeline remains a significant store of value, including approximately £1.6 billion of gross margin in the short-term land pipeline (19,291 plots), which represents 6.4 years of supply in terms of units available (2017: 5.5 years) at 31st October 2018.

Through a combination of site acquisitions and conversions from the strategic land pipeline the Group added 6,051 new plots to its short-term land bank, while 3,020 plots were legally completed in the year. As a consequence, the strategic land bank reduced by 1,337 units, leaving us with a combined portfolio of 36,128 plots.

To preserve the value of our short-term land pipeline, the Company has paused its growth ambitions to align with current market conditions, slowing down build rates and reducing land expenditure.

The Group's contracted land pipeline is summarised in terms of units and gross development value[1] (GDV) as set out below.

The Company continues to secure new sites in order to grow its Midlands operation and maintain outlet breadth in a more challenged market.

Such acquisitions are judged on their individual merits but also against a backdrop of seeking to achieve good cash generation from the business. Purchases have also been targeting a product and location mix which will reduce the ASP of the business, having regard to the more difficult selling environments for higher-priced product.

The ASP of units within the short-term portfolio, including affordable units and units being sold for private rental, decreased slightly over the year to £325,000, 4% lower than the £340,000 at 31st October 2017. In part, this reflected the lower sales rates for more discretionary, higher-priced product during 2018.

By maintaining current levels of output from our high-quality land pipeline rather than driving for revenue growth, we will improve the level of free cash flow generated by the business.

We are also seeking more opportunities to lever our strong land pipeline and create strategic partnerships that accelerate delivery and, where appropriate, to make further land sales. These transactions will form a growing proportion of our overall activity, facilitating multiple channels to market and generating an increased proportion of pre-sold revenue streams.

Patrick Bergin
Chief Executive

	2018		2017	
	Units	GDV – £m	Units	GDV – £m
Short-term housing	19,291	6,279	16,260	5,527
Short-term commercial	-	266	-	249
Total short term	**19,291**	**6,545**	**16,260**	**5,776**
Strategic land	16,837	5,538	18,174	5,960
Total land pipeline	**36,128**	**12,083**	**34,434**	**11,736**

[1] GDV is a management estimate calculated on the basis of a number of assumptions, for example, assumed sale price, number of units within the assumed development and the split between open market and affordable housing units, and the obtaining of planning permission. These are management's estimates and do not provide assurance as to the valuation of the Group's land bank.

Improving cost and operational efficiency

Crest Nicholson's resilience as a business is critical to our success in the cyclical house building industry. A key part of that resilience comes through operational efficiency and good cost management, and then by ensuring that the benefits of these are invested in our future. We recognise that these areas can continually be enhanced, and we have, and will, continue to maximise opportunities that increase our efficiency and improve cost management.

During the year, we have increased the minimum level of financial return we will consider when evaluating new site acquisitions and development proposals, and are working on a range of other strategic initiatives that seek to improve both the resilience of the business and our returns.

We have launched our new range of house designs, called the Aurora Range. The new range will help to offset current margin pressures by providing a new level of standardisation in our build, while retaining the flexibility we need to meet local planning and customer requirements. We are also continuing to test the use of off-site manufacturing (OSM), which has the potential to offer significant time and cost-saving opportunities across our sites.

In 2019, we will be creating new senior operational roles to spearhead the changes we need to drive further efficiency savings across the business.

ROLL-OUT OF OUR NEW AURORA RANGE

The new core range of house and apartment designs will be our first range implemented across the business and will enable greater repetition and cost efficiencies during construction.

Our target is for the new range to apply to 50% of our housing sites within three years, while our longer-term ambition is for around 70% of our product to be built using the new designs.

The range brings a new level of design adaptability, which allow us to customise a home to be more open-plan or broken-plan, depending on customer preferences and local planning requirements. This balance between standardisation and customisation in the range reduces delivery risk and overall cost without impacting on form and function.

In response to market conditions during 2018, we have broadened the new range, introducing smaller units to increase affordability. Our new development at Hygge Park in Keynsham, near Bath, is an example of where we are using the Aurora Range, including smaller, more affordable units. The development features one- and two-bedroom apartments and a range of homes with two to four bedrooms.

We have worked closely with our supply chain from the outset, including conducting 360° design reviews, to ensure that we are maximising the efficiency and standardisation gains from the designs. The level of standardisation and repetition across the range allows us to procure similar components across our sites as well as reduce the amount of time site teams need to build homes and resolve problems or challenges more quickly – accelerating production and improving delivery.

THE BUSINESS CASE FOR OSM

The OSM prototypes we built at Arborfield Garden Village last year advanced our understanding and learning in modern methods of construction. We have extended the trial to apartments for private rent at Arborfield and Bath Riverside this year and we have consent for further trials of houses and apartments at Gloucester Docks and Chippenham in 2019, where we are using a light gauge steel frame system.

OSM offers us many opportunities for operational efficiency, improved product quality and the potential to improve our return on capital employed (ROCE). It reduces the impact of inclement weather on build programmes, and also significantly increases the build speed, which has the knock-on effect of reducing labour and supervision costs. In our original prototype trials, the three homes we built were weathertight in just over one week, which is 90% faster than a standard masonry build. Furthermore, the site supervision requirements up to this weathertight stage were reduced by 80%.

We still need to do a lot of learning, training and upskilling, so we are progressing our use of OSM at a controlled pace. Our objective is to use these trials to fully test and prove the business case for OSM in our operations, so we can properly understand any weaknesses or problems before we embark on a larger-scale business roll-out.


New core house type, Arborfield Green, Wokingham

Improving cost and operational efficiency

IMPROVING OUR PROCESSES

We continually look for ways to improve our operational processes and how we can use IT to help us be more efficient and diligent. Our Plot Production Programme (PPP) is an online platform that helps us plan our build programmes accurately and manage production peaks and troughs. Our PPPs can be shared with supply chain partners to help them to correctly forecast the amount of materials and labour we will need on site and when.

The platform provides our divisions and senior management much better visibility of the build programme, including sub-contractors' performance and information about what products are being used. The PPP also helps us with our planning submissions by requiring our people to look closely at pre-planning specifications and to be clear about what material and products they plan to use.

OUR NEW CORE HOUSE TYPES – THE AURORA RANGE

We have researched changing customer requirements and the availability of new technologies to design a new highly efficient, customer-focused range of house types and apartments.

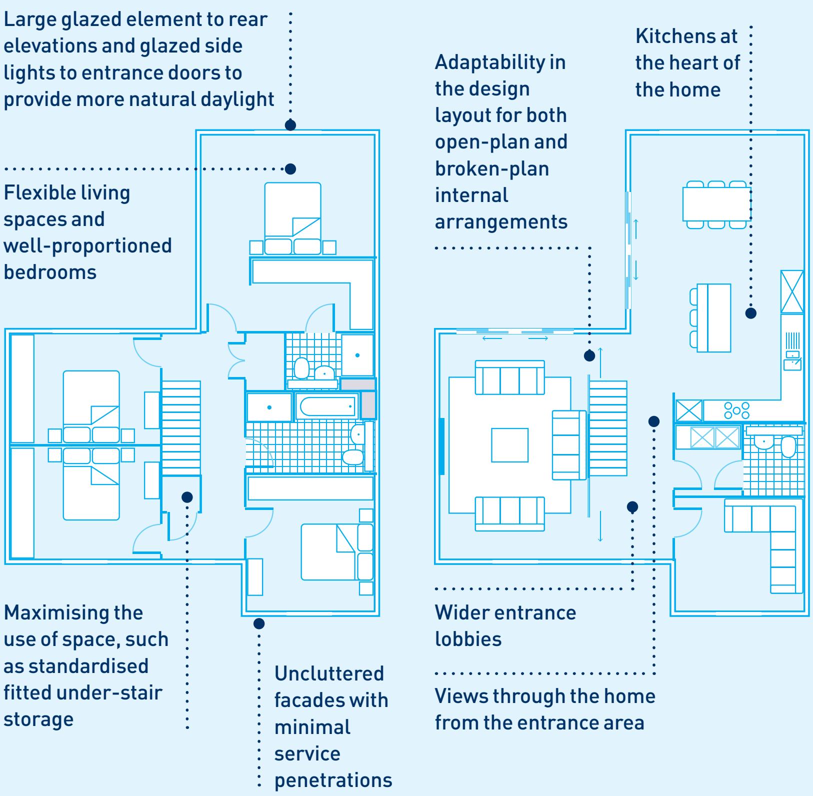
Across the range important common themes are applied. These include a strong emphasis on natural daylight and innovative functionality. To date, approximately 74 house types, including their variants, have been created.

The majority of the Aurora Range will meet the Government's nationally described space standards to ensure that the homes provide adequate habitable and storage space. Many of the designs also meet Approved Document M4 (2) - meaning they consider accessibility and adaptability.

WHY NEW HOUSE TYPES?

- Increasing requirements in planning and building regulations
- Addressing customers' evolving long-term requirements for adaptability and accessibility
- Considering current and future innovation, and how people use their homes in the 21st century
- Increasing standardisation across our range of homes
- New designs that make good use of off-site manufacturing methods
- Increasing our use of 3D modelling software to enable clash detection, material measure and Building Information Modelling (BIM) integration

CORE DESIGN FEATURES: The DNA of the Aurora Range



Broadening our tenure and geographical mix

PRS units at Kilnwood Vale, Faygate

TACKLING AFFORDABILITY THROUGH A DIVERSE TENURE MIX

Diversifying our tenure mix not only helps us offer customers a variety of ways to occupy homes on our developments, but adds to our business resilience to changing market conditions and levels of affordability. We continue to focus on the Private Rented Sector (PRS) with 218 units now consented at Arborfield Garden Village, the first 114 of which are in delivery under a contract with M&G. These units also form the next phase in our off-site manufacture trial and are being built using a light gauge steel framework system to accelerate construction.

We have now completed 227 PRS units at Kilnwood Vale in West Sussex; these units have been particularly successful, with all units handed over. Given its success, we are now considering a further 100-unit extension to this offer. In the year, we have also completed the delivery of 222 PRS units at Park Central, Birmingham.

With open market sales slower in a challenging market, we will continue to increase our volume of PRS units with more planned for Longcross Garden Village. We will also further explore opportunities for additional pre-sold shared ownership schemes and smaller PRS schemes, where this fits into the wider proposals for the development.

SUPPORTING OUR MIDLANDS EXPANSION

We continue to see good growth in the Midlands, with some house price inflation. We recently obtained consent for 425 units at Westwood Heath in Warwick, which will assist a considerable increase in delivery for our newest division. This adds to what has already been a successful year for our Midlands division.

HOUSING INFRASTRUCTURE FUNDING

During the year, three of our developments secured agreements in principle for the provision of infrastructure funding to assist in the accelerated delivery of early infrastructure. These developments include Bury Farm, Southampton (£14 million from the Local Enterprise Partnership to service the wider 3,500 dwelling consortium site), Ipswich (£10 million from Homes England to deliver country parks and early road bridges over the railway) and King Alfred, Brighton (£15 million from Homes England towards the public realm and project deficit. This is a 600-unit project where Crest Nicholson is selected by the local council as its preferred development partner, but which is yet to contract).

Broadening our tenure and geographical mix

Park Central, Birmingham

SHARING RISK AND REWARD WITH DEVELOPMENT PARTNERS

Our approach to developing long-term partnerships where we can share risk and reward fits well with our new strategy and we will continue to seek worthwhile partnership opportunities.

We are building 383 homes at Campbell Park in Milton Keynes with the Milton Keynes Development Partnership, and we have also recently been selected by the same partner for the neighbouring 1,100-unit Campbell Park North development – two partnership schemes with the same partner in what will become an important large-scale new urban quarter in central Milton Keynes.

We recently completed the last phase of our award-winning Park Central regeneration scheme, which has been delivered in partnership with Optima Community Association and Birmingham City Council, and first broke ground in 2003. Park Central is one of our most rewarding estate renewal projects, which has rejuvenated the derelict former Lee Bank estate within Birmingham city centre into a vibrant new urban quarter providing 1,700 new mixed-tenure homes around an new eight-acre central park. The development delivered a wide variety of new amenities, a hotel, various offices and a major health centre as well as re-providing nearly 500 affordable homes for some of the original residents.

We are also working in partnership with Waverley Borough Council and Surrey County Council to regenerate Farnham town centre. Work commenced in summer 2018 and the project is set to transform and revitalise a much-underutilised part of the historic town. Comprising 239 new apartments clustered around a new town square, the development includes 72 shared ownership homes to help meet a broader housing need and support first-time buyers in the local community. Central to the development is a new £40 million retail and leisure hub, which has been pre-sold to Surrey County Council, and will include a pre-let six-screen cinema, eight restaurants and 24 retail units, including an M&S Simply Food store.

Fairfield Gardens, Stotfold

OTHER WAYS WE TRACK OUR PERFORMANCE

In addition to our Key Performance Indicators on pages 24 to 25, we monitor a number of other important metrics that help us to further track our performance against our strategic objectives.

Short-term land units

The availability of sufficient short-term land units ensures we can grow and meet the urgent need for new homes.

2016	**15,901**
2017	**16,260**
2018	**19,291**

Strategic land units

Strategic land is our long-term store of value. Several larger strategic sites were consented in the year and transferred to our short-term land bank.

2016	**17,026**
2017	**18,174**
2018	**16,837**

Percentage of affordable homes delivered

We seek to meet local housing needs on all our sites, including through the provision of affordable homes.

2016	**20% (578)**
	of which: rented/shared ownership 70%/30%
2017	**23% (687)**
	of which: rented/shared ownership 60%/40%
2018	**21% (637)**
	of which: rented/shared ownership 60%/40%

Number of PRS units delivered

Private Rented Sector homes are an important part of our housing mix and enable us to increase delivery rates on major sites and pre-sell a further 5% to 10% of our homes.

2016	**191**
2017	**266**
2018	**375**

Land pipeline total gross development value

A valuable land pipeline held at healthy margins ensures that we always have a good supply of land to underpin our delivery aspirations.

2016	**£10,646m**
2017	**£11,736m**
2018	**£12,083m**

Average number of outlets

We aim to increase not just the number of sites we have but the number of outlets we have across these sites.

2016	**47**
2017	**51**
2018	**55**

SOCIAL REVIEW

We consider our social impact carefully, ensuring that we have a positive impact on our people and communities. From the health and safety of people working on site, to the products and materials we procure, to the homes we build and the vibrant communities they belong to – these considerations influence how we do business with our customers and our supply chain, and underline our commitment to protect and develop our people and promote diversity in the workforce. We were proud to be selected again for the FTSE4Good Index in 2018, and to see our score improve on last year, demonstrating our strong environmental, social and governance (ESG) practices.

PARK AVENUE, SUNBURY-ON-THAMES

Customers at the heart of house building

CUSTOMER SERVICE

Customer satisfaction remains at the centre of all that we do. Taking care of our customers, meeting their expectations and guaranteeing the quality of our homes are top priorities for everyone at Crest Nicholson and critical to the success of our business model. Directors from all our divisions meet regularly to review and debate new ways to drive improvement in customer service throughout the business.

Our score of 89% in the 2018 Home Builders Federation (HBF) annual customer satisfaction survey was a 1% improvement on our 2017 result. We are pleased with our progress, but remain committed to increasing our overall customer satisfaction score to a level above 90%.

To this end, we have continued to induct and train our people in Crest Nicholson's customer service standards and procedures through our Making Our Customers Feel Special and Valued programme. We also want to recognise those employees who exemplify our commitment to customer care. Our annual Customer Experience Awards recognise the very best of our talented teams and celebrate those employees who are setting ever higher standards within our business.

Through our customer charter we have made commitments to provide our customers with comprehensive information on their new homes and to deal diligently with enquiries. During the year, we have continued with key work streams that seek to enhance our customers' experience at all stages of their journey with us.

DIGITISING THE CUSTOMER EXPERIENCE

We have embedded digital innovations across the business during 2018, including touchscreen technology in our marketing suites and an improved, digitised home demonstration and handover process.

We have provided new online reference materials to assist customers in maintaining their new homes – covering everything from nurturing their lawn to mastering the ventilation technology and heating system. By helping customers to better understand how to get the most out of their homes, we hope to increase overall satisfaction and reduce the number of customer service call-outs.

We have also invested in a new Customer Relationship Management (CRM) system that will provide a wide range of benefits to improve our customer service when it is rolled out in 2019. The system has been designed to ensure that the level and quality of customer service we deliver is more consistent across our divisions and in every interaction. The system supports our data security strategy and has been designed with customers' privacy in mind.

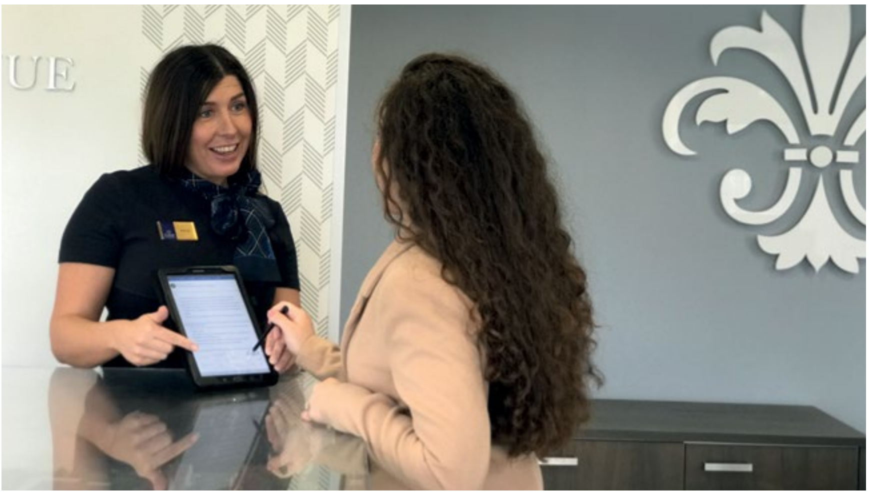
The new CRM offers potential cost savings by streamlining many processes and procedures. It will also provide our home owners with a speedier aftercare service and, in the longer term, will allow issues to be reported and resolved online.

OUTSTANDING BUILD QUALITY

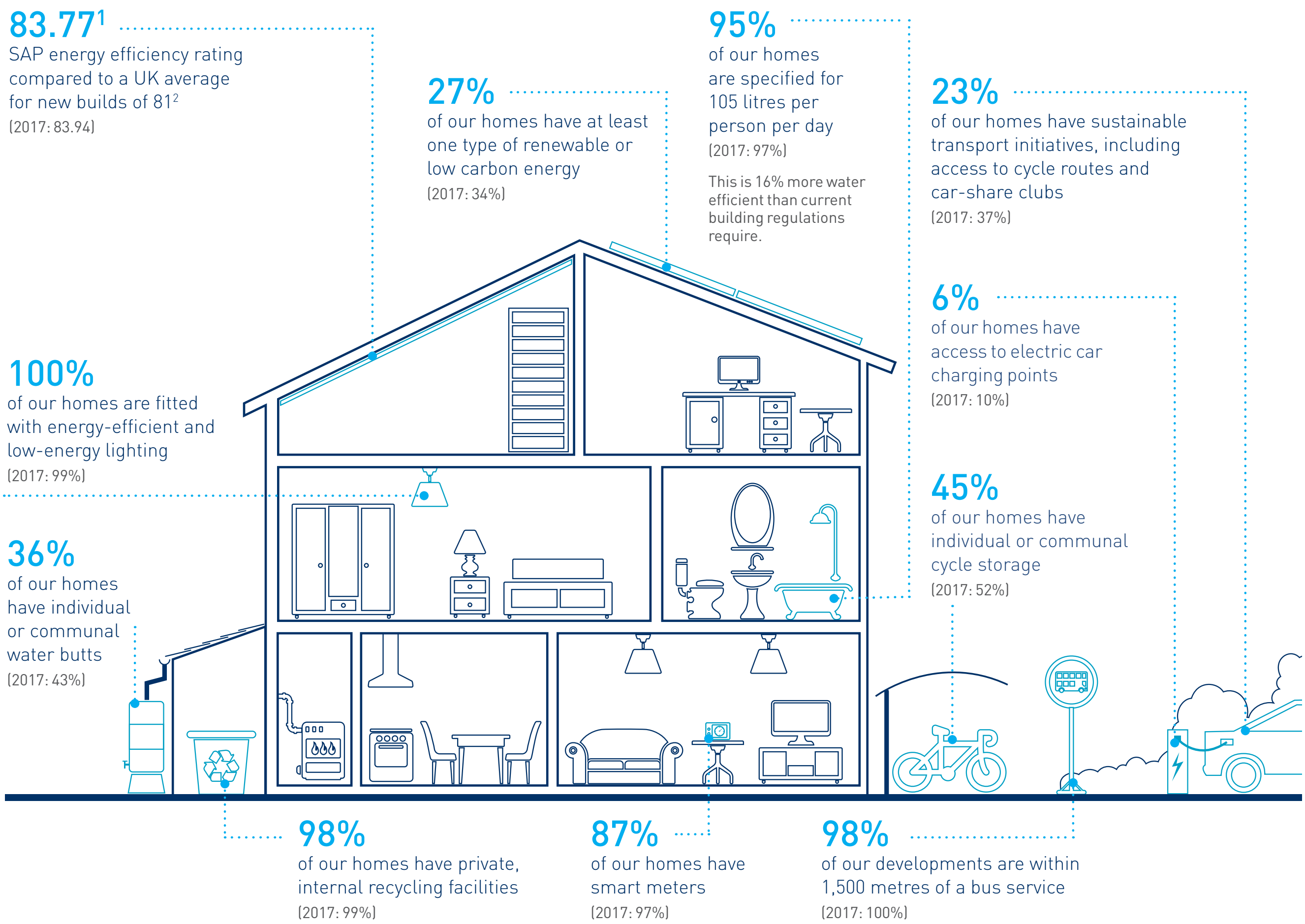
One of the things that matters most to customers is the build quality of their new home. Confidence in our quality control and the guarantees we offer are crucial to our customer proposition. It is our aim to exceed expectations when it comes to service and quality.

We remain focused on our programme of digitisation to help us improve build quality and consistency, with both our Build Stage Inspections (BSI) and Customer Service Inspections (CSI) now part of our tablet-based 'Field View' system.

The Group has appointed two quality assurance managers to conduct build audits on our sites, maintain our quality control documentation and introduce processes that support our ongoing learning and defect prevention from design to construction stages.



Designing sustainable solutions for our customers*



COMMUNITY ENGAGEMENT

We believe that community engagement and support are key to delivering a successful project; we regularly organise community events or support local projects. We consult with residents, community groups and authorities on our new projects, ensuring they are fully informed of our proposals and are able to provide feedback.

This engagement is central to the success of our strategic sites, which are typically larger in scale, with development periods that can span more than 10 years. This evolution of a community over time requires progressive, regular dialogue with key stakeholders to ensure we remain aligned in our priorities and vision throughout the lifecycle of a new community.

There will always be some opposition to new development, but we find that if we listen and respond to concerns, and put the right infrastructure and community spaces into the overall masterplan, we reach a positive outcome for all.

* In 2018, a number of these figures have decreased. This is primarily due to a decreasing number of homes being built under the now defunct Code for Sustainable Homes and local authority requirements.

1 Standard Assessment Procedure (SAP) energy rating out of 100, based on SAP 2012.

2 SAP rating from 2013. 2015 DECC Energy Efficiency Statistical Summary report, page 6. **www.gov.uk/government/statistics/energy-efficiency-statistical-summary-2015**

Customers at the heart of house building

CONSULTATION WITH LOCAL RESIDENTS IN CHELMSFORD

We held two very successful consultation events for our new Warren Farm development, near Chelmsford, in July 2018. More than 250 people attended over two days, with a significant number providing direct feedback on a range of questions relating to the community facilities that residents would like to see and the use of open spaces for sporting pitches and other facilities. We also discussed the potential for creating an ecology park on the site to ensure we support existing wildlife in the area, introduce pollinator-friendly plants, wildlife meadows and native trees, along with observation points and hides.

We consulted on building a diverse range of homes at Warren Farm, including supported housing for older people, housing for people with disabilities and intergenerational community facilities. Considering current and future needs of home owners, we also looked at the practicality of including solar panels and vehicle electric charger points at each household.

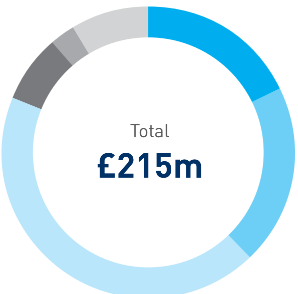
Having gathered many and differing views, we took these on board and committed to looking at what we could do and who we need to work with to address local needs.

SOCIAL INFRASTRUCTURE

We are committed to making a positive contribution to social infrastructure and adding value to existing local communities. New communities cannot flourish when important elements of social and physical infrastructure are absent. Schools, community buildings, shops and restaurants, inviting green and open spaces, leisure facilities and effective road and pedestrian systems are the glue in a new development, bringing people and their homes together.

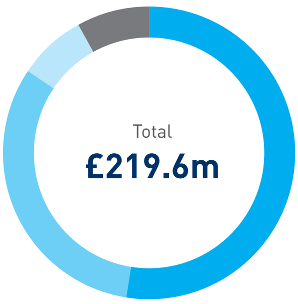
Along with the social infrastructure we put in place, our business activity creates other socioeconomic value. For every home we build, there's an economic benefit in terms of jobs created and increased local spending and activity, both during construction and after we have completed the development. We provide direct employment opportunities through work for local trades and contractors, as well as for apprentices and graduates.

CONTRIBUTING TO SOCIAL INFRASTRUCTURE AND AFFORDABLE HOUSING



Committed combined Section 106 contributions and Community Infrastructure Levy payments

£38.5m	Travel and transport initiatives
£42.9m	Off-site highways
£93.2m	Education and libraries
£16.0m	Community, leisure and sports facilities
£6.0m	Health, ecology and art initiatives
£18.4m	Community Infrastructure Levy



Cost of works to be delivered

£146.0m	On- and off-site common infrastructure
£49.5m	Landscape and play
£11.9m	Community facilities
£12.2m	Other

Commitment to future affordable housing delivery

£957.3m	On-site delivery subsidy
£30.9m	Off-site combined contributions

We also stimulate and support the construction sector and suppliers' businesses through the money we spend on materials and labour during our build process. At many of our developments we build new offices and shops, creating new workplaces to boost local employment over the longer term.

We are currently delivering primary schools at three developments, including Monksmoor Park CE Primary School at Daventry, which is working with the Woodland Trust to create a Forest School programme. We have provided an area near the school where 30 saplings have been planted. We prepared the land, planting trees and setting up areas such as a fire pit and log piles to get them off to the best possible start. We have also purchased tools and accessories, including a rustic storage facility and hiking backpacks, for the Forest School children to use and benefit from immediately. The school opened in October 2018 and the trees were planted, creating a small copse, in November. This ceremonial tree planting is designed to signify the first pupils growing through the school and will become a legacy for the school community to enjoy for years to come.

The Great Western Academy opened in September 2018, offering the latest state-of-the-art education facilities to students at our Tadpole Garden Village. We were heavily involved in facilitating this project as well as helping with the design and providing the land. The school's facilities include a theatre, sports hall, dance studio, drama studio and specialist science and technology rooms. Its outdoor space includes a beautifully landscaped social space, multi-use games area and extensive playing fields.

We are also building a much-needed primary school at our established Hunts Grove development in Hardwicke, Gloucester that is scheduled to be open in September 2019.

We understand the importance of delivering schools and have successfully changed our planning consent at our Kilnwood Vale development in West Sussex to enable us to deliver a primary school for the community by September 2019, ahead of schedule.

We have also opened up play parks for local children to enjoy at our Tadpole, Daventry and Finberry communities. We have recently opened the first phase of the Stray at Tadpole Garden Village, delivering a substantial play area and community gathering space. The remaining phases were opened at the end of 2018, including around 25 acres of high-quality landscaped open space and water features for the benefit of the community.

FINBERRY – BUILDING A COMMUNITY

In partnership with the Church Commissioners, we are delivering a new village – Finberry – in Ashford, Kent, an area where it is traditionally difficult to source land. Every element of the masterplan and design for Finberry prioritises building a community, from the layout of the development to the look and feel of the properties themselves. We have created a carefully designed place that combines neighbourhood amenities with green open spaces.

We overcame significant infrastructure and technical challenges to create striking landscape features, with Finberry being recognised as a winner in the *Sunday Times* British Homes Awards 'Outstanding landscaping for housing' category. A primary school has already opened along with play areas, both of which are part of a £28 million community investment package that will deliver additional parks, shops, a community centre and improved bus and pedestrian links to Ashford town centre.

Forest School at Monksmoor Park CE Primary School, Daventry

Customers at the heart of house building

'20 IS PLENTY' AROUND THE SCHOOL AT OUR TADPOLE GARDEN VILLAGE

Pupils from Tadpole Farm CE Primary Academy have created a powerful and creative reminder for motorists to slow down to 20mph when driving around our Tadpole Garden Village. The schoolchildren took part in a '20 is Plenty' competition to design 20mph speed limit signs, with three of the winning designs now featured on road signs at key locations across the site.

In addition to the new safety signs designed by children, we have put up digital speed signs on throughroutes, put up new road safety posters, and handed out '20 is Plenty' wristbands to construction workers to encourage everyone using the roads at Tadpole Garden Village to slow down. We plan to repeat this successful activity at the schools in our Hunts Grove, Finberry and Daventry developments.

LEGACY AND LONG-TERM MANAGEMENT

A core principle when we design and develop sites is to consider what needs to be put in place to help build lasting social and environmental value in the area. The legacy we leave is as important as the quality of our build and our customer service.

We aim to secure sites that are well located with good access to public transport and amenities, and then introduce additional elements that will benefit the local community, such as allotments, children's play areas, car clubs, cycle lanes and walking paths and inviting green spaces. We also work to ensure that our communities are accessible to all and have facilities in place, like shops and access to local employment, to promote economic growth.

To support and steward these initiatives into the future, we put affordable Community Interest Companies (CIC)[1] or management companies in place. The funds of the CIC or management company are put towards the maintenance of the open spaces, community facilities and sustainable drainage.

At our Tadpole (Swindon) and Monksmoor Park (Daventry) developments, where CICs are in place, we have encouraged residents to set up their own steering groups to expand on the variety of activities already in place to support well-being, gardening, public arts and open spaces. We have put in place community mobilisers to assist residents with running these groups.

With the increasing use of social media, we are also keen to explore how technology can support effective engagement among residents. We have launched an app for residents at Monksmoor Park that helps them communicate with each other, keeps them informed with the latest news, lets them know about out the latest events and allows residents to report issues on the estate while they are on the go. We plan to launch a similar app at Tadpole shortly.

1 A CIC is a not-for-profit organisation with primarily social objectives – these are funded in the initial stages by Crest Nicholson, with ongoing contributions from residents and the community.


Sports kit sponsorship for an under-11 team in Gloucester

SUPPORTING COMMUNITIES

We support local causes through sponsorships. We provided sports kits to a rugby club in Cheshunt and an under-11 football team in Gloucester, which helps to raise our profile, aids engagement and contributes to the communities we build.

We also support community events, such as the open-air cinema in July 2018 at Bath Riverside, which screened the Disney classic *101 Dalmatians*. More than 170 people attended this unique event to help raise money for the Bath Cats and Dogs Home, a fantastic local charity.

Employees from our South division had to be sure they were not late for a very important date at Mulberry View in Wokingham, Berkshire, when they hosted a *Mad Hatters Tea Party* in 2018. Visitors were treated to a whimsical tea party with a host of sweet treats, tea served in vintage china, bubbles and 'drink-me' children's soft drinks served in mini milk bottles. Complete with Shetland ponies and face-painting, the day was hugely enjoyed by local children and adults alike.

Crest Nicholson has supported Variety, the Children's Charity, since 2005. This year, employees have raised £356,158 (2017: £287,669) to support this cause.

variety
the children's charity
improving young lives every day


Barkham Place at Arborfield Green, Wokingham

SUPPORTING LOCAL HERITAGE IN MARLOW

In partnership with The Marlow Society, we were proud to unveil a brand-new Marlow history information board plaque at our Portland Gardens development. The permanent history board plaque was unveiled at an official ceremony in August 2018, attended by the Mayor of Marlow, Councillor Chris Funnell, and the President of The Marlow Society, Sir Keith Stuart. The board plaque is part of a wider initiative to maintain and promote the heritage of the town and leave a legacy for future generations to enjoy.

Health and safety – everyone's responsibility

SUPPORTING EVERYONE TO BE SAFE

We have continued to improve our approach to health and safety in a number of ways this year, having restructured the Group's health and safety department so that all our divisions now have their own dedicated health and safety advisors. This ensures that our people have the support they need and enables us to manage our health and safety risks better. Directors' health and safety site tours are now well embedded, with 54 divisional directors and members of the Executive Management Team completing 132 tours during the year.

The Health & Safety Committee is chaired by the Chief Executive and meets regularly. The Committee reviews policy and procedures, as well as all serious incidents and near misses, improvement notices (both internal and external), NHBC site reports and current initiatives. A nominated Committee member is tasked with ensuring all actions are addressed appropriately, and reports are provided to the Main Board at each Board meeting on its activities and our performance. In 2019, health and safety performance will be directly linked to Directors' remuneration to further reinforce the importance of this issue and help to drive improvements.

RAISING THE BAR FOR HEALTH AND SAFETY WITH OUR NEW CAMPAIGN: 'BE SAFE'

During the year, we have been working on a new engagement strategy to keep health and safety at the forefront of every site employee's and contractor's day-to-day working life. Called 'Be Safe', the strategy has three strands that work together to create a safe working environment: consistency, communication and education.

Consistency is about ensuring that every site meets our high standards for proper set-up, tidiness and safety. Our site audits and the Directors' site safety tours will support this.

Communication is focused on making sure that everyone on site clearly understands what we expect of them. We are reviewing and improving our site inductions to ensure that everyone is educated to the same high health and safety standards and is clear on our site procedures before they start work with us.

We piloted the 'Be Safe' campaign at Longcross in late 2018. The campaign addresses the different motivations for employees and contractors on site and uses simple and clear language and messaging. The 'Be Safe' communications campaign will be rolled out across the business in 2019.

Crest Nicholson's 'Be Safe' principles are all about creating and maintaining a culture where everyone:

- **believes that all work can and will be carried out safely and without risks to health.**
- **behaves so that they do not put themselves or others at risk of harm.**

REDUCING INJURIES

Our Annual Injury Incidence Rate (AIIR) fell by 17.8% in the year, from 416 in 2017 to 342 in 2018. We are committed to continually improving this important part of our business. Health and safety featured on the internal audit plan for the year and a range of positive improvements have been recommended that we will seek to implement over the next year.

Annual Injury Incidence Rate (AIIR) 2018	
Crest Nicholson	342
UK Construction Industry (Health and Safety Executive)	397
Home Builder Peer Group (Home Builders Federation)	334

In 2018 'falls on the same level' accounted for 28% of all reported incidents. We are committed to reducing the likelihood of slips, trips and falls on our sites. Targeted improvements areas include ground conditions, materials management, waste management, cable management, footwear, lighting, stairs, steps, hop-ups, ladders and plot access.

To help enforce health and safety requirements on our sites, we have launched a new system based on football-style yellow and red cards. With this user-friendly and efficient management tool, our site managers can now issue yellow cards for minor offences, such as not wearing a hard hat, and red cards for more serious offences. They can then decide upon the appropriate enforcement action, such as induction, written warning, improvement notice or even prohibition from site.

We have also signed a new safety partnership this year with a specialist scaffolding safety consultant to help improve scaffold standards during procurement and construction activities. We expect this to provide additional expertise and support for our teams and further enhance our health and safety capabilities.

TRAFFIC AND PEDESTRIAN SAFETY

Wherever we use mobile equipment and vehicles, we train our people to use them competently; making sure they are regularly inspected, serviced and maintained. Our site managers produce a risk assessment and a traffic management plan (TMP) for their sites and in 2018 we implemented a new standardised system for completing TMPs, which includes daily updates by site managers to respond to changing circumstances.

ENFORCEMENT AUTHORITY INTERVENTION

The Health and Safety Executive visited three sites in the year and issued one Notification of Contravention[1].

SITE SAFETY INSPECTIONS

The NHBC carried out 228 site safety inspections. We are pleased to report that the number of 'Category A (less than adequate) items' observed by the NHBC during their inspections was 55% fewer than in the previous year.

CONSTRUCTION SAFETY COMPETENCE

We also maintained our Safety Schemes in Partnership Accreditation, working with Safety Management Advisory Services Ltd, which independently assessed and certified our health and safety competence.

OTHER MEASURES WE USE TO MONITOR OUR HEALTH AND SAFETY PERFORMANCE

4,388
average number employed*
(2017: 4,089)

422
working days lost due to injury
(2017: 403)

105
injury incidents with zero lost time
(2017: 108)

39
injury incidents with 1 to 7 days' lost time (2017: 38)

15
injury incidents with over 7 days' lost time (2017: 17)

CORPORATE HEALTH AND SAFETY POLICY

Our policy outlines how we ensure the health, safety and welfare of our employees at work and of others who may be affected by our operations, such as sub-contractors on site or customers. It commits us to continually improving our operational health and safety management system and performance as well our Annual Injury Incident Rate (AIIR) to meet, or be less than, the construction industry average.

Our due diligence:

- Regular Health & Safety Committee meetings (see page 44).
- We allocate resources to mitigate health and safety risks in our operations (see page 44).
- We undertake regular audits of our sites and Executive Management Team and divisional directors make routine safety tours (see page 44).
- We monitor industry good practice and implement practices relevant to our operations, including NHBC safety inspections.
- We engage external expertise to help us continually improve our standards, processes and management system (see page 45).
- New sub-contractors are screened for the SMAS Worksafe Certificate (where applicable), which certifies appropriate health and safety competence.
- Site employees attend health and safety training, which is refreshed every two to three years.
- Red and yellow cards issued on Field View (see page 44).
- Traffic Management Plans in place.

Policy outcome:

- Reduction in our Annual Injury Incidence Rate (see page 25).

See page 62 for more information on the risks and performance measures related to this policy.

2018 NHBC HEALTH AND SAFETY AWARDS

The NHBC Health and Safety Awards are the UK's only health and safety awards scheme exclusively for home builders. They recognise and reward the very best in health and safety and help to drive up safety standards in the industry by showcasing and sharing best practice.

Several Crest Nicholson employees were winners at the Awards Gala in July 2018:

Adam Radcliff, Site Manager (Crest Nicholson Regeneration)
'Commended' and 'Highly Commended' for his work at Bath Riverside.

Paul Green, Senior Site Manager (Chiltern Division)
'Commended' for his work at Lancaster Grange.

Ross Oates, Project Manager (Crest Nicholson Regeneration)
'Commended' for his work at Park Central.

2018
NHBC Health and Safety Awards
Commended

* This average is calculated from those directly employed by Crest Nicholson and those who are not directly employed, but carry out work for the Company (e.g. IT consultants, agency staff, bricklayers, carpenters, roofers).

[1] In 2017 three site visits and one Notification of Contravention issued. No other safety enforcement action was taken in 2018 (In 2017: zero).

Developing our people

In 2018, we have continued to focus on ensuring that we have a stable and engaged workforce, with several work streams underway to support our strategic area of focus to attract, develop and retain high-performance individuals. We carried out analysis in several areas relating to turnover and feedback from the Employee Engagement Survey to enable us to understand where challenges exist.

ATTRACTING AND RETAINING THE BEST PEOPLE

With the well-documented skills gaps in our industry, we are working in a very challenging recruitment space with heavy competition for the most talented people. The imbalance between the demand for, and supply of, talented people not only makes recruitment difficult but retention as well, especially for new starters. One way we have addressed this challenge is by launching a new corporate induction and site induction that help employees to better understand what Crest Nicholson stands for, its ambitions as a business and the important role they can play in achieving them. The inductions also provide new employees with the knowledge they need to hit the ground running and make them a success in the organisation.

We recognise the need to have a strong talent pipeline in place to ensure continuity in delivering on our strategic objectives and long-term ambitions. The Talent Review Group continues its work identifying employees who could successfully become our future managers and directors, and who are ready to take the next steps in their careers. This year's work has involved the formulation of a clear succession plan and we will be rolling out new leadership and management development programmes next year.

We have also set out to achieve a more proactive and cost-effective approach to internal recruitment by making much better use of internal and social media resources, rather than relying exclusively on external agencies. We are promoting the business more using LinkedIn and Facebook. The number of followers we have on LinkedIn has increased by more than 36% in the 12 months to 30th November 2018. We also ensure we keep in touch with them from the job offer to joining, and through their induction.

This year's Employee Engagement Survey results made it clear to us that people want more time dedicated to "career discussions" and their future with the organisation. As a result, we will be reviewing our existing Delivering Professional Excellence programme to ensure it responds to this need and provides employees with a framework to discuss current expectations and potential opportunities.

CHANGING OUR LEARNING CULTURE

Our approach to training aims to highlight the training and development opportunities available to our employees and reinforces the importance the business places on investing in the development of a talented workforce.

During the year, we introduced a new e-learning platform for all employees, called *My Learn*. This has been specifically designed to make learning easy for employees to access, while ensuring a consistent quality of learning is offered at scale and cost-effectively.

The new platform allows employees ` to select training and e-learning that interests them and acts as a booking management system and a learner management system for the training team. To date, employees have accessed more than 3,200 e-learning or other learning modules from *My Learn*.

DEVELOPING OUR OFF-SITE MANUFACTURING SKILLS

While the benefits of OSM are becoming increasingly clear, it is also evident that there is a significant gap in employees' and our supply chain's skills and experience in these modern methods of construction.

To ensure that any future roll-out of OSM in our business would achieve the expected benefits, we captured and tracked all the knowledge, skills and experience gaps we identified during the design and construction of our three prototypes at Arborfield Garden Village in 2017. This information is being reviewed now to understand how best to address these gaps in the future, including the potential for dedicated training in the use of OSM.

Employee spotlight
CHARLOTTE COLLINS

"If I had to go back, I would definitely choose to do an apprenticeship all over again. There are a host of career prospects and opportunities with Crest Nicholson as the company is always looking to better its staff with training and development. I'm proof of this, as shown by my journey within the the company – starting as an apprentice before being promoted to a trainee site manager and now a site manager. The highlight of my career so far is being part of the team that won a National House Building Council (NHBC) Pride in the Job Awards as well as a regional award last year."

OUR INVESTMENT IN TRAINING FUTURE SITE MANAGERS

Our Site Management Academy continues to grow from strength to strength. We are starting to see benefits from this programme with several promotions to fully fledged site managers from our initial 2015 trainees, as well as a retention rate after graduation of 75%.

The Site Management Academy offers a fully rounded approach to their learning, including mentoring from senior management, training in formal qualifications, company procedures and safety, as well as structured on-site experience. Interest in the programme remains strong with the number of applications continuing to grow from both internal and external candidates. Currently 15% of our trainees are female.

We have developed a skills matrix for all site managers that outlines the key skills and knowledge we require from people working in these roles. New site managers who join our organisation now undergo a skills gap analysis to understand where we need to support them, while existing site managers are appraised in a similar way in their annual appraisals. Site managers can use our new *My Learn* to register for training or take e-learning to develop the skills and knowledge they need.

We have also established a new programme for our site managers to help them achieve chartered membership status with the Chartered Institute of Building (CIOB). This new programme provides site managers and our Academy trainees with the opportunity to develop a level of professional credibility beyond the CIOB's Level 4 Site Management Qualification. We have our own CIOB assessor who delivers training to site managers and helps them to prepare for their official professional review with the CIOB.

GRADUATE PROGRAMME: A STRONG PLATFORM FOR IDENTIFYING FUTURE TALENT

In September 2018 we took another 11 graduates into the Group – taking our total investment to 62 graduates since 2014. We continue to see positive retention rates with graduates from our 2014 intake, many of whom have been promoted into management roles.

This award-winning Graduate Programme provides a fully rounded development approach, including workshops delivered by divisional directors, as well as rotations in different business departments and quarterly mentoring sessions with a member of our Executive Management Team. All this development is underpinned by a year-long team project in the first year, through which graduates can demonstrate their understanding of residential development and their ability to work as part of a project team, while working towards their professional chartered status in year two.

Trainees of our Site Management Academy

Employee spotlight
DOMINIC MACKRELL

"In my 18 months at Crest Nicholson I have developed enormously both as a manager and an individual. The Company has supported my learning and development through training courses, workshops and on-site development, which has led me to complete my Level 4 CIOB management course with Distinction. The culmination of my training has been the successful project management of a block of 24 apartments at the award-winning Park Avenue development in Sunbury-on-Thames, of which I am immensely proud. Crest Nicholson as a company matches my ambition to be the best I can be and to deliver exceptional homes for our customers."

Developing our people

ENHANCING OUR APPRENTICESHIP SCHEME

In 2013, we committed to bringing 200 apprentices into the business by 2019. In 2018, we exceeded this commitment with 219 apprentices having entered our Apprenticeship Scheme. Nearly half of our apprentices have remained in the house building industry.

However, due to the demand for entrant-level skilled workers across the industry, we are seeing a number of apprentices able to secure self-employment within the sector without needing to finish their training.

We are addressing this through our recruitment strategy, targeting certain trade apprentices at an intermediate level only and working closely with partner sub-contractors to recruit in the areas most needed. We are also working alongside the Home Building Skills Partnership and further education colleges to implement the new construction trailblazer apprenticeships, which include OSM.

In 2018 we implemented a new health and safety induction for apprentices and now provide quarterly briefings to support their progress.

We also successfully transitioned our Apprenticeship Scheme to accommodate the new apprenticeship levy.

Having met this commitment, we are now considering how we further commit to support apprentices in the industry. In light of the potential impact of Brexit on site labour, we are reviewing our apprenticeship strategy to ensure that we have the right level of skills and experience we need in our business to meet our strategic objectives and apply new, more modern methods of construction.

STRONG EMPLOYEE ENGAGEMENT

We had a good response to this year's Employee Engagement Survey and achieved a strong overall engagement score of 88%, which compares very well with a benchmark group of companies across different sectors, where the average score is 77%.

2018 PRINCESS ROYAL TRAINING AWARD

Crest Nicholson was commended by the 2018 Princess Royal Training Awards, in recognition of its internal training aimed at tackling the building industry skills gap.

The Awards are accolades for UK employers that link skills and development needs to business performance. Employers are asked to demonstrate evidence on how their learning and development programmes meet three quality hallmarks:

- That training is integral to the company
- That training is designed and delivered effectively and efficiently
- That training has an impact on the business and its employees.

In 2018 Crest Nicholson was the only housebuilder to be a recipient of a Princess Royal Training Award. The award for 'Tackling Sector Skills Gap' was made for our Delivering Professional Excellence (DPE) training initiative, which ensures that employees can discuss their skills and development needs with their line managers. This year, 19% of our people have formal learning and development plans, and 88% of employees have carried out an annual skills review with their line manager to support their career progression.

The survey confirmed that our people take pride in their work and that there are high levels of enthusiasm, dedication and commitment to achieving Crest Nicholson's goals. People feel they are well-rewarded, find their work interesting and challenging and think we offer a comprehensive package of benefits.

While our overall score is good, the survey also identified areas where we can be better. In direct response to some of the concerns expressed in the survey, we decided to review and have subsequently enhanced our maternity and paternity pay.

Each of our divisions has created its own action plan to tackle the areas of improvement that are specific to their teams. Across the business, we are taking steps to improve work-life balance, especially for those who work weekends and site managers who might often work seven days a week. Our training team also ran a series of e-learning modules on mental health and well-being. In total, over 1,000 courses were completed by employees.

Our culture, values and behaviours underpin all our business operations and relationships, including the way we communicate with each other. In November 2018, the Chief Executive and the Executive Management Team held a series of roadshows across the business to further engage with employees and provide them with insight into our business performance and strategic objectives. We have also started to provide coaching at our senior levels to further improve communications between our leaders and teams.

INCREASING DIVERSITY IN THE WORKFORCE

As a business where industry skills shortages are a real threat, we know that drawing on the most diverse pool of talent is important to our long-term success. There is also growing pressure on all businesses to improve gender equality and ensure women are strongly represented at a senior level.

At Crest Nicholson we are focused on developing our female employees, mentoring our senior people and coaching women in our workforce to overcome any barriers they may encounter. This focus extends to our Site Management Academy, Graduate Programme and Apprenticeship Scheme, where we continue to encourage women to apply. In 2018, 17 women were part of these schemes.

In the year, we have seen a 1% increase in the number of women working for the business (from 35% in 2017 to 36% in 2018); this includes increases at both senior management and Board level.

It is really positive to see that women made up a large proportion of the new starters (36%), helping us increase the number of women employed in our business.

GENDER PAY GAP

We also recognise the gender pay gap (the difference in average hourly pay between men and women regardless of their role) in our business. At Crest Nicholson, we practise equal pay – our male and female employees receive the same pay rate for the same or a similar job.

We are committed to closing this gap and to attracting and retaining female talent. This is one reason we decided to review and enhance our maternity leave pay. We also challenge our recruitment agencies to provide a diverse range of CVs shortlisting female candidates wherever possible, while our Talent Review Group is working to ensure that barriers that may exist in the business preventing women from promotion to senior management are removed.

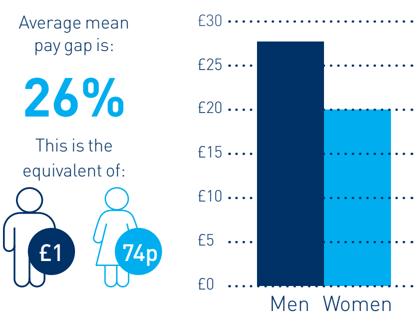
We will be setting up a new women's networking group in 2019. This will provide a network of support and mentoring for senior women in the organisation and help to identify opportunities to advance their careers. We are also rolling out a diversity and inclusion programme for senior management to further promote the benefits of diversity.

OUR COMMITMENT TO HUMAN RIGHTS

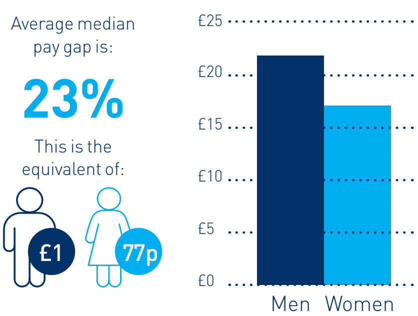
Being a socially responsible business is a non-negotiable value for Crest Nicholson. At every level of our business, we make sure to apply a strong set of principles to ensure we act in an ethical and responsible manner, and with respect for people. Our human resource processes follow UK law and guidelines as well as abiding by International Labour Organization (ILO) standards and conventions.

We require the same from our supply chain. Our contractual agreements and Supply Chain Code of Conduct require all suppliers and sub-contractors to ensure that their own business and supply chain standards meet the ILO conventions. We reserve the right to carry out supply chain audits to ensure these minimum standards are met.

Mean hourly pay gap



Median hourly pay gap



The mean pay gap is calculated as the difference in average hourly pay for women compared to men, within a company. The median represents the middle point of a population. If you separately lined up all the women in a company and all the men, the median pay gap is the difference between the hourly pay rate for the middle woman compared to that of the middle man.

Gender profile at 31st October 2018

	Male	Female	% Female
Board Directors and Executive Management Team	6	4	36%
Senior management	45	12	21%
Total workforce	647	370	36%

EQUALITY AND DIVERSITY POLICY

Our policy ensures that all employees and job applicants are accorded equal opportunities for recruitment, remuneration, access to benefits, training and promotion, together with an ongoing emphasis on monitoring and developing the diversity of our workforce. Workplace discrimination or harassment is not tolerated.

Our due diligence:

- Any matters raised under the policy are managed and resolved by the Group HR team through our disciplinary and grievance procedures.
- A member of the Executive Management Team sponsors diversity across the business, with the Group HR Director and team monitoring progress throughout the Group.
- Key diversity and promotion statistics are reported to the Executive team each month.
- Talent Review Group enables promotion to senior management (see page 46).

Policy outcome:

- 1% increase in the number of women working for the business to 36% in 2018.
- 36% of new starters were women in 2018.
- Mean hourly pay gap is 26%, median hourly pay gap is 23%.
- Enhanced maternity and paternity pay (see page 48).

See page 62 for more information on the risks and performance measures related to this policy.

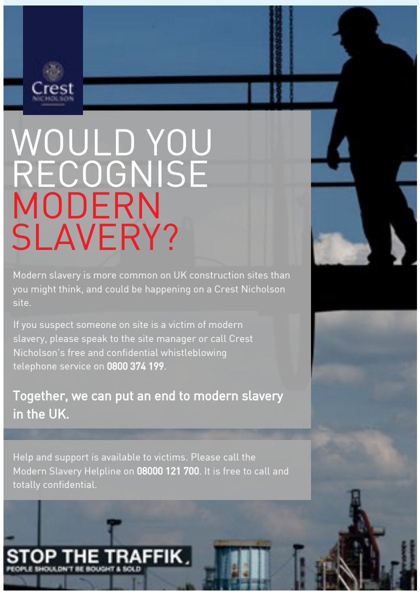
Developing our people

ANTI-BRIBERY AND CORRUPTION

We demand the highest standards from both our employees and supply chain when it comes to combating bribery and corruption. The Group operates and maintains a number of policies and procedures to prevent bribery and corruption, including an Anti-Bribery and Corruption Policy, a Gifts and Entertainment Policy and guidance around bribery risk areas. At a minimum, everyone must comply with these, as well as all obligations arising from the UK Bribery Act 2010. During the year, we refreshed our anti-bribery and corruption training and re-trained the workforce.

The Anti-Bribery and Corruption Policy is available on our website at **www.crestnicholson.com/investor-relations/corporate-governance/values-and-behaviour**.

We ran a poster campaign across our sites in 2018 alerting potential victims of modern slavery to the Modern Slavery Helpline or encouraging them to raise any concerns to a site manager.



Our Modern Slavery Statement is available on our website **www.crestnicholson.com/legal-information/modern-slavery-statement**.

MODERN SLAVERY STATEMENT

Our statement covers our supply chain risks and the areas of our business and operations considered to be at risk of modern slavery and human trafficking, and our approach to the identification and prevention of unethical practices.

The terms of our contractual agreements and our Supply Chain Code of Conduct outline our expectations and requirements regarding modern slavery.

Our due diligence:

- All directly employed staff are paid on or above the living wage. Apprentices are subject to a different pay scale, which we ensure is above statutory guidelines.
- An internal escalation procedure is managed by Group HR to effectively address any reported concerns.
- An anonymous and independent 24-hour whistleblowing hotline is available to employees and our supply chain.

Policy outcomes:

- 166 employees completed modern slavery e-learning between June and October 2018 (see page 50).
- Zero reported instances of modern slavery at Crest Nicholson.

See page 62 for more information on the risks and performance measures related to this policy.

MODERN SLAVERY E-LEARNING

In 2018, we have developed e-learning for all site staff and all employees who are on site regularly. This takes them through the risk of modern slavery on construction sites, how to spot potential victims and how to report any concerns they may have. Supporting this is an internal escalation procedure, which is managed by our HR team, as well as our whistleblowing hotline. All reported concerns will be investigated and involve the appropriate authorities.

ANTI-BRIBERY AND CORRUPTION POLICY

Our policy sets out a clear code of conduct that ensures everyone acting on our behalf understands and conducts themselves in accordance with the legal regulations relating to bribery and corruption.

Our due diligence:

- All our employees must complete compulsory training within one month of starting their role with Crest Nicholson. Employees refresh their training every two years.
- We run an anonymous whistleblowing helpline to report concerns regarding bribery, corruption or any other malpractice.
- All supply chain partners must meet and adhere to our Supply Chain Code of Conduct, including expectations regarding bribery and corruption.
- The Audit Committee reviews Internal Audit findings that highlight any concerns.
- Our contractual agreements include terms relating to anti-bribery and corruption.

Policy outcomes:

- 989 employees completed the anti-bribery and corruption training module during the year.
- There were no employee dismissals for non-compliance in the year.

See page 62 for more information on the risks and performance measures related to this policy.

OTHER WAYS WE TRACK OUR PERFORMANCE

In addition to our Key Performance Indicators on pages 24 to 25, we monitor a number of other important metrics that help us to further track our performance against our strategic business objectives.

Person days' HSE training

The majority of health, safety and environment (HSE) training undertaken by employees is in the disciplines of first aid, risk assessment, incident reporting, scaffolding inspection and lifting operations.

2016	535
2017	409
2018	646

Total number of divisional directors' and Executive Management Team HSE tours

The slight decrease in 2018 is due to a number of Directors having conducted much more than their minimum requirement in 2017.

2016	N/A
2017	142
2018	132

Number of internal promotions

Our continued focus on succession planning across the business saw good progress in internal promotions during the year.

2016	67
2017	85
2018	87

Total training costs across the Group

We are strongly committed to providing the training our people need to do their jobs and to progress at Crest Nicholson.

2016	£1.0m
2017	£1.3m
2018	£1.5m

Site manager retention after the Site Management Academy

Developing our own site managers through the Academy is an effective way of ensuring we have the right people on site. In 2018, with demand for skilled site managers high, a small number of our trainees moved on to more senior roles elsewhere.

2016	87%
2017	84%
2018	75%

Graduate retention after programme

We value the contribution graduates make at every level of our business and work hard to retain them.

2016	92%
2017	92%
2018	89%

Employees who completed a DPE meeting with their line manager

Our Delivering Professional Excellence (DPE) scheme enables our employees to access quality training and development opportunities through dedicated meetings with their line managers. Whilst numbers have dropped, we are still pleased with the amount of employees who have completed a DPE meeting and we are reviewing the scheme to ensure employees have sufficient opportunity to discuss their potential.

2016	88%
2017	88%
2018	75%

Average training hours per person

Average training hours for each employee reflect our efforts to address skills gaps in the organisation, but we also focus on mentoring and support, which is not always recorded as training hours.

2016	22.8
2017	15.1
2018	21.2

Resilience in our supply chain

Our supply chain partners are critical to our ability to deliver operational efficiencies, including those to be gained from the roll-out of our new range of house types and the introduction of OSM components to our build process. By sharing expertise and knowledge we can not only enhance quality cost-effectively, we can also work together to improve the impacts created by our industry.

NEW SUPPLY CHAIN CODE OF CONDUCT

We have developed and launched a new Supply Chain Code of Conduct this year. The Code brings together, into one clear and concise document, all our existing policies and expectations around important social and environmental matters that are relevant to our supply chain partners.

SOURCING MATERIALS COST-EFFECTIVELY

We are looking at new and existing suppliers to secure materials in a more sustainable, reliable and economical way. This includes a major focus on cost and efficiency.

For some major suppliers, like kitchen manufacturers, this means exploring whether being more selective with the number of suppliers would provide any such benefits. At the same time, we have undertaken a wholesale review of our supplier and sub-contractor agreements to ensure they are consistent in our supply chain terms and clear in their language to support a more efficient and fair negotiation process.

ROBUST SUPPLY CHAIN

After the material shortages of recent years, our reliance on imported bricks is likely to decrease as the UK-based brick manufacturers have started picking up the pace and can be relied on to supply what we need. However, 40% of the items we use still come from Europe, including wall tiles, sanitary ware, appliances and internal doors, so we are monitoring closely the potential effects of Brexit on the supply of these products. We have been engaging with our supply chain to understand their concerns around Brexit and the contingency strategies they have put in place to respond to a no-deal or other outcome. We know that some products might be slowed down at borders and others may be affected by limited availability, but overall, we are reassured that our supply chain is robust and prepared for any potential impacts.

QUALITY INSPECTIONS AND BETTER PROCESSES

We seek to ensure that our focus on cost does not in any way compromise our quality standards. For our suppliers, we are looking at how they can be responsible for their own site inspections. We are currently piloting this idea, and will monitor progress over the coming months.

We have also focused on enforcing all our processes to make sure they are fully adhered to. Using our tablet-based Field View system, quality checking is more than a box ticking exercise, with built-in challenges to the tablet user to explain how and why things are done, helping to increase the quality of the build and drive efficiency.

Our new CRM system will also enable us to resolve problems by helping to isolate the key issues, so we can quickly deploy the right resources to fix them. It will also show us where we can spend money up front to stop these issues at source. This can save time and money, both during the build and on customer service call-outs later.

Park Avenue, Sunbury-on-Thames

SUSTAINABLE PROCUREMENT POLICY

A key ambition of our policy is for employees to work to build long-term, strategic and mutually beneficial relationships with supply chain partners. We consider quality, cost, availability and environmental considerations when choosing materials. Where we can, we will give preference to products that have a lower environmental impact, are locally and responsibly sourced, contain recycled content or are reclaimed.

Our due diligence:

- Our suppliers are contractually obliged to adhere to our policies and expectations around important social and environmental matters by signing up to our Supply Chain Code of Conduct.
- We reserve the right to audit our supply chain partners' compliance with the Code.

Policy outcomes:

- Following the launch of our new Supply Chain Code of Conduct, we are assessing our commercial procedures to identify the most appropriate mechanisms to monitor its effectiveness.

See page 62 for more information on the risks and performance measures related to this policy.

ENVIRONMENTAL REVIEW

To be a thriving business, we are reliant on natural resources, including the land we build on, the energy and water used in our operations, as well as the construction materials we need to build our homes. We focus on initiatives that will help to improve our resource efficiency and minimise any negative impacts on the environment. We also work to procure timber and other materials from sustainable sources and to introduce beneficial biodiversity and ecological enhancements on our development sites.

BARKHAM PLACE AT ARBORFIELD GREEN, WOKINGHAM

Managing our impacts

FOCUS ON REDUCING WASTE

The Government has identified construction as a key sector for increasing resource efficiency and minimising waste and committed to eliminating avoidable waste by 2050. It is clear that industry has a role to play in achieving this ambitious goal.

The materials we use are valuable commodities and improving our resource efficiency has beneficial impacts on our costs as well as the environment. During 2018, we implemented a number of measures to help us manage our materials and waste.

We introduced our 'waste calculator', a tool to help commercial teams better estimate and budget for the correct number of skips on each project and to drive site teams to meet or better their benchmark for waste created. We continue to set waste benchmarks for our sites and to supply our Production Directors and site teams with monthly dashboards that give the level of detail they need to identify specific waste streams requiring attention.

We are also rolling out new functionality to our site tablets (Field View) to help site managers and procurement teams better monitor requests for replacement materials. This new functionality will record more accurately why replacement materials are needed and allow us to better calculate costs of replacing them. Acquiring this type of granular data will be very helpful in identifying underlying causes of waste on our sites and putting in place more effective measures to reduce waste. It will also help procurement teams estimate the true cost of waste over the life of a project by allowing them to quantify not only waste leaving our sites in skips, but the cost of wasted and damaged materials, as well as replacement costs.

Compared with 2017, our volume of waste (per 1,000 sq ft built) has increased by 9% to 47.57 yd^3/1,000 sq ft. Compactable waste saw the largest increase, particularly on sites that completed during the year. 2018 saw a greater number of sites completing than in previous years, which is one of the primary reasons for the increase in waste volume. Sites tend to produce greater quantities of waste at the end of a project, as site compounds are cleared out and signage is removed around the site. We also focused heavily on delivery this year in light of the challenging market conditions and impact on sales.

Despite the overall increase in the volume of waste, we are pleased to report that we have maintained a high diversion from landfill rate of 97% (2017: 98%), showing that despite other priorities and pressures, our team maintain robust segregation procedures.

Regardless of the challenges, our ambition remains the same: make better use of our resources and reduce the amount of waste we create on our sites. Not only does this make good business sense in terms of operational efficiency and making better use of resources, but as a responsible business it is also the right thing to do. We are reviewing our strategy for waste reduction and our Make Waste History campaign to identify the most effective way forward.

REDUCING WASTE THROUGH OSM

As part of our off-site manufacture trials at Arborfield, we monitored the amount of waste produced to understand what benefits these methods may have over traditional build methods.

At the design stage, 3D modelling and clash detection were used to resolve any potential issues prior to construction, considering the reduction of material use from the outset.

SAVING PRECIOUS WOOD RESOURCES AND CHANGING LIVES

Jericho Wood Recycling, part of the Community Wood Recycling network, has been collecting wood waste from our Park Central development in Birmingham since April 2018. During this time more than 52 tonnes of wood has been removed from site and turned into new products or recycled as woodchip.

The mud kitchen at Landywood Primary School in Great Wyrley in Staffordshire is an example of the products they make from the collected timber. The mud kitchen has provided the school's children with a fantastic outdoor learning area and is a great addition to the school's facilities. The fact that the mud kitchen is made from reclaimed materials also helps to reinforce the school's ethos of encouraging recycling, sustainability and the preservation of valuable resources.

Based in inner city Birmingham, Jericho Wood Recycling is part of the Jericho Foundation of Social Enterprises, and provides opportunities for apprenticeships, volunteering and training in the local community. In the course of collecting this timber and making the mud kitchen, Jericho was able to provide work and training for several young apprentices and other vulnerable people.

For example, ceiling heights were selected based on standard plasterboard lengths, while bathroom tiling was set out using full size tiles to minimise offcuts. During construction, the waste produced was monitored closely and we consulted with trades to understand whether they saw any benefits to the measures we put in place and the materials used. We received positive feedback in terms of both time and resource savings, but also honest feedback on areas for improvement. What we have learned is being fed into our current OSM projects.

The steel frames used in the trials were developed in a factory and replaced the traditional use of blockwork. Windows and insulation were also installed in the factory, which meant that far fewer materials had to be stored and installed on site, reducing the risk of damage, offcuts and forklift truck movements. Waste was significantly reduced during the erection of the frame and, overall, the project resulted in the homes producing only 6.6 tonnes/ 1,000 sq ft, which is a significant improvement on our Group-wide average of 9.7 tonnes/1,000 sq ft.

Reuse and recycling

Timber is a significant waste stream for us and one that has been increasing in recent years. One of the key reasons is the use and subsequent disposal of timber pallets. To help combat this, we have piloted a pallet return scheme across two divisions. During the year, more than 6,300 pallets were collected, of which 2,600 were reused and redistributed back into the supply chain. The scheme not only benefits the environment by following circular economy principles and reducing transport movements, it is also economically effective, saving the business close to £19,000 when compared to the use of skips. The scheme will be rolled out across the business in early 2019.

We also continue to work with the social enterprise Community Wood Recycling to collect timber waste from our sites. It provides jobs for local people, upskilling them with carpentry skills to equip them for future employment opportunities. In 2018, the timber collected from our sites provided 33 carpentry training places and 15 jobs across the Community Wood Recycling network. 100% of the timber collected from our sites was diverted from landfill and 46% of this timber was reused.

CO_2 emissions and energy efficiency

The Intergovernmental Panel on Climate Change (IPCC) special report (2018) has been described as a "wake-up call", warning that without immediate action by governments, business and society, we will face unprecedented climate-related risks and weather events.

We are aware that climate change could impact our operations on site as well as our supply chain. We are also aware of, and are addressing, customers' growing concerns about overheating, flood risk and air quality in their homes.

We are focused on reducing our consumption of energy and water and reducing our greenhouse gas emissions. We believe this commitment is entirely compatible with our drive for greater operational efficiency across our business. Both our Head Office and South West office use 100% renewable electricity and we recently began purchasing biogas for these offices as well.

In 2018 we significantly increased the scope of the data we gather from our sites. In the past, we lacked sufficient quality data for our landlord suppliers, pumping stations and other metered and unmetered supplies, such as traffic lights. However, we have been working closely with a utilities management company to address this. This company is also now responsible for the billing and handover of all the business's electricity, gas and water meters, giving us far greater control of our tariffs and improving the quality of all our meter readings, while also allowing us to consider opportunities to introduce renewable energy on our sites.

CLIMATE CHANGE POLICY

Between this policy and our Sustainability Policy, we commit to minimising the negative environmental impacts of our operations and reducing our carbon footprint over time, while also working with our supply chain to encourage the reduction of its own environmental impacts.

Our due diligence:

- Climate change and other environmental matters are considered as part of our overall risk management procedures.
- We undertake Post-Occupancy and Building Evaluation tests on certain plots to help us assess how well our homes will perform when customers move in, including heat loss, temperature, humidity and CO_2 levels.
- Sustainability and climate change are sponsored at the Board level by Chris Tinker, Chairman of Major Projects and Strategic Partnerships.

Policy outcomes:

- We introduce initiatives as appropriate to help reduce our impact and support customers in living more sustainably (see pages 39 and 56).
- We procure renewable energy for two of our offices and are reviewing potential renewable energy for our site compounds.
- We use flood risk assessments and dynamic overheating modelling when designing our developments.

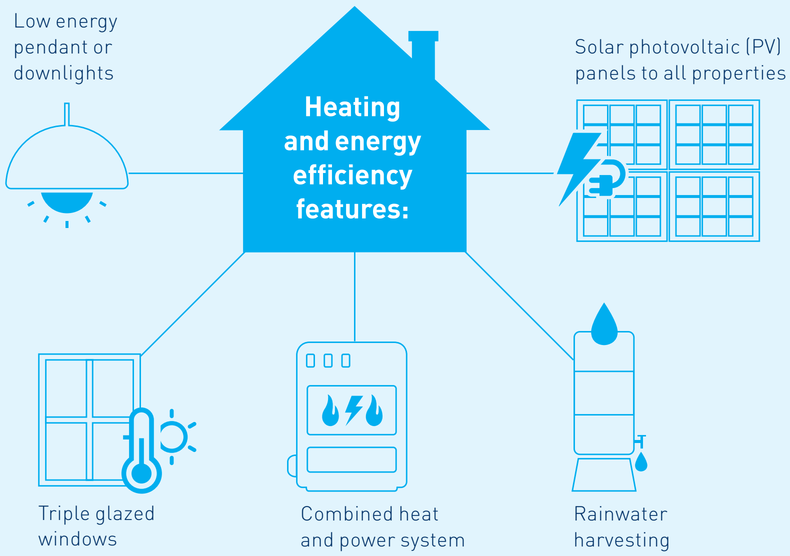
See page 62 and our website at **www.crestnicholson.com/about-us/integrating-sustainability/our-data** for further information on the effectiveness of our approach.

Managing our impacts

BUILDING ZERO CARBON HOMES AT ELMSBROOK, BICESTER

Intelligent design meets friendly village life at Elmsbrook, where we are building our first fully zero-carbon homes.

Working in partnership with A2Dominion and Bioregional, we are delivering 234 new zero-carbon homes at one of the UK's eco-towns in Bicester, Oxfordshire.



As a result of increasing the scope of our site data and improving the quality of our meter readings during the year, our overall carbon footprint has increased to 13,530 tCO_2e (2017: 10,714[1]). However, we are pleased to report a 9% reduction in the carbon emissions associated with our office energy compared to 2017. The use of renewable electricity and our new contract for biogas at our South West and Head offices account for much of this reduction.

In absolute terms, our carbon emissions associated with business travel have increased as our headcount has increased. However, when normalised by the average number employed, we have actually achieved a reduction in business travel emissions per person of 2%. To further improve the accuracy of our reporting, we are currently developing a new methodology to calculate our vehicular business travel emissions based on the manufacturer specified CO_2 emissions.

Diesel and LPG emissions increased by 15% compared with 2017. The colder than average temperatures in February and March was a contributing factor as greater energy was consumed to keep site cabins warm. We must also continue to encourage early connection to temporary builder's supplies to reduce our reliance on diesel powered generators. To help reduce the diesel consumed by our forklift trucks, we are collaborating with our forklift supplier to better understand the way in which the trucks are used on site. Forklift activity reports are now issued to our production teams on a weekly basis, providing detail on the fuel used and how the vehicles are driven so that improvements and efficiencies can be identified.

SUSTAINABILITY POLICY

We are committed to engaging with stakeholders to create cohesive, integrated and sustainable communities in which people want to live, work and play, while integrating environmental, social and economic considerations into our decision-making processes.

Our due diligence:

- We comply with all relevant social and environmental legislation as a minimum and go beyond this to work towards best practice.
- We work to reduce GHG emissions by implementing our Climate Change Policy.
- We collect a significant amount of data to measure the effectiveness of our sustainability policy and its associated procedures and initiatives relating to the environment.
- We have site environmental procedures, specifications and best practice guidance in place, as well as a clearly defined spill response procedure.
- We have construction Environment Risk Assessments and Environmental Management Plans created for all sites.

Policy outcomes:

- We measure our impacts and report our performance annually through our Annual Integrated Report.
- Data on waste, pollution incidents on site and our carbon footprint is published on our website **www.crestnicholson.com/about-us/integrating-sustainability/our-data**
- We achieve good performance in key benchmarks, including the FTSE4Good Index (see page 17).

See page 62 for more information on the risks and performance measures related to this policy.

[1] The carbon footprint for 2017 was restated following additional information from diesel suppliers. The figure reported in the 2017 Integrated Annual Report and Accounts was 10,649.

During 2019, we will be conducting a series of energy efficiency surveys in response to phase two of the Energy Savings Opportunity Scheme (ESOS). Following the surveys undertaken in 2015 as part of ESOS phase 1, we implemented a number of recommendations, including creating a drying hierarchy on site and agreeing a maximum diesel generator size of 60 kVa. The phase 2 surveys will be a great opportunity to understand how well these and other recommendations were implemented and to identify further actions that will lead to reductions in our carbon footprint.

Procuring sustainable timber

Following the ambitions of our Sustainable Timber Procurement Policy, the amount of FSC-certified timber procured through our suppliers has risen from 22% in 2014 to 55% in 2017, while our sub-contractors have managed to increase their use of FSC-certified timber from 5% in 2014 to 35% in 2017.

Supporting ecology

The Government's 25-year Environment Plan emphasises the importance of the network of natural and semi-natural features within and between villages, towns and cities. This includes features like street trees, green roofs and private gardens through to parks, rivers and woodlands.

We work closely with our ecologists and landscape architects to ensure that our developments feature many well thought-out features like this, so we are well placed to respond to the aims and intentions of this strategy.

Hoadlands Grange at Handcross, West Sussex, is surrounded by the High Weald Area of Outstanding Natural Beauty and is nestled among mature and newly planted woodland. The site is currently under construction and features local wildlife, including dormice and majestic trees with Tree Protection Orders. In line with our commitment to being a considerate builder, we have also worked closely with the local Parish Council and established a haul road on their land to ease traffic congestion, short-term air pollution concerns and the impact on neighbouring primary schools.

In Alton, Hampshire, we are working in partnership with Homes England to deliver a new development at the former Lord Mayor Treloar Hospital. While the site is only at the planning stage, we have already set aside space for an eight-hectare country park, which will be a central feature of the scheme, as well as preserving the local butterfly meadows.

SUSTAINABLE TIMBER PROCUREMENT POLICY

Our policy requires that all timber we procure through suppliers and sub-contractors is sustainably certified. We set a clear preference for timber certified through the Forest Stewardship Council (FSC), but where such certified timber isn't available, we accept timber through the Programme for the Endorsement of Forest Certification (PEFC). Our policy also encourages our commercial teams to work with our supply chain to improve the transparency and accuracy of their audit trail.

Our due diligence:

- We conduct internal audits of our supply chains to trace timber products back to the forest source.
- We provide regular training and detailed guidance documents to our commercial teams.
- All potential suppliers and contractors who will procure timber are vetted for certification in FSC or PEFC.

Policy outcomes:

- In 2017, the total volume of sustainably certified timber procured by our supply chain was 83%.
- The 2018 figures will be made available on our website in spring 2019 at: **www.crestnicholson.com/about-us/integrating-sustainability/our-data**.

See page 62 for more information on the risks and performance measures related to this policy.

Managing our impacts

LARGE RESIDENTIAL SCHEMES (GREENFIELD) AWARD WINNER – WOODSIDE, HAYWARDS HEATH

Woodside, in Haywards Heath, was recognised as a Large Residential Schemes (Greenfield) Award Winner by Mid Sussex District Council. The development is arranged in a network of leafy avenues, with open spaces that bring the natural environment to the heart of the community. The immediate surroundings are tranquil and green, with a central landscaped green, play areas for children and a distinctive border of mature woodland.

OTHER WAYS WE TRACK OUR PERFORMANCE

In addition to our Key Performance Indicators on pages 24 and 25, we monitor a number of other important metrics that help us to further track our performance against our strategic business objectives.

Average Considerate Constructors Scheme (CCS)[1] score

The Considerate Constructors Scheme (CCS) is a voluntary programme designed to encourage best practice in construction activities, going beyond statutory requirements.

2016	**35.5/50**
2017	**34.7/50**
2018	**34.6/50**

Considerate Constructors Award
£50m and over category
Centenary Quay, Southampton

Developments with ecological enhancement or protection

We always aim to create an outstanding space with genuine ecological features that protect and enhance the environment.

2016	**75%**
2017	**74%**
2018	**72%**

(42 out of 58 developments)

Total tCO_2e per person from office energy

We have reduced emissions through a number of initiatives and have surpassed our 10% target, set in 2014.

2016	**0.53**
2017	**0.31**
2018	**0.25**

The figures have been restated to report market-based carbon emissions

Total tCO_2e per 1,000 sq ft from site related activities.

Our carbon emissions from our site activities has increased significantly since 2017. This is due in part to an increase in the scope of data collected.

2016	**2.06**
2017	**2.33**
2018	**3.08**

Construction waste diverted from landfill

Across our sites, we operate a rigorous segregation scheme for waste to ensure as much as possible is recycled or reused, rather than ending up in a landfilll.

2016	**96%**
2017	**98%**
2018	**97%**

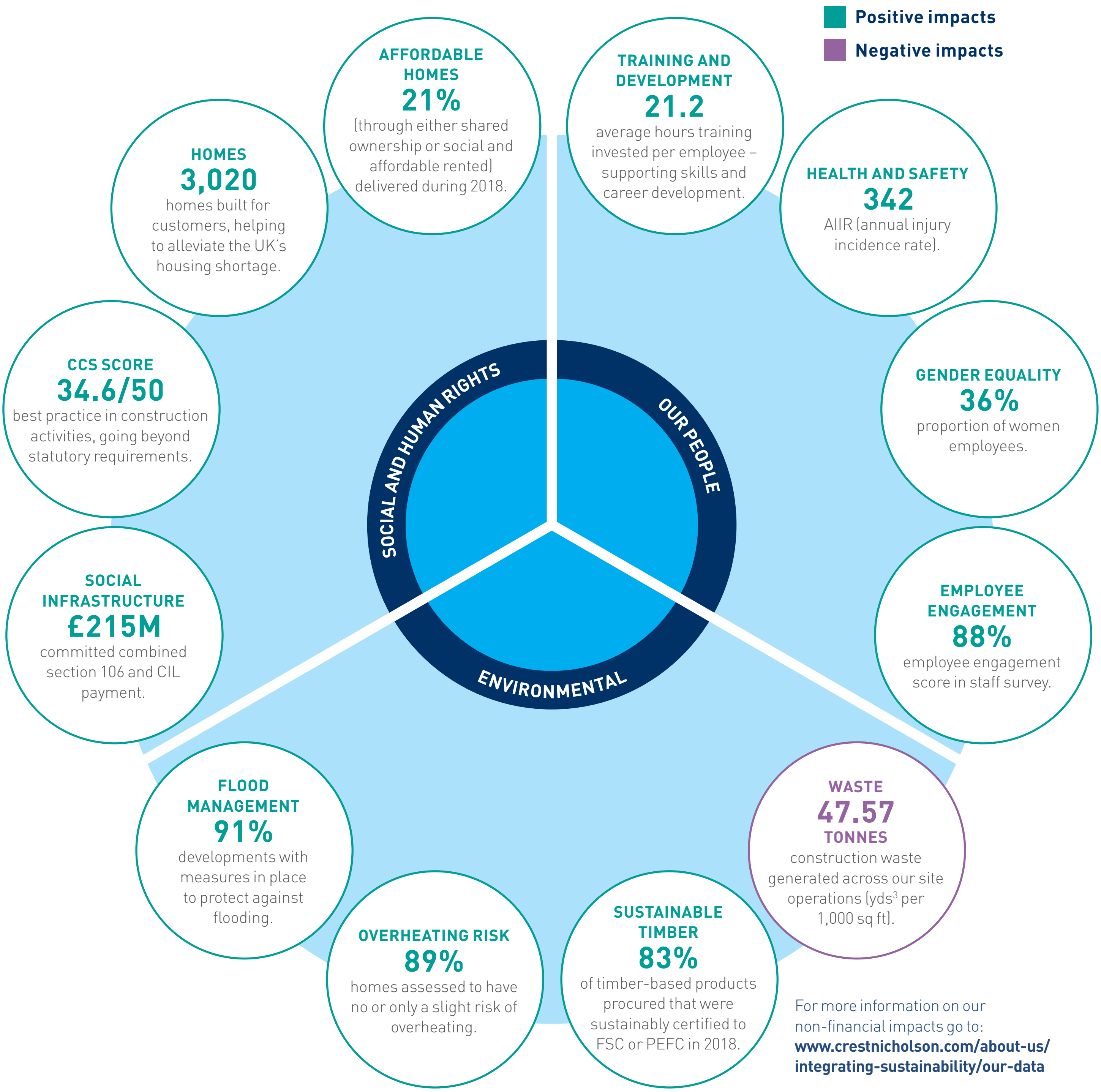
Target: 95%

[1] All our sites registered with the Considerate Constructors Scheme are monitored and scored against the Code of Considerate Practice, which includes five areas: Care about Appearance; Respect the Community; Protect the Environment; Secure everyone's Safety; and Value their Workforce.

Non-financial information

We aim to comply with the new Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. In line with our integrated reporting approach, we have included information required for a non-financial statement in the Strategic Report, either through dedicated pull-out boxes or by weaving commentary in the content.

The following two pages provide a summary of our non-financial policies and outcomes, as well as the key risks and impacts of our most material environmental and social matters.



For more information on our non-financial impacts go to:
www.crestnicholson.com/about-us/integrating-sustainability/our-data

Non-financial information

SOCIAL AND HUMAN RIGHTS MATTERS

We are committed to developing affordable homes in vibrant communities that create a long-term legacy. Our approach helps us to manage risk in our own operations and those of our partners and supply chain.

Sustainable procurement

Policy: See page 53

Key risk: Access to site labour and materials, see page 65

Measured by: % of total budget spent with GTAs, see page 25

Modern slavery

Policy: See page 50

Key risk: Laws, policies and regulations, see page 67

Measured by: Reported instances of modern slavery, see page 50

Anti-bribery and corruption

Policy: See page 50

Key risk: Laws, policies and regulations, see page 67

Measured by: Employees completing their anti-bribery and corruption training, see page 50

OUR PEOPLE

We are committed to supporting the development of our employees, so that they can achieve their potential – building much-needed skills for the industry while ensuring a safe place to work.

Corporate health and safety

Policy: See page 45

Key risk: Health, safety and the environment, see page 65

Measured by: Annual Injury Incidence Rate, see page 25; number of divisional director and Executive Management Team health and safety tours, see page 51; person days' health and safety training, see page 51

Equality and diversity

Policy: See page 49

Key risk: Attracting and retaining employees, see page 66

Measured by: Gender ratio and gender pay reporting, see page 49

ENVIRONMENTAL MATTERS

We aim to minimise any negative impacts our operations may have on the environment, and where possible, enhance the positive contributions we can make.

Climate change

Policy: See page 57

Key risk: Health, safety and the environment, see page 65

Measured by: Total tCO_2e per 1,000 sq ft delivered, see page 25; sustainability data for homes and developments, see page 39; % of ecological enhancements and protection measures, see page 60

Sustainable timber procurement

Policy: See page 59

Key risk: Access to site labour and materials, see page 65

Measured by: Annual timber procurement audit and results, see page 59 and **www.crestnicholson.com/about-us/integrating-sustainability/our-data**

Sustainability Policy

Policy: See page 58

Key risk: Health, safety and the environment, see page 65

Measured by: Selection for the FTSE4Good Index, see page 17

OTHER WAYS WE RESPOND TO MATERIAL NON-FINANCIAL MATTERS

Supply Chain Code of Conduct

The new Supply Chain Code of Conduct brings together all our existing policies and expectations around important social and environmental matters, see page 52.

Customer Charter

Through our customer charter we have made commitments to provide our customers with comprehensive information on their new home and to deal diligently with enquiries.

Customer Privacy Notice

We ensure that we look after any personal data our customers provide us with or that we may hold. We never sell this personal data. We have a range of technical and organisational measures to help ensure this data is used responsibly and to help keep it safe and secure. We also take steps to ensure any third party that provides services to us – such as hosting personal data on servers – also protect any data they process on our behalf.

Key risks and material issues

To effectively meet the needs of our stakeholders we must ensure that our decision-making is informed by a clear understanding of our business risks and opportunities.

RISK MANAGEMENT OVERVIEW

Considering and managing risks is an inherent part of our day-to-day decision-making, as well as our strategic and operational planning. The Board specifically considers risk as part of its corporate governance processes and its annual strategy review. It determines our risk appetite in areas such as our portfolio, customer satisfaction, financial resilience, health and safety and people. We continually monitor and manage our risk exposure, ensuring this remains within the profile and tolerances that the Board has deemed acceptable.

Each divisional management board undertakes a regular assessment of its exposure to financial, operational and strategic risks, and the measures that have been put in place to manage those risks. The Executive Management Team undertake a similar exercise before combining both divisional and group views into the Group's Risk Register, which is reviewed and monitored by the Audit & Risk Committee and the Board. This process facilitates the identification of the principal risks facing the Group at a given point in time, although these do remain broadly consistent. These significant areas of risk are then subject to regular review as the business and the environment in which it operates evolves.

REFINING OUR RISKS AND ALIGNING TO OUR MATERIAL ISSUES

During 2018, the Board and Executive Management Team reviewed and refined the 17 principal risks identified in the prior year to ensure focus on the most critical matters, reduce repetition and crossover between the risks and create a more coherent message for stakeholders.

As part of this prioritisation exercise, we mapped our principal risks against our material issues. These are the issues that most affect our ability to create long-term value for our business and stakeholders.

The graphic on page 64 illustrates how each of our material issues affects our ability to create financial, social and environmental value.

EMERGING AND REDUCING RISKS

The demand for housing is central to our business prospects and tends to be influenced by levels of employment, consumer confidence, mortgage access and overall affordability. We believe risks in relation to affordability and demand have increased in the year, being heavily impacted by macro-economic factors, such as consumer confidence and mortgage access. The Board has reflected on the current uncertainties arising in relation to the terms of the UK's exit from the European Union. This has provided an additional context for Board discussions in relation to risk.

We have adjusted our strategy in 2018, ensuring it is firmly focused on prioritising cash flow and cash generation for shareholders and that the Group can continue to meet the solvency and liquidity we require in pursuit of our business commitments and the short- to medium-term economic pressures. We set out the actions we have taken to mitigate this in our summary of principal risks on pages 64 to 67. At the same time, while regulatory changes are expected from Government, these are already being considered and reviewed, so are unlikely to have a significant negative impact on the business. Consequently, this risk has decreased.

Cyber security and the potential impact on operations are increasing risks for all businesses, and Crest Nicholson is no exception. We are working actively to increase our network security measures, intrusion detection, crisis planning, and staff training on data protection and internet security.

VIABILITY STATEMENT

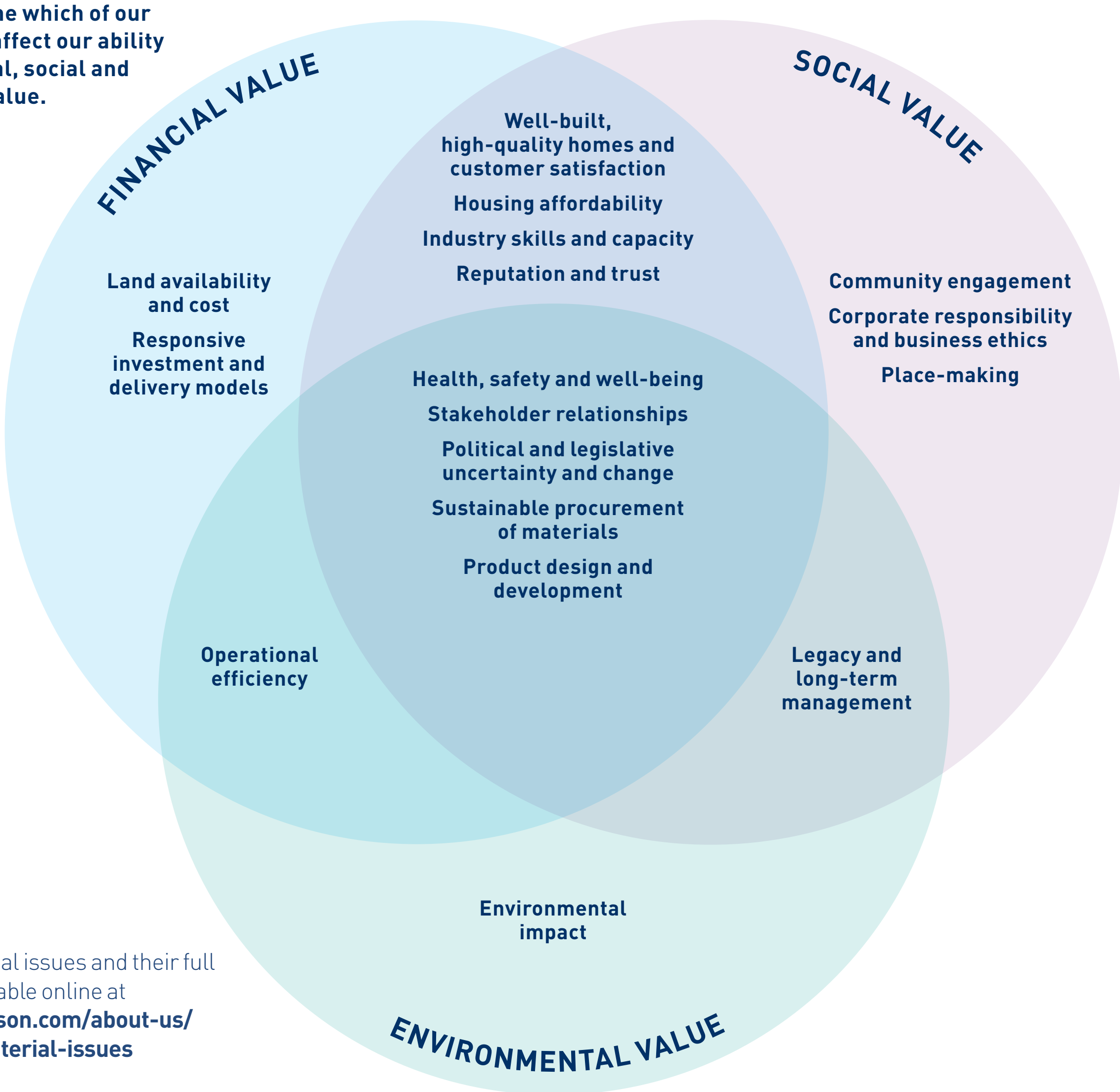
Notwithstanding the increased levels of uncertainty within the macro-economic environment, the Board has concluded that a three-year period continues to remain an appropriate timeframe for this assessment. The Group owns or controls a high proportion of the land required to meet unit forecasts over the next three years and is therefore able to forecast cash flows across this period with a reasonable degree of confidence.

While the nature of the material issues, opportunities and risks faced by the Group limits the Directors' ability to reliably predict the longer term, the Board is comfortable that detailed trading and cash flow forecasts are maintained and regularly scrutinised over the three-year period. The Group's banking facilities extend to June 2023 and sufficient headroom exists within these to fund our projected activities.

In the context of current political and economic uncertainties associated with Brexit negotiations, we have modelled the impact of severe but plausible adverse trading conditions on a number of different scenarios. These have been considered in conjunction with the principal risks set out on pages 64 to 67, on the solvency and liquidity of the Group. Among these risks, which could be precipitated by an adverse Brexit, the potential for a macro-economic downturn (with consequent increases in unemployment), changes in Government initiatives and/or significantly reduced mortgage access would most directly impact on our viability assessment. We have modelled the impact of these factors on volumes and prices and considered relevant mitigating actions that we would deploy, including reduction in land expenditure and the slowing of construction on our sites.

Based on the results of this assessment, the Directors 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 to 31st October 2021.

Diagram to outline which of our material issues affect our ability to create financial, social and environmental value.



A list of our material issues and their full definitions is available online at **www.crestnicholson.com/about-us/our-business/material-issues**

Principal risks

Low **Medium** **High** **Short** **Medium** **Ongoing**

THE MACRO-ECONOMIC ENVIRONMENT

Material issues affected:
- Political and legislative uncertainty and change
- Housing affordability

Risk Owner: Board

Change since 2017: Increased

Inherent Risk Rating: High

Residual Risk Rating: High

Category: External risk

Time Frame: Short- to medium-term

RISK DESCRIPTION:

The ongoing challenging macro-economic environment, including risks from:
- Uncertainty following UK vote to leave EU
- General economic slowdown
- Reduced prominence for elements of financial services
- Wider global growth issues.

IMPACTS:

Pressure on sales volumes and prices from:
- Consumer confidence and affordability due to:
  - Higher unemployment or fear of unemployment
  - Ongoing economic uncertainty
  - Weak real wage growth and reduced disposable income
  - Higher taxes.
- Business uncertainty due to policy changes
- Inflation due to foreign exchange.

KEY MITIGATING ACTIONS:

Monitoring impact of Brexit discussions and potential outcomes. New business strategy focus on responding effectively to this and contractions in the market through:
- Focus on cash generation
- Management of overheads
- Land buying strategy focused on securing land in areas of job security, infrastructure, affordability and growth
- Exploiting opportunities for operational efficiency and cost reduction.

HEALTH, SAFETY AND THE ENVIRONMENT

Material issues affected:

- Health, safety and well-being
- Reputation and trust
- Environmental impact

Risk Owner:
Executive Management Team

Change since 2017:
Stable

Inherent Risk Rating:
High

Residual Risk Rating:
Medium

Category:
Operational risk

Time Frame:
Ongoing

RISK DESCRIPTION:

A significant health and safety event resulting in a fatality, serious injury or a dangerous situation.

Significant environmental damage could be caused by operations on site or in our offices (for example, water contamination from pollution).

IMPACTS:

In addition to immediate personal injury suffered or damage to property and the environment, there may be:

- Reputational damage and our ability to secure public contracts
- Prosecution, leading to imprisonment, significant fines or the loss of a directorship
- Remediation and/or legal costs
- Production delays and our ability to achieve financial forecasts and targets.

KEY MITIGATING ACTIONS:

- Effective management system and procedures in place.
- Dedicated divisional Health, Safety and Environmental (HSE) Advisors that undertake site inspections and follow-up visits, regular Director-level site safety tours.
- Independent inspections from the NHBC.
- Construction Environment Risk Assessments and Environmental Management Plans created for all sites.
- Use of external specialist consultants and/ or contractors where specific health and safety requirements demand.

ACCESS TO SITE LABOUR AND MATERIALS

Material issues affected:

- Industry skills and capacity
- Sustainable procurement of materials
- Operational efficiency

Risk Owner:
Executive Management Team

Change since 2017:
Increased

Inherent Risk Rating:
High

Residual Risk Rating:
Medium

Category:
Operational risk

Time Frame:
Short- to medium-term

RISK DESCRIPTION:

- Rising production levels across the industry put pressure on our materials supply chain, while the impact of potential changes to EU labour in the UK remains high.
- Increased use of more modern methods of construction could result in a labour market unable to meet the skills and knowledge required and a material supply chain lacking the scope and capacity.

IMPACTS:

An inefficient, unstable and stretched labour and materials supply chain could impact business performance and shareholder confidence through:

- Lower levels of production output
- More challenging forecasting for commercial and procurement teams
- Build cost inflation.

KEY MITIGATING ACTIONS:

- Encouraging longer-term relationships with our supply chain through Group Trading Agreements and five-year sub-contractor Framework Agreements. These agreements also seek to contain price increases.
- Maintaining broad supply chain options to spread risk and meet contingency requirements.
- Engaging in ongoing dialogue with major suppliers to understand critical supply chain risks.
- Trialling off-site manufacturing and standardisation in our operations and monitoring any positive and negative impacts on our supply chain management.

DEMAND FOR HOUSING

Material issues affected:

- Housing affordability
- Responsive investment and delivery models
- Political and legislative uncertainty and change

Risk Owner:
Executive Management Team

Change since 2017:
Increased

Inherent Risk Rating:
Medium-High

Residual Risk Rating:
Medium

Category:
External risk

Time Frame:
Short- to medium-term

RISK DESCRIPTION:

- Heavily influenced by macro-economic factors as outlined in the first risk on page 64.
- Changes to regulations and taxes, for example, stamp duty on Buy to Let purchases and the impact of government schemes like Help to Buy.

IMPACTS:

In addition to decreased sales volumes that would occur from a drop in the demand for housing, the business could also see:

- An increasing number of units held as unreserved stock and part exchange stock with potential cash loss on final sales
- The business becoming overly reliant on Help to Buy and other government-backed ownership schemes to boost sales volumes and rates.

KEY MITIGATING ACTIONS:

- Regular sales forecasts and cost reviews to manage potential impact on sales volumes.
- Strategic purchase of sites,continued development of shared ownership models and engagement with a variety of incentive schemes.
- Political and industry lobbying.

Low **Medium** **High** **Short** **Medium** **Ongoing**

CUSTOMER SERVICE, QUALITY AND PRODUCT SAFETY

Material issues affected:

- Well-built, high-quality homes and customer satisfaction
- Production design and development
- Place-making

Risk Owner:
Executive Management Team

Inherent Risk Rating:
Medium

Category:
Operational risk

Change since 2017:
Stable

Residual Risk Rating:
Medium

Time Frame:
Ongoing

RISK DESCRIPTION:

- Customer service and/or build quality falls below our required standards.
- Unforeseen product safety or quality issues, or latent defects emerge as a result of new construction methods.

IMPACTS:

A significant drop in our customer service standard, quality or product safety would impact our reputation as a quality housebuilder with a potential knock-on impact on our sales rates and volumes.

In addition, there may be:

- Loss of staff morale as pride in the job suffers and a lack of focus on other strategic business objectives
- Impact on margins due to increased costs from remediation for both immediate issues and site legacy issues.

KEY MITIGATING ACTIONS:

- Customer service and quality is an Executive remuneration measure.
- Customer Service Inspections and Build Stage Inspections to monitor adherence to our quality standards.

INFORMATION SECURITY AND BUSINESS CONTINUITY

Material issues affected:

- Corporate responsibility and business ethics
- Reputation and trust
- Stakeholder relationships

Risk Owner:
Executive Management Team

Inherent Risk Rating:
High

Category:
Operational risk

Change since 2017:
Increased

Residual Risk Rating:
Medium

Time Frame:
Ongoing

RISK DESCRIPTION:

- Cyber security risks, such as data breaches and hacking leading to the loss of operational systems, market-sensitive, competitive information or other critical data.
- Risk of non-compliance with new GDPR requirements.
- Component failure of our IT systems.

IMPACTS:

- Financial penalties and sanctions, reputational impact.
- Loss of personal and/ or business information (including share-price sensitive and business-critical information).
- Ransom demands and phishing attacks.
- Outage of internet services and IT leading to operational disruptions.

KEY MITIGATING ACTIONS:

We employ network security measures and intrusion detection monitoring, including virus protection on all computers and servers, and annual security-breach tests. This is backed by:

- Staff training on data protection and internet security
- Data classification, retention policies and toolsets with appropriate and responsive procedures embedded to respond to GDPR
- Disaster Recovery and Business Continuity Plans established and tested annually.

ATTRACTING AND RETAINING EMPLOYEES

Material issues affected:

- Industry skills and capacity
- Operational efficiency
- Health, safety and well-being

Risk Owner:
Executive Management Team

Inherent Risk Rating:
Medium

Category:
Strategic risk

Change since 2017:
Stable

Residual Risk Rating:
Medium-low

Time Frame:
Ongoing

RISK DESCRIPTION:

- Increasing skills gap in the industry at all levels.
- Difficulty to recruit the right people for vacant positions.
- Staff turnover and the cost of wages increase as a result of inflated offers in the market.
- Longer-term succession affected.

IMPACTS:

- Inefficiencies, productivity loss, delays to business operations and increasing costs.
- Over-use or reliance on consultants and the supply chain.
- Pressured workloads where teams are under-resourced.

KEY MITIGATING ACTIONS:

- A dedicated recruitment team that monitors pay structures and market trends to ensure we remain competitive.
- Consulting with employees regularly, e.g. through the Employee Engagement Survey.
- Programmes of work to develop robust succession plans and improve diversity across the business.
- Providing quality training and professional development opportunities, including through our Apprenticeship Scheme and Graduate Programme, and reviewing our recruitment and induction of site managers.

SOLVENCY AND LIQUIDITY

Material issues affected:
- Operational efficiency
- Land availability and cost

Risk Owner:
Group Finance Director

Change since 2017:
Increased

Inherent Risk Rating:
Medium-low

Residual Risk Rating:
Medium-low

Category:
Strategic risk

Time Frame:
Short- to medium-term

RISK DESCRIPTION:

Cash generation for the Group is central to our new business strategy, and our cash headroom could be affected by:

- Economic pressures that result in delayed receipts in the near term and potentially lower sales rate in the medium term
- Commitments to significant land and build obligations that are made ahead of revenue certainty.

IMPACTS:

Pressure on margins and decreasing working capital leading to:

- Business disruptions, delays in delivering contracts with third parties and loss of credibility with shareholders, lenders, suppliers, customers and partners
- Inability to fund dividends, an adverse impact on share price and stakeholder dissatisfaction.

KEY MITIGATING ACTIONS:

We set borrowing facility limits for our divisions and we apply bonus penalties to breaches. We scrutinise the cash terms of deals and any proposed sites:

- PRS and bulk sales offer us the potential for early cash generation and we have the ability to use promissory notes to help fund high-value purchases
- We control strategic land with ongoing reviews of development strategies and forecast assumptions, with all major land and build spend reviewed and approved at key points.

LAWS, POLICIES AND REGULATIONS

Material issues affected:
- Political and legislative uncertainty and change
- Stakeholder relationships
- Corporate responsibility and business ethics

Risk Owner:
Executive Management Team

Change since 2017:
Decreased

Inherent Risk Rating:
Medium

Residual Risk Rating:
Low

Category:
External risk

Time Frame:
Ongoing

RISK DESCRIPTION:

- Future potential regulatory changes due to Brexit increase uncertainty within the business and impact our ability to make medium- and longer-term decisions.
- Potential for inappropriate business practices, fraudulent activity relating to existing laws, for example modern slavery.
- New National Planning Policy Framework continues to embed with lack of clarity in an environment where local authorities and public sector resources are constrained.

IMPACTS:

Where solutions remain uncertain and there is a lack of clarity on forthcoming/recently implemented laws and regulations, productivity may be lost. This could also lead to:

- Uncertainty around design solutions, delays in obtaining consents
- Programmes and commencements on site disrupted
- Increased costs due to excessive planning conditions (CIL and Section 106), increasing environmental and other taxes
- Non-compliance leading to reputational damage, fines, costs and delays.

KEY MITIGATING ACTIONS:

We lobby the Government directly and through the HBF and build political relationships in key local authority areas.

Supply Chain Code of Conduct is in place to ensure adherence to existing requirements.

- Regularly review prospects of the Strategic Land Portfolio, with processes and appraisals in place to minimise disruption.
- Clear policies, guidance and training for staff on bribery and corruption, backed up by formal whistleblowing procedures and anti-money laundering processes.

SUPPLY OF PERMISSIONED AND VIABLE LAND

Material issues affected:
- Land availability and cost
- Stakeholder relationships
- Community engagement

Risk Owner:
Executive Management Team

Change since 2017:
Stable

Inherent Risk Rating:
Medium

Residual Risk Rating:
Low

Category:
Strategic risk

Time Frame:
Ongoing

RISK DESCRIPTION:

- An inadequate supply of suitable land.
- Inability to convert conditional land purchases and strategic land into timely viable planning permissions.
- Slower conversions of planning permissions due to Local Planning Authority capacity.

IMPACTS:

- Portfolio depletion.
- Operational start dates delayed.
- Fewer backbone and longer-term sites to replenish the portfolio at good margins.
- Slower conversion of strategic land into consents.

KEY MITIGATING ACTIONS:

We maintain good relationships with agents and landowners, and work with the Government and the HBF to ensure there is a policy base to deliver an adequate supply of permissioned and viable land.

- We have a targeted approach to land acquisitions through our dedicated strategic land division.
- We maintain sufficient skills and experience within the organisation to negotiate timely and viable consents.

GOVERNANCE

The success of our business depends on us maintaining a strong governance framework that supports effective strategic and operational decision-making and risk management. This ensures that the Board, Executive Management Team and others have informed and balanced discussions that take account of all relevant economic, social and environmental considerations. The Board is fully committed to ethical business practices and we are determined not just to meet our responsibilities to our stakeholders but also to seek ongoing improvement in the governance standards we apply across Crest Nicholson.

CONTENTS

Governance overview

LEADERSHIP

There is a clear division of responsibilities between the Executive Chairman, who runs the Board, and the Chief Executive, who runs the Group's business. Directors are expected to provide rigorous and constructive challenge on matters that, owing to their strategic, financial or reputational implications or consequences, are considered significant to the Group.

For more information see
Board of Directors: page 72
Composition of the Board: page 74

EFFECTIVENESS

The skills, knowledge and experience needed for an effective Board are regularly reviewed. The composition of principal Board Committees meets the independence criteria of the UK Corporate Governance Code and there is appropriate cross-membership to further promote effectiveness.

Appointments to the Board are made following a formal, rigorous and transparent process, based on merit, taking into account the skills, experience and diversity needed on the Board in the context of Crest Nicholson's strategic direction.

The Board annually assesses its effectiveness and that of its Committees and individual Directors.

For more information see
Board diversity: page 75
Review of Board and Board Committee effectiveness: page 79
Composition of the Board: page 74

ACCOUNTABILITY

Assisted by the Audit & Risk Committee, the Board conducts robust assessments of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The Audit & Risk Committee also reviews the effectiveness of the Group's systems of internal control and oversees the performance of the Group's internal and external auditors.

For more information see
Audit & Risk Committee Report: page 86
Risk management: page 89
Composition of the Board: page 74

REMUNERATION

The Remuneration Committee sets the Directors' Remuneration Policy, which is designed to support and drive business performance against strategic objectives and long-term success. To ensure alignment with shareholder interests, a significant part of performance-related pay is delivered through long-term incentive schemes.

For more information see
Directors' Remuneration Report: page 92

RELATIONS WITH SHAREHOLDERS

The Executive Chairman, Deputy Chairman, Chief Executive and Group Finance Director lead stakeholder engagement through meetings with investors that focus on financial, operational, and corporate governance matters, as required throughout the year. Regular engagement with Crest Nicholson's brokers and financial public relations provider assist with the formulation and communication of the Group's strategy and performance, and a better understanding of investor views. A number of events are held throughout the year to maintain an open dialogue with investors.

For more information see
Stakeholder engagement: page 80

Corporate Governance Report

Introduction from the Chairman

As market uncertainty increases and our financial performance becomes increasingly pressured we are seeking to ensure that the Board is progressively refreshed and has the support of a strong management team to steer the business in a challenging market.

With the introduction of a new Executive Chairman, Chief Executive and three new Non-Executive Directors, the Board brings a wealth of senior management business experience together with financial, strategic, technical and engineering expertise. This significantly bolsters the capabilities we need to deliver on our business objectives and operations, from complex infrastructure projects to a five-star service to all our customers.

BOARD PRIORITIES

During the past 12 months the Board spent a great deal of time discussing the wider economic, political and market environment. We have considered the potential impact on Crest Nicholson of the short- and long-term changes we see ahead and have addressed this through strategic planning and assessing the key opportunities and challenges. Where necessary we have invited experts from outside the Company to share their insights and experience with the Board which has provided us with a broader understanding of the factors affecting the housing market, our land bank and communities.

Market conditions in 2018 have proven challenging with political uncertainty impacting consumer confidence, coupled with a slower second-hand market and a range of other factors. In response to this challenging environment, the Board developed a new business strategy that will help to build resilience in the business and shareholder returns through prioritising cash flow and dividends, maximising value in the portfolio and improving operational efficiency.

BOARD CHANGES

As part of our succession planning process, Patrick Bergin was appointed Chief Operating Officer in 2016 and the Board was delighted he accepted the role of Chief Executive in March 2018. Having been with Crest Nicholson since 2006, Patrick's experience and expertise will prove invaluable to the Company and the Board in the coming years. Patrick is currently taking responsibility for the Group's finance function following Robert Allen's departure on 16th October 2018.

We welcomed Leslie Van de Walle, Louise Hardy and Lucinda Bell to the Board in Non-Executive capacities. They all have extensive board-level experience, and each bring their broader sector, technical and commercial knowledge to Board discussions.

Following 13 years as the Group's Chief Executive, I was pleased to be elected as Executive Chairman at our AGM in March 2018. Leading the Board has been a stimulating experience for me so far, and I have very much enjoyed the opportunity to mentor leaders across the organisation.

KEY BOARD ACTIVITIES

In addition to developing a new business strategy, the Board also undertook an external Board evaluation this year. The review concluded that the Board operates in an open and collective atmosphere. A summary of the findings and recommendations of the external Board review are set out on page 79.

The Audit & Risk Committee monitored the clarity and completeness of disclosure in our financial statements and have reviewed the effectiveness of the Group's internal control and risk management systems, particularly in light of the additional costs in London. The Committee was updated on a regular basis on progress implementing an updated privacy compliance programme across the Group in response to the General Data Protection Regulation.

The Remuneration Committee has remained focused on ensuring that pay is aligned with performance and that our remuneration strategy promotes the long-term success of the Company. Our 2017 Directors' Remuneration Policy has not changed this year and is set out on pages 95 to 101.

The Nomination Committee continued to consider whether we have the right mix of individuals on the Board to provide an appropriate balance and diversity of skills, experience and perspectives. We also focused on Board succession planning, ensuring that we have a strong pipeline of directors to steer the Group over the long term. The Nomination Committee is currently leading the search for a new Group Finance Director.

GOVERNANCE

Our aim remains to ensure that our corporate governance is in line with best practice for FTSE 250 companies and as a Board we work hard to ensure that our governance framework provides the strong foundation needed for the effective management of the Group.

Crest Nicholson supports the Government's promotion of high standards of governance and we welcome the introduction of the UK Corporate Governance Code 2018, which will apply to our financial year starting on 1st November 2019. Setting strong governance standards and reiterating the right way for a business to behave protects the business and the interests of our stakeholders.

The Board is committed to ethical business practices and to ensuring that all employees and everyone associated with the Group is aware of their responsibility to act lawfully and with the highest standards of business integrity. This approach is driven by management across the Group. The Board also provide strategic oversight of management's direction for the Group, to encourage improvement while protecting business resilience and providing stability for our shareholders and stakeholders.

LOOKING AHEAD

I look forward to working closely with the Board in 2019 to maintain our framework that ensures clear, effective and consistent corporate governance. Our ambition is to maintain profitability for 2019 despite market uncertainty and we are committed to paying an ordinary dividend of 33.0 pence per share subject to no material deterioration in current market conditions in 2019. We are confident that our new strategy will position the business appropriately for the current environment, while making best use of our quality land assets and securing the long-term delivery capability of the business.

Finally, I want to thank our shareholders for the support they have given me in my appointment as Executive Chairman. This is a great Company with an extraordinary history and an exciting future. I look forward to seeing it evolve and thrive for years to come.

Stephen Stone
Executive Chairman

2018 AGM vote

At the AGM in 2018 we received overwhelming support for most of our resolutions, although the vote in relation to the appointment of myself as Executive Chairman received a lower level of support. We acknowledge and accept that having an Executive Chairman was unlikely to be universally supported by shareholders. Ahead of the 2018 AGM we held extensive discussions with shareholders and received a wide range of feedback regarding the appointment, which was largely supportive, in recognition of the value of retaining knowledge and expertise on the Board. Following the vote we have continued our dialogue with shareholders and have taken a range of measures to respond to their concerns including:

- completing the induction of Leslie Van de Walle who, in the role of Deputy Chairman, provides additional support to the Board;
- appointing a further Non-Executive Director; and
- proactively ensuring the separation of responsibilities between the role of Executive Chairman and Chief Executive is maintained.

The UK Corporate Governance Code 2016 ('the Code')

The Listing Rules require companies to apply the Code's principles and provisions and report to shareholders on how they have done so. We explain here and on the following pages how the Group has applied the principles and complied with the provisions of the Code. The Board is pleased to confirm that it considers itself and the Company to have complied in full throughout the accounting period with all the relevant principles and provisions of the 2016 UK Corporate Governance Code, except for the following:

- the appointment of Stephen Stone as Executive Chairman, a move which formed part of our wider succession planning processes; and
- the brief period during January 2018 when we were without a Senior Independent Director, pending the appointment of Leslie Van de Walle on 24th January 2018.

A copy of the Code can be found on the Financial Reporting Council website (**www.frc.org.uk**).

CORPORATE GOVERNANCE STATEMENT

We comply with the corporate governance statement requirements, other than the above exceptions, pursuant to the Financial Conduct Authority's Listing and Disclosure Guidance and Transparency Rules, by virtue of the information included in the Governance section of the Annual Integrated Report, together with any cross-references therein.

The Board and the Executive Management Team have been closely involved in the preparation of this Annual Integrated Report. The Board acknowledges its overall responsibility for the accuracy and integrity of the Report's contents.

Corporate Governance Report

Board of Directors

KEY
- N Nomination Committee
- A Audit & Risk Committee
- R Remuneration Committee
- T Technical Committee
- E Executive Management Team

STEPHEN STONE

Executive Chairman: Appointed to the Board in January 1999; appointed as Executive Chairman in March 2018

Age: 64 **Independent:** No

Experience and qualifications: Stephen is a Chartered Architect with over 35 years' experience in various positions in the construction and house building industry. He joined Crest Nicholson in 1995 and was Chief Executive from 2005 to March 2018, when he became Executive Chairman. Stephen leads the Board, promoting healthy and transparent relationships with shareholders and high standards of corporate governance.

Key external appointments: Home Builders Federation (Non-Executive Director), Construction Leadership Council (Member), National House-Building Council (Non-Executive Director)

PATRICK BERGIN

Chief Executive: Appointed to the Board in October 2011; appointed Chief Executive in March 2018

Age: 52 **Independent:** No

Experience and qualifications: A Chartered Accountant with over 20 years' financial experience across a range of industries, Patrick first joined Crest Nicholson in 2006. He has had responsibility for the day-to-day operations since November 2016 as Chief Operating Officer and now Chief Executive. Patrick has extensive knowledge of the property market and represents the Group when engaging with investors, the Government and the industry.

Key external appointments: None

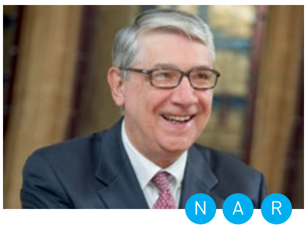
CHRIS TINKER

Chairman of Major Projects and Strategic Partnerships: Appointed to the Board in January 2017

Age: 58 **Independent:** No

Experience and qualifications: Chris is a Chartered Builder and joined Crest Nicholson in 1988. Throughout his 30 years with the business Chris has been instrumental in the acquisition and masterplanning of several of the Group's largest residential projects. Chris is responsible for the Crest Nicholson Regeneration and Crest Strategic Projects divisions. He is also the Board representative for Sustainability.

Key external appointments: Enterprise M3 Local Enterprise Partnership (Member), the Housing Forum (Member)



LESLIE VAN DE WALLE

Deputy Chairman and Senior Independent Director: Appointed to the Board in January 2018

Age: 62 **Independent:** Yes

Experience and qualifications: Leslie has a wide range of senior management business experience with over 20 years at board level, most recently having been Chair at Robert Walters plc and SIG plc (a specialist construction product supplier). He has held Chief Executive positions at both United Biscuits plc and Rexam plc and a range of non-executive roles across industries such oil and gas, food and drink, manufacturing and insurance.

Key external appointments: DCC plc (Non-Executive Director), HSBC UK Bank plc (Non-Executive Director)

SHARON FLOOD

Independent Non-Executive Director: Appointed to the Board in April 2015

Age: 53 **Independent:** Yes

Experience and qualifications: A Fellow of the Chartered Institute of Management Accountants, Sharon previously held key finance and strategy roles at Sun European Partners LLP, an international private equity advisory firm, and John Lewis. Sharon has a good understanding of the UK housing market through her six-year appointment as a director of the housing charity Shelter, where she chaired the Audit, Risk and Finance Committee.

Key external appointments: Network Rail Ltd (Non-Executive Director), the Science Museum Group (Trustee), Pets at Home Group plc (Non-Executive Director)

OCTAVIA MORLEY

Independent Non-Executive Director: Appointed to the Board in May 2017

Age: 50 **Independent:** Yes

Experience and qualifications: Octavia has extensive experience in senior operational and non-executive roles in retail and multi-site companies, both privately owned and publicly listed. After working at companies including Asda Stores Ltd, Laura Ashley plc and Woolworths plc, Octavia has most recently been Chief Executive then Chair at LighterLife UK Ltd, Managing Director at Crew Clothing Co and Chief Executive at OKA Direct Ltd. Octavia also served as a Non-Executive Director and Chair of the Remuneration Committee at John Menzies plc.

Key external appointments: Card Factory plc (Senior Independent Director), Ascensos Ltd (Non-Executive Director), Spicers-Office Team Group Ltd (Chair)

LOUISE HARDY

Independent Non-Executive Director:
Appointed to the Board in January 2018

Age: 52 **Independent:** Yes

Experience and qualifications: Louise is a Fellow of the Institution of Civil Engineers and the Chartered Management Institute. She was previously the European Project Excellence Director at Aecom and Infrastructure Director for CLM, which was the consortium partner for the London 2012 Olympic Delivery Authority. Louise has also been a Non-Executive Director at the Defence Infrastructure Organisation for the Ministry of Defence.

Key external appointments: Ebbsfleet Development Corporation (Non-Executive Director), Sirius Minerals plc (Non-Executive Director), Polypipe Group plc (Non-Executive Director), North West Cambridge Development (Non-Executive Director)

LUCINDA BELL

Independent Non-Executive Director:
Appointed to the Board in May 2018

Age: 54 **Independent:** Yes

Experience and qualifications: Lucinda is a Chartered Accountant with significant experience in real estate. She was Chief Financial Officer at The British Land Company plc, one of Europe's largest real estate investment trusts, from May 2011 to January 2018 and has held a range of finance roles in the real estate industry. Lucinda currently chairs the Audit Committee at Rotork plc, a FTSE 250 manufacturer of flow control products.

Key external appointments: Rotork plc (Non-Executive Director), Derwent London plc (Non-Executive Director), The National Association of Citizens Advice Bureaux (Non-Executive Treasurer)

See next page for more details about the Board and its committees →

Departures during the year

JIM PETTIGREW

Senior Independent Director

Stepped down: 31st December 2017

WILLIAM RUCKER

Chairman

Stepped down: 22nd March 2018

PAM ALEXANDER

Non-Executive Director

Stepped down: 22nd March 2018

ROBERT ALLEN

Group Finance Director

Stepped down: 16th October 2018

Executive Management Team

Patrick Bergin
Chief Executive

Stephen Stone
Executive Chairman

Chris Tinker
Chairman of Major Projects and Strategic Partnerships

ROBIN HOYLES

Group Land and Planning Director:
Joined the Executive Management Team in December 2011

Age: 64

Experience and qualifications: Robin joined the Group in May 2011, having previously worked at Countryside Properties for more than 17 years as Managing Director of their Special Projects division. He is a solicitor and prior to joining Countryside was in private practice in London.

KEVIN MAGUIRE

Group Company Secretary: Joined the Executive Management Team in January 2009

Age: 34

Experience and qualifications: Kevin joined the Group in March 2008 and became Group Company Secretary in January 2009. Since joining Crest Nicholson, he has been involved in a range of significant corporate transactions. Having a legal background, Kevin is a Chartered Secretary and previously held roles in retail, pensions and technology.

Corporate Governance Report

Board composition

Crest Nicholson operates through its Board of Directors with day-to-day management and operation delegated to the Chief Executive and the Executive Management Team.

INDIVIDUAL ROLES AND RESPONSIBILITIES

Executive Chairman

Stephen Stone

Leads the Board, governance, major shareholder and other stakeholder engagement. As Executive Chairman Stephen supports and advises the Chief Executive on the day-to-day management of the business, committing additional time to transition his skills and knowledge.

Chief Executive

Patrick Bergin

Responsible for leadership of the Group and articulation of the Group's vision, developing and implementing strategy, managing the overall performance of the business and providing effective and motivated leadership of the Executive Management Team[1].

Deputy Chairman and Senior Independent Director

Leslie Van de Walle

Acts as a sounding board for the Executive Chairman and a trusted intermediary for other Directors. Available to discuss with shareholders any concerns that cannot be resolved through the normal channels of communication with the Executive Chairman or the Executive Directors.

Independent Non-Executive Directors

Sharon Flood, Octavia Morley, Louise Hardy and Lucinda Bell

Responsible for bringing an external perspective, sound judgement and objectivity to the Board's deliberations and decision-making. Support and constructively challenge the Executive Directors using their broad range of experience and expertise. Monitor the delivery of the agreed strategy within the risk management framework set by the Board.

The Non-Executive Directors play an important governance role in the detailed work they carry out on our Committees on behalf of the Board. All the Non-Executive Directors are determined by the Board to be independent in character and judgement, in compliance with the Code.

Group Company Secretary

Kevin Maguire

Provides advice and assistance to the Board, the Executive Chairman and other Directors, particularly in relation to formulating the agenda for Board meetings, corporate governance, induction training and development. Ensures that Board procedures are complied with, applicable rules are followed and good information flow exists to the Board and its Committees. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

BOARD SKILLS

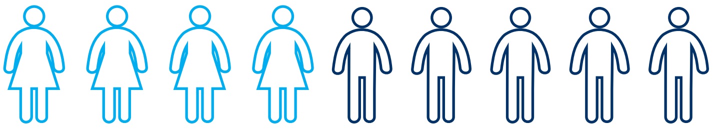
The Board plays an active part in shaping the Group's strategic direction and relationships. With an experienced management team, the Board need to be prepared to contribute their skills and expertise yet also provide boundaries for management. Directors are sought with functional skills (e.g. operations, finance, legal) and experience from the house building industry or from other relevant backgrounds. In order to effectively discharge its duties, the Board must, collectively, hold the appropriate balance of skills and experience. The Board seeks a complementary diversity of skills and experience across its members, recognising the complex and varied issues the Group faces. The Board's current skills include the following attributes:

[1] On 16th October 2018 Patrick assumed responsibility for the Group's financial functions following the departure of Robert Allen. Financial oversight will be returned to the Group Finance Director role once this position has been assigned.

BOARD COMPOSITION

From 25th May 2018 to 16th October 2018, 44% of the Board was female, which is an increase from 33% at 31st October 2017. At the date of this report, following the departure of Robert Allen, the current Board gender ratio is 50:50. For details of the Board Diversity Policy please refer to page 85 of the Nomination Committee Report and for female representation across the wider workforce please refer to page 49 in the Strategic Report.

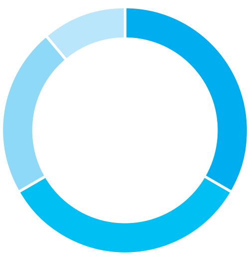
44% women



Board male/female representation as at 16th October 2018.
At the date of this report male/female representation is 50%.

BOARD TENURE

The Board is progressively refreshed ensuring it and its Committees have an appropriate combination of skills, experience and knowledge, whilst at the same time retaining sufficient continuity and stability.



0-1 years
Lucinda Bell
Louise Hardy
Leslie Van de Walle

1-2 years
Chris Tinker
Octavia Morley

3-8 years
Sharon Flood
Patrick Bergin

8+ years
Stephen Stone

Corporate Governance Report

A governance structure that delivers

Our governance framework establishes clear responsibilities for the business and allows for informed and balanced discussions by the Board, Executive and senior management. Our Board has a diverse set of skills and expertise, which provides rigour and challenge to support the business in achieving our strategic objectives and operations efficiently and effectively.

THE BOARD

The Board provides effective and entrepreneurial leadership, promoting the long-term sustainable success of the Group, generating value for shareholders and contributing to wider society.

1 Executive Chairman

5 Independent Non-Executive Directors

3 Executive Directors +1[1]

BOARD COMMITTEES

Each responsible for their respective duties and activities, the Board is supported by its four main Committees.

AUDIT & RISK COMMITTEE

REMUNERATION COMMITTEE

NOMINATION COMMITTEE

TECHNICAL COMMITTEE

EXECUTIVE MANAGEMENT TEAM

Responsible for the day-to-day operation of the Group and through its committees and Divisional Management Boards provides effective strategic and operational decision-making and risk management.

DIVISIONAL MANAGEMENT BOARDS

PROJECT COMMITTEE

HEALTH & SAFETY COMMITTEE

CENTRAL FUNCTIONS

[1] Following the departure of Robert Allen, the Executive Director role of Group Finance Director is vacant. A recruitment process is underway.

LEADERSHIP

BOARD

Collectively responsible for the long-term success of the Group. With due regard to the views of shareholders and other stakeholders (including its customers, communities, employees and supply chain partners), the Board provides leadership and direction, including establishing the Group's culture, values and ethics. It also sets strategy and oversees its implementation, ensuring only acceptable risks are taken, taking long-term factors into consideration and being responsible for corporate governance and the overall financial performance of the Group.

BOARD COMMITTEES

Audit & Risk Committee

Reviews and is responsible for oversight of the Group's financial and narrative reporting processes and the integrity of the financial statements. It also supports the Board in risk management, ensuring that it is meaningful, relevant and focused on improving the business. In addition, the Committee monitors the internal control environment, considering the adequacy and scope of the internal and external audit and reviewing and monitoring the Group's whistleblowing policies and business ethics. See pages 86 to 90.

Remuneration Committee

Reviews and recommends to the Board the executive remuneration policy to attract, retain and reward senior executives. The Committee also determines the remuneration packages of the Executive Directors and other members of the Executive Management Team, and has oversight of the Group's Remuneration Policy for all employees. See pages 92 to 112.

Nomination Committee

Reviews the structure, size and composition of the Board and its Committees and reviews and oversees the succession planning of Directors and members of the Executive Management Team. The Committee leads any Board appointment process, and makes recommendations to the Board accordingly. See pages 82 to 85.

Technical Committee

Has overall responsibility for the stewardship and direction of the Group's technical initiatives, enabling comprehensive discussion regarding technical improvements and innovation matters at Board level. In particular, the Committee is monitoring the implementation of off-site manufacture and our new core house types, including reviewing and commenting on aspects of technical innovations and construction specifications. See page 91.

Matters reserved to the Board and delegated authorities*

To retain control of key decisions and ensure there is a clear division of responsibilities between the running of the Board and the running of the business, the Board has identified certain 'reserved matters' that only it can approve. Other matters, responsibilities and authorities have been delegated to various Committees, as above. Any matters outside of these fall within the Chief Executive's responsibility and authority.

The Board and each Committee receive sufficient, reliable and timely information in advance of meetings and are provided with or given access to all necessary resources and expertise to enable them to fulfil their responsibilities and undertake their duties in an effective manner.

EXECUTIVE MANAGEMENT TEAM

The Executive Management Team supports the Board in preparing and agreeing strategy, operating plans, budgets, policies and procedures, and managing the operational and financial performance of the Group. It also addresses other key business and corporate related matters, including risk and reputation management, succession planning and organisational development. The Executive Management Team assesses the impact of proposed sales, purchases, developments and debt funding arrangements on the Group's balance sheet and internal control metrics over the short and medium term. It also addresses the likely impact of macro-economic changes on the business, and develops and implements the Group's sustainability strategy as integrated with the Group's overall corporate strategy.

Health & Safety Committee

A sub-committee of the Executive Management Team, it oversees the Group's Corporate Health and Safety Policy, operations and procedures across the entire business. The Committee aims to identify areas for improvement and to make sure that the right actions and resources are allocated to improve performance. During 2018, the Committee has overseen the restructure of the Group's health and safety department and the development of our new 'Be Safe' campaign, which is designed to keep health and safety at the forefront of day-to-day working life for people working on site. For more information on our health and safety initiatives, see our Strategic Report, pages 44 to 45.

"The Audit & Risk Committee monitors the integrity of financial reporting and the robustness of the Group's risk management and internal control framework. We work closely with the external auditors, reviewing key accounting judgements and policies and ensuring an effective external audit process."

SHARON FLOOD, CHAIR, AUDIT & RISK COMMITTEE

* The terms of reference for each Committee and matters reserved for the Board can be found on our website: **www.crestnicholson.com/investor-relations/corporate-governance/board-committees**

Corporate Governance Report

Board activities

The Board has steered the business in a challenging market, supporting the organisation to deliver 3,020 homes in the year, increased our trials of off-site manufacturing, and improved our customer satisfaction scores. The Board has kept the Group's performance under close review and actively engaged with shareholders on governance, remuneration and trading. The Board met formally eight times during the year, in addition to holding a range of briefings and calls outside of these meetings.

STRATEGIC OBJECTIVES KEY

- Deliver sustainable long-term shareholder value and maximise operational efficiency
- Ensure high levels of customer satisfaction, product quality and place-making
- Attract, develop and retain high-performance individuals and ensure the highest safety standards
- Continually improve environmental, social and governance performance
- Develop lasting relationships with partners and the supply chain

→ **For more information see page 16**

FINANCIAL PERFORMANCE AND RISK

- Considered the financial performance of the business and approved the annual budget and key performance targets
- Reviewed the half-yearly and annual results and presentations to analysts and approved the 2017 Annual Integrated Report
- Analysed liquidity and development exposure
- Approved going concern and viability statements
- Reviewed the Group's risk register and the effectiveness of the systems of internal control and risk management
- Debated significant and emerging risks, including cyber security, the loss of key staff, uncertainty arising from Brexit and other political risks
- Assessed GDPR risk and implementation across the Group
- Evaluated proposals to close the London division
- Considered announcements in relation to the performance of the business, including the trading updates released in May and October 2018

Link to Strategic objectives

LEADERSHIP AND EFFECTIVENESS

- Discussed the composition of the Board and its Committees, including Board succession planning, with a particular focus on the succession planning for the Executive Chairman and Chief Executive following the appointments of both Stephen Stone and Patrick Bergin
- Reviewed the development of people and potential talent in the Group, including wider succession plans for senior leaders across the organisation
- Implemented the induction processes for Leslie, Louise and Lucinda
- Reviewed, considered and updated potential conflicts of interest
- Undertook an external evaluation of its own performance and that of individual Directors
- Reviewed share-dealing control processes
- Collectively attended site visits with divisional management teams, meeting employees to gain a greater understanding of their perspective of the Group's operations
- Thoroughly reviewed the sales, personnel, land opportunities and build progress in our London division
- Held detailed strategy sessions throughout the year to set and further develop future strategy
- Approved significant land acquisitions

Link to Strategic objectives

SHAREHOLDERS, STAKEHOLDERS AND GOVERNANCE

- Established new strategic priorities
- Reviewed feedback from institutional shareholders, investor and employee roadshows, a Group-wide Employee Engagement Survey and other engagement activities
- Discussed Board evaluation and effectiveness review
- Reviewed regular health and safety updates
- Received presentations from various divisions and central functions on risks and opportunities, both strategic and otherwise
- Reviewed developments in corporate governance and received key legal and regulatory updates
- Received regular updates from the Board Committee Chairs
- Approved the Group's Modern Slavery Statement
- Considered pre- and post-2017 Annual General Meeting matters
- Approved dividend policy
- Considered shareholder concerns following vote against Executive Chairman at 2018 AGM

Link to Strategic objectives

Corporate Governance Report

Board effectiveness

MEETINGS ATTENDED

During the year there were eight Group Board meetings, six Remuneration Committee and Technical Committee meetings and four Audit & Risk Committee and Nomination Committee meetings.

No apologies were given for any of these meetings; however, some Directors will not have attended every meeting during the year due to these being held either prior to the Director's appointment to the Board or after having left the Board. Time was scheduled at Board meetings for the Non-Executive Directors to meet without the Executive Directors present.

	Main Board	Audit & Risk Committee	Remuneration Committee	Nomination Committee	Technical Committee
LUCINDA BELL	5/5	2/2	2/2	1/1	
PATRICK BERGIN	8/8				6/6
LOUISE HARDY	6/6		4/4	2/2	6/6 C
SHARON FLOOD	8/8	4/4 C	3/3*	4/4	3/3
OCTAVIA MORLEY	8/8	4/4	6/6 C	4/4	
STEPHEN STONE	8/8 C				
CHRIS TINKER	8/8				6/6
LESLIE VAN DE WALLE	6/6	3/3	4/4	2/2 C	
PAM ALEXANDER	2/2	1/1	2/2		3/3
ROBERT ALLEN	7/7				
JIM PETTIGREW	1/1		1/1	1/1	
WILLIAM RUCKER	2/2				

C = Chair

* Sharon Flood served on the Remuneration Committee up to May 2018.

BOARD EVALUATION

During the year the Board engaged the services of Lintstock to facilitate the external evaluation of its performance. Lintstock is independent with no other relationship to the Group.

Lintstock met with the Executive Chairman, Deputy Chairman and Company Secretary to set the context for the evaluation and to tailor the evaluation content to the specific circumstances of Crest Nicholson. All Board members were then invited to complete an online survey addressing the performance of the Board and its Committees. The second stage of the process involved Director interviews with Lintstock to expand upon responses to the survey stage. The anonymity of the respondents was ensured throughout the process in order to promote an open and frank exchange of views.

The exercise was weighted to ensure that core areas of Board and Committee performance were addressed, as well as having a particular focus on key areas such as:

→ Board composition, succession and individual roles: including developing the Executive and Non-Executive membership, the clarity between the roles of the Chair and Chief Executive, the businesses approach to talent management and diversity, the suitability of the organisational structure of the business and priorities for ongoing key appointments to top management.

Corporate Governance Report

- → Structure and focus of Board activity and relations: the continued development of the strategy process at the Board, and the capacity of the organisation to deliver on the Board's strategic plans, the quality of debates during meetings and the clarity with which the conclusions of discussions are articulated, the building of relationships amongst Board members following recent appointments and scheduling of Board time in order to maximise effectiveness, as well as potential improvements to the quality of the Board papers and the programme of Director induction.
- → Stakeholders interests and culture: the development of the Board's understanding of key stakeholder groups, including investors, customers and employees, and mechanisms by which the Board engages with these stakeholders and the evolution of the culture and behaviours within the organisation, and how the corporate culture is influenced by changes in leadership.

In a challenging year for the business, with a number of new faces on the Board, the process concluded that whilst relationships continue to evolve, the Board operates in an open and collective atmosphere, taking decisive action and continuing its strategic development. Following the evaluation, the Board will continue to reflect further on the evaluation output. However, the following will be key areas of focus for 2019:

- → Executive Chairman and Chief Executive roles: The Board continues to closely monitor the roles of Executive Chairman and Chief Executive to ensure the responsibilities are clearly set out and understood throughout the Group. Although the Executive Chairman will become Non-Executive Chairman in April 2019, his longstanding association with the Group means that it remains critical to ensure that there remains clarity of roles going forward.
- → Board dynamics: The development of relationships between both new members of the Board, and with the Executive team continue to develop. The Board recognises that high-quality working relationships are imperative to a well-run company and will be further developing this in 2019.
- → Board composition and succession planning: Continuing to focus on ensuring the right organisational structure for the future, evaluating and developing senior talent and recruiting a new Group Finance Director remain important priorities, in addition to strengthening the senior management team with additional industry and operations experience.
- → Meeting format and priorities: Further development of meeting materials, the balance between commercial and strategic items proposed for discussion and ensuring adequate time is available for all discussions are all areas for development during 2019.
- → Stakeholder engagement: Developing wider Board engagement with management below the Board as well as the wider workforce will be a priority and is particularly important during times of poorer business performance and times of uncertainty.

The Deputy Chairman led an appraisal of the Chairman's performance which concluded that the Board continues to operate effectively under the leadership of Stephen who brings a range of knowledge, skills and commitment to the role of Chairman. Positive aspects include his relationship with non-executive directors, his invaluable industry knowledge, particularly at a time of great uncertainty, and his role as a strong ambassador for the Group. As set out further above, the format and effectiveness of meetings needs close attention particularly in a challenging market to ensure the right balance of discussion between strategy and operational matters. In addition, continued emphasis must be placed on maintaining the boundaries between Chairman and CEO, and how his role of Chairman will change as it transitions from Executive to Non-Executive in April 2019.

As part of the Board evaluation process the effectiveness of the key Board's Committee was also considered and the output of these reviews is described in the respective committee reports.

STAKEHOLDER RELATIONS

We are committed to proactive and constructive engagement with our stakeholders and recognise that exchanging ideas about the things that can make a difference to them and our business is important. As a Board we devote time and effort to ensure the interests of shareholders, customers, employees and the wider communities impacted by our activities are considered in our decision making and that of our Committees. In addition to our engagement with shareholders, which is expanded upon below, during the year the Board and its Committees reviewed output from employee engagement surveys and roadshows delivered by the Chief Executive; ensured the service we provide to our customers remains a key strategic priority, and is directly linked to Director and senior management remuneration; reviewed and approved the Group's modern slavery statement; and considered the Group's practices in relation to paying suppliers and sub-contractors.

Approach to investor relations

We are committed to maintaining an open dialogue with shareholders and the Board recognises the importance of these relationships.

Materials are provided to investors through our website and mobile app, and management meet regularly with analysts and significant shareholders.

Shareholder engagement

A considerable amount of discussion has been had with larger shareholders and proxy advisors regarding the appointment of Stephen Stone as Executive Chairman and we have taken steps to further address shareholder concerns.

Shareholders are encouraged to give feedback to and communicate with the Directors through the Group Company Secretary. The Annual General Meeting (AGM) was also an opportunity for shareholder to meet with Directors.

Common themes raised by our institutional and individual shareholders throughout the year included:

→ Our view on the market and the positioning of the business. In particular, the short-term outlook and pressures facing the London market

→ The return of capital and potential share consolidation

→ Board Director appointments and departures.

The Board receives feedback on investor relations activity, along with regular reports of changes in holdings of substantial shareholders and reports on share price movements.

Our 2018 shareholder meetings

We held our AGM in March 2018, providing all shareholders with an opportunity to question the Board and the Chair of each Board Committee and to vote on matters put to the meeting. Shareholders who attended the AGM received a strategic progress update from the Executive Chairman. The results of voting at general meetings are published on the Company's website: **www.crestnicholson.com/investor-relations/agm**

The 2019 AGM is scheduled to be held on 26th March 2019 at the Brooklands Hotel, Brooklands Drive, Weybridge KT13 0SL and details of the meeting and the resolutions to be proposed are set out in the Notice of AGM, which is available to download on our website from February 2019. The AGM gives shareholders, in particular our private shareholders, an opportunity to hear about the general development of the business and to ask questions of the Board.

Donations

During the year the Group made donations to charities of £37,000 (2017: £16,000). Employees have continued to support the Group's nominated charity, Variety, the Children's Charity. They raised £356,158 to support this cause during the year (2017: £287,669). No political donations were made during the year or in the prior year.

Employment Policy

Crest Nicholson values equality and diversity in employment and our Equality and Diversity Policy ensures that all employees and job applicants are accorded equal opportunities for recruitment, remuneration, access to benefits, and training and promotion. This policy is available on our corporate website at: **www.crestnicholson.com/investor-relations/corporate-governance/values-and-behaviour#EqualityandDiversity**.

The Group selects and promotes employees based on their aptitudes and abilities, not their gender, sexual orientation, marital status, race, nationality, ethnic or national origin, age or disability. Everyone is different and has something unique to offer.

Where employees have, or develop, long-term health issues or disabilities, the Group works with those employees to ensure their role, skills and development opportunities remain suitable and appropriate for their circumstances so that they can continue, and progress, in their employment with the Group. The Group provides employees with relevant business updates and other information through our intranet and in writing (where required). We encourage employees' involvement in the Company's performance through share schemes and performance-based bonuses, and promote common awareness of the financial and economic factors affecting performance.

Currently, 56.3% of our employees participate in one or more years of our Sharesave schemes (2017: 50.6%). The Group also interacts with its employees through the appropriate levels of management and seeks employees' opinions and views about the Group's operations and behaviour through internal feedback and staff surveys. More information on the 2018 Employee Engagement Survey can be found on page 48.

The Delivering Professional Excellence appraisal system continues to ensure that all employees have the opportunity to learn and grow within their roles. Our Site Management Academy, alongside our graduate and apprenticeship programmes, provide excellent opportunities for talent development in a number of disciplines – all of which are critical to our industry in managing the significant current and future skills shortage.

For further information, see Developing our people on pages 46 to 51.

Details of the Company's corporate governance practices can be found on our website: **www.crestnicholson.com/investor-relations/corporate-governance/**.

Nomination Committee Report

This is my first report as Chair of the Nomination Committee and I am delighted to be able to provide shareholders with an update on what has been a year of change at Crest Nicholson.

In December 2017, my predecessor, Jim Pettigrew, stepped down from the Board after almost five years chairing the Committee. William Rucker, Non-Executive Chairman and Pam Alexander, a Non-Executive Director also left the Board in March 2018. This resulted in a series of appointments throughout 2018 including that of myself as Deputy Chair and Senior Independent Director, as well as the appointments of Louise Hardy and Lucinda Bell as Non-Executive Directors, who both bring with them extensive board-level experience. They contribute to Board discussions through their broader sector, technical and commercial knowledge, further supporting the business as we plan for the future.

When Patrick Bergin accepted the role of Chief Executive, the Board was unanimous that it would be in the best interests of the Company for Stephen Stone's expertise to remain within Crest Nicholson. Following an extensive consultation with major shareholders, we asked Stephen to become Chairman, in an Executive capacity. Stephen has continued to take an instrumental role in the leadership and direction of the Board in an increasingly challenging environment. In accordance with our announcement in January 2018, Stephen will move to a Non-Executive capacity from 1st April 2019.

In October 2018 we announced Robert Allen's departure from the business and a recruitment process is now underway for a new Group Finance Director.

This year we have continued to focus on wider succession planning and have taken a particularly active interest in the quality and development of the Group's wider executive talent pipeline. Diversity has been a key consideration throughout the year, not only in relation to new appointments to the Board, but also in relation to the Executive Management Team and below. Looking ahead, Committee members are mindful of the developments made in relation to the UK Corporate Governance Code 2018, particularly those in relation to diversity and culture, and this will form an important part of the Committee's activity over the next year.

Leslie Van de Walle
Chair of the Nomination Committee

COMMITTEE MEMBERS


Leslie Van de Walle (Chair)


Louise Hardy


Lucinda Bell


Octavia Morley


Sharon Flood

COMMITTEE MEMBERSHIP AND MEETINGS

The Committee is made up of Leslie Van de Walle (Chair), Octavia Morley, Sharon Flood, Louise Hardy and Lucinda Bell.

In accordance with the UK Code, at least a majority of members of the Committee are Independent Non-Executive Directors.

The Executive Chairman, Chief Executive and Group HR Director may attend Committee meetings by invitation. The Committee is supported by Kevin Maguire, Group Company Secretary.

The Committee met four times during the year (details of attendance are set out on page 79). There were also a number of informal meetings, conference calls and general discussions between Committee members regarding appointments and departures made during the year.

ACTIVITY DURING THE YEAR

Recruitment

- Oversaw Non-Executive Director recruitment processes.
- Reviewed and considered the Directors' skills matrix to inform Senior Independent Director and Non-Executive Director recruitment.
- Considered and changed the Committee's composition.
- Recommended Directors for election or re-election.

Succession planning

- Considered succession-planning arrangements.
- Reviewed current initiatives in respect of the wider talent pipeline.
- Ensured sufficient contingencies are in place to respond to sudden or unexpected unavailability of Directors.
- Consulted with shareholders in relation to the appointment of Patrick Bergin as Chief Executive and move by Stephen Stone to Executive Chairman.

Board evaluation

- Participated in and reviewed the output of the 2018 external Board evaluation process.
- Considered Board members' external appointments, in particular any potential overboarding or risk of conflict.

Diversity

- Considered ongoing internal initiatives in respect of diversity and inclusion.
- Reviewed Board policy and objectives and how these are being met.

LOOKING AHEAD

- Continued focus on succession planning and future talent pipeline, including the recruitment of a Group Finance Director and further senior operational resource.
- Monitor the transition by Stephen Stone from Executive Chairman to Non-Executive Chairman, ensuring a clarity of roles going forward.

RESPONSIBILITIES AND TERMS OF REFERENCE

The Committee's terms of reference set out its role and the authority delegated to it by the Board. The Committee's key responsibilities are summarised below.

- Reviewing structure, size and composition of the Board.
- Carrying out a wide-ranging search for potential candidates and preparing appropriate job specifications when seeking new Board members.
- Ensuring appropriate inductions for new Directors.
- Making recommendations in respect of the annual re-election of Directors, continuation in office and the appointment of Directors to other offices.
- Conducting performance evaluation of Directors, Non-Executive Directors and Executive Management Team as appropriate.
- Formulating succession plans for both Executive and Non-Executive Directors.
- Resolving Directors' conflicts of interest issues.

COMMITTEE PERFORMANCE

The Committee's performance has been reviewed as part of the Board's annual evaluation, which concluded that the Committee provides a positive contribution to the composition of the Board and the process by which appointments are made. Succession planning continues to be a key area of focus as the Committee works to ensure key executive roles are filled and senior operational experience is enhanced.

BOARD APPOINTMENTS

During the year a range of changes have been made to the composition of the Board. This has included the appointment of Patrick Bergin as Chief Executive, and the move of Stephen Stone to Executive Chairman.

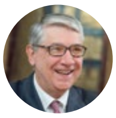
These particular appointments formed part of a well-considered succession planning process that began in 2016 with the appointment of Patrick Bergin as Chief Operating Officer. The Committee has overseen this process and overwhelmingly supported the appointment of Patrick, while at the same time believing that Stephen's expertise should remain within the business during an agreed transition period. Being mindful of the UK Code's provision regarding independence of the Executive Chairman, the Committee ensured major shareholders were consulted prior to making a recommendation to the Board that Patrick be appointed as Chief Executive and Stephen as Executive Chairman.

As part of the executive changes and impending non-executive departures, the Committee kept the balance of skills, experience, independence and knowledge under continuous review and made a range of non-executive appointments to ensure the Board is well-balanced with the right mix of individuals.

Following the departure of Robert Allen, a recruitment process is currently underway for a Group Finance Director.

Nomination Committee Report

NON-EXECUTIVE APPOINTMENTS:



Leslie Van de Walle

Date of Appointment:
24th January 2018

Search Firm:
Norman Broadbent

Process

The Committee identified the need to recruit a new Senior Independent Director, having regard to the potential need for them to act as Deputy Chairman following Jim Pettigrew's departure and the proposed transition of Stephen Stone from Chief Executive to Executive Chairman.

A number of candidates were put forward, from which a shortlist of three were identified. Following a series of meetings, Leslie Van de Walle was selected to be taken forward to the final stage of the process, which included meeting all the Executive and Non-Executive Directors. Following consideration of the feedback the Committee went on to recommend the appointment of Leslie to the Board.

Skills/Background

Non-Executive Director experience:

DCC Plc Senior Independent Director – FTSE 100 sales, marketing, distribution and business support services group

Robert Walters Plc Chairman – recruitment consultancy

Criticaleye Senior Associate – chief executive mentoring and networking organisation

SIG plc Chair – a supplier of specialist building materials

A broad background across a number of sectors including consumer goods, oil marketing, retailing, distribution and industrial sectors.

First-hand exposure to the construction industry supply chain and challenges of operating in a lower-margin environment. Brings additional insight into the house building sector including, in particular, off-site manufacturing.

Louise Hardy

Date of Appointment:
24th January 2018

Search Firm:
Norman Broadbent

Process

As part of the Non-Executive Director recruitment process in early 2017, which culminated in the appointment of Octavia Morley, a range of other strong candidates were presented. At that time, the Committee agreed that Louise's skills in technical and engineering matters would be valuable to the Group and she was subsequently appointed as an independent Non-Executive Member of the Board's Technical Committee.

In light of the need to now appoint an additional Non-Executive Director, the Committee agreed that Louise would bring a range of skills and experience to the Board and therefore recommended her appointment.

Skills/Background

Non-Executive Director experience:

Sirius Minerals plc Non-Executive Director – FSTE 250 mining company

North West Cambridge Development Non-Executive Director – building a new community at Eddington, Cambridge

Ebbsfleet Development Corporation Non-Executive Director – body overseeing the creation of a new city in Kent

Polypipe plc Non-Executive Director – a leading manufacturer of building and construction products

A civil engineer by background with a range of senior director-level roles in the construction sector, including in-depth programme management experience, delivering complex, large-scale infrastructure projects.

Lucinda Bell

Date of Appointment:
25th May 2018

Search Firm:
Zygos

Process

Despite meeting the independence requirements of the UK Code, the Committee recommended that the Board seek an additional Non-Executive Director to further enhance the skills, experience and independence of the Board. In particular, it was recommended that further finance experience and/or a property background would be desirable.

A range of potential Non-Executive Director candidates were presented, from which a shortlist of four were subsequently interviewed. Following further meetings and in consideration of the skills required and Lucinda's property and house building experience, combined with her vast career, the Committee agreed to recommend Lucinda's appointment.

Skills/Background

Non-Executive Director experience:

Rotork plc Non-Executive Director and Chair of the Audit Committee – FTSE 250 UK-based manufacturing company

Executive experience:

The British Land Co plc Chief Financial Officer and Executive Director – FTSE 100 company and one of Europe's largest real estate investment trusts (REITs).

A Chartered Accountant, well known in the property industry and the sole property company member serving on HM Treasury's working party that originally developed the REIT structure in the UK.

INDUCTION

Each new Board Director receives a tailored induction to help familiarise them with the business and the way in which the Board operates. Each induction involves meeting with all Directors and the Executive Management Team, as well as other senior management from relevant disciplines.

During the year, the Company completed the induction of Leslie Van de Walle, Louise Hardy and Lucinda Bell as Non-Executive Directors.

"It has been a pleasure to work with the Crest Nicholson Board and other colleagues during the past year. Through my induction I've met people across the business and been impressed by Crest Nicholson's commitment to delivering high-quality, appealing homes to our customers. I've visited a number of sites at different stages of development, seeing the culmination of our production, place-making and marketing capabilities."

LUCINDA BELL – REFLECTIONS ON MY FIRST YEAR

Site visits are a regular feature of the Board's annual programme, allowing new Directors to meet with divisional management. As part of the induction process Directors are provided with key materials, including previous minutes from Board and Committee meetings and Board constitutional documents, and any specific training requirements are considered.

SUCCESSION PLANNING

The Nomination Committee plays a vital role in ensuring the effectiveness of the Board and its ability to deliver long-term success for the business. It continues to review the balance of skills, experience, independence and knowledge, ensuring the right individuals are in place to support the efficient planning and implementation of the Group's strategy.

With this in mind we are in the process of adding senior operational resource to the business, in addition to an ongoing workstream to appoint a new Group Finance Director.

In doing so, the Committee adopts a wider outlook in identifying potential Directors and looks further ahead than any immediate requirement to replace an individual Director. The Committee has considered the wider executive pipeline and specific initiatives in relation to talent development in line with the Financial Reporting Council (FRC) guidance to look deeper into the Company to identify future leaders for the business.

In addition to longer-term succession planning, the Committee has also reviewed contingency plans setting out the Group's ability to respond to sudden and unexpected loss or non-availability of key Directors or other members of the Executive Management Team, ensuring that individuals are identified who can quickly assume key roles and provide effective support.

DIVERSITY

Diversity has continued to be a key area of focus on the UK's governance agenda during the year and the Board welcomes the latest proposals from the FRC in its revised UK Corporate Governance Code to require greater consideration of ethnic and social diversity when planning Board appointments.

The Board's policy on diversity targets increased diversity at senior levels and recognises this as an essential element in maintaining an effective Board. With the greater impetus in the new Code the Committee will continue to consider how this can be integrated into its approach to succession planning and appointments.

The Board has set a measurable target of maintaining a level of at least 25% female representation. The Committee keeps this target under review, and will consider this, along with the benefits of all aspects of diversity, when reviewing Board composition.

As ever, the Committee remains particularly focused on how its diversity objectives cascade throughout the wider senior management team ahead of the requirement to report on the gender balance of those in senior management and their direct reports as required by the new UK Corporate Governance Code.

The Group's Equality and Diversity policy applies to the Executive Management team. We describe this policy, its objectives and how we have performed during the year on page 49 in the strategic report, as well as further detail on key diversity initiatives that have taken place during the year and the wider workforce gender profile. Diversity at a senior management level will form a key part of the diversity initiatives the business has planned for 2019, as we continue to explore what steps Crest Nicholson might consider to optimise diversity across the Group.

For more information on current Board composition please see page 74.

Audit & Risk Committee Report

It has been a busy year for the Audit & Risk Committee as we have continued to support the Board in fulfilling its responsibilities, specifically in relation to monitoring the integrity of financial reporting and the robustness of the Group's risk management and internal control framework.

In doing so the Committee has worked closely with the external auditors, reviewing key accounting judgements and policies, and ensuring an effective external audit process. Through Deloitte, the Group's internal auditor, the Committee received regular reports in relation to the operation of key internal controls and continued to monitor and review the implementation of recommendations made in important areas such as health and safety and cash flow management.

With a strong focus on financial performance and rising build costs, the Committee has received reports and considered internal controls in relation to our build and commercial practices, ensuring that these are operating as intended. We reviewed the Group's operations in London, where projects suffered from additional costs. We have also reviewed the Group's practices in relation to paying suppliers and sub-contractors, having published our first report on payment performance in April 2018. The Committee focuses on ongoing improvement and some of our key initiatives in the year have included reviewing ongoing IT workstreams in relation to cyber security and the implementation of a new customer relationship management system, as well as overseeing the Group's preparations for the implementation of GDPR.

Following increased reporting requirements, the Committee has reviewed the completeness of our non-financial reporting and verification processes.

New IFRS standards will affect the Group in 2019 and 2020. The Committee has monitored management's response to this and specifically considered the potential impact to the Group's financial statements for 2019.

We welcomed both Leslie Van de Walle and Lucinda Bell to the Committee during the year. Between them they enhance the skill set of the Committee and bring recent and relevant financial experience, with competence relevant to the house building sector.

I am pleased to confirm the Committee continues to meet the Financial Reporting Council's (FRC) Guidance on Audit Committees issued in April 2016 ensuring the accountability principles within the UK Code are applied, and that the interests of shareholders and other stakeholders are properly protected in these areas.

Sharon Flood
Chair of the Audit & Risk Committee

COMMITTEE MEMBERS


Sharon Flood (Chair)


Lucinda Bell


Leslie Van de Walle


Octavia Morley

COMMITTEE MEMBERSHIP AND MEETINGS

The Committee is made up of Sharon Flood (Chair), Octavia Morley, Leslie Van de Walle (joined 24th January 2018) and Lucinda Bell (joined 25th May 2018). Jim Pettigrew and Pam Alexander left the Committee when they stepped down from the Board on 31st December 2017 and 22nd March 2018 respectively. All members of the Committee are Independent Non-Executive Directors.

In accordance with the FRC's Guidance on Audit Committees each Committee member has sufficient knowledge, training and expertise to contribute effectively to the Committee's deliberations. As Chair, Sharon Flood has extensive financial reporting and audit experience gained through her roles as Group Chief Financial Officer at Sun European Partners LLP and Finance Director at John Lewis. Sharon is also Non-Executive Director and Audit Chair at Pets at Home and Network Rail.

Sharon is supported by Leslie Van de Walle, Octavia Morley and Lucinda Bell, who between them have a wide range of experience in strategic, finance, senior management and operational roles. In particular, Lucinda Bell brings with her significant experience in real estate, as well as recent and relevant financial experience.

We are confident that the members of the Audit & Risk Committee have the necessary competence relevant to the house building sector.

The Committee met four times during the year (details of attendance are set out on page 79). The Executive Chairman, Chief Executive, Group Finance Director and other senior personnel attend meetings by invitation. The internal auditor and external auditor also attend meetings by invitation and meet with the Committee at least once a year without Executive Management.

The Committee is supported by Kevin Maguire, Group Company Secretary.

ACTIVITY DURING THE YEAR

- Reviewed full and half-year results and announcements, including the Company's prospects in light of the viability statement and going concern requirements.
- Considered changes to accounting standards, in particular the implications of IFRS 15 and 9.
- Monitored and reviewed the Group's risk management framework and key internal controls.
- Carried out a robust assessment of the principal risks facing the Group, reviewing and advising on the Board's risk appetite.
- Scrutinised margins and net realisable value ensuring sufficient management controls are in place and that these support the financial reporting.
- Received internal audit reports in relation to sub-contractor ledger, cash flow management and health and safety, and monitored the implementation of recommendations arising from previous internal audit reviews.
- Considered specific reviews in relation to our closure of the London division, including a thorough review of the failure of key controls in relation to specific additional costs that occurred prior to its closure.
- Monitored the divisional control framework overseeing the operation of, and compliance with, key controls at divisional level.
- Reviewed the effectiveness and scope of the Group's internal audit function and how this fits within the Group's overall risk management framework.
- Considered the effectiveness of the Committee and its work plan for the forthcoming year.
- Approved the external audit plans for the full year audit and half-year review, and assessed the effectiveness of the external audit process, including auditor fees and independence.
- Reviewed and approved its terms of reference, independence and financial literacy, including ensuring the Committee as a whole has competence relevant to the sector in which the Group operates.

LOOKING AHEAD

- Continued focus on build and commercial assurances, driving operational efficiency in these important areas.
- Maintaining oversight of IT strategy, cyber security and data governance matters.
- Oversee the implementation of recommendations arising from internal audit reports.
- Monitor and review the implementation of a new customer relationship management system.

RESPONSIBILITIES AND TERMS OF REFERENCE

The Committee's terms of reference set out its role and the authority delegated to it by the Board. The Committee's key responsibilities are summarised below.

INTERNAL CONTROL

- Reviewing the effectiveness of the Group's system of internal control and risk management.
- Monitoring and reviewing the effectiveness of the internal audit function.
- Reviewing the Group's procedures for detecting fraud, its systems and controls for the prevention of bribery, and the adequacy and effectiveness of the Group's anti-money laundering systems and controls.

FINANCIAL REPORTING

- Monitoring the integrity of the Group's financial statements and any formal announcements relating to its financial performance.
- Reviewing significant financial reporting judgements contained in the financial statements and announcements.

EXTERNAL AUDIT

- Considering the scope of the statutory audit of the annual consolidated accounts and the half-year review, including monitoring and reviewing the effectiveness of the audit process.
- Advising on the appointment and re-appointment of the external auditor; reviewing and monitoring the auditor's independence and objectivity, including the extent of any non-audit services provided by the external auditor.

COMMITTEE PERFORMANCE

The Committee considers its performance on an annual basis as part of the Board's evaluation process, this year being externally facilitated by Lintstock. The Committee's operation is seen as robust with a strong composition. The role and relations with assurance providers such as Deloitte LLP as internal auditor and PricewaterhouseCoopers LLP (PwC) as external auditors are positive, increasing the level of rigour in the work undertaken by the Committee.

SIGNIFICANT ISSUES

As part of its role the Committee has considered a number of significant issues relating to the financial statements. This includes the suitability of accounting policies and the appropriateness of the judgements and estimates that have been applied by management in its reporting. The Committee has reviewed the clarity and completeness of disclosures in the financial statements and related information.

The Committee is satisfied that appropriate accounting policies have been adopted and the financial statements appropriately address the critical judgements and key estimates (both with respect to the amounts reported and the disclosures). The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised and challenged, and are sufficiently robust.

Audit & Risk Committee Report

Our accounting policies can be found in note 1 to the consolidated financial statements and further information on the significant issues considered by the Committee are set out below.

Margin forecasting and recognition

The Committee has continued to consider the Group's approach to profit recognition. In particular the Committee (and the Board as a whole) has prioritised its oversight of margins and the controls in place to support these given the Group's overall financial performance. As further explained in note 1 to the consolidated financial statements, the approach to profit recognition demands a regular assessment of assumptions relating to sale prices and build costs. During the year, a range of additional build costs associated with projects in the London division were highlighted to the Committee. These had no impact on the inventory balance and a modest impact on margins. A full review was undertaken with support from the internal auditor, Deloitte LLP, which concluded that the controls in place were not operating as intended and costs on these projects were deliberately understated. Following the review, management have taken steps to enhance the internal controls that are in place. As part of the audit of these accounts, PricewaterhouseCoopers LLP have extended their audit procedures on the specific additional costs and sought assurance that the failings were isolated to the London division. The Committee is satisfied that, following these reviews and the enhancement to internal controls in this area, appropriate corrective action has been taken. Material changes are reported to the Committee and the external auditor continues to report on the work management have undertaken in this area. This includes testing management's controls, assessing the appropriateness of certain underlying assumptions and comparing management's estimate of sales prices and build costs to actual sales prices and cost trends. The Committee reviews the main areas of judgement exercised, challenges management where appropriate and is satisfied that the oversight and controls are appropriate, and the financial reporting is supported.

Inventory value

Inventory is the most significant item on the balance sheet. Inventory is held at cost and therefore, due to the cyclical nature of the housing industry, there is a risk that the Net Realisable Value (NRV) (selling price less costs to sell) of the inventory is lower than cost and held at the incorrect value. The Committee understands the controls in place concerning NRV, including the minimum hurdle rates management requires before projects are approved. The external auditor has tested controls over the approval of the initial forecasts and the monitoring of updates required to the forecasts over the course of a development's lifecycle. Where any sites have low or negative margins, appropriate and sufficient provisions are made. The Committee is satisfied that the internal controls in place ensure the effective assessment of inventory carrying values.

New accounting standards

The Committee has considered new accounting standards IFRS 15 (revenue recognition) and IFRS 9 (financial instruments) effective for the financial year ending 31st October 2019 – reviewing the judgements, assumptions and impact assessments undertaken by management, including seeking assurance over the processes implemented to ensure the reporting requirements are met.

Viability and going concern

The Committee specifically reviewed management's consideration in relation to the prospects of the Group as well as satisfying itself that the going concern basis of preparation continues to be appropriate, and made recommendations to the Board in this regard. Our longer-term viability statement can be found on page 63 within the section on our key risks and material issues, and further information on the Group's going concern assessment can be found on page 121.

Fair, balanced and understandable

At the request of the Board, the Committee has considered whether, in its opinion, the Annual Integrated Report and Accounts is fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. The Committee is satisfied that, taken as a whole, the Annual Integrated Report and Accounts is fair, balanced and understandable. In forming this opinion the Committee considered whether the Annual Integrated Report and Accounts:

- → provided a comprehensive review of the Group's activities and strategy that was consistent throughout
- → reflected appropriate events over the year and acknowledged the material issues faced by the Group
- → highlighted the important messages, including the challenging environment and current focus on cash generation and operational efficiency
- → accurately described the current market uncertainty and the principal risks faced by the Group, including the actions taken to mitigate these
- → provided a balanced review with emphasis on both the key positive and negative points
- → clearly and concisely presented the information through a combination of appropriate performance measures and KPIs.

This is further supported by the external auditor in its report; see pages 118 to 122.

EXTERNAL AUDITOR

PricewaterhouseCoopers LLP (PwC) was appointed as external auditor for the year ended 31st October 2015 following a tender process carried out in 2014. The lead audit partner, Sonia Copeland, has held the position for four years and will be required to rotate off the account following completion of the audit in relation to the financial year ending 31st October 2019. There are no current plans to carry out a re-tender exercise, but in accordance with the EU Audit Regulation and Directive, the Group will be required to put the external audit contract out to tender by 2024. The Group has complied with the Statutory Audit Order for the year ended 31st October 2018.

During the year the Committee approved the external audit fee and scope of the audit, and carried out a review of the effectiveness of the external audit process.

Effectiveness

The Committee is responsible for overseeing the relationship with the external auditor and the effectiveness of the external audit process. An annual review of audit effectiveness is undertaken at the conclusion of the year-end audit using a questionnaire-based approach to seek insight and feedback from management on key areas of the audit process, including the audit approach, the team, communications with the Committee and how the external auditor provide insights and add value. The review concluded that the audit process and the audit team continue to perform well and in some areas the processes and people exhibited special strength, providing technical support and challenge, where necessary. The process continues to improve year on year as the audit team develops a deeper understanding of the business, our performance and our aspirations. This results in a smooth, well-planned audit, executed in an efficient manner. The partner and managers actively and visibly lead the audit-planning process with early discussion with management and the Committee to identify significant issues.

The Committee recommends their re-appointment at the 2019 AGM.

Independence and non-audit services

The Committee keeps the independence of the auditor under regular review and in doing so will consider the annual disclosure from PwC, discuss any threats to its independence and understand the safeguards in place to mitigate those threats. It was clear from communication received from the auditor during the year that the objectives of the FRC's Ethical Standards regarding independence and objectivity had been achieved.

Where non-audit services are to be provided by PwC, both the Group and PwC have robust processes in place to prevent auditor independence from being compromised. The Group operates a strict policy for the provision of non-audit services that is reviewed annually and is consistent with the EU's Audit Regulation and Directive. The policy sets out the types of non-audit service for which use of the external auditor is prohibited (including accounting and valuation services) and provides a list of activities that are 'Permitted Non-Audit Services' that require the specific approval of the Committee. For certain non-audit services the Committee has chosen to set a threshold of annual expenditure below which approval in advance from the Committee would not be required, if the activity falls within the definition of a 'Permitted Non-audit Service' as defined in the policy. The current threshold is £50,000 per annum.

Non-audit services were provided during the year in respect of the independent review of the half-year results, fees payable were £56,000; the non-audit fees to audit fees ratio for the year ended 31st October 2018 is therefore 0.16:1.

PwC also provides audit services to the Group's defined benefit pension scheme and the fees associated with these services are met by the assets of the scheme. For further information see note 3 to the consolidated financial statements.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board oversees the Group's control framework ensuring clearly defined processes are in place, and is responsible for determining the nature and extent of the principal risks it is willing to accept to achieve its strategic objectives.

It is the role of management to implement and take day-to-day responsibility for Board policies on risk management and internal control. However, the Board retains overall responsibility in this area and needs to satisfy itself that management has understood the risks, implemented and monitored appropriate policies and controls, and is being provided with timely information so that it can discharge its own responsibilities in this regard.

During the year the Board (with input from the Committee) carried out a robust assessment of the principal risks facing the Group and how those risks affect the prospects of the Group.

For more information on the Group's risk management and internal control framework, including an overview of the principal risks and the Group's approach to their mitigation and management, please see our key risks and material issues on pages 63 to 67.

To support the Board the Committee will oversee and at least annually review the effectiveness of the Group's internal controls and risk management systems and will review and approve the statements to be included in the Annual Integrated Report concerning internal controls and risk management.

The Group's system of internal controls is designed to manage, rather than eliminate, the risk of not achieving corporate objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. We have reported below on the effectiveness of the Company's risk management and internal control systems.

Effectiveness of the Company's risk management and internal control systems

During the year the Committee received reports from management and the internal audit function on the operation and effectiveness of the internal control and risk management systems. Although it was highlighted during the year that certain internal controls were not operating as intended in the London division, the Committee is satisfied that at year end the principal risks that could prevent us from achieving our corporate objectives have been identified, key controls have been identified and evaluated to manage those principal risks, and there are mechanisms in place to obtain assurance over the effectiveness of those key controls.

In drawing its conclusions the Committee considered the following fundamental risk management and internal control principles that are applied throughout the Group:

Audit & Risk Committee Report

→ The governance framework allows for informed and balanced discussions by senior management, whereby all divisions operate through their own local management Boards, each of which is accountable to and reports monthly to the Executive Management Team, which is responsible for the day-to-day operation of the Group. At the end of the year each local management Board is required to provide a series of certifications confirming compliance with the control environment.

→ Risk appetite, KPIs and targets to achieve the Group's strategic plans are identified and tracked through financial and management reporting systems.

→ A robust assessment of the principal risks facing the Group is carried out each year at both divisional and Group level.

→ Group policies and procedures are regularly reviewed by the Executive Management Team and the Board, and expected values and behaviours are set out and integrated into the Group's operations.

→ Independent assurance over the operating effectiveness of control activities is obtained through internal audit. In addition there are other forms of assurance, such as regular health and safety and sustainability audits, and other corporate responsibility reporting, along with legal and regulatory compliance monitoring.

Internal audit

The internal audit function reviews the effectiveness and efficiency of the systems of internal control in place, providing assurance that internal controls remain fit for purpose and are applied consistently throughout the Group.

The Group's internal audit function is undertaken by Deloitte LLP (since September 2016), whose appointment and mandate are reviewed and approved by the Committee.

→ The Committee approves the annual Internal Audit programme, and the scope of individual audits which are aligned to the principal risks faced by the Group.

→ The Committee receives regular reports from the internal audit function, which identify the key risks and assess the relevant internal controls to ensure they suitably match those risks, and that the controls are appropriately designed and operating as intended, together with any recommendations for improvement where appropriate. Both the Executive Management Team and management responsible for the area reviewed will consider the reports on a regular basis and are responsible for ensuring that recommendations are implemented as agreed. Follow-up and escalation processes ensure that such recommendations are implemented and fully embedded in a timely manner.

→ The Committee has carried out a review of the effectiveness of internal audit activities, ensuring appropriate resources are in place. Deloitte reports regularly against agreed KPIs and in addition an annual review is undertaken using a questionnaire-based approach to seek feedback from key stakeholders involved in the internal audit programme, including local and Executive Management, and the Committee members. The review concluded that the internal audit function is performing as expected, driving clear action from management and improvement to the control environment.

→ Deloitte has access to the Committee where necessary, with clear and open communication with the Committee Chair, who will meet Deloitte without management when required. Being independent of the Executive Management Team, Deloitte is able to exercise independent judgement. The Committee is satisfied that the quality, experience and expertise of the function is appropriate for the business.

→ The Committee will also consider the internal control recommendations raised by the external auditor during the course of the external audit and the Group's response to address these recommendations as part of its overall review of the effectiveness of the Group's internal controls and risk management systems.

Anti-bribery and corruption

The Group operates and maintains a number of policies and procedures to prevent bribery and corruption. These set out a clear code of conduct for employees and supply chain partners to ensure they understand and conduct themselves in accordance with the law.

The Audit & Risk Committee oversees the implementation of these policies across the Group and reviews their related procedures annually.

We discuss our policy and the due diligence we employ to ensure it is followed in our Strategic Report on page 50. The full policy is available online at **www.crestnicholson.com/investor-relations/corporate-governance/values-and-behaviour**

Whistleblowing

The Committee is responsible for the Group's arrangements in relation to whistleblowing and for ensuring clear procedures are in place to allow its employees and supply chain partners to raise concerns in confidence about possible wrongdoing in financial reporting, breaches of Group policies or other matters, including, but not limited to, bullying, harassment, discrimination and modern slavery.

→ The policy encourages employees and supply chain partners to report any concerns or malpractice and helps facilitate an open and honest working environment.

→ Employees and supply chain partners have access to a free and independent helpline to report their concerns. Clear internal communication lines and an escalation procedure with clear and effective processes to ensure the proportionate investigation of such matters and appropriate follow-up action have been put in place.

→ This policy is available online at **www.crestnicholson.com/investor-relations/corporate-governance/values-and-behaviour**

Technical Committee Report

The Technical Committee supports the Board in reviewing and advising on technical innovations and current and forthcoming legislation that may have construction and commercial implications.

The Committee has continued to review the prototyping and implementation of off-site manufacturing ('OSM') techniques. This has included the impact OSM has on production efficiency and costs, together with providing guidance on the change management considerations that come with adopting OSM. During the course of the year, three prototype plots were completed and reviewed and the Committee is now overseeing the implementation of larger-scale trials of OSM.

The Committee has also overseen the development and roll-out of the new Group house and apartment types. Opportunities to maximise quality and commercial benefits are discussed, along with monitoring the roll-out across the business.

Louise Hardy
Chair of the Technical Committee

COMMITTEE MEMBERSHIP AND MEETINGS

The Committee is made up of: Louise Hardy (Chair and Independent Non-Executive Director), Sharon Flood (Independent Non-Executive Director), Patrick Bergin (Chief Executive), Chris Tinker (Chairman of Major Projects and Strategic Partnerships), Darren Dancey (Executive Managing Director) and Eleni Psarompa-Rothwell (Group Technical and Quality Director).

Louise Hardy became Chair of the Committee from 9th May 2018, taking over the role from Patrick Bergin.

The Committee met six times during the year with attendance details provided on page 79.

COMMITTEE MEMBERS


Louise Hardy (Chair)


Sharon Flood


Patrick Bergin


Chris Tinker


Darren Dancey


Eleni Psarompa-Rothwell

RESPONSIBILITIES AND TERMS OF REFERENCE

The Committee's terms of reference set out its role and the authority delegated to it by the Board. The Committee's key responsibilities are summarised below:

- → Assist in the research and development work of OSM in relation to elements of the Group's housing or commercial products;
- → Provide guidance on change management processes related to adopting OSM;
- → Assist in monitoring and measuring the implementation of OSM to ensure that the efficiency and cost benefits are recognised and that the necessary action is taken to correct any areas in need of improvement;
- → Assist with the development and roll-out of the new Group house and apartment types to ensure that business benefits are maximised;
- → Act as interface to the Board for significant updates and overall direction with technical innovations; and
- → Review new legislation and regulations relating to technical elements of construction, ensuring the business responds appropriately.

ACTIVITY DURING THE YEAR

- → Overseen the development of the new Group house and apartment types. This included the schedule for final drawings and standard plot costs and tracking the rollout across the business.
- → Reviewed and considered the use of OSM, including a detailed assessment of the risks and opportunities associated with these new techniques.
- → Monitored the construction of the prototype plots at Arborfield and the learning that has come from this, in particular the labour and change management requirements associated with an increasing use of OSM.
- → Monitored current and forthcoming legislation and discussion as to how the business will adhere.

LOOKING AHEAD

- → Embedding new core house types in delivery.
- → Further develop OSM efficiencies.
- → Monitor implementation of technical legislation.

Directors' Remuneration Report

LETTER FROM THE CHAIR

DEAR SHAREHOLDER

I am pleased to introduce the Directors' Remuneration Report for the year ended 31st October 2018. This report sets out how we pay our Executive and Non-Executive Directors, how much they received in FY18, the decisions the Committee took around remuneration during the year and how these link to the Company's business strategy.

STRATEGIC ALIGNMENT OF PAY WITH KPIs

When setting the metrics and structure of the short- and long-term incentives for Executives and senior management, the Committee takes into consideration strategic business priorities, looking at how the business seeks to create lasting value through building quality homes efficiently while focusing on return of capital and sustaining sales volumes, and latterly, our adjusted strategy of prioritising cash flow and dividends for shareholders.

How we set remuneration must be transparent and support the outcomes needed by the business. Any metrics we set must also be consistent with how business performance is monitored by the Board and the Executive Management Team.

Mindful of how the current political and economic uncertainty in the UK, and globally, impacts the housing market, the Company has focused its strategy on shareholder returns, prioritising cash and dividends while maximising the value in our portfolio and improving operational efficiency. This is reflected in how we have structured the annual bonus for FY19 with profit before tax being retained for 40% of the bonus and the introduction of cash management for 40%. The continued importance of customer service is reflected through 10% of the bonus with the remaining 10% based on health and safety.

COMMITTEE PERFORMANCE

The Committee's performance has been reviewed as part of the Board's annual evaluation, which concluded that the Committee's effectiveness continues to improve year on year, including through the establishment of good relations with shareholders, and the newly appointed remuneration consultants. Setting the right performance targets to drive a high-performance culture within the business is imperative as the Committee looks towards renewing the Group's remuneration policy at its AGM in 2020.

Remuneration philosophy

- Promote the long-term success of the Company.
- Reward performance.
- Simplicity and transparency.

The Remuneration Committee continues to ensure that our Remuneration Policy and its implementation support our business strategy and long-term value creation and are aligned to the objectives of shareholders.

ACTIVITY DURING THE YEAR

- Reviewed AGM outcomes and considered appropriate actions.
- Engaged with shareholders on remuneration matters.
- Determined 2018 LTIP and DBP awards, and annual salary increases.
- Agreed leaver arrangements for departing Directors.
- Exercised discretion around 2018 annual bonus outcome.
- Determined the 2015 LTIP performance and vesting.
- Continued our popular Sharesave scheme.

LOOKING AHEAD

The Committee's key aims for next year are to:

- Continue engagement with shareholders and wider stakeholders on remuneration;
- Consider and set remuneration for incoming Group Finance Director and other senior management;
- Set senior management incentive plan measures and targets for 2019 with changes reflecting the operating environment and different strategic emphasis;
- Review and determine remuneration for senior management;
- Review in depth the Remuneration Policy ahead of seeking shareholder approval at the 2020 AGM; and
- Consider and implement evolving governance requirements including a review of wider workforce remuneration and related policies.

Letter from the Chair

RESPONSE TO UK CORPORATE GOVERNANCE CODE CHANGES AND NEW REPORTING REQUIREMENTS FOR DIRECTORS' PAY

As part of its annual process the Committee reviewed its Terms of Reference to ensure that its remit covers the individuals in the broader executive population and the remuneration policy of the workforce more generally. The structure of pay has been reviewed and many aspects are already in line with the new Code recommendations and those which are not will be reviewed during the year. We are also reviewing our approach to stakeholder engagement and, as part of this process, will review how we engage with the workforce to explain how executive pay aligns with the pay policy for the broader workforce.

FY18 REMUNERATION OUTCOMES AND USE OF DISCRETION

As mentioned in the Executive Chairman's statement on page 12, rising build costs and the uncertainty and caution in the housing market because of Brexit created a challenging backdrop to our financial performance in 2018. For the Annual Bonus Plan, our profit before tax (PBT) of £176.4 million was below the threshold for payment and so no bonus was payable under the element based on this measure (representing 85% of total bonus). For the element based on customer service (representing 15% of total bonus) performance was towards the upper end of the target range set.

However, after careful consideration of the wider financial performance of the Group, the Committee decided to exercise discretion such that no bonus payment would be made to any Executive Directors.

In relation to the 2016 Long-Term Incentive Plan (LTIP) award the average return on capital employed (ROCE) over the three years was 28% which generated a partial vesting under the 50% element based on ROCE. The remaining 50% element based on PBT did not achieve the necessary threshold level of performance and so, overall, 25% of the LTIP award will vest.

As described later in this report, as a consequence of the above, total payments made to Executive Directors were lower this year than the prior year.

The Committee considers that, overall, there has been an appropriate link between reward and performance in FY18.

MANAGEMENT CHANGES

During the year, the Committee determined the leaving arrangements for the Group Finance Director, Robert Allen, and the remuneration arrangements associated with the transition to Executive Chairman for Stephen Stone and of Patrick Bergin to Chief Executive.

Details can be found on page 106 and pages 110 to 111 respectively.

CHANGES TO DIRECTOR REMUNERATION FOR FY19

As set out in last year's report, the Executive Chairman's fee will decrease from £300,000 to £225,000 in April 2019 as he moves from Executive to Non-Executive Chairman. We noted last year the intention to increase Patrick Bergin's salary from £470,000 to £520,000 subject to strong personal performance in his new role. The Committee will review Patrick's performance and make their decision regarding the proposed salary increase in March 2019 ahead of his first anniversary as Chief Executive.

The average salary increase applied in January 2019 was 3% for staff generally. However, given the wider financial performance of the Group the Committee determined that no pay increases should be awarded to the other Executive Directors.

While changes have been made to the annual bonus metrics as described above, the bonus opportunity and structure will remain unchanged except for the introduction of a threshold level for which bonus would be payable, in accordance with the current policy.

For the LTIP we intend to grant at the normal policy level of 150% of salary for the Chief Executive and 100% of salary for the Chairman of Major Projects and Strategic Partnerships and the two-year post-vest holding requirement will again apply. We have not yet set the performance targets for the LTIP award to be granted in 2019. The Committee will continue to review the performance targets and once these are finalised they will be disclosed in the regulatory announcement in relation to the grant. At the time of writing, recognising the outlook for performance, we anticipate that the target ranges for the performance measures will be lower than the ranges set for the LTIP granted in 2018. The Committee will ensure that the ranges are sufficiently stretching in relation to the business strategy and analyst forecasts.

As mentioned the Committee will review our Remuneration Policy during the year. We take an active interest in the views of all shareholders and I look forward to engaging with our major shareholders as part of the review process.

We look forward to receiving your support at the 2019 AGM in respect of the advisory vote on the Annual Report on Remuneration.

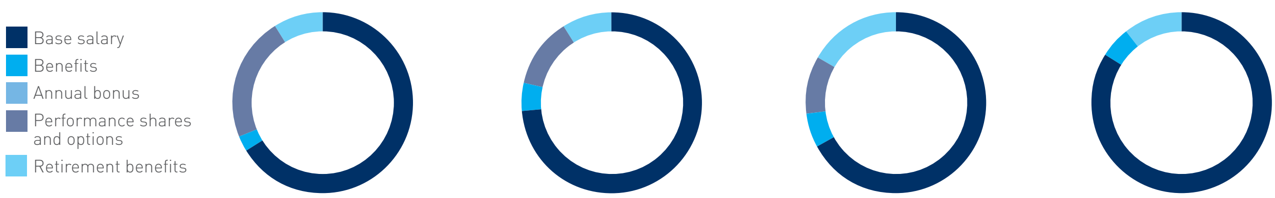
Octavia Morley
Chair of the Remuneration Committee

REMUNERATION AT A GLANCE

The table below provides a high-level summary of Crest Nicholson's remuneration framework for Executive Directors.

	Our Remuneration Policy Approved at 2017 AGM	**2018 outcomes** In line with approved policy	**Application in 2019** How we intend to implement our policy in the coming year
Base salary	Base salary set by reference to similar roles in a group of other UK housebuilders. Inflation-related increases to reflect wider workforce.	Stephen Stone: £541,158 (£300,000 from 22nd March 2018) Patrick Bergin: £386,250 (£470,000 from 22nd March 2018) Robert Allen: £334,750 Chris Tinker: £311,212	We do not expect salaries to change other than where previously agreed. Stephen Stone: £300,000 (£225,000 from 1st April 2019) Patrick Bergin: £470,000 (£520,000 from 1st April 2019 subject to a review of personal performance in first year of new role as disclosed last year) Chris Tinker: £311,212 Robert Allen left the business on 16th October 2018.
Annual bonus	Maximum bonus opportunity of 125% of salary. At least half our measures based on one or more financial metrics. Thirty-three per cent of bonus deferred into shares for three years.	2018 bonus scheme based on PBT targets (85%) and customer service (15%). Following the lower than expected PBT outturn this year, no bonus in respect of profit before tax element of the bonus is payable. The Committee exercised its discretion not to pay the element of bonus earned relating to customer service and quality in light of the wider financial performance of the Group. 2018 targets disclosed in this report. Withholding and recovery provisions apply.	2019 bonus scheme to be based on PBT (40%), cash management (40%), health and safety (10%), and customer service and quality (10%). Maximum opportunity for Patrick Bergin 125% and for Chris Tinker 100% of salary. 2019 targets are commercially sensitive but will be disclosed retrospectively. Withholding and recovery provisions will apply. Stephen Stone will not participate in the annual bonus in 2019.
Long-Term Incentive Plan	Maximum opportunity of 150% of salary based on set performance measures. A limit of 300% of salary is available in exceptional circumstances, including recruitment.	Awards granted in 2018 at 150% of salary to Patrick Bergin and Robert Allen (award lapsed on leaving) and 100% of salary to Chris Tinker. Performance conditions of average return on capital employed (ROCE) and earnings per share (EPS) growth over the three-year performance period with a two-year post-vesting holding period. Withholding and recovery provisions apply to the award. **Vesting of 2016 awards** Cumulative PBT growth of 10.8% was below the threshold target and average ROCE of 28% over the three-year period results in 25% of the total award vesting, subject to service, in February 2019.	Awards to be granted up to 150% of salary. Performance conditions consisting of financial measures over the three-year performance period with a two-year post-vesting holding period. Withholding and recovery provisions will apply. No award will be made to Stephen Stone in 2019.
Shareholding requirement	Minimum shareholding levels of: → Previous CEO: five times salary (500%) → New CEO: two times salary (200%) → Other Executive Directors: two times salary (200%)	Stephen Stone (500%), Patrick Bergin (200%) and Chris Tinker (200%) all met their minimum shareholding requirement. Full details of Directors' shareholdings are set out on page 104.	No change to the minimum shareholding requirement for each current Executive Director.
The Committee	During the year the Committee met on six occasions. Details of the Committee's activities can be found on page 92.		
Considering your views	Our Annual Remuneration Report received a 98.43% vote in favour at the 2018 AGM. Our 2017 Remuneration Policy received a 96.13% vote in favour at the 2017 AGM. Further details are provided in our Statement of consideration of shareholder views on page 100.		

2018 single figure (change from prior year) See page 101	**Stephen Stone: £595,200 (-72.32%)**	**Patrick Bergin: £584,428 (-55.69%)**	**Chris Tinker: £461,001 (-47.07%)**	**Robert Allen: £394,021 (-24.73%)**



Director's Remuneration Policy

Our Remuneration Policy for Executive Directors was approved by shareholders at our AGM on 23rd March 2017 and can be found online, within the 2016 Remuneration Report and Policy, at **www.crestnicholson.com/investor-relations**.

Last year, in response to shareholder feedback and market practice developments, we updated our Remuneration Policy to introduce post-vesting holding periods to our Long-Term Incentive Plan for awards made from 2018 onwards. The Company's current Remuneration Policy, including this update, is set out below for information.

POLICY TABLE

Element/Link to strategy	**Operation (including maximum opportunity)**
Base salary Helps recruit, motivate and retain the best people in the marketplace. Recognises individuals' experience, responsibility and performance.	Salaries are normally reviewed annually with changes typically effective from 1st January, taking into account: → Personal and Company performance → Increases received by the general workforce → Inflation and earnings forecasts → The state of the marketplace generally. Base salary is set with reference to similar roles in a group of UK housebuilders. Where appropriate, comparators from other sectors may be considered as part of the benchmarking process. The exact positioning of salary depends on a variety of factors, including the specific nature of the role (particularly where this is not directly comparable to roles outside the Group), individual experience and performance, cost of living increases, inflation, Group performance and market practice in other UK housebuilders or other comparator groups considered. A new Director may be appointed at a salary less than the prevailing market rate but increased over a period to the desired positioning subject to satisfactory performance. While the Committee is guided by increases applied to the general workforce, it retains discretion to apply an above-workforce increase to a Director's salary should there, for example, be a change in the scope of an individual's role, the complexity of the business or market, or the size/value of the business that the Committee believes justifies a further adjustment of salary. **Performance framework** The Committee considers and sets appropriate individual Directors' salary levels each year having regard to the factors noted in the salary policy. Salary is not linked to specific financial or non-financial performance measures. No withholding or recovery provisions apply in relation to salary.
Fees for Non-Executive Directors Reflect the time commitment and responsibilities of the roles.	Fees are reviewed on an annual basis, taking into consideration market practice, and are set with reference to sector, FTSE 250 and general Non-Executive Director fee levels as appropriate. Non-Executive Director fees are determined and approved by the Board upon a recommendation from the Executive Directors. The Chairman's fee is set by the Remuneration Committee. No Director is involved in setting his or her own fee. Non-Executive Directors' fees are paid in cash and are not performance related. There are no benefits or incentive schemes for Non-Executive Directors. However, reasonable travelling and other expenses for costs incurred in the course of the Non-Executive Directors undertaking their duties are reimbursed (including any personal tax that may be due on those expenses). Additional fees may be payable in relation to extra responsibilities undertaken such as chairing a Board Committee and/or holding the position of Senior Independent Director. **Performance framework** Fees are set by reference to the policy element. No withholding or recovery provisions apply in relation to fees.

Directors' Remuneration Policy

Element/Link to strategy	**Operation (including maximum opportunity)**
Benefits Provide a competitive level of benefits and encourage the well-being and engagement of employees.	A range of benefits are provided, including but not limited to: → Private medical insurance – family cover → Company car or car allowance → Income protection → Personal accident insurance → Life assurance → Annual health check → Holiday and sick pay → Professional advice in connection with their directorship, if required. The cost of these benefits varies over time depending on their cost in the market and the individual's circumstances. Directors who are required to move for a business reason may, where appropriate, also be provided with relocation assistance. Where the Company offers a flexible benefits approach (where the value of one benefit may be exchanged for another) to employees generally, a Director would have the option to participate. Other benefits (in line with those received by the general workforce) may be offered at the discretion of the Committee, such as long service awards or recognition of life events. The Company may also operate all-employee share incentive plans including Sharesave, Share Incentive Plan (SIP) and other HMRC tax-approved all-employee schemes from time to time, in which Directors may participate on the same terms as other employees. As a general principle, benefits are not provided to Non-Executive Directors. However, where the Company is able to provide any benefits to a Non-Executive Director with their meeting the cost (but at the Group's negotiated rate) the Company may do so.
Pension Provides retirement planning and protection to employees and their family during their working life.	Directors may participate in the Crest Nicholson defined contribution pension scheme or, where deemed appropriate, receive cash in lieu of all or some of such benefit. For any new Directors, a contribution of up to 15% of salary may be paid as pension contribution, cash or part cash. For any internal promotion, pension contributions or cash in lieu would reflect any legacy arrangements. Currently, Chris Tinker receives a 24.5% cash supplement in lieu of pension benefit and Patrick Bergin receives a pension contribution equal to 10% of salary.
Annual bonus Rewards individuals on achievement of pre-defined, Committee-approved corporate objectives linked to key goals of the Group. Motivates employees towards superior performance and in so doing improves the performance of the business in specifically targeted areas.	The annual bonus scheme participation levels (including maximum opportunities) are determined by the Committee on an annual basis, and payments are determined by the Committee following the end of the financial year, based on performance against the metrics set. The maximum bonus opportunity is capped at 125% salary for Directors, with on-target performance receiving 50% of salary and performance below target usually receiving no payment. However, an amount of up to 25% of the maximum may be payable for threshold performance in the event that a threshold performance target is set. Two-thirds of the bonus is paid in cash (non-pensionable), with the remaining one-third deferred under the Deferred Bonus Plan for up to three years – see below. **Performance framework** At least half of the bonus will be linked to one or more financial metrics with the remainder linked to non-financial metrics (if chosen). Non-financial metrics will be based on relevant operational, business or personal objectives. The Committee may, in exceptional circumstances use its discretion to amend the bonus outcome if the Committee believes that it does not properly reflect overall underlying business performance or an individual's contribution. The cash element of awards is subject to recovery provisions for two years from payment in the event of serious misconduct, material misstatement of accounts, material failure of risk management, material breach of health and safety or environmental regulations, serious reputational damage arising from misconduct, error in calculation or events that are similar in nature or outcome to those above. Withholding (downwards adjustment) provisions apply under the Deferred Bonus Plan as set out on the following page.

Element/Link to strategy	**Operation (including maximum opportunity)**
Deferred Bonus Plan Deferred element encourages longer-term shareholding and links part of annual bonus payments to the further success of the Group and shareholders' interests.	One-third of annual bonus is deferred in the form of conditional share awards or nil-cost options (the "Deferred Share Awards") that vest or first become exercisable up to three years from grant. Amounts equivalent to any dividends or shareholder distributions made during the vesting period may be awarded in respect of vested or exercisable Deferred Share Awards. **Performance framework** Deferred bonuses are based on the value of the bonus for any particular year. Vesting is not based on any future performance criteria and the value of deferred bonus awards on vesting are based on the share price at vesting. Deferred Share Awards are subject to withholding (adjustment downwards) at the Committee's discretion for the same recovery situations as set out above for the cash element of bonus.
Long-Term Incentive Plan Incentivises long-term shareholder value creation. Drives and rewards achievement of key long-term Company objectives over which participants have line of sight.	LTIP awards will normally take the form of nil-cost options, conditional share award or restricted shares at the discretion of the Committee. LTIP awards vest on the third anniversary of grant subject to achievement of performance measures and provided the Director remains in office with the Company. It is the Committee's intention for award levels to be at a maximum of 150% of salary. However, the Committee retains the flexibility to make awards up to 300% of salary in exceptional circumstances including, for example, recruitment. Amounts equivalent to any dividends or shareholder distributions made during the vesting period may be awarded in respect of vested or exercisable LTIP awards. **Performance framework** Awards vest in proportion to the weighting placed against the performance measure, with each measure operating individually and all measured over a three-year period. The Remuneration Committee reviews the measures, their relative weightings and targets prior to each award and makes changes as is deemed appropriate. Regardless of achievement of the performance condition, the Committee has discretion to withhold (adjust downward) LTIP awards where it believes the underlying performance of the Company does not support the level of vesting. The specific performance targets are set with the aim of setting stretching targets that incentivise and reward improved performance. LTIP awards are subject to withholding (downward adjustment) at the Committee's discretion in the event of material misstatement of accounts, material failure of risk management, material breach of health and safety or environmental regulations, serious reputational damage arising from misconduct, serious misconduct, error in calculation or any other circumstances that are similar in nature or outcome to those set out above. Recovery (clawback) applies if such an event occurs within no less than two years of an award vesting or, in the case of an option, when it first becomes exercisable. A two-year post-vesting holding period applies to awards made from 2018 onwards.
Minimum shareholding requirement Encourages long-term commitment and alignment with shareholder interests.	Executive Directors are expected to build up and retain a significant shareholding. **Performance framework** → Executive Chairman (previous CEO): minimum five times salary → CEO: minimum two times salary → Other Executive Board Directors: minimum two times salary A greater shareholding requirement exists for the previous CEO, now the current Executive Chairman, in the context of the shares vested at IPO in 2013.

HOW THE COMMITTEE WILL USE ITS DISCRETION

Incentive plans, including annual bonus, LTIP and the Deferred Bonus Plan (DBP), will be operated in line with the rules of each scheme or plan together with any relevant laws and regulations. However, it is important that the Committee retains appropriate discretion (as is customary) over the administration and operation of the incentive plans.

Discretion will include, but is not limited to, the following in relation to incentive schemes:

- → Who is invited to participate in or receive grants of awards
- → The size and timing of award grants or payments
- → Discretion required when changes or adjustments are required in certain circumstances (e.g. change of control, rights issues, special corporate or dividend events, or change in business strategy)
- → The annual review and choice of performance measures and weighting, and targets for the annual bonus and incentive schemes (including LTIP) from year to year
- → The determination of vesting (or payment), and the treatment of leavers and vesting for leavers
- → As permitted by HMRC and other regulations, in respect of Sharesave, Share Incentive Plan or any other all-employee schemes.

Directors' Remuneration Policy

In relation to incentive schemes including annual bonus and LTIP, the Committee may adjust performance targets and/or measures if these have ceased to be appropriate provided that such adjusted targets or measures will not be materially less difficult to satisfy. Any use of the above discretions would, where relevant, be explained in future Directors' Remuneration Reports and may, as appropriate, be the subject of consultation with the Company's major shareholders.

REMUNERATION POLICY FOR OTHER EMPLOYEES

The policy described in the previous table applies specifically to the Company's Executive and Non-Executive Directors. The Committee believes that it is appropriate for the reward of all members of the Group's senior management to be linked to the Company's performance and aligned with the growth of shareholder value. In view of this, the LTIP for Executive Directors operates throughout Crest Nicholson's senior management, at a reduced opportunity level commensurate with the seniority and level of responsibility of participants.

Senior managers also participate in an annual bonus scheme with specific performance targets linked to their area of responsibility and their business unit's performance. Below this level, incentive schemes are operated for management and non-management employees with opportunities and performance conditions varying between business unit and by role.

We seek to align all of our employees with the performance of the Company, and all employees are eligible to participate in the Crest Nicholson Sharesave scheme or any other all-employee scheme operated by the Company.

APPROACH TO RECRUITMENT REMUNERATION

The table below sets out the components that would be considered for inclusion in the remuneration package of an Executive Director on appointment and the approach the Committee will adopt in respect of each element.

Area	Policy and operation
Overall	The Committee's approach to recruitment remuneration for an external appointment is to take account of that individual's remuneration package in their prior role, the market positioning of the package and their skills and experience. However, the Committee will not pay more than necessary to facilitate the recruitment of that individual. For an internal appointment, the Committee may initially position remuneration below the market level and increase overall pay levels over a period of time to achieve alignment with market levels for the role, subject to Company and individual performance.
Base salary	The salary level will be set taking into account the responsibilities of the role and be consistent with salaries paid for similar roles in comparable organisations. The direct comparability or otherwise of those other roles will be a material factor.
Pension and benefits	Directors will be eligible to participate in Crest Nicholson's benefit plans and the Crest Nicholson Pension Plan or salary supplement scheme in accordance with the policy set out in the Remuneration Policy table. For an overseas appointment, the Committee will have discretion to offer cost-effective benefits and pension provisions that reflect local market practice and relevant legislation.
Annual bonus	Directors will be eligible to participate in the discretionary annual bonus scheme as set out in the policy table. The maximum opportunity will be 125% of salary, consistent with this policy. Depending on the timing of the appointment, the Committee may deem it appropriate to set different annual bonus performance conditions to the current Executive Directors in the first performance year of appointment.
Long-term incentives	The Executive Director will be eligible to participate in the long-term incentive scheme set out in the Remuneration Policy table. The opportunity levels will be consistent with what is disclosed in the table and, in exceptional circumstances, the Committee is able to make an award of up to 300% of salary. An LTIP award can be made shortly following an appointment.
Replacement awards	The Committee may grant the Executive Director replacement awards to compensate for forfeited remuneration (including bonus and long-term incentive awards) from previous employment. Should replacement awards be made, any awards granted would be no more generous in terms of quantum or vesting period than the awards due to be forfeited. In determining the quantum and structure of these commitments, the Committee will seek to replicate the fair value of the award and, as far as is practical, the timing and performance of the remuneration foregone. For an internal appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted to take account of the appointment if this is appropriate.
Other	The Committee may agree that the Company will meet certain relocation or other transitional expenses deemed appropriate.

SERVICE CONTRACTS AND POLICY ON PAYMENT FOR LOSS OF OFFICE

The Committee expects that Directors' notice periods will be set in accordance with prevailing governance codes of practice, starting with no more than 12 months' notice from the Company, and no less than six months from the Executive.

The table below sets out the Committee's policy on termination arrangements for Executive Directors:

Area	Policy and operation
Overall	As terminations do not always fit neatly into defined categories, when considering the suitable treatment of a termination, the Remuneration Committee will have regard to all the relevant facts and circumstances available at that time, including the reason, contractual obligations and incentive plan rules. Any references to good or bad leavers below are examples of how the policy would work and are not definitive. The Committee is firmly against rewards for failure. The Committee retains discretion for payments to be made in good faith in relation to very specific legal circumstances, such as the discharge of an existing legal obligation in respect of salary, benefits and other contractual entitlements, damages for breach of obligation and a settlement or compromise of any claim arising with the termination of a person's office or employment. In any event the Committee will only make such payments where it considers it to be in the best interests of the Group and its shareholders with full disclosure of any such payments in the following year's Remuneration Report.
Contractual payments	Crest Nicholson may terminate service contracts immediately by making a payment in lieu of notice consisting of base salary, pension and any contractual benefits for the unexpired period of notice. This payment may be made as either a lump sum or as instalments over the period. If Crest Nicholson elects to make this payment by instalments, the Executive is under a duty to seek alternative employment and where practical any remuneration received from a new role will be offset against the payment.
Annual bonus	In the event of termination for a reason other than resignation, gross misconduct or material performance or conduct concerns, a Director may be entitled at the discretion of the Committee to a bonus in respect of the year in which his or her employment terminates. Any payment would be reduced on a pro-rata basis to reflect the portion of the bonus year worked and subject to an assessment of performance over the period.
Deferred Bonus Plan	The treatment of awards is governed by the rules of the relevant Deferred Bonus Plan. Individuals would be defined as good or bad leavers, with good leavers being those leaving under pre-determined circumstances such as retirement, redundancy (proved to the satisfaction of the Board), ill-health, death or disability (proved to the satisfaction of the Board), or those deemed by the Board in its absolute discretion to be good leavers given the circumstances surrounding termination. All other leavers would be bad leavers. If an individual is categorised as a good leaver then, at the Board's discretion, they will either continue to hold the award, which will vest on the normal vesting date, or the Board may use its discretion to accelerate vesting as soon as reasonably practicable following cessation. In both cases the number of shares would normally be pro-rated to reflect the reduced service period. If an individual is determined to be a bad leaver, their awards will lapse in full.
Long-term incentives	The treatment of long-term incentive awards is governed by the rules of the relevant incentive plan. Individuals would be defined as good or bad leavers, with good leavers being those leaving under pre-determined circumstances such as retirement, redundancy (proved to the satisfaction of the Board), ill-health, death or disability (proved to the satisfaction of the Board), or those deemed by the Board in its absolute discretion to be good leavers given the circumstances surrounding termination. All other leavers would be bad leavers. If an individual is categorised as a good leaver then, at the Board's discretion, they will either continue to hold the award, which will vest on the normal vesting date, or the Board may use its discretion to accelerate vesting as soon as reasonably practicable following cessation, and in each case reflecting the extent to which performance targets have been met or are likely to be met. In both cases the number of shares would normally be pro-rated to reflect the reduced service period. If an individual is determined to be a bad leaver, their awards will lapse in full.

Directors' Remuneration Policy

STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

When making remuneration decisions for Executive Directors, the Committee considers the wider economic environment and conditions within the Company. In particular, the Committee is sensitive to pay and employment conditions across the wider workforce and carefully considers the broader employee salary increase budget when making reward decisions for Directors.

The Committee considers wider industry benchmarking material in the context of monitoring its overall position on Director and employee pay. The Company carries out periodic employee engagement surveys that provide employees with the opportunity to share their views on a number of employment-related areas, including their remuneration. However, it has not consulted with employees in respect of its Directors' Remuneration Policy.

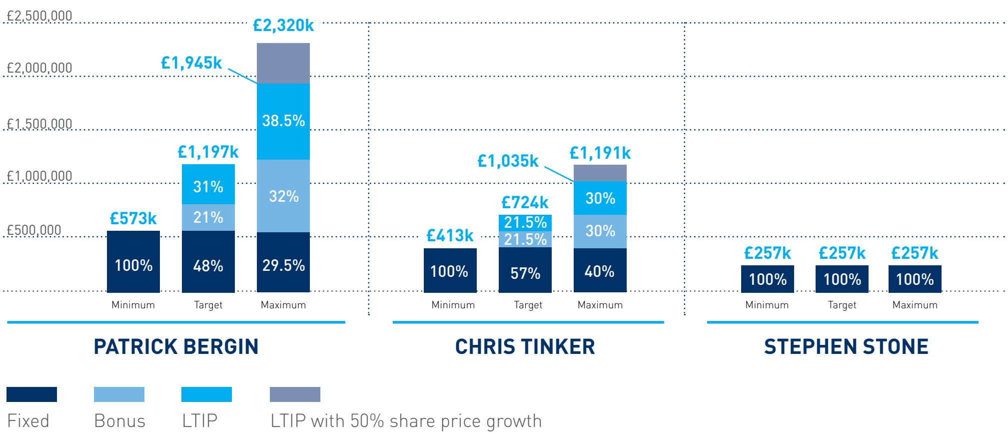
STATEMENT OF CONSIDERATION OF SHAREHOLDER VIEWS

The Committee takes into account the published remuneration guidelines and specific views of its shareholders and proxy voting agencies in considering the operation of the Remuneration Policy. The Committee consults with the Company's larger shareholders where considered appropriate regarding changes to the operation of our policy and when the policy is being reviewed and brought to shareholders for approval. The Committee will always consider specific concerns or matters raised at any time by shareholders.

Further information about shareholder views is set out in our section Statement of voting at Annual General Meeting on page 112.

ILLUSTRATION OF APPLICATION OF REMUNERATION POLICY IN 2019

The composition and structure of the remuneration package for Executive Directors in three performance scenarios is set out in the charts below.



Key and assumptions

Minimum: Fixed remuneration consisting of current annualised salary, pension (plan contribution or cash supplement) and benefits.

Target: Fixed remuneration as detailed above, plus 50% of salary as target bonus opportunity, and vesting of 50% of the maximum LTIP award.

Maximum: Fixed remuneration together with the maximum annual bonus opportunity of 125% (100% for Chris Tinker), and vesting of 100% of LTIP award representing 150% of salary (100% Chris Tinker). The graph also shows what would happen should Crest Nicholson's share price increase by 50%, increasing the value of LTIP awards.

Other than illustrating 50% share price growth, share price movement and dividend accrual are excluded.

Patrick Bergin's illustration assumes the potential salary increase in April 2019. Should this not be applied the resulting amounts will be lower than shown above.

Stephen Stone's illustration is based on his fee for part of the year as Executive Chairman and part of the year as Non-Executive Chairman, with no participation in 2019 bonus or LTIP schemes.

Annual Report on Remuneration

2018 REMUNERATION PAYABLE TO DIRECTORS (AUDITED)

The table below sets out 2018 remuneration for Executive and Non-Executive Directors. Notes that assist the understanding of the matters in the following table are set out thereafter.

£'000s	Base salary[1]		Benefits[2]		Annual bonus		Performance shares		Retirement benefits[5]		Total	
	2018	2017	2018	2017	2018	2017	2018[4]	2017[3]	2018	2017	2018	2017
EXECUTIVE												
Stephen Stone	394	541	17	39	-	566	132	871	52	133	**595**	2,150
Patrick Bergin[6]	435	363	24	22	-	392	74	488	51	54	**584**	1,319
Chris Tinker[7]	310	244	28	20	-	232	48	315	76	60	**462**	871
Robert Allen[8]	320	233	26	13	-	243	-	-	48	35	**394**	524
NON-EXECUTIVE												
Leslie Van De Walle[9]	66	-	-	-	-	-	-	-	-	-	**66**	-
Lucinda Bell[11]	22	-	-	-	-	-	-	-	-	-	**22**	-
Louise Hardy[10]	40	-	-	-	-	-	-	-	-	-	**40**	-
Sharon Flood	60	59	-	-	-	-	-	-	-	-	**60**	59
Octavia Morley	59	26	-	-	-	-	-	-	-	-	**59**	26
William Rucker[13]	55	140	-	-	-	-	-	-	-	-	**55**	140
Jim Pettigrew[12]	11	64	-	-	-	-	-	-	-	-	**11**	64
Pam Alexander[14]	20	51	-	-	-	-	-	-	-	-	**20**	51

1 **Salary and fees:** Where salaries are adjusted for benefits, which are provided via salary exchange, such salaries are quoted as the gross figure disregarding the effect of salary exchange.

2 **Benefits:** The figure shown includes the value of car benefit, private medical insurance, group income protection, personal accident, life assurance and an annual health check. Stephen Stone's benefits from 22nd March 2018 as Executive Chairman comprise private medical insurance and an annual health check only. In line with all other employees, Chris Tinker received a Long Service Award of £2,083.36 for 30 years' service in October 2018.

3 **2015 Long-Term Incentive Plan:** This figure has been restated to reflect the actual value of award at the time of vesting (being 489.20 pence on 27th February 2018).

4 **2016 Long-Term Incentive Plan:** This figure has been estimated based on the average share price of 357.12 pence over the three months from 1st August 2018 to 31st October 2018 as these awards are not exercisable until after the date of this report. These estimated figures will be restated for the actual share price on the date they first become exercisable in next year's report. The share price at the date of grant was £5.47 so the value of shares that have vested has fallen by 34.7%.

5 **Pension:** Salary supplement of 24.5% in respect of Stephen Stone (for the period to 22nd March 2018) and Chris Tinker; 15% in respect of Robert Allen and employer pension contribution of 15% reducing to 10% from 22nd March 2018 in respect of Patrick Bergin. No Directors have a prospective interest in a defined benefit scheme.

6 **Patrick Bergin:** Promoted from Chief Operating Officer to CEO on 22nd March 2018.

7 **Chris Tinker:** Appointed to the Board on 10th January 2017. The figures for 2017 have been time pro-rated to reflect Chris Tinker's time as a Board Director with the exception of the Performance shares value, which have not been pro-rated.

8 **Robert Allen:** Joined as Group Finance Director on 13th February 2017 and left the business on 16th October 2018. Further details regarding Robert's leaving arrangements can be found on page 106.

9 **Leslie Van de Walle:** Joined the Board as a Deputy Chairman and Senior Independent Director on 24th January 2018.

10 **Louise Hardy:** Joined the Board as a Non-Executive Director on 24th January 2018.

11 **Lucinda Bell:** Joined the Board as a Non-Executive Director on 25th May 2018.

12 **Jim Pettigrew:** Left the Board on 31st December 2017.

13 **William Rucker:** Left the Board on 22nd March 2018.

14 **Pam Alexander:** Left the Board on 22nd March 2018.

Annual Report on Remuneration

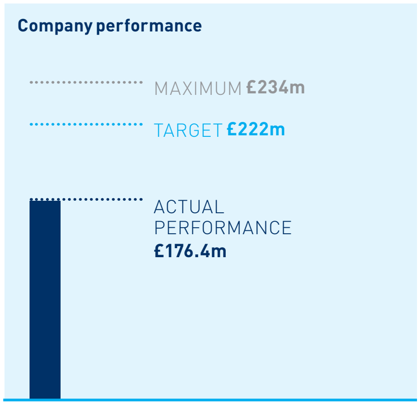
PAY FOR PERFORMANCE IN 2018

Annual bonus targets and outcomes

The 2018 bonus was based on PBT (85%) and customer service and quality (15%) with a 125% of salary bonus opportunity for Patrick Bergin and a 100% of salary bonus opportunity for Chris Tinker. Targets and outcomes are set out below.

No bonus is payable under the PBT element of the bonus and the Committee exercised its discretion not to pay the customer service and quality element of the bonus given wider financial performance of the business.

PBT (85%)



Patrick Bergin
Bonus Achieved (% of salary)
0%

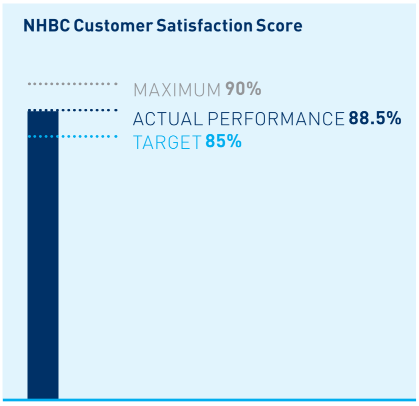
Chris Tinker
Bonus Achieved (% of salary)
0%

In 2018 50% of salary was payable for achieving target PBT with a straight line to maximum target.

Patrick Bergin: Maximum potential of salary achievable was 106.25% of salary

Chris Tinker: Maximum potential of salary achievable was 85% of salary

Customer service and quality (15%)



Patrick Bergin
Actual Performance
13.13%
Total Bonus following discretion applied by RemCo
0%

Chris Tinker
Actual Performance
10.50%
Total Bonus following discretion applied by RemCo
0%

In 2018 bonuses began to be accrued for achieving an NHBC Customer Satisfaction Score of 85% with a straight line to maximum target.

Patrick Bergin: Maximum potential of salary achievable was 18.75% of salary

Chris Tinker: Maximum potential of salary achievable was 15% of salary

Long-Term Incentive Plan targets and outcomes

The 2016 LTIP award, granted on 26th February 2016, was based on performance over the three years ended 31st October 2018 and will become exercisable from 26th February 2019, subject to the Director still being in employment. The table below sets out details of the performance targets and measures.

Measure	Weighting	Performance period	Threshold (25%)	Target (50%)	Maximum (100%)	Actual performance	% of measure achieved
PBT	50%	3 years ending 31/10/18	cumulative growth 16% nominal p.a.	cumulative growth 18% nominal p.a.	cumulative growth 20% nominal p.a.	10.8%	0
ROCE	50%	3 years ending 31/10/18	26%	28%	30%	28%	50

Cumulative PBT per share over the period of 226.2 pence is equivalent to an implied cumulative growth rate of 10.8% p.a. and resulted in no vesting for the PBT element of the award. The average annual ROCE over the three financial years ending 31st October 2018 was 28% which results in 50% of the ROCE element of the award vesting 25% of the total award. The Committee considers that this level of vesting is appropriate reflecting the overall performance over the last three years.

The resulting vesting will be as follows:

	Original number of shares in 2016 LTIP award	Overall percentage able to be exercised	Number of awards exercisable	Estimate of total value of awards exercisable[1]
Stephen Stone	148,397	25.0	37,099	£132,489.98
Patrick Bergin	83,089	25.0	20,772	£74,182.50
Chris Tinker	53,628	25.0	13,407	£47,879.49

1 This figure has been estimated based on the average share price of 357.12 pence over the three months from 1st August 2018 to 31st October 2018 as these awards are not exercisable until after the date of this report. These estimated figures will be restated for the actual share price on the date they first become exercisable in next year's report.

SCHEME INTERESTS AWARDED DURING THE FINANCIAL YEAR (AUDITED)

Executive Directors were invited to participate in the LTIP in 2018. In accordance with our Remuneration Policy, awards of 150% of salary were made to Patrick Bergin and Robert Allen (although Robert Allen's award subsequently lapsed on his cessation of employment), with 100% of salary to Chris Tinker.

The following table sets out the 2018 awards granted to Executive Directors under the Company's LTIP.

	Award	Type	Number of shares	Face value of award	% of salary	% of award receivable at threshold	Performance condition	Performance period
Patrick Bergin	Performance	Nil-cost options	150,898	£704,995.46[2]	150	25	50% EPS 50% average ROCE	Three years 1/11/17 – 31/10/20
Chris Tinker	Performance	Nil-cost options	63,616	£311,209.47[1]	100	25	50% EPS 50% average ROCE	Three years 1/11/17 – 31/10/20
Robert Allen[3]	Performance	Conditional Share Award	102,642	£502,124.66[1]	150	25	50% EPS 50% average ROCE	Three years 1/11/17 – 31/10/20

1 Face value calculated based on the closing middle market share price of 489.20 pence on 27th February 2018, the day before the grant.

2 Face value calculated based on the closing middle market share price of 467.20 pence on 21st March 2018, the day before the grant.

3 As previously reported, Robert Allen left the business on 16th October 2018 and the Committee determined that his awards should lapse in full upon leaving the company. Full leaving arrangements are detailed on page 106.

Annual Report on Remuneration

Vesting schedule for achieving performance conditions set for 2018 LTIP award

	EPS (FY20)	ROCE (average)
Maximum 100% vesting of that measure	92p	29%
Target 50% vesting of that measure	85.3p	27%
Threshold 25% vesting of that measure	82p	25%

The performance period is the three financial years ending 31st October 2020.

EPS (50%): Based on earnings per share in FY20.

ROCE (50%): Average return on capital employed over the three-year period.

DIRECTORS' SHAREHOLDINGS AND SHARE INTERESTS (AUDITED)

Share ownership plays a key role in the alignment of our Executives with the interests of shareholders, and helps to maintain commitment over the long term. Our Remuneration Policy requires our Executive Directors to build up and maintain a significant shareholding in Crest Nicholson of five times salary in the case of Stephen Stone and two times salary in the case of Patrick Bergin and Chris Tinker. All Directors meet the minimum shareholding requirements that apply to them.

DIRECTORS' SHAREHOLDINGS AT THE END OF THE FINANCIAL YEAR (AUDITED)

The table below sets out the number of shares and share awards held by Directors (including their connected persons where relevant) as at 31st October 2018. Between the end of the financial year and 29th January 2019, the outstanding share awards with performance conditions for Stephen Stone, Patrick Bergin and Chris Tinker reduced due to the partial lapsing of the 2016 LTIP awards.

	Shares held, including connected persons at 31st October 2018	Outstanding share awards at 31st October 2018 with performance conditions	Outstanding share awards at 31st October 2018 without performance conditions	Total share interests at 31st October 2018[1]	Shareholding[2] as a percentage of salary based on a share price of 340.8 pence at 31st October 2018
Stephen Stone	4,170,080	297,613	110,407	4,578,100	4,804
Patrick Bergin	1,214,753	337,387	68,660	1,620,800	907
Chris Tinker	671,767	172,785	54,450	899,002	767
Robert Allen[3]	11,029	-	16,382	27,411	20
Leslie Van de Walle	32,000	N/A	N/A	32,000	-
Lucinda Bell	11,650	N/A	N/A	11,650	-
Sharon Flood	11,445	N/A	N/A	11,445	-
Jim Pettigrew[4]	25,000	N/A	N/A	25,000	-
Pam Alexander[5]	4,777	N/A	N/A	4,777	-
William Rucker[6]	3,685,447	N/A	N/A	3,685,447	-

1 As set out on page 103 of the report, the resulting vesting level for the 2016 LTIP award will be 25%. This will result in the following total share interests as at 29th January 2019: Stephen Stone 4,466,802 (111,298 lapsing), Patrick Bergin 1,558,483 (62,317 lapsing), Chris Tinker 858,781 (40,221 lapsing).

2 Shareholding excludes outstanding share awards with performance conditions and includes outstanding share awards without performance conditions net of tax.

3 Shareholding as at date of leaving, 16th October 2018.

4 Shareholding as at date of leaving, 31st December 2017.

5 Shareholding as at date of leaving, 22nd March 2018.

6 Shareholding as at date of leaving, 22nd March 2018.

EXECUTIVE DIRECTORS' SCHEME INTERESTS AT THE END OF THE FINANCIAL YEAR (AUDITED)

The tables below set out the Executive Directors' outstanding shares awards under the LTIP, DBP and SAYE as at 31st October 2018. The DBP and SAYE awards do not have any performance criteria attached to them. The LTIP awards have performance criteria attached to them in accordance with the Remuneration Policy. There were no awards that vested or became capable of first exercise during the year that have not been exercised.

STEPHEN STONE[1]

	Outstanding share options/ awards at 31st October 2017	Date of grant	Granted	Exercised	Lapsed	Outstanding share options/ awards at 31st October 2018	Market price on award £	Exercise price £	Market price at exercise/ vesting £	Gain receivable[2] £	Date exercisable or capable of vesting	Expiry date
LTIP												
2015	178,083	27/2/15	-	178,083	-	-	4.45	Nil	4.75	845,894	27/2/18	26/2/25
2016	148,397	26/2/16	-	-	-	148,397	5.47	Nil	-	-	26/2/19	25/2/26
2017	149,216	28/2/17	-	-	-	149,216	5.44	Nil	-	-	28/2/20	27/2/27
DBP												
2015	47,778	27/2/15	7,028	54,806	-	-	4.45	Nil	4.75	260,329	27/2/18	26/2/25
2016	32,488	26/2/16	-	-	-	32,488	5.47	Nil	-	-	26/2/19	25/2/26
2017	34,484	28/2/17	-	-	-	34,484	5.44	Nil	-	-	28/2/20	27/2/27
2018	-	28/2/18	38,147	-	-	38,147	4.89	Nil	-	-	28/2/21	27/2/28
SAYE												
2016	3,146	1/8/16	-	-	-	3,146	3.56	2.86	-	-	1/9/19	29/2/20
2017	2,142	3/8/17	-	-	-	2,142	5.25	4.20	-	-	1/9/20	28/2/21

1 As noted in last year's Remuneration Report, as part of the Committee's succession planning process, Stephen Stone took on the role of Executive Chairman and will become Non-Executive Chairman in April 2019. On taking up the Non-Executive role, outstanding LTIP awards will, to the extent they become exercisable based on future performance, be scaled back pro rata for the proportion of the service period that Stephen Stone was an executive. The adjustments to the affected LTIP awards will be shown in next year's report.

The Committee has determined that outstanding DBP awards will vest on their original terms after three years, on the basis that the performance period was completed whilst he was an Executive Director and provided that he continues service as Chairman for the duration of the deferral period.

2 The gain receivable is calculated based on the sale price achieved of 475 pence on 7th March 2018, the date they were exercised.

PATRICK BERGIN

	Outstanding share options/ awards at 31st October 2017	Date of grant	Granted	Exercised	Lapsed	Outstanding share options/ awards at 31st October 2018	Market price on award £	Exercise price £	Market price at exercise/ vesting £	Gain receivable[1] £	Date exercisable or capable of vesting	Expiry date
LTIP												
2015	99,711	27/2/15	-	99,711	-	-	4.45	Nil	4.75	473,627	27/2/18	26/2/25
2016	83,089	26/2/16	-	-	-	83,089	5.47	Nil	-	-	26/2/19	25/2/26
2017	103,400	28/2/17	-	-	-	103,400	5.44	Nil	-	-	28/2/20	27/2/27
2018	-	22/3/18	150,898	-	-	150,898	4.67	Nil	-	-	22/3/21	21/3/28
DBP												
2015	26,751	27/2/15	3,934	30,685	-	-	4.45	Nil	4.75	145,754	27/2/18	26/2/25
2016	18,190	26/2/16	-	-	-	18,190	5.47	Nil	-	-	26/2/19	25/2/26
2017	18,748	28/2/17	-	-	-	18,748	5.44	Nil	-	-	28/2/20	27/2/27
2018	-	28/2/18	26,434	-	-	26,434	4.89	Nil	-	-	28/2/21	27/2/28
SAYE												
2016	3,146	1/8/16	-	-	-	3,146	3.56	2.86	-	-	1/9/19	29/2/20
2017	2,142	3/8/17	-	-	-	2,142	5.25	4.20	-	-	1/9/20	28/2/21

1 The gain receivable is calculated based on the sale price achieved of 475 pence on 7th March 2018, the date they were exercised.

Annual Report on Remuneration

CHRIS TINKER

	Outstanding share options/ awards at 31st October 2017	Date of grant	Granted	Exercised	Lapsed	Outstanding share options/ awards at 31st October 2018	Market price on award £	Exercise price £	Market price at exercise/ vesting £	Gain receivable[1] £	Date exercisable or capable of vesting	Expiry date
LTIP												
2015	64,356	27/2/15	-	64,356	-	-	4.45	Nil	4.75	305,691	27/2/18	26/2/25
2016	53,628	26/2/16	-	-	-	53,628	5.47	Nil	-	-	26/2/19	25/2/26
2017	55,541	28/2/17	-	-	-	55,541	5.44	Nil	-	-	28/2/20	27/2/27
2018	-	28/2/18	63,616	-	-	63,616	4.89	Nil	-	-	28/2/21	27/2/28
DBP												
2015	20,719	27/2/15	3,046	23,765	-	-	4.45	Nil	4.75	112,884	27/2/18	26/2/25
2016	14,675	26/2/16	-	-	-	14,675	5.47	Nil	-	-	26/2/19	25/2/26
2017	15,125	28/2/17	-	-	-	15,125	5.44	Nil	-	-	28/2/20	27/2/27
2018	-	28/2/18	19,362	-	-	19,362	4.89	Nil	-	-	28/2/21	27/2/28
SAYE												
2016	3,146	1/8/16	-	-	-	3,146	3.56	2.86	-	-	1/9/19	29/2/20
2017	2,142	3/8/17	-	-	-	2,142	5.25	4.20	-	-	1/9/20	28/2/21

1 The gain receivable is calculated based on the sale price achieved of 475 pence on 7th March 2018, the date they were exercised.

ROBERT ALLEN[1]

	Outstanding share options/ awards at 31st October 2017	Date of grant	Granted	Exercised	Lapsed	Outstanding share options/ awards at 31st October 2018	Market price on award £	Exercise price £	Market price at exercise/ vesting £	Gain receivable £	Date exercisable or capable of vesting	Expiry date
LTIP												
2017	179,227	28/2/17	-	-	179,227	-	5.44	Nil	-	-	28/2/20	27/2/27
2018	-	28/2/18	102,642	-	102,642	-	4.89	Nil	-	-	28/2/21	27/2/28
DBP												
2018	-	28/2/18	16,382	-	-	16,382	4.89	Nil	-	-	28/2/21	27/2/28
SAYE												
2017	4,285	3/8/17	-	-	4,285	-	5.25	4.20	-	-	1/9/20	28/2/21

1 Robert Allen left the business on 16th October 2018. Details of his leaving arrangements are set out below.

LOSS OF OFFICE PAYMENTS (AUDITED)

Robert Allen was given 12 months' notice by the Company and left the business on 16th October 2018. Remuneration terms on leaving were in line with the approved Remuneration Policy. Robert will receive a payment in lieu of notice (PILON) from the Company equivalent to base salary only, paid monthly from date of leaving until 16th October 2019, reflecting his contractual notice. Payments will be subject to offset against earnings elsewhere if Robert finds alternative employment, and are set out in the table below.

Payments made in FY18		**Payments expected to be made in FY19**	
PILON part-payment for period 17th October to 31st October 2018	£13,341	**PILON monthly payments for period 1st November 2018 to 30th September 2019**	£27,896 x 11 months
Accrued, but not taken, holiday	£9,013	**PILON part-payment for period 1st to 16th October 2019**	£14,554
FY18 Annual Bonus	£0		
Total paid in FY18	**£22,354**	**Total to be paid in FY19**	**£321,410**

The Committee determined that LTIP awards granted in 2016, 2017 and 2018 should lapse in full on leaving.

With respect to the deferred element of the part-year bonus earned in respect of the prior financial year, the Committee used its discretion to allow the unvested 2017 Deferred Bonus Plan awards to vest in full at the normal time (being February 2021).

All benefits ceased on 16th October 2018, except for family private medical cover which continues until 31st January 2019.

PAYMENTS TO PAST DIRECTORS (AUDITED)

Other than as mentioned on page 106, there were no payments made to past Directors this year.

EXTERNAL DIRECTORSHIPS

Subject to Board approval, Executive Directors are able to hold one non-executive position outside of the Group that complements and enhances their current role. Any fees may be retained by the Director.

Stephen Stone was appointed as a Non-Executive Director of the NHBC in October 2016, for which he receives and retains an annual fee of £43,000.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Details of Directors' service contracts and letters of appointment are set out below. In accordance with the UK Code, notice periods are set at one year or less:

	Date of current contract	Date elected or re-elected at AGM	Payment in lieu of notice	Notice (Executive/Company)
Stephen Stone	16th May 2018	22nd March 2018	Salary	6 months/6 months
Patrick Bergin	16th May 2018	22nd March 2018	Salary	9 months/9 months
Chris Tinker	10th January 2017	22nd March 2018	Salary	6 months/12 months

Details of the service contracts and letters of appointment for Non-Executive Directors:

	First appointment to Board	Date elected or re-elected at AGM	Unexpired term of appointment
Leslie Van de Walle	24th January 2018	22nd March 2018	2 years 3 months
Octavia Morley	1st May 2017	22nd March 2018	1 year 6 months
Sharon Flood	1st April 2015	22nd March 2018	2 years 5 months[1]
Louise Hardy	24th January 2018	22nd March 2018	2 years 3 months
Lucinda Bell	25th May 2018	N/A	2 years 7 months

1 Unexpired term of second three-year appointment.

Annual Report on Remuneration

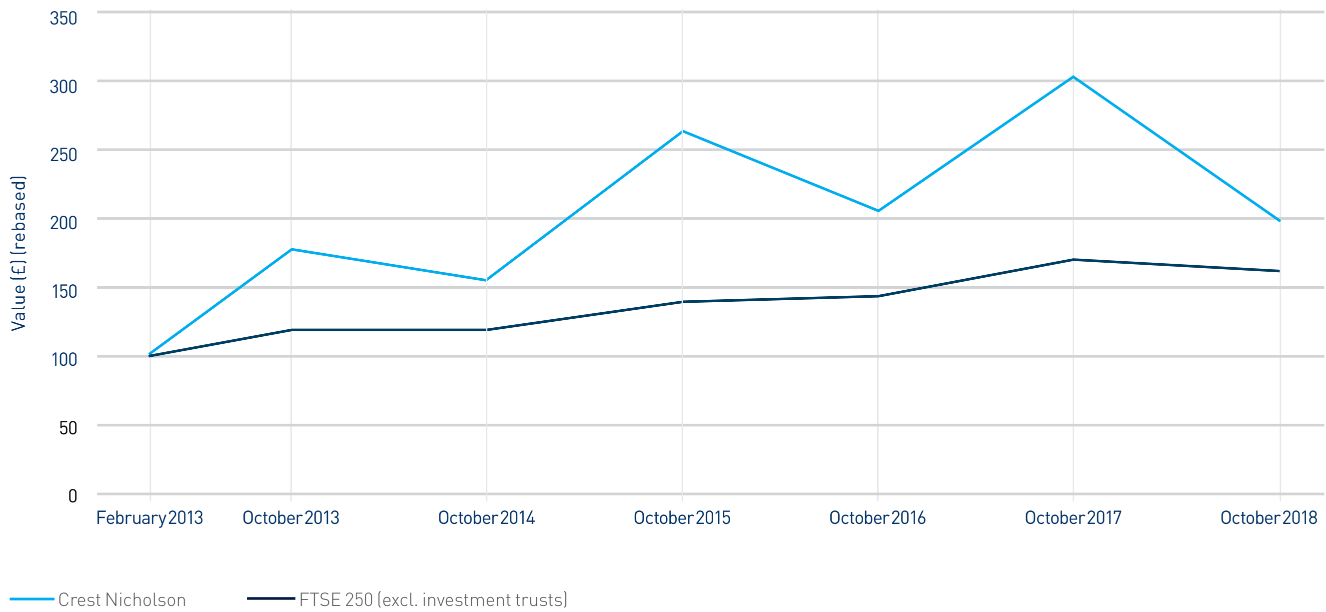
PERFORMANCE GRAPH AND TABLE

The graph below illustrates the Company's total shareholder return performance relative to the constituents of the FTSE 250 Index (excluding investment companies) from the start of conditional share dealing. This index has been selected because the Company is a member and we believe it is an appropriate comparator index. The Company formally joined that index on 24th June 2013.

The graph shows the performance of a hypothetical £100 invested over that period.

Total shareholder return

Source: Datastream (Thomson Reuters)



The other points plotted are the values at intervening financial year ends.

HISTORICAL CEO REMUNERATION

The table below sets out total CEO remuneration for 2018 and prior years, together with the percentage of maximum annual bonus awarded in that year and the percentage of maximum Long-Term Incentive Plan (LTIP) vested in that year. Past year total remuneration figures have been updated to reflect where LTIPs have been restated. Please see page 101 for more details.

£'000s	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
CEO total remuneration	705[4]	2,150	2,345	4,127	1,313	14,110[2]	1,043	979	809	528
Annual bonus – % of maximum	0%	84%	82%	82%	100%	100%	80%	76%	0%[1]	0%
LTIP award – % of maximum	25%	100%	100%	100%	N/A[3]	100%	N/A	N/A	N/A	N/A

1 Although a bonus was paid in 2010 equal to 50% of salary and included in the remuneration figure above for that year, there was no bonus scheme in place and the bonus payment was discretionary.

2 The total CEO salary and benefits remuneration in the 2013 year was £1,274,507 before inclusion of incentive plan shares and options included in the 2013 figure above.

3 No incentive plans vested or had a performance period ending in 2014.

4 Based on the pro-rated remuneration for Stephen Stone to 21st March 2018 and Patrick Bergin from 22nd March 2018.

PERCENTAGE CHANGE IN CEO REMUNERATION

The table below sets out the percentage change between 2017 and 2018 for salary, benefits and annual bonus for the CEO compared with employees generally. To ensure the comparability of these figures, and to minimise distortions, the employee group used for comparison does not include employees who joined or left employment during the comparison periods or who had been promoted or demoted. This seeks to avoid artificially increasing or decreasing the comparison by employee changes and is the methodology applied in past Remuneration Reports.

In turn, the figures used for the CEO are the blended salaries for Stephen Stone and Patrick Bergin in respect of their time serving as CEO during 2017/2018.

While the cost of providing the CEO's benefits decreased in comparison with the general workforce due to the underwriting conditions for the life assurance being calculated on an individual basis rather than on a blended basis, the overall value of benefits has increased in line with employees.

Change in CEO remuneration 2017/18

Base salary	Benefits	Annual bonus
↓ -8.07%	↓ -22.47%	↓ -100%

Change in employee remuneration

Base salary	Benefits	Annual bonus
↑ +4.66%	↑ +3.57%	↓ -31.7%

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows how staff remuneration costs compare to distributions made to shareholders in 2017 and 2018. The table holds data for all employees, including those who have been promoted in the year, had salary changes, are new starters or received incentive-based remuneration, as well as pay in respect of individuals who left in the year but had some service. Distributions to shareholders for 2018 and 2017 are made up of cash paid shareholders in each respective year.

The growth in headcount during FY18 as well as a competitive labour market has led to increases to pay generally over the course of the year. The level of distributions to shareholders has increased as well and will continue in line with our dividend policy.

The measures shown below are those specified by the applicable disclosure requirements.

Total spend on pay

2018	2017	£ Change	% Change
£66.3m	£58.5m	↑ £7.8m	↑ 13.3%

Distributions to shareholders by way of dividend and share buyback

2018	2017	£ Change	% Change
£84.7m	£75.9m	↑ £8.8m	↑ 11.6%

Statement of implementation of Remuneration Policy in the following financial year

In 2019, the Committee, as set out on pages 72 and 73 of the Governance section, intends to implement the Executive and Non-Executive Director remuneration policies as follows:

BASE SALARY

Executive Directors

		Fee (annual)	Change
Stephen Stone	In line with what has previously been stated, Stephen Stone's fee of £300,000 will decrease to £225,000 from 1st April 2019 on his transition from Executive Chairman to Non-Executive Chairman.	2018 **£300,000** 2019 **£225,000**	-25%
Patrick Bergin	As set out in our remuneration report last year, as part of a staged approach to increasing salary with experience and performance in role, Patrick Bergin's salary increased to £470,000 in March 2018 on his appointment to CEO and subject to the Committee's review of personal performance, this would increase to £520,000 in April 2019. The review will take place during March 2019.	2018 **£470,000** 2019 **£520,000**	+10.6%
Chris Tinker	There will be no change to annual salary in respect of FY19.	2018 **£311,212** 2019 **£311,212**	0%

Non-Executive Directors

Non-Executive Director fees for 2019 will be as follows, including any dates of joining or leaving if applicable:

	Role	2019 fee (annual)	2018 fee (annual)	Change
Stephen Stone	Non-Executive Chairman	£225,000 from April 2019	N/A	N/A - Change in role
Leslie Van de Walle	Deputy Chairman and Senior Independent Director	£85,000	£85,000	0%
Sharon Flood	Non-Executive Director	£51,500 base fee and £8,500 fee for Chairing the Audit & Risk Committee =£60,000	£51,500 base fee and £8,500 fee for Chairing the Audit & Risk Committee =£60,000	0%
Octavia Morley	Non-Executive Director	£51,500 base fee and £8,500 fee for Chairing the Remuneration Committee = £60,000	£51,500 base fee and £8,500 fee for Chairing the Remuneration Committee = £60,000	0%
Louise Hardy	Non-Executive Director	£51,500	£51,500	0%
Lucinda Bell	Non-Executive Director	£51,500	£51,500	0%

PENSION AND BENEFITS

Pension and benefits will be unchanged from FY18.

Director	Benefit as percentage of salary	Form of benefit
Patrick Bergin	10%	Pension contribution
Chris Tinker	24.5%	Cash in lieu

ANNUAL BONUS

A 125% of salary maximum bonus opportunity will apply to Patrick Bergin and 100% of salary maximum bonus opportunity to Chris Tinker.

The Remuneration Committee reviewed the performance measures for the 2019 bonus to ensure they supported the business strategy for the year ahead. The Committee agreed that a cash-based measure should be introduced to the bonus to reflect the importance of cash alongside profit for the year ahead. It was noted that customer service remains a critical KPI but it was also considered important to include a specific focus on health and safety. Accordingly, the following measures and weightings have been agreed for the FY19 annual bonus:

Performance measure	Rationale	Weighting (% of total bonus opportunity)
Financial		
Profit before tax	Ensures focus on business strategy to drive operational efficiencies	40%
Cash management	Ensures focus on delivering shareholder returns by prioritising cash flow	40%
Non-financial		
Customer service and quality	Reflects strategic priority of delivering high-quality homes and ensuring high levels of customer satisfaction	10%
Health and safety	Reflects the Company's continued commitment to providing a safe workplace for all employees	10%

For FY19 the Committee is introducing a threshold performance level of vesting in line with market practice. Bonuses in previous years have only started to pay when target performance was achieved. This can result in a 'cliff edge', where a high difference in bonus payment might be achieved for only a very small difference in performance.

The targets are considered to be commercially sensitive and will be disclosed in next year's Annual Remuneration Report to the extent that they do not remain commercially sensitive.

LONG-TERM INCENTIVE PLAN

Patrick Bergin will be granted an award with a face value of 150% of base salary. Chris Tinker will receive an award of 100% of salary. As per last year, no award will be made to Stephen Stone in 2019. The Committee has used its discretion under the LTIP rules to allow Stephen's 2016 and 2017 awards to vest at the usual time, pro-rated to the date of his transition to Non-Executive Chairman, being 1st April 2019.

We are continuing our approach of increased scrutiny of shareholder and consensus expectations in relation to incentive plan targets, ensuring incentive plan targets are appropriately stretching against internal and external forecasts. However, this is particularly difficult in the current market environment. The Committee has not yet established the performance targets for the LTIP awards and will continue to engage with shareholders around the setting of the targets and terms of any LTIP awards, disclosing the targets in the regulatory announcement for the grant once it is made.

ADVISORS

The Chief Executive and Group HR Director provide input to the Committee on matters concerning remuneration, and the Group Company Secretary acts as Secretary to the Committee; none are present when their own remuneration is determined.

External advice was received in the year from Korn Ferry (total fees £32,856). The Committee appointed Korn Ferry following a competitive selection process in 2018. Korn Ferry is a founder member of the Remuneration Consultants' Group, which operates a code of conduct in the UK.

The Committee is satisfied that the advice received by Korn Ferry in relation to executive remuneration matters during the year was objective and independent. The Group also uses Korn Ferry for salary comparison reports. The Committee believes that this in no way affects Korn Ferry's independence in advising the Committee.

Prior to Korn Ferry's appointment in June 2018 the Committee received advice from New Bridge Street (an AON Hewitt Company). Fees paid to New Bridge Street during the year amounted to £29,470. The Group also uses another division of AON, AON Risk Solutions, in connection with the placement of surety bonds, guarantees and some specialist insurance policies. The Group does not pay AON Risk Solutions directly, as they are remunerated by relevant insurers. In addition, the Group uses a division of AON Hewitt for elements of pension scheme advice; during the year the Group paid fees of £13,600 in respect of such advice. The Committee believes that this in no way affected New Bridge Street's independence when they were acting as advisors to the Remuneration Committee.

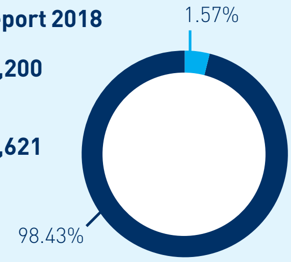
Fees paid to external remuneration advisors are typically charged on an hourly basis with costs for work agreed in advance where possible.

STATEMENT OF VOTING AT ANNUAL GENERAL MEETING

The tables below set out the votes received for the 2017 Directors' Remuneration Report at the 2018 AGM and Remuneration Policy at the 2017 AGM.

Directors' Remuneration Report 2018

Shares voted in favour	**190,799,200**
Shares voted against	**3,047,621**

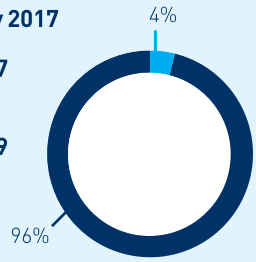


193,846,821
Total votes cast
(75.47% of issued share capital)

14,769
Votes withheld
(abstentions)

Directors' Remuneration Policy 2017

Shares voted in favour	**182,831,307**
Shares voted against	**7,357,089**



190,188,396
Total votes cast
(74.5% of issued share capital)

6,662
Votes withheld
(abstentions)

We have continued with our regular dialogue with leading shareholders on a range of matters, including remuneration. This year the Committee engaged with the Company's largest shareholders regarding the application of the Remuneration Policy in FY19, specifically the performance measures for the annual bonus and target setting for the LTIP. Further consultation will take place in FY19 as the Committee reviews the Directors' Remuneration Policy to prepare for the triennial binding policy vote at our 2020 AGM.

We welcome feedback and would encourage our shareholders to contact the Chair via the Company Secretary with their views or comments.

APPROVAL

This report and policy were approved by the Board of Directors on 29th January 2019 and signed on its behalf by

Octavia Morley
Chair of the Remuneration Committee

Compliance and other disclosures

DIRECTORS' REPORT

The Directors' Report for the year ended 31st October 2018 comprises pages 68 to 115 together with other sections of the Report as referenced below:

- A full description of the activities of the Group, including performance, important events affecting the Group in the year, indicative information in respect of the likely future developments in the Group's business, and matters relating to research and development, can be found in the Strategic Report on pages 12 to 67.
- The Group's exposure to credit risk, liquidity risk, market risk and interest rate risk is commented on in note 22 to the consolidated financial statements.

In accordance with the UK Financial Conduct Authority's Listing Rules, LR 9.8.4c, the information to be included in the Annual Integrated Report, where applicable, is set out in the Directors' Report.

ARTICLES OF ASSOCIATION

The Articles of Association regulate the internal affairs of the Company and cover such matters as Board and shareholder meetings, the appointment and replacement of Directors, the powers and duties of Directors, borrowing powers, and the issue and transfer of shares. The Articles of Association of the Company are available on our website, from Companies House or on request from the Company. The Articles of Association can be amended by special resolution of the shareholders.

POWERS OF DIRECTORS

Subject to the provisions of relevant statutes and the Company's Articles of Association, the Directors may exercise all the powers of the Company whether relating to the management of the business or not.

SHARE CAPITAL

At 31st October 2018 the Company had issued share capital of 256,920,539 ordinary shares of 5 pence. During the period 1,160,902 ordinary shares in the Company were issued as follows:

- 184,560 shares under the terms of the Company's deferred bonus plans (2017: 46,498)
- 940,586 shares under the terms of the Company's LTIP (2017: 933,342)
- 35,756 shares under the terms of the Company's Save As You Earn scheme at prices between 451 and 247 pence (2017: 416,224).

Rights attaching to shares and restrictions on transfer

Subject to the provisions of relevant statutes, and without prejudice to any rights attached to any existing shares or class of shares:

- Any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, subject to and in default of such determination, as the Board shall determine
- In any general meeting, on a show of hands, every member who is present in person shall have one vote, and on a poll every member present in person or by proxy shall have one vote for every share of which they are the holder
- There are no specific restrictions on transfer of shares, other than where these are imposed by laws or regulations.

The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Power to issue or buy back own shares

At the AGM held in March 2018 the Company's shareholders delegated the following powers in relation to the issue or market purchase by the Company of its shares:

- Authority to allot shares in the Company up to an aggregate nominal amount of £4,263,117, and this standard authority will expire on 30th April 2019 or at the conclusion of the next AGM, whichever is earlier
- Authority to make market purchases of its own shares up to a maximum aggregate number of 25,578,700, and this standard authority will expire on 30th April 2019 or at the conclusion of the next AGM, whichever is earlier.

The Directors will seek to renew the authorities at the AGM to be held on 26th March 2019. At 31st October 2018 the Group's Employee Benefit Trust ('EBT') held 138,313 ordinary shares in the Company for the purposes of satisfying awards under the Company's share and incentive plans. The EBT has waived rights to a dividend now and in the future.

Below sets out percentage interests in the ordinary share capital of the Company, disclosable under the Disclosure Guidance and Transparency Rules (DTR 5), that were notified to the Directors as at 31st October 2018. Changes between 31st October 2018 and 29th January 2019 are also shown below.

	As at 31st October 2018		As at 29th January 2019	
Shareholder	**Number of shares held**	**% of issued voting share capital**	**Number of shares held**	**% of issued voting share capital**
Woodford Investment Management	**38,746,133**	**15.08**	**38,746,133**	**15.08**
Standard Life Aberdeen	**22,199,232**	**8.64**	**22,199,232**	**8.64**
BlackRock, Inc	**20,009,569**	**7.78**	**20,479,537**	**7.97**
Norges Bank	**3,694,475**	**3.01**	**3,694,475**	**3.01**

Compliance and other disclosures

Profits and dividends

The Group's consolidated profit after taxation for the financial year ended 31st October 2018 was £142.8m (2017: £168.6m). The Directors propose to pay a dividend of 21.8 pence for the year ended 31st October 2018, which, together with the interim dividend of 11.2 pence per share paid in October 2018, brings the total dividends for the year to 33.0 pence (2017: 33.0 pence) per share.

Election and re-election of Directors

The Board may appoint any person to be a Director (so long as the total number of Directors does not exceed the limit prescribed in the Company's Articles of Association). Any such Director shall hold office until the next AGM and shall then be eligible for election.

All current Directors will submit themselves for re-election at the AGM to be held on 26th March 2019. As at the date of this report, the Board being proposed for election or re-election at the AGM on 26th March 2019 will consist of a Non-Executive Chairman, two Executive Directors and five Independent Non-Executive Directors.

The Board confirms that it has appropriate balance of skills, experience, independence and knowledge, and the Company should support the re-election of the Directors.

DIRECTORS' INDEMNITIES

It is the Company's practice to indemnify its Directors and Officers to the extent permitted by law and the Articles of Association against all costs, charges, losses, expenses and liabilities incurred in connection with any negligence, default, breach of duty or trust and any other liability incurred in the execution of their duties. In addition, the Company maintains Directors and Officers liability insurance for the Directors and Company Secretary.

The Company has granted qualifying pension scheme indemnities to the extent permitted by law to the directors of Crest Nicholson Pension Trustee Limited, which acts as trustee to the Company's defined benefit pension scheme.

POLICIES AND PROCEDURES

Policies and procedures, including operating and financial controls, are detailed in the Group's policies and procedures manuals. There are strict approval processes in relation to the acquisition of land and the commencement of development projects, and all sites go through a rigorous approval and assessment process at Group level. The Group operates a range of compliance, ethical and equal treatment policies, such as the Equality and Diversity Policy and the Anti-Bribery and Corruption Policy. The Group also operates a Whistleblowing Policy where Directors, management, staff and supply chain partners can report any concerns of malpractice, financial irregularity, breaches of any Group procedures, or other matters to an independent, free, confidential and anonymous helpline. The policy details the appropriate lines of communication and an escalation procedure has been established to ensure any report is dealt with effectively and efficiently. Both the Anti-Bribery and Corruption Policy and the Whistleblowing Policy are overseen by the Audit & Risk Committee and are available on our website.

Central functions

Strong central functions support the Board, Executive Management Team and divisional businesses. These functions include, among others, Legal and Company Secretarial, Sustainability, Group Finance, Human Resources, Health and Safety, IT and Marketing. Each central function contributes in its area to ensure compliance, oversight, support and education with the relevant legal and regulatory requirements. In addition, the principal treasury-related risks, decisions and control processes are managed by the Group Finance function.

Significant contracts

The Group does not have any contracts that are considered alone to be essential to the business of the Group. The Group does on occasion make significant purchases of goods and services in a particular discipline from a sole supplier where this is necessary for efficiency, practicality or value. However, it does so only after a detailed tender or appropriate selection process and in the context of the level of risk such sole supply might bring.

Change of control

The Group has in place a number of agreements with its lending banks, private placement note holders, joint venture partners, government authorities (such as the Homes and Communities Agency), private investors and customers, which contain certain termination rights that would have an effect on a change of control. The Directors believe these agreements to be commercially sensitive and consider that their disclosure would be seriously prejudicial to the Group; accordingly, they do not intend to disclose specific details of these. In addition, all the Group's share schemes contain provisions that, in the event of a change of control, would result in outstanding options and awards becoming exercisable, subject to the rules of the relevant schemes. There are no agreements between the Group and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

Greenhouse Gas Emissions Report

Global greenhouse gas (GHG) emissions data	1st November 2017 to 31st October 2018 Market-based	1st November 2017 to 31st October 2018 Location-based	1st November 2016 to 31st October 2017[2] Market-based	1st November 2016 to 31st October 2017[2] Location-based
Scope 1 emissions (tCO_2e)	7,285.42	7,285.42	5,813.91	5,813.91
Scope 2 emissions (tCO_2e)	2,407.97	2,402.61	1,457.25	1,957.88
Scope 1 and 2 combined emissions intensity[1] (tCO_2e/1,000 sq ft)	2.56	2.51	2.30	2.45

1 Normalised by 3,216,695 square feet – which comprises the sum of both full and, in proportion, partial build complete delivery during the financial year 2018 (1st November 2017 to 31st October 2018). In 2017 we delivered 3,167,360 square feet.

2 The total Scope 1 and intensity figures have been restated due to additional 2017 diesel consumption information provided to Crest Nicholson after the publication of its 2017 Annual Integrated Report and GHG emissions report.

Definitions applying: 'Emissions' means emissions into the atmosphere of a greenhouse gas, as defined in section 92 of the Climate Change Act 2008(a), which are attributable to human activity. 'Tonne of carbon dioxide equivalent' has the meaning given in section 93(2) of the Climate Change Act 2008.

METHODOLOGY

We have reported on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our operational control. We do not have responsibility for any emission sources that are not within our operational control.

In accordance with the Greenhouse Gas Protocol's Corporate Standard, we have reported both location- and market-based Scope 2 emissions. Location-based emissions are calculated using the UK Government's GHG Conversion Factors for company reporting. Market-based emissions are calculated using tariff specific factors from our energy suppliers, which may be more or less carbon intensive than the location-based factor.

During 2018, we began working with a utilities management company for our site and office energy and water supplies. The use of the management company has allowed us to increase the scope of our data, which now includes data from feeder pillars, landlord supplies, pumping stations and other unmetered supplies on site, such as traffic lights. The increase in scope is in addition to previously collected data from our plots and site cabins. As this management service came into place part way through the year, there were some supplies that had missing data. For these supplies, the use was estimated by using the average actual consumption for the same supply type within that specific division during the same quarter. Where this was not possible because no supplies of that type existed within a quarter and/or division, the consumption was estimated using the quarterly average across the group for the supply type in question. Business travel data was obtained from both fuel-card data and our expense claim system, whilst commuting data was collected via a business-wide survey.

For our operational joint ventures we have included GHG emissions from our own site compounds for the parts of the sites we are developing, and the homes delivered by ourselves.

We have used the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2018.

VERIFICATION STATEMENT BY VERCO ADVISORY SERVICES

Verco Advisory Services Ltd has reviewed Crest Nicholson's GHG calculations using the World Resources Institute (WRI) and World Business Council for Sustainable Development (WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard.

Based on its review of Crest Nicholson's GHG emissions inventory for 1st November 2017 to 31st October 2018, Verco has determined that there is no evidence that the GHG assertion is not materially correct. Furthermore, Verco finds no evidence that Crest Nicholson's assertion is not a fair and accurate representation of Crest Nicholson's actual emissions.

Verco finds that the information submitted by Crest Nicholson is consistent with the WRI/WBCSD GHG Protocol's methodology and reporting guidance, and conforms to generally accepted GHG accounting standards.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Appointment of auditor

PricewaterhouseCoopers LLP was re-appointed at the 2018 Annual General Meeting and is willing to seek re-appointment this year. Resolutions to re-appoint PricewaterhouseCoopers LLP will be proposed at the 2019 AGM. There have been no important events affecting the entity since the year end.

APPROVAL

The Directors' Report was approved by the Board of Directors on 29th January 2019 and signed on its behalf.

Kevin Maguire, Group Company Secretary

FINANCIAL STATEMENTS

CONTENTS

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Integrated 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 financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 101 Reduced Disclosure Framework, and applicable law). 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 Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRS as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'), have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company 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.

The Directors are also responsible for safeguarding the assets of the Group and Company 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 Integrated Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on page 72, confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework, and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

Having assessed the principal risks and the other matters discussed in connection with the Viability statement, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

On behalf of the Board

Patrick Bergin
Chief Executive
29th January 2019

Independent auditors' report to the members of Crest Nicholson Holdings plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- Crest Nicholson Holdings 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 31st October 2018 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Integrated Report (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31st October 2018; the Consolidated income statement and Consolidated statement of comprehensive income, the Consolidated cash flow statement, and the Consolidated 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

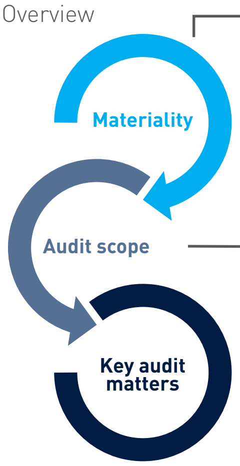
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities 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 the Directors' Report, we have provided no non-audit services to the Group or the Company in the period from 1st November 2017 to 31st October 2018.

Our audit approach

Overview



- Overall Group materiality: £8.8 million (2017: £10.4 million), based on 5% of profit before tax.
- Overall Company materiality: £2.2 million (2017: £3.0 million), based on 1% of total assets.

- We conducted an audit of the complete financial information of three of the six geographical housebuilding operating Divisions, together with the Crest Nicholson Regeneration Division. Specific balances and financial line items were audited at additional reporting units based on their size.
- The reporting units where we performed an audit of complete financial information accounted for 60% of Group profit before tax 'PBT' and 67% of Group revenue.

- Margin forecasting and recognition.
- Valuation of inventory at the lower of cost and NRV.

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 at the Group and significant component level 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 and Company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, pensions legislation and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, 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.

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
Margin forecasting and recognition Refer to note 1 (Accounting policies) and pages 87 to 88 (Significant issues). The Group's margin recognition framework is based on the margin forecast for each development. These margins, which drive the recognition of costs as each unit is sold, reflect estimated selling prices and costs for each development. This process is effectively a method of allocating the total forecast costs, representing both land and build costs, of a development over each individual unit. There is a risk that the margin forecast for the site and the margin subsequently recognised on each unit sale is not appropriate and reflective of the actual final profit that will be recognised on a development. We consider the accuracy and completeness of forecasting and the appropriateness of margin recognition across the life of the site to be the most significant financial reporting risk for the Group. This is due to the high level of Management estimation involved in ensuring the accuracy and completeness of an individual site forecast. In addition sales prices and build costs are inherently uncertain as they are influenced by changes in external market factors, such as the availability and affordability of mortgages, changes in customer demand due to market uncertainty or build cost inflation. Management have implemented internal controls to assess site acquisition and commencement forecasts and to monitor the ongoing costs and sales prices within these forecasts. There is a risk that these controls do not operate effectively in ensuring the accuracy and completeness of the forecasts. Certain developments in the London Division were a particular focus this year as a result of the additional build costs and control failures identified by Management and as discussed in the Audit & Risk Committee Report on pages 86 to 90.	Where possible, we evaluated and tested Management's forecasting and monitoring controls for the developments, noting that Management's forecasts are prepared, monitored and updated in accordance with the stated controls. Where controls were not relied on in the London Division we substantively tested a sample of the inputs to the Stack. We assessed the appropriateness of certain underlying assumptions within the forecasts, including sales prices, land costs and build costs. We also assessed Management's overall historic accuracy of the forecasts by analysing the changes to margins in the year and adjustments made to margins through cost of sales. We checked, by recalculating the margins, that the system correctly calculates the margin following each cost or sales price amendment made by Management, noting no exceptions. We checked the consistent application of the margin recognition framework through analysing the margins recognised on specific sites compared to the developments' forecast margin. We obtained evidence for a sample of adjustments made to margins through cost of sales. We performed specific audit procedures in respect of the additional build costs and control failures identified by Management at the London Division to verify that this was isolated to the London Division and that the forecast costs to complete had been appropriately reflected in the individual site Stacks at the year end.

Key audit matter	How our audit addressed the key audit matter
Valuation of inventory at the lower of cost and NRV Refer to note 1 (Accounting policies) and pages 87 to 88 (Significant issues) Inventory is the most significant balance on the Consolidated statement of financial position and is held at the lower of cost and net realisable value ("NRV"). The NRV of each development is forecast and monitored as described in the key audit matter above and is therefore subject to the same key assumptions. Due to the influence of the same external factors and the cyclical nature of the housing industry, with periodic downturns in customer demand, there is a risk that the calculation of the developments' NRV, being the margin the development is forecast to make over its lifecycle based upon forecast sales prices and build costs, may be subject to estimation error leading to inventory being held at the incorrect value and an unrecorded impairment charge.	We obtained a detailed understanding of Management's process for preparing a forecast for each development, consistent with the risk associated with the margin forecasting and recognition process. The site forecast, which is used to recognise margin in the Consolidated income statement, also gives the NRV of the site. Consistent with the risk associated with the margin forecasting and recognition, where applicable, we tested Management's controls over the approval of the initial forecasts and the monitoring of updates required to the forecasts over the course of the development's life. We tested the appropriateness and accuracy of the inputs into the development forecasts, for example by comparing sales prices and costs to market research, quotes and purchase orders. We understood the composition of the inventory balance, specifically the level and ageing of completed but unreserved units, to confirm if completed stock is held at the appropriate value. We assessed the level of post year end reservations and compared forecast sales prices to recent sales prices achieved or external market data to determine if there were any valuation issues at the year end. We evaluated the margins on sites where we identified potential valuation issues, for example due to specific issues or underperformance, we discussed the valuation with Management and corroborated it to other audit evidence. Based upon the procedures performed we did not identify any sites where we determined that material impairments were required in the year.

We determined that there were no key audit matters applicable to the Company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate. The Group, for management reporting purposes, is structured into six geographically based housebuilding operating Divisions, Crest Nicholson Regeneration Division, which specialises in larger scale partnerships with public and private vendors and a Strategic Projects Division, which focuses on sourcing sites for longer-term development. The development of certain sites are carried out through various joint arrangements. These joint arrangements are equity accounted or a share of the joint revenues, expenses, assets and liabilities are recognised as appropriate.

The Group financial statements are ultimately a consolidation of 16 reporting units representing the Group's operating businesses within these geographically-based Divisions and the centralised functions. The reporting units vary in size and we identified four reporting units, being three of the six core geographically based housebuilding operating Divisions, and the Crest Nicholson Regeneration Division, which required an audit of their complete financial information due to their size.

These four reporting units were all audited by the Group engagement team. The reporting units where we performed an audit of the complete financial information accounted for 60% of the Group's profit before tax and 67% of the Group's revenue. Audits of specific financial statement line items were performed on certain balances in a further five reporting units, to provide additional coverage over certain financial statement line items, such as revenue and inventory, including the Strategic Projects Division (as this is where the strategic sites, including options, are held), two of the remaining three geographically-based Divisions, the Group's overhead company and the Group's financing company (specifically external financing, which is held by this entity).

Our audit work at these reporting units, together with the additional procedures performed at Group level on the consolidation, tax, pensions and the 'other financial assets', gave us the evidence we needed for our opinion on the Group and Company financial statements as a whole.

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 materiality	£8.8 million (2017: £10.4 million).	£2.2 million (2017: £3.0 million).
How we determined it	5% of profit before tax.	1% of total assets.
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, is a key performance indicator for the Group and is a generally accepted auditing benchmark.	We believe that total assets is the primary measure used by the shareholders in assessing the performance of the entity and is a generally accepted auditing benchmark.

For each reporting unit in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across the full scope reporting units was £5.3 million to £8.7 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £441,100 (Group audit) (2017: £517,500) and £111,950 (Company audit) (2017: £147,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
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 31st October 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

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 89 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 63 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 117, 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 86 to 90 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on page 117, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 23rd March 2015 to audit the financial statements for the year ended 31st October 2015 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31st October 2015 to 31st October 2018.

Sonia Copeland (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered accountants and statutory auditors
London, 29th January 2019

Consolidated income statement

For the year ended 31st October 2018

	Note	2018 £m	2017 £m
REVENUE		**1,136.1**	**1,043.2**
Cost of sales		(881.4)	(768.3)
GROSS PROFIT		**254.7**	**274.9**
Administrative expenses		(64.9)	(63.3)
OPERATING PROFIT	**3**	**189.8**	**211.6**
Finance income	5	3.0	4.3
Finance expense	5	(15.0)	(12.6)
Net finance expense		(12.0)	(8.3)
Share of post-tax results of joint ventures using the equity method	11	(1.4)	3.7
PROFIT BEFORE TAX		**176.4**	**207.0**
Income tax expense	6	(33.6)	(38.4)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS		**142.8**	**168.6**
Earnings per ordinary share			
Basic	8	55.7p	66.1p
Diluted	8	55.4p	65.1p

Consolidated statement of comprehensive income

For the year ended 31st October 2018

	Note	2018 £m	2017 £m
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS		**142.8**	**168.6**
Other comprehensive income/(expense):			
Items that will not be reclassified to the consolidated income statement:			
Actuarial gains of defined benefit schemes	14	1.3	1.4
Change in deferred tax on actuarial gains of defined benefit schemes	13	(0.2)	(1.8)
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR NET OF INCOME TAX		**1.1**	**(0.4)**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY SHAREHOLDERS		**143.9**	**168.2**

The notes on pages 127 to160 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31st October 2018

	Note	Share capital £m	Share premium account £m	Retained earnings £m	Total equity £m
BALANCE AT 1ST NOVEMBER 2016		**12.7**	**73.0**	**633.5**	**719.2**
Profit for the year attributable to equity shareholders		-	-	168.6	168.6
Actuarial gains of defined benefit schemes		-	-	1.4	1.4
Change in deferred tax on actuarial gains of defined benefit schemes		-	-	(1.8)	(1.8)
Total comprehensive income for the year		-	-	168.2	168.2
Transactions with shareholders:					
Equity-settled share-based payments	14	-	-	4.6	4.6
Deferred tax on equity-settled share-based payments	13	-	-	0.5	0.5
Share capital issued	21	0.1	1.1	-	1.2
Dividends paid	7	-	-	(75.9)	(75.9)
BALANCE AT 31ST OCTOBER 2017		**12.8**	**74.1**	**730.9**	**817.8**
Profit for the year attributable to equity shareholders		-	-	142.8	142.8
Actuarial gains of defined benefit schemes		-	-	1.3	1.3
Change in deferred tax on actuarial gains of defined benefit schemes		-	-	(0.2)	(0.2)
Total comprehensive income for the year		-	-	143.9	143.9
Transactions with shareholders:					
Equity-settled share-based payments	14	-	-	2.5	2.5
Deferred tax on equity-settled share-based payments	13	-	-	(1.0)	(1.0)
Share capital issued	21	-	0.1	-	0.1
Dividends paid	7	-	-	(84.7)	(84.7)
BALANCE AT 31ST OCTOBER 2018		**12.8**	**74.2**	**791.6**	**878.6**

The notes on pages 127 to 160 form part of these financial statements.

Consolidated statement of financial position

As at 31st October 2018

	Note	2018 £m	2017 £m
ASSETS			
Non-current assets			
Intangible assets	9	29.0	29.0
Property, plant and equipment	10	4.8	4.2
Investments in joint ventures	11	1.2	1.8
Other financial assets	12	7.2	11.4
Deferred tax assets	13	6.0	11.1
Retirement benefit surplus	14	2.5	-
Trade and other receivables	15	59.0	52.5
		109.7	**110.0**
Current assets			
Inventories	16	1,186.2	1,086.5
Other financial assets	12	3.3	3.5
Trade and other receivables	15	93.9	102.7
Cash and cash equivalents	17	184.3	175.2
		1,467.7	**1,367.9**
TOTAL ASSETS		**1,577.4**	**1,477.9**
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	18	(168.3)	(140.1)
Trade and other payables	19	(143.3)	(101.5)
Deferred tax liabilities	13	(0.5)	-
Retirement benefit obligations	14	-	(7.2)
Provisions	20	(0.9)	(2.1)
		(313.0)	**(250.9)**
Current liabilities			
Interest-bearing loans and borrowings	18	(1.9)	(1.9)
Trade and other payables	19	(371.0)	(387.9)
Current income tax liabilities		(11.2)	(18.0)
Provisions	20	(1.7)	(1.4)
		(385.8)	**(409.2)**
TOTAL LIABILITIES		**(698.8)**	**(660.1)**
NET ASSETS		**878.6**	**817.8**
EQUITY			
Share capital	21	12.8	12.8
Share premium account	21	74.2	74.1
Retained earnings		791.6	730.9
TOTAL EQUITY		**878.6**	**817.8**

The notes on pages127 to 160 form part of these financial statements.
These financial statements were approved by the Board of Directors on 29th January 2019.

On behalf of the Board
P Bergin
Director

Consolidated cash flow statement

For the year ended 31st October 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS		**142.8**	**168.6**
Adjustments for:			
Depreciation	10	1.9	1.5
Net finance expense	5	12.0	8.3
Share-based payment expense	14	2.5	4.6
Share of post-tax loss/(profit) of joint ventures using the equity method	11	1.4	(3.7)
Income tax expense	6	33.6	38.4
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL AND PROVISIONS		**194.2**	**217.7**
Decrease/(increase) in trade and other receivables		2.5	(26.8)
Increase in inventories		(99.7)	(150.7)
Increase in trade and other payables		20.6	36.4
Contribution to retirement benefit obligations		(9.0)	(9.0)
CASH GENERATED FROM OPERATIONS		**108.6**	**67.6**
Interest paid		(10.3)	(7.8)
Taxation paid		(36.0)	(36.5)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**62.3**	**23.3**
Cash flows from investing activities			
Purchases of property, plant and equipment		(2.5)	(2.5)
Decrease in other financial assets		5.2	5.1
Dividends received from joint ventures		0.8	5.0
Interest received		0.4	0.7
NET CASH INFLOW FROM INVESTING ACTIVITIES		**3.9**	**8.3**
Cash flows from financing activities			
Repayment of bank and other borrowings		(1.9)	(161.8)
Proceeds from new loans		30.0	100.0
Debt arrangement and facility fees		(0.6)	(2.2)
Dividends paid	7	(84.7)	(75.9)
Net proceeds from the issue of shares		0.1	1.2
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		**(57.1)**	**(138.7)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**9.1**	**(107.1)**
Cash and cash equivalents at the beginning of the year		175.2	282.3
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**17**	**184.3**	**175.2**

The notes on pages127 to 160 form part of these financial statements.

Notes to the consolidated financial statements

1 ACCOUNTING POLICIES

Basis of preparation

Crest Nicholson Holdings plc (the 'Company') is a public limited company incorporated, listed and domiciled in England and Wales. The address of the registered office is Crest Nicholson Holdings plc, Crest House, Pyrcroft Road, Chertsey, Surrey KT16 9GN. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group') and include the Group's interest in jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its Group.

The financial statements are presented in pounds sterling and amounts stated are denominated in millions (£m).

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the IFRS Interpretations Committee ('IFRS IC') as adopted by the European Union (together 'EU IFRS'), and with those parts of the Companies Act 2006 applicable to companies reporting under EU IFRS, and have been prepared on the historical cost basis except for other financial assets, which are stated at their fair value. The parent company financial statements are presented on pages 161 to 165.

The preparation of financial statements in conformity with IFRS requires management to make assumptions and judgements that affect the application of policies and reported amounts within the financial statements. Assumptions and judgements are based on experience and other factors that management consider reasonable under the circumstances. Actual results may differ from these estimates.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

The Group's activities are financed by a combination of ordinary shares, bank borrowings, senior loan notes and cash in hand. At 31st October 2018 the Group held cash and cash equivalents of £184.3m (2017: £175.2m) and cash resources net of borrowings of £14.1m (2017: £33.2m). The Group has operated within its banking covenants throughout the year and has bank facilities of £250.0m expiring in June 2023, with £180.0m remaining available for drawdown under such facilities at 31st October 2018. Therefore, having assessed the principal risks and all other relevant matters, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements of the Group.

There were no new standards, amendments or interpretations that were adopted by the Group and effective for the first time for the financial year beginning 1st November 2017 that had a material impact on the Group.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

Consolidation

The consolidated financial statements include the financial statements of Crest Nicholson Holdings plc, its subsidiary undertakings and the Group's share of the results of joint ventures and joint operations. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

(a) Subsidiaries

Subsidiaries are entities in which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The profits and losses of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used by the Group to account for the acquisition of subsidiaries that are a business under IFRS 3. On acquisition of a subsidiary, all of the subsidiary's separable, identifiable assets and liabilities existing at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities and the resulting gains and losses that arise after the Group has gained control of the subsidiary are charged to the post-acquisition consolidated income statement or consolidated statement of comprehensive income. Accounting policies of acquired subsidiaries are changed where necessary, to ensure consistency with policies adopted by the Group.

Acquisitions of subsidiaries which do not qualify as a business under IFRS 3 are accounted for as an asset acquisition rather than a business combination. Under such circumstances the fair value of the consideration paid for the subsidiary is allocated to the assets and liabilities purchased based on their relative fair value at the date of purchase. No goodwill is recognised on such transactions.

(b) Joint ventures

A joint venture is a contractual arrangement in which the Group and other parties undertake an economic activity that is subject to joint control and these parties have rights to the net assets of the arrangement. The Group reports its interest in joint ventures using the equity method of accounting. Under this method, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's share of results of the joint venture after tax is included in a single line in the consolidated income statement. Where the share of losses exceeds the Group's interest in the entity and there is no obligation to fund these losses, the carrying amount is reduced to nil and recognition of further losses is discontinued, unless there is a long-term receivable due from the joint venture in which case, if appropriate, the loss is recognised against the receivable. Unrealised gains on transactions between the Group and its joint ventures are eliminated on consolidation. Accounting policies of joint ventures have been changed where necessary, to ensure consistency with policies adopted by the Group.

(c) Joint operations
A joint operation is a joint arrangement that the Group undertakes with other parties, in which those parties have rights to the assets and obligations of the arrangement. The Group accounts for joint operations by recognising its share of the jointly controlled assets and liabilities and income and expenditure on a line-by-line basis in the consolidated statement of financial position and consolidated income statement.

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired entity at the date of the acquisition. Goodwill arising on acquisition of subsidiaries and businesses is capitalised as an asset. The goodwill balance has been allocated to the strategic land holdings within the Group. The Group expects to benefit from the strategic land holdings for a period of 22 years from 24th March 2009, when the goodwill arose on the acquisition of Castle Bidco Limited. Goodwill is assessed for impairment at each reporting date. Any impairment loss is recognised immediately in the consolidated income statement.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Revenue and profit recognition
Revenue comprises the fair value of the consideration received or receivable, net of value added tax, rebates and discounts. Revenue does not include the proceeds received on the disposal of properties taken in part exchange against a new property as they are incidental to the main revenue generating activities of the group. Surpluses or deficits on the disposal of part exchange properties, which are bought in at their forecast recoverable amount, are recognised directly within gross profit. Proceeds received on the disposal of part exchange properties, which is not included in revenue is £46.6m (2017: £32.6m).

Revenue is recognised on house and apartment sales at legal completion. For affordable housing sales and other sales in bulk, revenue is recognised upon practical completion and when substantially all risks and rewards of ownership are transferred to the buyer.

Revenue is recognised on land sales and commercial property sales from the point of unconditional exchange of contracts. Where unconditional exchange of contracts has occurred but the Group still has significant obligations to perform under the terms of the contract, such as infrastructure works, revenue is recognised when the obligations are performed.

Profit is recognised on a plot-by-plot basis, by reference to the margin forecast across the related development site. Due to the development cycle often exceeding one financial year, plot margins are forecast, taking into account the allocation of site-wide development costs such as infrastructure, and estimates required for the cost to complete such developments.

Provision is made for any losses foreseen in completing a site as soon as they become apparent.

Operating leases
Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease rentals are charged to the consolidated income statement or work-in-progress on a straight line basis over the period of the lease.

Income and deferred tax
Income tax comprises current tax and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on taxable profit for the year and any adjustment to tax payable in respect of previous years. Taxable profit is profit before tax ('PBT') per the consolidated income statement after adjusting for income and expenditure that is not subject to tax, and for items that are subject to tax in other accounting periods. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the consolidated statement of financial position date.

Deferred tax is provided in full on temporary 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. 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. Deferred tax liabilities are recognised for all temporary differences. Deferred tax is calculated using tax rates that have been substantively enacted by the consolidated statement of financial position date.

Dividends
Final and interim dividend distribution to the Company's shareholders is recorded in the Group's financial statements in the period in which they are approved by the Company's shareholders.

Employee benefits
(a) Pensions
The Group operates a defined benefit ('DB') scheme (closed to new employees since October 2001 and to future service accrual since April 2010) and also makes payments into a defined contribution scheme for employees.

In respect of the DB scheme, the net surplus 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 rate used to discount the benefits accrued is the yield at the consolidated statement of financial position 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 consolidated income statement; service costs are spread systematically over the lives of employees and financing costs are recognised in the periods in which they arise. The Group recognises expected scheme gains and losses via the consolidated income statement and actuarial gains and losses are recognised in the period they occur directly in other comprehensive income, with associated deferred tax.

The retirement benefit surplus/(obligation) recognised in the statement of financial position represents the excess/(deficit) of the fair value of the scheme's assets over the present value of scheme liabilities, with a net surplus recognised to the extent that the employer can gain economic benefit as set out in the requirements of IFRIC 14.

Payments to the defined contribution schemes are accounted for on an accruals basis.

(b) Share-based payments
The fair value of equity-settled, share-based compensation plans is recognised as an employee expense with a corresponding increase in equity. The fair value is measured as at the date the options are granted and the charge amended if vesting does not take place due to non-market conditions not being met. The fair value is spread over the period during which the employees become unconditionally entitled to the shares and is adjusted to reflect the actual number of options that vest. At the consolidated statement of financial position date, if it is expected that non-market conditions will not be satisfied, the cumulative expense recognised in relation to the relevant options is reversed. The proceeds received are credited to share capital (nominal value) and share premium when the options are exercised.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition. Depreciation is calculated to write off the cost of the assets on a straight line basis to their estimated residual value over its expected useful life at the following rates:

Fixtures and fittings	10%
Computer equipment and software	20% to 33%

The asset residual values, carrying values and useful lives are reviewed on an annual basis and adjusted if appropriate at each statement of financial position date.

Inventories
Inventories are stated at the lower of cost and net realisable value ('NRV'). Work in progress and completed buildings including show homes comprise land under development, undeveloped land, land option payments, direct materials, sub-contract work, labour costs, site overheads, associated professional fees and other attributable overheads, but excludes interest costs.

Part exchange properties inventories are held at the lower of cost and net realisable value, which includes an assessment of costs of management and resale.

Options purchased in respect of land are recognised initially at cost within inventories. Regular reviews are completed for impairment in the value of these options, and provisions made accordingly to reflect loss of value. The impairment reviews consider the period elapsed since the date of the purchase of the option, given that the option contract has not been exercised at the review date. Further, the impairment reviews consider the remaining life of the option, taking into account any concerns over whether the remaining time available will allow successful exercise of the option.

Land inventories and the associated land payables are recognised in the consolidated statement of financial position from the date of unconditional exchange of contracts. Where land is purchased on deferred settlement terms then the land and the land payable are discounted to their fair value. The land payable is then increased to the settlement value over the period of financing, with the financing element being charged as interest expense through the consolidated income statement.

Trade and other receivables
Trade and other receivables are stated at their fair value at the date of recognition and subsequently at amortised cost less impairment. A provision for impairment of trade receivables is made when there is evidence that the Group will not be able to collect the amounts due. Non-current receivables are discounted to present value when the impact of discounting is deemed to be material, with any discount to nominal value being recognised in the consolidated income statement as interest income over the duration of the deferred payment.

Other financial assets
Other financial assets (which comprise shared equity receivables) are classified as being available for sale and initially recognised at fair value. Changes in fair value relating to the expected recoverable amount are recognised in the consolidated income statement; changes in fair value arising from a change of discount factor are recognised in other comprehensive income and accumulated in equity, until the asset is divested. On disposal of these assets, the difference between the carrying value and the consideration received plus cumulative fair value movements previously recognised in equity is recognised in the consolidated income statement.

Cash and cash equivalents
Cash and cash equivalents are cash balances in hand and in the bank, and are carried in the statement of financial position at nominal value.

Interest-bearing loans and borrowings
Borrowings are recognised initially at fair value, net of direct transaction costs. Finance charges are accounted for on an accruals basis in the consolidated 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 or included within interest accruals.

Trade and other payables
Trade and other payables are generally not interest bearing and are stated at their nominal amount which is considered to be their fair value. Trade and other payables on deferred terms are initially recorded at their fair value, with the discount to nominal value being charged to the consolidated income statement as interest expense over the duration of the deferred payment.

Provisions
A provision is recognised in the consolidated statement of financial position 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, and the amount can be reliably estimated.

Critical accounting estimates and judgements
The preparation of the consolidated financial statements under IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses and related disclosures.

In applying the Group's accounting policies, the Directors have made no individual judgements that have a significant impact on the financial statements. Areas of significant estimation are described on the following page.

Estimates and associated assumptions affecting the financial statements are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years.

Management considers the key sources of estimation uncertainty that has a risk of causing a material adjustment to the carrying value of assets and liabilities are described below.

Carrying value of inventories
Inventories of work in progress, completed buildings including show homes and part exchange inventories are stated in the consolidated statement of financial position at the lower of cost and NRV. On a monthly basis management update estimates of future revenue and expenditure for each development. Future revenue and expenditure may differ from estimate which could lead to an impairment of inventory. Where forecast revenues are lower than forecast expenditure an inventory provision is made. This provision may be reversed in subsequent periods if there is evidence of improved revenue or reduced expenditure forecast on a development. If forecast revenue was 10% lower on sites within our short term portfolio as at 31st October 2018, the impact on profit before tax would have been £4.3m.

Estimation of development profitability
Due to the nature of development activity and, in particular, the length of the development cycle, the Group has to allocate site-wide development costs such as infrastructure between units being built and/or completed in the current year and those for future years. It also has to make estimates of the cost to complete such developments. These estimates are reflected in the margin recognised on developments in relation to sales recognised in the current and future years. There is a degree of inherent uncertainty in making such estimates. The Group has established internal controls that are designed to ensure an effective assessment of estimates is made of the costs to complete developments. The Group considers estimates of the costs to complete on longer term sites, which typically have higher up front shared infrastructure costs to have greater estimation uncertainty than sites of shorter duration with less infrastructure requirements. If forecast costs were 10% higher on sites which contributed to the year ended 31st October 2018 and which are forecast to still be in production beyond the year ending 31st October 2020, profit before tax in the current year would have been £14.9m lower.

Other accounting estimates

Management considers other accounting estimates made in the financial statements to be related to:

Goodwill
The carrying value of goodwill is substantially dependent on the ability of the Group to successfully progress its strategic land holdings. Changes to the planning regime could undermine current assumptions and estimates about the sites which are expected to be successfully developed.

Other financial assets
Other financial assets comprise shared equity receivables. The estimation of the fair value of future anticipated cash receipts takes into account the Directors' view of an appropriate discount rate, future house price movements, receipt timings and default rates. Directors review the assumptions at each period end. See note 12 for additional details.

Pension liabilities
In determining the valuation of the pension scheme assets and liabilities, the Group utilises the services of an actuary. The actuary uses key assumptions being inflation rate, life expectancy, discount rate and pension growth rates, which are dependent on factors outside the control of the Group. To the extent that such assumptions differ to that expected, the pension liability would change. See note 14 for additional details.

Share-based payments
Assumptions are made in determining the fair value of employee services received in exchange for the grant of options under share-based payments awards at the date of grant, and of the likely outcome of non-market conditions.

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 1st November 2017, none of which has had a significant effect on the Group's financial statements:

- → Amendment to IAS 7 Statement of Cash Flows. Effective for the period beginning 1st November 2017.
- → Amendment to IAS 12 Income Taxes. Effective for the period beginning 1st November 2017.
- → Annual improvements 2015. Effective for the period beginning 1st November 2017.

Standards and interpretations in issue but not yet effective, or yet to be endorsed by the European Union

The below standards and amendments have not been applied in these financial statements:

- → IFRS 9 Financial Instruments and the amendment on general hedge accounting. Effective for the period beginning 1st November 2018.
- → IFRS 15 Revenue from Contracts with Customers and the amendment. Effective for the period beginning 1st November 2018.
- → IFRS 16 Leases. Effective for the period beginning 1st November 2019.
- → Amendment to IAS 28 Long-term interests in associates and joint ventures. Effective for the period beginning 1st November 2018.
- → Amendment to IAS 40 Investment Property. Effective for the period beginning 1st November 2018.
- → Amendment to IFRS 2 Share-based Payments. Effective for the period beginning 1st November 2018.
- → Amendment to IFRS 4 Insurance Contracts regarding the implementation of IFRS 9 Financial Instruments. Effective for the period beginning 1st November 2018.
- → IFRIC 23 Uncertainty over income tax treatments. Effective for the period beginning 1st November 2019.
- → Annual improvements 2016. Effective for the period beginning 1st November 2018.
- → Annual improvements 2017. Effective for the period beginning 1st November 2019.

The above standards and the amendments will be adopted in the financial statements in the year they become effective and have not been adopted early.

IFRS 9 addresses the classification, measurement, impairment and recognition of financial assets and financial liabilities. The Group has reviewed its existing classification and confirmed that most financial assets will continue to be recognised at amortised cost, with other financial assets being classified at fair value through the profit or loss.

The Group expects the principal area of impact to be the new provision approach it introduces for bad debt provisions. The Group expects the impact on Group profits to be immaterial, as it does not have a significant exposure to credit loss. The majority of debtors are mainly other quoted housebuilders or providers of social housing which are government funded. The Group reviews the future recoverability of debtors in assessing exposure to credit loss.

IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. The new standard is effective for the Group for the 2019 financial year commencing on 1st November 2018.

The Group currently recognises revenue on open market houses and apartments on legal completion, which is the same date as handover, and this will not change under IFRS15.

The Group currently recognises revenue on affordable and other sales in bulk on practical completion and when substantially all risks and rewards of ownership are transferred to the buyer for housing units and on unconditional exchange of contracts where there is a separate associated land sale contract. Under IFRS 15 revenue recognition on affordable and other sales in bulk is dependent on freehold legal title being passed to the investor as it is considered that upon transfer of freehold title that the investor controls the work in progress. Where freehold legal title is passed to the investor, revenue is recognised on the upfront sale of land and then on the housing units as the build of the related units progresses. Where freehold legal title is not passed to the investor revenue is not recognised on any upfront sale of land and the revenue on the housing units and sale of land is recognised at handover of completed units to the investor.

The Group currently recognises revenue on land sales at unconditional exchange of contracts. Under IFRS 15 revenue is recognised when title passes to the buyer.

The Group currently recognises revenue on commercial property sales from the point of unconditional exchange of contracts. Where unconditional exchange of contracts has occurred but the Group still has significant obligations to perform under the terms of the contract, such as infrastructure works, revenue is recognised as the obligations are performed. Under IFRS 15 revenue recognition on commercial property sales is dependent on freehold legal title being passed to the purchaser, as it is considered that upon transfer of freehold title that the purchaser controls the work in progress. Where freehold legal title is passed to the purchaser, revenue is recognised on any upfront sale of land and then on the development revenue as the build of the related commercial units progresses. Where freehold legal title is not passed to the purchaser revenue is not recognised on any upfront sale of land and the revenue on the commercial property is recognised at handover of completed commercial unit to the purchaser.

The Group does not currently recognise revenue on the proceeds received on the disposal of properties taken in part exchange against a new property as they are incidental to the main revenue generating activities of the Group. Surpluses or deficits on the disposal of part exchange properties, which are bought in at their forecast recoverable amount, are recognised directly within gross profit. Proceeds received on the disposal of part exchange properties, which is not included in revenue, are £46.6m (2017: £32.6m). Profit / loss on the disposal of part exchange properties is not material to the results of the Group. This treatment will be unchanged by IFRS 15 as the Group does not consider properties taken in part exchange to be an output of the business, and so are outside the scope of IFRS 15.

The Group currently does not recognise revenue on the disposal of freehold reversions, being treated as a reduction in land cost. IFRS 15 brings these into the scope of revenue.

The Group currently does not recognise revenue on specification upgrades paid for by the purchaser or on the cost of specification upgrades offered to the purchaser as part of the purchase price. IFRS 15 brings both of these into the scope of revenue.

The comparative results to be included in the 2019 financial statements will be restated using the full retrospective transition method.

The expected IFRS 15 conversion impact below is principally driven by the timing difference between the date of unconditional exchange of contracts and the date of the transfer of legal title on certain land sales, offset by a net increase in housing revenue due to previously unrecognised revenue on freehold disposals and specification upgrades:

→ Net assets of the Group as at 1st November 2017 will be reduced by up to £2m

→ Profit after tax for the year ended 31st October 2018 will reduce by between £4m and £6m. This consists of a decrease in revenue of between £13m and £15m, a decrease in operating profit of between £6m and £8m and a decrease in tax expense of between £1m to £2m

→ Inventories increase by between £21m and £23m

→ Contract assets/payments on account decrease by between £29m and £31m

→ Net assets of the Group as at 1st November 2018 will be reduced by between £5m and £7m

IFRS 16 replaces IAS 17 Leases, and related interpretations, and requires lessees to recognise a lease liability and asset for virtually all right of use lease assets; certain short-term leases and leases of low-value assets can apply an optional exemption. The Group's lease commitments will be brought onto the consolidated statement of financial position along with an associated asset, subject to applying the short term lease exemption where applicable. The operating lease rental expense currently charged to operating profit in the consolidated income statement will be replaced by an amortisation charge for the right of use assets recognised in operating profit and an interest charge on the lease liabilities recognised in finance costs. An assessment of the full effect of IFRS 16 will be completed during the year ending 31st October 2019.

2 SEGMENTAL ANALYSIS

The Executive Management Team, which is accountable to the Board, has been identified as the Chief Operating Decision Maker for the purposes of determining the Group's operating segments. The Executive Management Team approves investment decisions, allocates Group resources and performs divisional performance reviews. The Group operating segments are considered to be its divisions (including the regional divisions, as well as the Major Projects and Strategic Land divisions), each of which has its own management board. All divisions are engaged in residential-led, mixed-use developments in the United Kingdom and therefore, having regard to the aggregation criteria in IFRS 8, the Group has one reportable operating segment.

3 OPERATING PROFIT

Operating profit from continuing activities is stated after charging:

	2018 £m	**2017** £m
Inventories expensed in the year	864.9	768.8
Staff costs (note 4)	71.3	67.2
Depreciation (note 10)	1.9	1.5
Operating lease rentals		
Land and buildings	2.5	2.4
Other operating lease rentals	1.7	1.6

Auditors' remuneration	£000	£000
Audit of these consolidated financial statements	61	52
Audit of financial statements of subsidiaries pursuant to legislation	283	164
Other non-audit services	56	43

Fees payable to the Group's auditors for non-audit services included £56,000 (2017: £34,000) in respect of an independent review of the half-year results and £nil (2017: £8,500) for professional fees relating to £100m senior loan notes that were issued during the prior year.

In addition to the above, PricewaterhouseCoopers LLP provides audit services to the Crest Nicholson Group Pension and Life Assurance Scheme and Group joint ventures. The fees associated with the services to the Crest Nicholson Group Pension and Life Assurance Scheme are £23,000 (2017: £18,940) and are met by the assets of the scheme, and the fees associated with services to Group joint ventures are £30,750 (2017: £16,480).

4 STAFF NUMBERS AND COSTS

(a) Average monthly number of persons employed by the Group

	2018 Number	**2017** Number
Development	1,016	905

The Directors consider all employees of the Group to be employed within the same category of Development.

(b) Staff costs (including Directors and key management)

	2018 £m	**2017** £m
Wages and salaries	58.2	52.9
Social security costs	7.6	7.4
Other pension costs	3.0	2.3
Share-based payments (note 14)	2.5	4.6
	71.3	**67.2**

(c) Key management remuneration

	2018 £m	2017 £m
Salaries and short-term employee benefits	2.8	4.2
Other pension costs	0.1	0.1
Share-based payments	1.1	2.0
	4.0	**6.3**

Key management comprises the Executive Management Team (which includes the Executive Directors of the Board) and Non-Executive Directors as they are considered to have the authority and responsibility for planning, directing and controlling the activities of the Group.

(d) Directors' remuneration

	2018 £m	2017 £m
Salaries and short-term employee benefits	2.0	3.1
Payments to Directors for loss of office	0.3	-
Other pension costs	0.1	0.1
Share-based payments	0.7	1.6
	3.1	**4.8**

Further information relating to Directors' remuneration, incentive plans, share options, pension entitlement and the highest paid Director, appears in the Directors' Remuneration Report, which is presented on pages 92 to 112.

5 FINANCE INCOME AND EXPENSE

	2018 £m	2017 £m
Finance income		
Interest income	1.8	2.2
Interest on amounts due from joint ventures	0.4	0.6
Interest on other financial assets (note 12)	0.8	1.5
	3.0	**4.3**
Finance expense		
Interest on bank loans	10.7	8.4
Revolving credit facility issue costs	0.7	0.7
Interest on deferred land payables	3.0	2.6
Net interest on defined benefit pension plan obligations (note 14)	0.6	0.9
	15.0	**12.6**
NET FINANCE EXPENSE	**12.0**	**8.3**

6 INCOME TAX EXPENSE

	2018 £m	2017 £m
Current tax		
UK corporation tax on profits for the year	29.8	35.1
Adjustments in respect of prior periods	(0.6)	0.5
TOTAL CURRENT TAX	**29.2**	**35.6**
Deferred tax		
Origination and reversal of temporary differences in the current year	4.4	2.8
TOTAL DEFERRED TAX (NOTE 13)	**4.4**	**2.8**
TOTAL TAX IN INCOME STATEMENT	**33.6**	**38.4**

The effective tax rate for the year is 19.00% (2017: 18.60%), which is the same as (2017: lower) the standard rate of UK corporation tax of 19.00% (2017: 19.42%). The Group expects this profile to continue in future years.

	2018 £m	2017 £m
Reconciliation of tax charge in the year		
PROFIT BEFORE TAX	**176.4**	**207.0**
Tax on profit at 19.00% (2017: 19.42%)	33.5	40.2
Effects of:		
Expenses not deductible for tax purposes	1.3	0.1
Enhanced tax deductions	(0.6)	(2.4)
Adjustments in respect of prior periods	(0.6)	0.5
TOTAL TAX IN INCOME STATEMENT	**33.6**	**38.4**

Expenses not deductible for tax purposes include business entertaining and other permanent disallowable expenses. Enhanced tax deductions include items for which, under tax law, a corporation tax deduction is available in excess of the amount shown in the consolidated income statement. Examples are share schemes, defined benefit pension payments and land remediation enhanced allowances. Adjustments in respect of prior periods reflect the difference between the estimated consolidated income statement tax charge in the prior year and that of the actual tax outcome. On 1st April 2017, the Worldwide Debt Cap tax legislation was replaced by the Corporate Interest Restriction legislation. This does not result in any restriction in tax deductibility of interest and has no effect on the tax position for the year.

7 DIVIDENDS

Dividends recognised as distributions to equity shareholders in the year:	2018 £m	2017 £m
Prior year final dividend per share of 21.8p (2017: 18.5p)	56.0	47.2
Current year interim dividend per share of 11.2p (2017: 11.2p)	28.7	28.7
	84.7	**75.9**

Dividends declared as distributions to equity shareholders in the year:	2018 £m	2017 £m
Final dividend for the year ended 31st October 2018 of 21.8p (2017: 21.8p)	56.0	55.6

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 26th March 2019, and in accordance with IAS 10 Events after the Reporting Period has not been included as a liability in these financial statements, and there are no income tax consequences.

8 EARNINGS PER ORDINARY SHARE

Basic earnings per share is calculated by dividing profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year. For diluted earnings per share, the weighted average number of shares is increased by 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 difference in value between the market value of shares and the share option exercise price. The market value of shares has been calculated using the average ordinary share price during the year. Only share options which have met their cumulative performance criteria have been included in the dilution calculation. The earnings and weighted average number of shares used in the calculations are set out below.

	Earnings £m	Weighted average number of ordinary shares Number	Per share amount Pence
Year ended 31st October 2018			
Basic earnings per share	142.8	256,199,678	55.7
Dilutive effect of share options	-	1,508,898	
Diluted earnings per share	142.8	257,708,576	55.4
Year ended 31st October 2017			
Basic earnings per share	168.6	254,966,699	66.1
Dilutive effect of share options	-	4,104,811	
Diluted earnings per share	168.6	259,071,510	65.1

9 INTANGIBLE ASSETS

	2018 £m	2017 £m
Goodwill		
Cost at beginning and end of the year	47.7	47.7
Impairment at beginning and end of the year	(18.7)	(18.7)
AT BEGINNING AND END OF THE YEAR	**29.0**	**29.0**

Goodwill arose on the acquisition of Castle Bidco Limited on 24th March 2009. Goodwill is allocated to acquired strategic land holdings (cash-generating units) within the Group. The recoverable amount is equal to the higher of value in use and fair value less costs of disposal. The Directors have therefore assessed value in use, being the present value of the forecast cash flows from the expected development and sale of properties on the strategic land. The forecast looks at the likelihood and scale of permitted development, forecast build costs and forecast selling prices, using a pre-tax discount rate of 9.05% (2017: 9.05%), covering a period of 22 years from 2009 and based on current market conditions. The period used in this assessment represents the estimated time it will take to obtain planning and build out on the remaining acquired strategic land holdings. The recoverable value of the cash-generating units is substantially in excess of the carrying value of goodwill. Sensitivity analysis has been undertaken by changing discount rates, profit margins and other variables applicable to the cash-generating units. None of the sensitivities, either individually or combined, resulted in the fair value of the goodwill being reduced to below its current book value amount.

10 PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings £m	Computer equipment and software £m	Total £m
Cost			
At 1st November 2016	2.2	9.7	11.9
Additions	0.6	1.9	2.5
Disposals	(0.7)	(4.5)	(5.2)
At 31st October 2017	2.1	7.1	9.2
Additions	0.1	2.4	2.5
Disposals	-	(0.2)	(0.2)
AT 31ST OCTOBER 2018	**2.2**	**9.3**	**11.5**
Accumulated depreciation			
At 1st November 2016	0.9	7.8	8.7
Charge for the year	0.2	1.3	1.5
Disposals	(0.7)	(4.5)	(5.2)
At 31st October 2017	0.4	4.6	5.0
Charge for the year	0.2	1.7	1.9
Disposals	-	(0.2)	(0.2)
AT 31ST OCTOBER 2018	**0.6**	**6.1**	**6.7**
Net book value			
AT 31ST OCTOBER 2018	**1.6**	**3.2**	**4.8**
AT 31ST OCTOBER 2017	1.7	2.5	4.2
AT 1ST NOVEMBER 2016	1.3	1.9	3.2

The Group has contractual commitments for the acquisition of property, plant and equipment of £nil (2017: £nil).

11 INVESTMENTS

Investments in joint ventures

Below are the joint ventures that the Directors consider to be material to the Group.

- **Kitewood (Cossall) Limited:** In April 2015 the Group acquired a 50% interest in the ordinary share capital of Kitewood (Cossall) Limited, which was set up to develop a 122 apartment site in London. The development was build and sales complete in 2017. The Company warranties the apartments for a period of two years after legal completion.
- **Bonner Road LLP:** In August 2015 the Group entered into a partnership agreement with Your Lifespace Limited to procure and develop a site in London. Following a successful residential planning application, the LLP is forecast to start construction in 2019. The LLP will be equally funded by both parties, who will receive interest on loaned sums. The Group performs the role of project manager, for which it receives a project management fee.
- **Crest A2D (Walton Court) LLP:** In January 2016 the Group entered into a partnership agreement with A2 Dominion Limited to procure and develop a site in Surrey. The LLP submitted a residential planning application in March 2017, with construction forecast to start early 2019; full planning consent was issued on the 21st December 2018. The development will be equally funded by both parties by way of interest-free loans. The Group performs the role of project manager, for which it receives a project management fee.

Total investments in joint ventures	2018 £m	2017 £m
Kitewood (Cossall) Limited	0.2	1.0
Bonner Road LLP	-	-
Crest A2D (Walton Court) LLP	0.8	0.7
Other non-material joint ventures	0.2	0.1
Total investments in joint ventures	**1.2**	**1.8**

All joint ventures have their place of business in Great Britain, are 50% owned and are accounted for using the equity method, in line with the prior year.

Summarised financial information for joint ventures

The tables below provide financial information for joint ventures that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant joint ventures and not Crest Nicholson Holdings plc's share of those amounts.

	Kitewood (Cossall) Limited		Bonner Road LLP		Crest A2D (Walton Court) LLP		Other non-material joint ventures		TOTAL	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
SUMMARISED STATEMENT OF FINANCIAL POSITION										
Current assets										
Cash and cash equivalents	2.1	6.2	0.9	1.0	0.3	0.1	1.4	0.1	4.7	7.4
Inventories	-	0.7	58.2	55.4	23.9	22.4	7.6	-	89.7	78.5
Other current assets	0.3	0.3	0.1	-	-	0.1	0.5	0.3	0.9	0.7
Non-current assets	-	-	-	-	-	-	0.1	0.1	0.1	0.1
Current liabilities										
Financial liabilities	(0.2)	-	-	-	(2.3)	(2.5)	-	-	(2.5)	(2.5)
Other current liabilities	(1.8)	(3.9)	(0.2)	-	(0.4)	(0.1)	(2.5)	(0.4)	(4.9)	(4.4)
Non-current liabilities										
Financial liabilities	-	-	(65.5)	(60.6)	(19.9)	(18.6)	(6.8)	-	(92.2)	(79.2)
Other non-current liabilities	-	(1.3)	-	-	-	-	-	-	-	(1.3)
NET ASSETS/(LIABILITIES)	**0.4**	**2.0**	**(6.5)**	**(4.2)**	**1.6**	**1.4**	**0.3**	**0.1**	**(4.2)**	**(0.7)**
RECONCILIATION TO CARRYING AMOUNTS										
Opening net assets/(liabilities) at 1st November 2017	2.0	1.2	(4.2)	(2.2)	1.4	-	0.1	0.1	(0.7)	(0.9)
Profit/(loss) for the year	-	10.7	(2.3)	(2.0)	(0.7)	(1.2)	0.2	-	(2.8)	7.5
Dividends paid	(1.6)	(9.9)	-	-	-	-	-	-	(1.6)	(9.9)
Capital contribution reserve	-	-	-	-	0.9	2.6	-	-	0.9	2.6
CLOSING NET ASSETS/(LIABILITIES) AT 31ST OCTOBER 2018	**0.4**	**2.0**	**(6.5)**	**(4.2)**	**1.6**	**1.4**	**0.3**	**0.1**	**(4.2)**	**(0.7)**
Group's share in closing net assets/(liabilities) at 31st October 2018	0.2	1.0	(3.3)	(2.1)	0.8	0.7	0.2	0.1	(2.1)	(0.3)
Losses recognised against receivable from joint venture	-	-	3.3	2.1	-	-	-	-	3.3	2.1
GROUP'S SHARE IN JOINT VENTURE	**0.2**	**1.0**	**-**	**-**	**0.8**	**0.7**	**0.2**	**0.1**	**1.2**	**1.8**
Amount due to Crest Nicholson Group (note 15)	0.2	-	29.6	28.6	11.1	10.6	3.6	-	44.5	39.2

	Kitewood (Cossall) Limited		Bonner Road LLP		Crest A2D (Walton Court) LLP		Other non-material joint ventures		TOTAL	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
SUMMARISED INCOME STATEMENT										
Revenue	-	44.8	-	-	-	-	0.9	-	0.9	44.8
Expenditure	-	(31.0)	-	(0.1)	-	-	(0.7)	-	(0.7)	(31.1)
OPERATING PROFIT / (LOSS) BEFORE FINANCING COSTS	**-**	**13.8**	**-**	**(0.1)**	**-**	**-**	**0.2**	**-**	**0.2**	**13.7**
Interest expense	-	(0.5)	(2.3)	(1.9)	(0.7)	(1.2)	-	-	(3.0)	(3.6)
Income tax expense	-	(2.6)	-	-	-	-	-	-	-	(2.6)
PROFIT/(LOSS) FOR THE YEAR	**-**	**10.7**	**(2.3)**	**(2.0)**	**(0.7)**	**(1.2)**	**0.2**	**-**	**(2.8)**	**7.5**
Group's share in joint venture profit/(loss) for the year	-	5.3	(1.2)	(1.0)	(0.4)	(0.6)	0.2	-	(1.4)	3.7

Group commitments to joint ventures at 31st October 2018 and 31st October 2017 is equal to the amounts due to the Crest Nicholson Group. The Group is committed to provide such funding to joint ventures as may be required by the joint venture in order to carry out the project if called.

Subsidiary undertakings

The subsidiary undertakings that are significant to the Group and traded during the year are set out below. The Group's interest is in respect of ordinary issued share capital that is wholly owned and all the subsidiary undertakings are incorporated in Great Britain and included in the consolidated financial statements.

Subsidiary	Nature of business
Castle Bidco plc	Holding company (including Group financing)
Crest Nicholson plc	Holding company
Crest Nicholson Operations Limited	Residential and commercial property development

A full list of the Group's undertakings including subsidiaries and joint ventures is set out in note 26.

12 OTHER FINANCIAL ASSETS

	2018 £m	2017 £m
At beginning of the year	14.9	18.5
Disposals	(5.2)	(5.1)
Imputed interest	0.8	1.5
AT END OF THE YEAR	**10.5**	**14.9**

	2018 £m	2017 £m
Of which:		
Non-current assets	7.2	11.4
Current assets	3.3	3.5
	10.5	**14.9**

Other financial assets are carried at fair value and categorised as level 3 (inputs not based on observable market data) within the hierarchical classification of IFRS 13 Revised.

Other financial assets comprise shared equity loans secured by way of a second charge on the property. The loans can be repaid at any time within the loan agreement, the amount of which is dependent on the market value of the asset at the date of repayment. The assets are recorded at fair value, being the estimated amount receivable by the Group, discounted to present day values.

The fair value of future anticipated cash receipts takes into account Directors' views of an appropriate discount rate (incorporating purchaser default rate), future house price movements and the expected timing of receipts. These assumptions are given below and are reviewed at each year end.

	2018	2017
Assumptions		
Discount rate, incorporating default rate	10.5%	10.5%
House price inflation for the next three years	3.0%	3.0%
Timing of receipt	8 to 15 years	8 to 15 years

	2018 Increase assumptions by 1%/year £m	2017 Decrease assumptions by 1%/year £m
Sensitivity – effect on value of other financial assets (less)/more		
Discount rate, incorporating default rate	(0.2)	0.2
House price inflation for the next three years	0.2	(0.2)
Timing of receipt	(0.5)	0.3

The difference between the anticipated future receipt and the initial fair value is charged over the estimated deferred term to financing, with the financial asset increasing to its full expected cash settlement value on the anticipated receipt date. The imputed interest credited to financing for the year ended 31st October 2018 was £0.8m (2017: £1.5m).

At initial recognition, the fair values of the assets are calculated using a discount rate, appropriate to the class of assets, which reflects market conditions at the date of entering into the transaction. The Directors consider at the end of each reporting period whether the initial market discount rate still reflects up-to-date market conditions. If a revision is required, the fair values of the assets are remeasured at the present value of the revised future cash flows using this revised discount rate. The difference between these values and the carrying values of the assets is recorded against the carrying value of the assets and recognised directly in the consolidated statement of comprehensive income.

13 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets

	Inventories fair value £m	Share-based payments £m	Pension deficit £m	Other temporary differences £m	Total £m
At 1st November 2016	10.1	1.3	3.1	0.7	15.2
Income statement movements	(2.7)	0.1	-	(0.2)	(2.8)
Equity movements	-	0.5	(1.8)	-	(1.3)
At 31st October 2017	7.4	1.9	1.3	0.5	11.1
Income statement movements	(2.2)	(0.4)	(1.1)	(0.2)	(3.9)
Equity movements	-	(1.0)	(0.2)	-	(1.2)
AT 31ST OCTOBER 2018	**5.2**	**0.5**	**-**	**0.3**	**6.0**

Deferred tax liabilities

	Pension surplus £m	Total £m
At 1st November 2016 and 31st October 2017	-	-
Income statement movements	(0.5)	(0.5)
AT 31ST OCTOBER 2018	**(0.5)**	**(0.5)**

Deferred tax expected to be recovered or settled in less than 12 months is £1.1m (2017: £4.4m), and in more than 12 months is £4.4m (2017: £6.7m).

At the consolidated statement of financial position date the substantively enacted future corporation tax rates were 19% for FY19 and 17% beyond. The deferred tax assets have been evaluated at the rates at which they are expected to reverse based on current forecasts (accounting period ends: 31st October 2019: 19%, 31st October 2020: 17.83% and 31st October 2021 and subsequent: 17%). The Group has no material unrecognised deferred tax assets.

Inventories fair value represents temporary differences on the carrying value of inventory fair valued on the acquisition of Castle Bidco Limited in 2009. These temporary differences are expected to be recoverable in full as it is considered probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are therefore recognised as deferred tax assets in the above amounts.

14 EMPLOYEE BENEFITS

(a) Retirement benefit surplus

Defined contribution scheme

The Group operates a defined contribution scheme for new employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. The contributions to this scheme for the year were £2.6m (2017: £2.1m). At the consolidated statement of financial position date there were no outstanding or prepaid contributions (2017: £nil).

Defined benefit scheme

The Company sponsors the Crest Nicholson Group Pension and Life Assurance Scheme, a funded defined benefit pension scheme in the UK. The Scheme is administered within a trust that is legally separate from the Company. Trustees are appointed by both the Company and the Scheme's members and act in the interest of the Scheme and all relevant stakeholders, including the members and the Company. The Trustees are also responsible for the investment of the Scheme's assets.

The Scheme closed to future accrual from 30th April 2010. Accrued pensions in relation to deferred members are revalued as required by the pension revaluation orders in the period before retirement. Benefits also increase either at a fixed rate or in line with inflation once a member has retired. The Scheme provides pensions to members on retirement and to their dependants on death.

The Company pays contributions to improve the Scheme's funding position as determined by regular actuarial valuations. The Trustees are required to use prudent assumptions to value the liabilities and costs of the Scheme whereas the accounting assumptions must be best estimates. Responsibility for making good any deficit within the Scheme lies with the Company and this introduces a number of risks for the Company. The major risks are: interest rate risk; inflation risk; investment risk; and longevity risk. The Company and Trustees are aware of these risks and manage them through appropriate investment and funding strategies.

The Scheme is subject to regular actuarial valuations, which are usually carried out every three years. The last actuarial valuation was carried out with an effective date of 31st January 2015 and the actuarial valuation as at 31st January 2018 was agreed on 30th November 2018. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures, which are determined using best estimate assumptions.

The agreed results of the actuarial valuation as at 31st January 2018 have been projected to 31st October 2018 by a qualified independent actuary. The figures in the following disclosure were measured using the Projected Unit Method.

The investment strategy in place for the Scheme is to invest in a mix of return seeking, index linked and fixed interest investments. At 31st October 2018, the allocation of the Scheme's invested assets was 56% in return seeking investments, 16% in corporate bonds, 21% in index linked gilts and 7% in cash. Details of the investment strategy can be found in the Scheme's Statement of Investment Principles, which the Trustees update as their policy evolves.

It should also be noted that liabilities relating to insured members of the Scheme have been included as both an asset and a liability.

Following the recent High Court judgement in the Lloyds case, overall pension benefits now need to be equalised to eliminate inequalities between males and females in Guaranteed Minimum Pensions. The Company has always allowed for this in its accounts by adding a 2% reserve reflecting an approximate estimate of the additional liability. As a reserve already exists there is no effect on this year's disclosures. The real cost will be known once the relevant calculations have been carried out, which is not expected to be for some time. Once the true cost is known, any difference from the estimated 2% is expected to flow through other comprehensive income.

	2018 £m	2017 £m	2016 £m
The amounts recognised in the consolidated statement of financial position are as follows:			
Present value of scheme liabilities	(195.4)	(202.5)	(200.9)
Fair value of scheme assets	197.9	195.3	184.2
NET AMOUNT RECOGNISED AT YEAR END (SURPLUS/(OBLIGATION))	**2.5**	**(7.2)**	**(16.7)**

The retirement benefit surplus/(obligation) recognised in the statement of financial position represents the excess/(deficit) of the fair value of the scheme's assets over the present value of scheme liabilities. The rules of the Crest Nicholson Group Pension and Life Assurance Scheme provide Crest Nicholson with an unconditional right to a refund of surplus assets on the gradual settlement of the Scheme's liabilities. In the ordinary course of business the Scheme trustee has no unilateral right to wind the Scheme up. Based on these rights and in accordance with IFRIC 14, any net surplus in the Scheme is recognised in full.

A deferred tax liability of £0.5m (2017: deferred tax asset £1.3m) has been recognised in the consolidated statement of financial position.

The amounts recognised in comprehensive income are:
The current and past service costs, settlements and curtailments, together with the net interest expense for the year are included in the consolidated statement of comprehensive income. Remeasurements of the net defined benefit asset/(liability) are included in other comprehensive income.

	2018 £m	2017 £m
Administration expenses	0.5	0.6
Net interest expense	0.1	0.3
CHARGE RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT	**0.6**	**0.9**
Remeasurements of the net asset/(liability)		
Return on scheme assets	5.9	(2.8)
(Gain)/loss arising from changes in financial assumptions	(1.7)	1.9
Gain arising from changes in demographic assumptions	(1.1)	-
Experience gain	(4.4)	(0.5)
CREDIT RECORDED IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	**(1.3)**	**(1.4)**
TOTAL DEFINED BENEFIT SCHEME CREDIT	**(0.7)**	**(0.5)**

	2018 %	2017 %
The principal actuarial assumptions used were:		
Liability discount rate	2.80	2.75
Inflation assumption – RPI	3.40	3.40
Inflation assumption – CPI	2.60	2.60
Revaluation of deferred pensions	2.60	2.60
Increases for pensions in payment		
Benefits accrued in respect of GMP	3.00	3.00
Benefits accrued in excess of GMP pre-1997	3.00	3.00
Benefits accrued post-1997	3.25	3.25
Proportion of employees commuting pension for cash	100.0	100.0

	2018	2017
Mortality assumption – pre-retirement	AC00	AC00
Mortality assumption – male post-retirement	SAPS S2 PMA _LCMI_2017 with smoothing parameter of 8.0 ltr 1.5%	SAPS S2 PMA CMI_2014 ltr 1.5%
Mortality assumption – female post-retirement	SAPS S2 PMA _LCMI_2017 with smoothing parameter of 8.0 ltr 1.5%	SAPS S2 PFA CMI_2014 ltr 1.5%

	2018 Years	2017 Years
Future expected lifetime of current pensioner at age 65		
Male aged 65 at year end	23.6	22.8
Female aged 65 at year end	24.6	24.9
Future expected lifetime of future pensioner at age 65		
Male aged 45 at year end	25.2	25.0
Female aged 45 at year end	26.4	27.2

Changes in the present value of assets over the year

	2018 £m	2017 £m
Fair value of assets at beginning of the year	195.3	184.2
Interest income	5.4	5.3
Return on assets (excluding amount included in net interest expense)	(5.9)	2.8
Contributions from the employer	9.0	9.0
Benefits paid	(5.4)	(5.4)
Administration expenses	(0.5)	(0.6)
FAIR VALUE OF ASSETS AT END OF THE YEAR	**197.9**	**195.3**

Changes in the present value of liabilities over the year

	2018 £m	2017 £m
Liabilities at beginning of the year	202.5	200.9
Interest cost	5.5	5.6
Remeasurement (gains)/ losses		
(Gain)/loss arising from changes in financial assumptions	(1.7)	1.9
Gain arising from changes in demographic assumptions	(1.1)	-
Experience gains	(4.4)	(0.5)
Benefits paid	(5.4)	(5.4)
LIABILITIES AT END OF THE YEAR	**195.4**	**202.5**

The split of the scheme's liabilities by category of membership is as follows:

	2018 £m	2017 £m
Deferred pensioners	107.1	123.8
Pensions in payment	88.3	78.7
	195.4	**202.5**

	2018 Years	2017 Years
Average duration of the scheme's liabilities at the end of the year	17.0	18.0
This can be subdivided as follows:		
Deferred pensioners	21.0	22.0
Pensions in payment	12.0	12.0

The major categories of scheme assets are as follows:

	2018 £m	2017 £m
Return seeking		
Overseas equities	13.1	19.4
Other (hedge funds, multistrategy and absolute return funds)	91.7	94.5
	104.8	**113.9**
Debt instruments		
Corporates	30.4	31.6
Index linked	40.9	39.5
	71.3	**71.1**
Other		
Cash	14.2	1.9
Insured annuities	7.6	8.4
	21.8	**10.3**
TOTAL MARKET VALUE OF ASSETS	**197.9**	**195.3**

The scheme has no investments in the Group or in property occupied by the Group.

The Group's statutory funding obligation was met as at 31st January 2018 with the Scheme achieving a 101% funding level on a technical provisions basis. The Company will continue to fund the Scheme with contributions of £0.75m per month until the earlier of 30th June 2022 or the Scheme meeting its funding objective on a self-sufficiency basis. The Group expects to contribute £9.0m (2018: £9.0m) to scheme funding in the year ending 31st October 2019.

Sensitivity of the liability value to changes in the principal assumptions
If the discount rate was 0.25% higher/(lower), the scheme liabilities would decrease by £7.9m (increase by £8.4m) if all the other assumptions remained unchanged.

If the inflation assumption was 0.25% higher/(lower), the scheme liabilities would increase by £3.9m (decrease by £4.4m) if all the other assumptions remained unchanged.

If life expectancies were to increase by one year, the scheme liabilities would increase by £8.6m if all the other assumptions remained unchanged.

(b) Share-based payments
The Group operates an LTIP, employee share option scheme (ESOS), SAYE and a deferred bonus plan. Expected volatility for all plans/schemes for the current and previous year (where applicable) is based on the historical share price movements of Crest Nicholson Holdings plc since the Company listed in February 2013.

Long-term incentive plan (LTIP)

The Group's LTIP is open to the Executive Directors and senior management with awards being made at the discretion of the Remuneration Committee. Awards under the plan vest over three years and are subject to three years' service, and return on capital and profit performance conditions. Options granted under the plan are exercisable between 3 and 10 years after the date of grant. Awards may be satisfied by shares held in the employee benefit trust (EBT), the issue of new shares (directly or to the EBT) or the acquisition of shares in the market.

Date of grant	14th Feb 2014	27th Feb 2015	26th Feb 2016	28th Feb 2017	28th Feb 2018	22nd Mar 2018
Options granted	1,246,861	1,270,176	1,075,943	1,266,364	1,112,762	150,898
Fair value at measurement date	£3.49	£4.02	£5.07	£4.67	£3.89	£3.67
Share price on date of grant	£3.81	£4.45	£5.62	£5.41	£4.76	£4.54
Exercise price	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
Vesting period	3 years	3 years	3 years	3 years	3 years	3 years
Expected dividend yield	2.50%	3.20%	3.50%	5.09%	6.93%	7.27%
Expected volatility	28.90%	30.00%	30.00%	45.00%	35.00%	35.00%
Risk free interest rate	0.40%	0.86%	0.43%	0.14%	0.84%	0.92%
Valuation model	Binomial	Binomial	Binomial	Binomial	Binomial	Binomial

Contractual life from	14th Feb 2014	27th Feb 2015	26th Feb 2016	28th Feb 2017	28th Feb 2018	22nd Mar 2018
Contractual life to	13th Feb 2024	26th Feb 2025	25th Feb 2026	27th Feb 2027	27th Feb 2028	21st Mar 2028

Movements in the year	**Number of options**	**Number of options**	**Number of options**	**Number of options**	**Number of options**	**Number of options**	**Total number of options**
Outstanding at 1st November 2016	958,089	1,030,138	994,289	-	-	-	2,982,516
Granted during the year	-	-	-	1,266,364	-	-	1,266,364
Exercised during the year	(933,342)	-	-	-	-	-	(933,342)
Lapsed during the year	(24,747)	(65,616)	(66,511)	(72,088)	-	-	(228,962)
OUTSTANDING AT 31ST OCTOBER 2017	**-**	**964,522**	**927,778**	**1,194,276**	**-**	**-**	**3,086,576**
Granted during the year	-	-	-	-	1,112,762	150,898	1,263,660
Exercised during the year	-	(940,586)	-	-	-	-	(940,586)
Lapsed during the year	-	(18,578)	(75,089)	(255,986)	(221,862)	-	(571,515)
OUTSTANDING AT 31ST OCTOBER 2018	**-**	**5,358**	**852,689**	**938,290**	**890,900**	**150,898**	**2,838,135**
EXERCISABLE AT 31ST OCTOBER 2018	**-**	**5,358**	**-**	**-**	**-**	**-**	**5,358**
EXERCISABLE AT 31ST OCTOBER 2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**Total £m**
Charge to income for the current year	**-**	**0.4**	**0.6**	**0.2**	**0.2**	**-**	**1.4**
Charge to income for the prior year	0.2	1.5	0.8	0.9	-	-	3.4

The weighted average exercise price of LTIP options was £nil (2017: £nil).

Employee share option scheme

This is a limited scheme which represents the balance of shares from the previous management incentive plan, which vested at admission. The balance of shares are held by the Group's Employee Share Ownership Trust and certain options have been granted to Executive Directors and other employees. Options granted under the plan are exercisable between 2 and 10 years after the date of grant. The options are valued at the admission price or share price on date of grant. There are no performance criteria but recipients must remain employed by the Group on the applicable vesting date.

Date of grant	17th Aug 2015	1st Jun 2018
Options granted	1,500	10,000
Fair value at measurement date	£0.00	£0.00
Share price on date of grant	£5.68	£4.40
Exercise price	£0.00	£0.00
Vesting period	2 years	2 years
Expected dividend yield	N/A	N/A
Expected volatility	N/A	N/A
Risk free interest rate	N/A	N/A
Valuation model	N/A	N/A
Contractual life from	17th Aug 2015	1st Jun 2018
Contractual life to	16th Aug 2025	31st May 2028

Movements in the year	**Number of options**	**Number of options**	**Total number of options**
OUTSTANDING AT 1ST NOVEMBER 2016	**1,500**	**-**	**1,500**
Exercised during the year	(1,500)	-	(1,500)
OUTSTANDING AT 31ST OCTOBER 2017	**-**	**-**	**-**
Granted during the year	-	10,000	10,000
OUTSTANDING AT 31ST OCTOBER 2018	**-**	**10,000**	**10,000**
EXERCISABLE AT 31ST OCTOBER 2018	**-**	**-**	**-**
EXERCISABLE AT 31ST OCTOBER 2017	**-**	**-**	**-**
	£m	**£m**	**£m**
Charge to income for the current year	**-**	**-**	**-**
Charge to income for the prior year	-	-	-

The weighted average exercise price of employee share options was £nil (2017: £nil).

Save As You Earn (SAYE)

Executive Directors and eligible employees are invited to make regular monthly contributions to a Sharesave scheme operated by Equiniti. On completion of the three-year contract period employees are able to purchase ordinary shares in the Company based on the market price at the date of invitation less a 20% discount. There are no performance conditions.

Date of grant	22nd May 2013	15th Jul 2014	16th Jul 2015	1st Aug 2016	3rd Aug 2017	26th Jul 2018
Options granted	805,805	569,998	257,264	1,208,742	453,663	712,944
Fair value at measurement date	£0.82	£0.70	£1.03	£1.11	£1.06	£0.52
Share price on date of grant	£3.09	£3.44	£5.63	£3.56	£5.41	£3.77
Exercise price	£2.47	£2.76	£4.51	£2.86	£4.20	£3.15
Vesting period	3 years	3 years	3 years	3 years	3 years	3 years
Expected dividend yield	2.50%	2.50%	3.00%	4.80%	5.10%	8.76%
Expected volatility	32.00%	28.90%	29.00%	45.00%	35.00%	35.00%
Risk free interest rate	0.55%	1.61%	1.16%	0.19%	0.30%	0.85%
Valuation model	Binomial	Binomial	Binomial	Binomial	Binomial	Binomial

Contractual life from	1st Aug 2013	1st Aug 2014	1st Aug 2015	1st Sep 2016	1st Sep 2017	1st Sep 2018
Contractual life to	1st Feb 2017	1st Feb 2018	1st Feb 2019	1st Mar 2020	1st Mar 2021	1st Mar 2022

Movements in the year	**Number of options**	**Number of options**	**Number of options**	**Number of options**	**Number of options**	**Number of options**	**Total number of options**	**Weighted average exercise price**
Outstanding at 1st November 2016	36,937	421,075	104,478	1,194,270	-	-	1,756,760	£2.93
Granted during the year	-	-	-	-	453,663	-	453,663	£4.20
Exercised during the year	(34,751)	(377,761)	(531)	(3,181)	-	-	(416,224)	£2.74
Lapsed during the year	(2,186)	(15,930)	(21,452)	(146,149)	(5,140)	-	(190,857)	£3.07
OUTSTANDING AT 31ST OCTOBER 2017	**-**	**27,384**	**82,495**	**1,044,940**	**448,523**	**-**	**1,603,342**	**£3.32**
Granted during the year	-	-	-	-	-	712,944	712,944	£3.15
Exercised during the year	-	(27,366)	-	(8,390)	-	-	(35,756)	£2.78
Lapsed during the year	-	(18)	(11,674)	(162,549)	(224,791)	(31,193)	(430,225)	£3.63
OUTSTANDING AT 31ST OCTOBER 2018	**-**	**-**	**70,821**	**874,001**	**223,732**	**681,751**	**1,850,305**	**£3.19**

EXERCISABLE AT 31ST OCTOBER 2018	**-**	**-**	**70,821**	**-**	**-**	**-**	**70,821**
EXERCISABLE AT 31ST OCTOBER 2017	**-**	**27,384**	**-**	**-**	**-**	**-**	**27,384**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**Total £m**
Charge to income for the current year	**-**	**-**	**-**	**0.3**	**-**	**0.1**	**0.4**
Charge to income for the prior year	-	0.1	-	0.4	-	-	0.5

Deferred bonus plan

Under the terms of certain bonus schemes, some parts of bonus payments must be deferred into share options. The options carry no performance criteria and vest over one or three years. Options granted under the plan are exercisable between 1 and 10 years after the date of grant. Deferred bonus plan option numbers are based on the share price on date of grant.

Date of grant	27th Feb 2015	26th Feb 2016	8th Feb 2017	28th Feb 2017	8th Feb 2018	8th Feb 2018	28th Feb 2018
Options granted	257,219	140,185	2,078	133,761	17,720	2,457	188,122
Fair value at measurement date	£4.45	£5.62	£4.83	£5.41	£5.04	£5.04	£4.89
Share price on date of grant	£4.45	£5.62	£4.83	£5.41	£5.04	£5.04	£4.89
Exercise price	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
Vesting period	1 / 3 years	1 / 3 years	1 year	1 / 3 years	3 years	1 year	1 / 3 years
Expected dividend yield and volatility	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Risk free interest rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Valuation model	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Contractual life from	27th Feb 2015	26th Feb 2016	8th Feb 2017	28th Feb 2017	8th Feb 2018	8th Feb 2018	28th Feb 2018
Contractual life to	26th Feb 2025	25th Feb 2026	25th Feb 2026	27th Feb 2027	26th Feb 2025	27th Feb 2027	27th Feb 2028

Movements in the year	**Number of options**	**Number of options**	**Number of options**	**Number of options**	**Number of options**	**Number of options**	**Number of options**	**Total number of options**
Outstanding at 1st November 2016	120,519	127,672	-	-	-	-	-	248,191
Granted during the year	-	-	2,078	133,761	-	-	-	135,839
Exercised during the year	-	(44,420)	(2,078)	-	-	-	-	(46,498)
OUTSTANDING AT 31ST OCTOBER 2017	**120,519**	**83,252**	**-**	**133,761**	**-**	**-**	**-**	**337,532**
Granted during the year	-	-	-	-	17,720	2,457	188,122	208,299
Exercised during the year	(120,519)	-	-	(43,864)	(17,720)	(2,457)	-	(184,560)
Lapsed during the year	-	-	-	-	-	-	(1,349)	(1,349)
OUTSTANDING AT 31ST OCTOBER 2018	**-**	**83,252**	**-**	**89,897**	**-**	**-**	**186,773**	**359,922**
EXERCISABLE AT 31ST OCTOBER 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
EXERCISABLE AT 31ST OCTOBER 2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**Total £m**
Charge to income for the current year	**-**	**0.1**	**-**	**0.2**	**0.1**	**-**	**0.3**	**0.7**
Charge to income for the prior year	0.1	0.1	-	0.5	-	-	-	0.7

Total share incentive schemes

	2018 Number of options	2017 Number of options
Movements in the year		
Options at beginning of the year	5,027,450	4,988,967
Granted during the year	2,194,903	1,855,866
Exercised during the year	(1,160,902)	(1,396,064)
Employee share option shares	-	(1,500)
Lapsed during the year	(1,003,089)	(419,819)
OUTSTANDING AT END OF THE YEAR	**5,058,362**	**5,027,450**
EXERCISABLE AT END OF THE YEAR	**76,179**	**27,384**
	£m	**£m**
Charge to income for the year	2.5	4.6

The weighted average share price at the date of exercise of share options exercised during the year was £4.77 (2017: £5.32).

The options outstanding had a range of exercise prices of £nil to £4.51 (2017: £nil to £4.51) and a weighted average remaining contractual life of 6.0 years (2017: 6.4 years). The gain on shares exercised during the year was £5.4m (2017: £6.3m).

15 TRADE AND OTHER RECEIVABLES

	2018 £m	2017 £m
Non-current		
Trade receivables	18.3	14.5
Due from joint ventures	40.7	38.0
	59.0	**52.5**
Current		
Trade receivables	54.9	64.0
Recoverable on contracts	22.1	20.4
Due from joint ventures	3.8	1.2
Other receivables	8.9	13.2
Prepayments and accrued income	4.2	3.9
	93.9	**102.7**

Current trade receivables of £16.7m have been collected as of 4th January 2019 (2017: £13.4m collected as of 4th January 2018). The remaining balance is due according to contractual terms. Receivables are stated after provision for doubtful debts of £nil (2017: £nil). Amounts due from joint ventures are net of joint venture losses of £3.3m (2017: £2.1m). At the consolidated statement of financial position date the difference between the fair value of non-current amounts due from joint ventures and nominal value is £0.8 m (2017: £0.7m).

The Group considers the credit quality of financial assets that are neither past due nor impaired as good. Trade and other receivables mainly comprise contractual amounts due from housing associations and land sales to other quoted housebuilders.

Amounts due from joint ventures comprises funding provided on three (2017: two) joint venture developments which are being project managed by the Group and are subject to contractual arrangements. Amounts due from joint ventures are stated net of losses of £3.3m (2017: £2.1m). See note 11 for additional details on the Group's interests in joint ventures.

The maturity of non-current receivables is as follows:

	2018 £m	2017 £m
Due between one and two years	24.0	20.9
Due between two and five years	34.8	31.4
Due after five years	0.2	0.2
	59.0	**52.5**

16 INVENTORIES

	2018 £m	2017 £m
Work in progress	984.2	926.4
Completed buildings including show homes	168.1	136.2
Part exchange inventories	33.9	23.9
	1,186.2	**1,086.5**

Included within inventories is a fair value adjustment of £24.6m (2017: £35.3m) which arose on the acquisition of Castle Bidco Limited in 2009 and will continue to unwind to cost of sales in future years as the units against which the original fair value provision was recognised are sold. The amount of fair value provision unwound in cost of sales in the year was £10.7m (2017: £12.3m). Total inventories of £864.9m (2017: £768.8m) were recognised as cost of sales in the year. Total inventories are stated net of a net realisable value provision of £0.8m (2017: £0.4m).

17 MOVEMENT IN NET CASH/(DEBT)

	2018 £m	Movement £m	2017 £m
Cash and cash equivalents	184.3	9.1	175.2
Bank loans, senior loan notes and other loans	(170.2)	(28.2)	(142.0)
NET CASH	**14.1**	**(19.1)**	**33.2**

18 INTEREST-BEARING LOANS AND BORROWINGS

	2018 £m	2017 £m
Non-current		
Revolving credit facility	70.0	40.0
Senior loan notes	100.0	100.0
Revolving credit and senior loan notes issue costs	(3.6)	(3.7)
Other loans	1.9	3.8
	168.3	**140.1**
Current		
Other loans	**1.9**	**1.9**

There were undrawn amounts of £180.0m (2017: £210.0m) under the revolving credit facility at the consolidated statement of financial position date. During the year the Group drew down a further £30.0m under the revolving credit facility on the same terms and conditions. See note 22 for additional disclosures.

19 TRADE AND OTHER PAYABLES

	2018 £m	2017 £m
Non-current		
Land payables on contractual terms	123.3	86.7
Other payables	6.5	6.4
Accruals	13.5	8.4
	143.3	**101.5**
Current		
Land payables on contractual terms	86.4	128.9
Other trade payables	38.0	42.5
Payments on account	19.3	16.5
Taxes and social security costs	2.9	2.3
Other payables	11.0	12.7
Accruals	213.4	185.0
	371.0	**387.9**

20 PROVISIONS

	Commercial properties 2018 £m	Other provisions 2018 £m	Total 2018 £m	Commercial properties 2017 £m	Other provisions 2017 £m	Total 2017 £m
At beginning of the year	3.5	-	3.5	4.4	-	4.4
(Utilised)/provided in the year	(1.3)	0.4	(0.9)	(0.9)	-	(0.9)
AT END OF THE YEAR	**2.2**	**0.4**	**2.6**	**3.5**	**-**	**3.5**
Of which:						
Non-current	0.9	-	0.9	2.1	-	2.1
Current	1.3	0.4	1.7	1.4	-	1.4
	2.2	**0.4**	**2.6**	**3.5**	**-**	**3.5**

Commercial properties comprise rental and other obligations in respect of commercial properties, and the provision covers the shortfall on commercial head leases, rates and related service charges for the years the Group anticipates the leases being onerous. The Group has head leases expiring up to September 2020.

Other provisions mainly relate to a loss of office provision for the former Group Finance Director, Robert Allen, who left the business on 16th October 2018. In line with the approved Remuneration Policy Robert will receive a payment in lieu of notice from the Group equivalent to base salary on a monthly basis until 16th October 2019, reflecting his contractual notice. Further details are included within the Directors' Remuneration Report on pages 92 to 112.

21 SHARE CAPITAL

	Shares issued Number	Nominal value Pence	Share capital £	Share premium account £
Ordinary shares as at 1st November 2016	254,363,573	5	12,718,179	73,010,342
New share capital	1,396,064	5	69,802	1,119,136
Ordinary shares as at 31st October 2017	**255,759,637**	**5**	**12,787,981**	**74,129,478**
New share capital	1,160,902	5	58,046	97,738
ORDINARY SHARES AS AT 31ST OCTOBER 2018	**256,920,539**	**5**	**12,846,027**	**74,227,216**

Ordinary shares are issued and fully paid. Authorised ordinary shares of 5 pence each are 341,049,337 (2017: 339,187,373).

During the year the Company issued the following new ordinary shares of 5 pence each to satisfy share options under the Company's share incentive schemes.

	Shares issued Number	Exercise price Pence	Share capital £	Share premium account £
2015 LTIP	940,586	-	47,030	-
2014 SAYE	27,366	276	1,368	74,162
2016 SAYE	8,390	286	420	23,576
2015 Deferred bonus plan	138,239	-	6,912	-
2017 Deferred bonus plan	46,321	-	2,316	-
	1,160,902		**58,046**	**97,738**

During the previous year the Company issued the following new ordinary shares of 5 pence each to satisfy share options under the Company's share incentive schemes.

	Shares issued Number	Exercise price Pence	Share capital £	Share premium account £
2014 LTIP	933,342	-	46,667	-
2013 SAYE	34,751	247	1,737	84,097
2014 SAYE	377,761	276	18,888	1,023,732
2015 SAYE	531	451	26	2,368
2016 SAYE	3,181	286	159	8,939
2016 Deferred bonus plan	46,498	-	2,325	-
	1,396,064		**69,802**	**1,119,136**

For details of outstanding share options at 31st October 2018 see note 14.

22 FINANCIAL RISK MANAGEMENT

The Group's financial instruments comprise cash, bank loans, senior loan notes, trade receivables, other financial assets and trade payables. The main objective of the Group's policy towards financial instruments is to maximise returns on the Group's cash balances, manage the Group's working capital requirements and finance the Group's ongoing operations.

Capital management

The Group's policies seek to match long-term assets with long-term finance and ensure that there is sufficient working capital to meet the Group's commitments as they fall due, comply with the loan covenants and continue to sustain trading.

The Group's capital comprises shareholders' funds and net borrowings. A five-year summary of this can be found in the unaudited historical summary on page166, in addition to its return on average capital employed.

The Group seeks to manage its capital through control of expenditure, dividend payments and through its banking facilities.

The revolving credit facility and senior loan notes impose certain minimum capital requirements on the Group. These requirements are integrated into the Group's internal forecasting process and are regularly reviewed. The Group has, and is forecasting, to operate within these capital requirements.

There were undrawn amounts of £180.0m (2017: £210.0m) under the revolving credit facility at the consolidated statement of financial position date.

Financial risk

As all of the operations of the Group are in Sterling, there is no direct currency risk, and thus the Group's main financial risks are primarily credit risk, liquidity risk and market interest rate risk. The Board is responsible for managing these risks and the policies adopted are as set out below.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or other counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash deposits, as most receivables are secured on land and buildings.

The Group has cash deposits of £184.3m (2017: £175.2m) which are held by the providers of its banking facilities. These are primarily provided by HSBC Bank Plc, Barclays Bank Plc, Lloyds Bank Plc and The Royal Bank of Scotland, being four of the UK's leading financial institutions. The security and suitability of these banks is monitored by the treasury function on a regular basis. The Group has bank facilities of £250.0m expiring in June 2023, with £180.0m remaining available for drawdown under such facilities at 31st October 2018.

Other financial assets, as described in note 12, of £10.5m (2017: £14.9m) are receivables on extended terms granted as part of a sales transaction and are secured by way of a legal charge on the relevant property and therefore credit risk is considered low.

The carrying value of trade and other receivables is mainly amounts due from housing association sales, land sales and commercial sales and equates to the Group's exposure to credit risk which is set out in note 15. Amounts due from joint ventures of £44.5m (2017: £39.2m) is funding provided on three (2017: two) joint venture developments which are being project managed by the Group and are subject to contractual arrangements. Within trade and other receivables the other largest single amount outstanding at the year end is £11.2m (2017: £10.5m), which is within agreed terms.

The Group considers the credit quality of financial assets that are neither past due nor impaired as good, as described in note 15.

In managing risk the Group assesses the credit risk of its counterparties before entering into a transaction. No credit limits were exceeded during the reporting year, and management does not expect any material losses from non-performance of any counterparties, including in respect of receivables not yet due. No material financial assets are past due, or are considered to be impaired as at the consolidated statement of financial position date (2017: none).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Cash flow forecasts are produced to monitor the expected cash flow requirements of the Group against the available facilities. The principal risks within these cash flows relate to achieving the level of sales volume and prices in line with current forecasts.

The following are the contractual maturities of the financial liabilities of the Group at 31st October 2018:

2018	Carrying value £m	Contractual cash flows £m	Within 1 year £m	1–2 years £m	2–3 years £m	More than 3 years £m
Revolving credit facility	70.0	70.2	0.2	-	-	70.0
Senior loan notes	100.0	130.2	3.5	3.5	3.5	119.7
Other loans	3.8	4.0	2.0	2.0	-	-
Other financial liabilities carrying interest	65.6	68.1	10.8	20.3	37.0	-
Financial liabilities carrying no interest	426.5	434.0	342.8	49.5	23.0	18.7
AT 31ST OCTOBER 2018	**665.9**	**706.5**	**359.3**	**75.3**	**63.5**	**208.4**

2017	Carrying value £m	Contractual cash flows £m	Within 1 year £m	1–2 years £m	2–3 years £m	More than 3 years £m
Revolving credit facility	40.0	40.1	0.1	-	-	40.0
Senior loan notes	100.0	133.7	3.5	3.5	3.5	123.2
Other loans	5.7	6.1	2.1	2.0	2.0	-
Other financial liabilities carrying interest	72.5	74.0	44.9	9.8	19.3	-
Financial liabilities carrying no interest	398.1	405.7	328.4	28.5	33.4	15.4
AT 31ST OCTOBER 2017	**616.3**	**659.6**	**379.0**	**43.8**	**58.2**	**178.6**

Other loans (LIFF loans) are development specific loans from the HCA and are repayable on the earlier of legal completion of related units or long stop dates. Other financial liabilities carrying interest are land acquisitions using promissory notes. The timing and amount of future cash flows given in the table above is based on the Directors' best estimate of the likely outcome.

Market interest rate risk

Market interest rate risk reflects the Group's exposure to fluctuations to interest rates in the market. The risk arises because the Group's revolving credit facility is subject to floating interest rates based on LIBOR, and the LIFF loans are subject to the EU reference rate. The Group accepts a degree of interest rate risk, and monitors rate changes to ensure they are within acceptable limits and in line with banking covenants. The Group has partially mitigated this risk by placing £100m of senior loan notes which are at fixed interest rates. For the year ended 31st October 2018 it is estimated that an increase of 1% in interest rates applying for the full year would decrease the Group's PBT by £1.4m (2017: £1.7m).

At 31st October 2018, the interest rate profile of the financial liabilities of the Group was:

	2018 £m	2017 £m
Sterling bank borrowings, loan notes and long-term creditors		
Floating rate financial liabilities	73.8	45.7
Financial liabilities carrying interest	165.6	172.5
Financial liabilities carrying no interest	426.5	398.1
	665.9	**616.3**

For financial liabilities that have no interest payable but for which imputed interest is charged, consisting of land payables, the weighted average period to maturity is 40 months (2017: 40 months).

	2018 £m	2017 £m
The maturity of the financial liabilities is:		
Repayable within one year	350.7	371.0
Repayable between one and two years	68.4	38.1
Repayable between two and five years	145.5	103.7
Repayable after five years	101.3	103.5
	665.9	**616.3**

Fair values

Financial assets

The Group's financial assets comprise cash equivalents, other financial assets and trade and other receivables. The carrying amounts of financial assets equate to their fair value. At 31st October 2018 cash equivalents consisted of sterling cash deposits of £184.3m (2017: £175.2m), with solicitors and on current account, £10.5m (2017: £14.9m) of other financial assets, £104.2m (2017: £112.1m) of trade, other receivables and amounts recoverable on contracts, and £44.5m (2017: £39.2m) of amounts due from joint ventures. Other financial assets are carried at fair value and categorised as level 3 (inputs not based on observable market data) within the hierarchical classification of IFRS 13 Revised.

Financial liabilities

The Group's financial liabilities comprise the revolving credit facility, loan notes, other loans, trade payables, payments on account, loans from joint ventures and accruals, the carrying amounts of which equate to their fair value. The fair values of the revolving credit facility, other loans and loan notes are calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the consolidated statement of financial position date.

The fair values of the facilities determined on this basis are:

2018	Nominal interest rate	Face value £m	Carrying value £m	Fair value £m	Maturity
Revolving credit facility	3 mth LIBOR + 2.15%	70.0	70.0	70.0	2023
Senior loan notes	3.15% - 3.87%	100.0	100.0	100.0	2024–2029
LIFF loans	EU reference rate + 2.2%	1.9	1.9	1.9	2020
TOTAL NON-CURRENT INTEREST-BEARING LOANS		**171.9**	**171.9**	**171.9**	
LIFF loans	EU reference rate + 2.2%	1.9	1.9	1.9	2019
TOTAL CURRENT INTEREST-BEARING LOANS		**1.9**	**1.9**	**1.9**	

2017	Nominal interest rate	Face value £m	Carrying value £m	Fair value £m	Maturity
Revolving credit facility	3 mth LIBOR + 2.15%	40.0	40.0	40.0	2022
Senior loan notes	3.15% - 3.87%	100.0	100.0	100.0	2024–2029
LIFF loans	EU reference rate + 2.2%	3.8	3.8	3.8	2020
TOTAL NON-CURRENT INTEREST-BEARING LOANS		**143.8**	**143.8**	**143.8**	
LIFF loans	EU reference rate + 2.2%	1.9	1.9	1.9	2018
TOTAL CURRENT INTEREST-BEARING LOANS		**1.9**	**1.9**	**1.9**	

Financial assets and liabilities by category

	2018 £m	2017 £m
Financial assets		
Sterling cash deposits	184.3	175.2
Trade receivables	73.2	78.5
Amounts due from joint ventures	44.5	39.2
Recoverable on contracts	22.1	20.4
Other receivables	8.9	13.2
TOTAL CASH EQUIVALENTS AND TRADE AND OTHER RECEIVABLES	**333.0**	**326.5**
Other financial assets	10.5	14.9
TOTAL FINANCIAL ASSETS	**343.5**	**341.4**

	2018 £m	2017 £m
Financial liabilities		
Revolving credit facility	70.0	40.0
Senior loan notes	100.0	100.0
Other loans	3.8	5.7
Land payments on contractual terms carrying interest	65.6	72.5
Land payments on contractual terms carrying no interest	144.1	143.1
Other trade payables	38.0	42.5
Other payables	17.5	19.1
Accruals	226.9	193.4
FINANCIAL LIABILITIES AT AMORTISED COST	**665.9**	**616.3**

23 CONTINGENT LIABILITIES AND COMMITMENTS

There are performance bonds and other engagements, including those in respect of joint venture partners, undertaken in the ordinary course of business. It is impractical to quantify the financial effect of performance bonds and other arrangements. Management consider the possibility of a cash outflow in settlement of performance bonds and other arrangements to be remote.

In the ordinary course of business the Group enters into certain land purchase contracts with vendors on a conditional exchange basis. The conditions must be satisfied for the Group to recognise the land asset and corresponding liability within the consolidated statement of financial position. No contingent liability in respect of conditional land acquisitions has been recognised.

The Group provides for all known material legal actions, where having taken appropriate legal advice as to the likelihood of success of the actions, it is considered probable that an outflow of economic resource will be required, and the amount can be reliably measured. No contingent liability in respect of such claims has been recognised.

24 OPERATING LEASES

Outstanding commitments for future minimum lease payments under non-cancellable operating leases were:

	2018 £m	2017 £m
Land and buildings		
Within one year	2.5	2.5
Less: minimum sub-lease income	(0.4)	(0.4)
Between two and five years	4.8	6.4
Less: minimum sub-lease income	(0.1)	(0.5)
After five years	0.9	1.8
	7.7	**9.8**
Other		
Within one year	1.9	1.7
Between two and five years	2.2	2.1
	4.1	**3.8**

25 RELATED-PARTY TRANSACTIONS

Transactions between fellow subsidiaries, which are related parties, are eliminated on consolidation, as well as transactions between the Company and its subsidiaries during the current and prior year.

Transactions between the Group and key management personnel mainly comprise remuneration which is given in note 4. Detailed disclosure for Board members is given within the Directors' Remuneration Report. There were no transactions between the Group and key management personnel in the year (2017: a close family member of one of the Board of Directors purchased a property from Kitewood (Cossall) Limited, an entity in which the Group holds a 50% interest, at market value of £452,000).

The Company's Directors and Non-Executive Directors have associations other than with the Company. From time to time the Group may buy products or services from organisations with which a Director or Non-Executive Director has an association. Where this occurs, it is on normal commercial terms and without the direct involvement of the Director or Non-Executive Director. Leslie Van de Walle, Deputy Chairman and Senior Independent Non-Executive Director, is a Non-Executive Director of HSBC UK Bank plc, to which the Group drew up promissory notes of £9.3m (2017: nil) and satisfied promissory notes of £23.9m (2017: nil).

Stephen Stone, Executive Chairman, is a Non-Executive Director of the HBF and the NHBC. The Group paid subscription and other fees during the year to the HBF of £128,000 (2017: £120,000) and paid fees (mainly relating to warranty insurance costs on new homes built) to the NHBC of £3.9m (2017: £3.1m).

The Group had the following transactions with its joint ventures: (i) the Group received £1.2m (2017: £1.5m) interest on joint venture funding and the Group had a credit of £0.4m (2017: £0.6m) interest on the fair value unwind on a joint venture interest free loan, (ii) the Group received £0.9m (2017: £1.0m) in project management fees, and, (iii) the amount of outstanding loans due to the Group from joint ventures was £44.5m (2017: £39.2m).

26 GROUP UNDERTAKINGS

In accordance with s409 Companies Act 2006, the following is a list of all the Group's undertakings at 31st October 2018.

Subsidiary undertakings

At 31st October 2018 the Group had an interest in the below subsidiary undertakings, which are included in the consolidated financial statements.

Entity name	Registered office	Place of incorporation	Active/ dormant	Year end date	Shareholding (direct or indirect)
Bartley Wood Management Services No.2 Limited	1	8	10	31st March	100%
Bath Riverside Estate Management Company Limited	2	8	11	31st October	100%
Bath Riverside Liberty Management Company Limited	2	8	11	31st October	100%
Block F3 Whitelands Park Limited	1	8	11	31st October	100%
Block L1-L3 Whitelands Park Limited	1	8	11	31st October	100%

Entity name	Registered office	Place of incorporation	Active/ dormant	Year end date	Shareholding (direct or indirect)
Brenville Limited	1	8	11	31st October	100%
Brightwells Residential 1 Company Limited	1	8	11	31st October	100%
Brightwells Residential 2 Company Limited	1	8	11	31st October	100%
Bristol Parkway North Limited	1	8	11	31st October	100%
C N Nominees Limited	1	8	11	31st October	100%
Camberley Res No.1 Limited	1	8	11	31st October	100%
Camberley Res No.2 Limited	1	8	11	31st October	100%
Camberley Res No.3 Limited	1	8	11	31st October	100%
Camberley Res No.4 Limited	1	8	11	31st October	100%
Camberley Res No.5 Limited	1	8	11	31st October	100%
Cardiff Freeport Limited	1	8	11	31st October	100%
Castle Bidco plc*	1	8	10	31st October	100%
Clevedon Developments Limited	1	8	11	31st October	100%
Clevedon Investment Limited	1	8	10	31st October	100%
CN Properties Limited	1	8	11	31st October	100%
Crest (Claybury) Limited	1	8	11	31st October	100%
Crest (Napsbury) Limited	1	8	11	31st October	100%
Crest Construction Limited	1	8	11	31st October	100%
Crest Construction Management Limited	1	8	11	31st October	100%
Crest Developments Limited	1	8	11	31st October	100%
Crest Estates Limited	1	8	11	31st October	100%
Crest Homes (Chiltern) Limited	1	8	11	31st October	100%
Crest Homes (Eastern) Limited	1	8	11	31st October	100%
Crest Homes (Midlands) Limited	1	8	11	31st October	100%
Crest Homes (Nominees) Limited	1	8	11	31st October	100%
Crest Homes (Northern) Limited	1	8	11	31st October	100%
Crest Homes (South East) Limited	1	8	11	31st October	100%
Crest Homes (South West) Limited	1	8	11	31st October	100%
Crest Homes (South) Limited	1	8	11	31st October	100%
Crest Homes (Wessex) Limited	1	8	11	31st October	100%
Crest Homes (Westerham) Limited	1	8	11	31st October	100%
Crest Homes Limited	1	8	11	31st October	100%
Crest Homes Management Limited	1	8	11	31st October	100%
Crest Manhattan Limited	1	8	11	31st October	100%
Crest Nicholson (Bath Western) Limited	1	8	11	31st October	100%
Crest Nicholson (Bath) Holdings Limited	1	8	11	31st October	100%
Crest Nicholson (Chiltern) Limited	1	8	11	31st October	100%
Crest Nicholson (Eastern) Limited	1	8	11	31st October	100%
Crest Nicholson (Epsom) Limited	1	8	11	31st October	100%
Crest Nicholson (Henley-on-Thames) Limited	1	8	10	31st October	100%

* Castle Bidco plc is the only direct holding of Crest Nicholson Holdings plc.

Entity name	Registered office	Place of incorporation	Active/ dormant	Year end date	Shareholding (direct or indirect)
Crest Nicholson (Highlands Farm) Limited	1	8	11	31st October	100%
Crest Nicholson (Londinium) Limited	1	8	11	31st October	100%
Crest Nicholson (London) Limited	1	8	11	31st October	100%
Crest Nicholson (Midlands) Limited	1	8	11	31st October	100%
Crest Nicholson (Rainsford Road) Limited	1	8	11	31st October	100%
Crest Nicholson (South East) Limited	1	8	11	31st October	100%
Crest Nicholson (South West) Limited	1	8	11	31st October	100%
Crest Nicholson (South) Limited	1	8	11	31st October	100%
Crest Nicholson (Stotfold) Limited	1	8	10	31st October	100%
Crest Nicholson (Wainscott)	1	8	11	31st October	100%
Crest Nicholson (Wessex) Limited	1	8	11	31st October	100%
Crest Nicholson Developments (Chertsey) Limited	1	8	10	31st October	100%
Crest Nicholson Greenwich Limited	1	8	11	31st October	100%
Crest Nicholson Operations Limited	1	8	10	31st October	100%
Crest Nicholson Overseas Limited	1	8	11	31st October	100%
Crest Nicholson Pension Trustee Ltd	1	8	11	31st January	100%
Crest Nicholson plc	1	8	10	31st October	100%
Crest Nicholson Projects Limited	1	8	11	31st October	100%
Crest Nicholson Properties Limited	1	8	11	31st October	100%
Crest Nicholson Properties Scarborough No 2 Limited	5	9	11	31st October	100%
Crest Nicholson Quest Trustee Limited	1	8	11	31st October	100%
Crest Nicholson Regeneration Limited	1	8	11	31st October	100%
Crest Nicholson Residential (London) Limited	1	8	11	31st October	100%
Crest Nicholson Residential (Midlands) Limited	1	8	11	31st October	100%
Crest Nicholson Residential (South East) Limited	1	8	11	31st October	100%
Crest Nicholson Residential (South) Limited	1	8	11	31st October	100%
Crest Nicholson Residential Limited	1	8	11	31st October	100%
Crest Nominees Limited	1	8	11	31st October	100%
Crest Partnership Homes Limited	1	8	11	31st October	100%
Crest Strategic Projects Limited	1	8	11	31st October	100%
Dialled Despatches Limited	1	8	11	31st October	100%
Eastern Perspective Management Company Limited	1	8	11	31st October	100%
Grassphalte-Gaze Limited	1	8	11	31st October	100%
Landscape Estates Limited	1	8	11	31st October	100%
Mertonplace Limited	1	8	11	31st October	100%
Nicholson Estates (Century House) Limited	1	8	11	31st October	100%
Nicholson Homes Limited	1	8	11	31st October	100%
Park Central Management (Central Plaza) Limited	1	8	10	31st October	100%
Ellis Mews (Park Central) Management Limited	1	8	10	31st October	100%
Park Central Management (Zone 11) Limited	1	8	11	31st October	100%

Entity name	Registered office	Place of incorporation	Active/ dormant	Year end date	Shareholding (direct or indirect)
Park Central Management (Zone 12) Limited	1	8	11	31st October	100%
Park Central Management (Zone 1A North) Limited	1	8	11	31st October	100%
Park Central Management (Zone 1A South) Limited	1	8	11	31st October	100%
Park Central Management (Zone 1B) Limited	1	8	11	31st October	100%
Park Central Management (Zone 3/1) Limited	1	8	11	31st October	100%
Park Central Management (Zone 3/2) Limited	1	8	11	31st October	100%
Park Central Management (Zone 3/3) Limited	1	8	11	31st October	100%
Park Central Management (Zone 3/4) Limited	1	8	11	31st October	100%
Park Central Management (Zone 4/41 & 42) Limited	1	8	11	31st October	100%
Park Central Management (Zone 4/43/44) Limited	1	8	11	31st October	100%
Park Central Management (Zone 5/53) Limited	1	8	11	31st October	100%
Park Central Management (Zone 5/54) Limited	1	8	11	31st October	100%
Park Central Management (Zone 5/55) Limited	1	8	11	31st October	100%
Park Central Management (Zone 6/61-64) Limited	1	8	11	31st October	100%
Park Central Management (Zone 7/9) Limited	1	8	11	31st October	100%
Park Central Management (Zone 8) Limited	1	8	11	31st October	100%
Park Central Management (Zone 9/91) Limited	1	8	11	31st January	100%
Riverside Dacorum No 2 Limited	5	9	11	31st October	100%
The Gloucester Docks Trading Company Limited	1	8	11	31st October	100%
Timberform Building Systems Limited	1	8	11	31st October	100%
Toptool Products Limited	1	8	11	31st October	100%
Yawbrook Limited	1	8	11	31st October	100%
Building 7 Harbourside Management Company Limited	2	8	10	30th October	58.33%
Buildings 3A, 3B & 4 Harbourside Management Company Limited	2	8	11	31st December	83.33%
Harbourside Leisure Management Company Limited	1	8	10	30th December	71.43%
Park West Management Services Limited	1	8	10	31st March	62.00%

Joint venture undertakings

At 31st October 2018 the Group had an interest in the following joint venture undertakings which are equity accounted within the consolidated financial statements. The principal activity of all undertakings is that of residential development.

Entity name	Registered office	Place of incorporation	Active/ dormant	Year end date	Shareholding (direct or indirect)
Material joint ventures					
Kitewood (Cossall) Limited	1	8	10	31st October	50%
Bonner Road LLP	6	8	10	31st March	50%
Crest A2D (Walton Court) LLP	1	8	10	31st March	50%

Entity name	Registered office	Place of incorporation	Active/ dormant	Year end date	Shareholding (direct or indirect)
Other joint ventures not material to the Group					
Elmsbrook (Crest A2D) LLP	7	8	10	31st March	50%
Crest Nicholson Bioregional Quintain LLP	1	8	10	31st October	50%
Crest/Galliford Try (Epsom) LLP	1	8	10	31st October	50%
English Land Banking Company Limited	1	8	10	31st October	50%
The Century House Property Company Limited	1	8	11	31st October	50%
Crest Nicholson Bioregional Quintain (Gallions) LLP	1	8	11	31st October	50%
Brentford Lock Limited	3	8	10	31st December	50%
Haydon Development Company Limited	4	8	10	30th April	21.36%
North Swindon Development Company Limited	4	8	10	31st October	32.64%

Registered office
1 Crest House, Pyrcroft Road, Chertsey, Surrey KT16 9GN, UK
2 Unit 2 & 3 Beech Court, Wokingham Road, Hurst, Reading RG10 0RU, UK
3 Persimmon House, Fulford, York YO19 4FE, UK
4 6 Drakes Meadow, Penny Lane, Swindon, Wiltshire SN3 3LL, UK
5 SG Hambros House, 18 Esplanade, St Helier, Jersey JE4 8RT
6 Level 6, 6 More London Place, Tooley Street, London SE1 2DA
7 The Point, 37 North Wharf Road, London W2 1BD

Place of incorporation
8 England
9 Jersey

Active/dormant
10 active
11 dormant

Joint operations

The Group is party to a joint arrangement with Linden Homes Limited, the purpose of which is to acquire, and develop, a site in Hemel Hempstead, Hertfordshire. The two parties are jointly responsible for the control and management of the site's development, with each party funding 50% of the cost of the land acquisition and development of the site, in return for 50% of the returns. As such this arrangement was designated as a joint operation.

The Group is party to a joint arrangement with CGNU Life Assurance Limited the purpose of which is to acquire, and develop, a site in Chertsey, Surrey. The two parties are jointly responsible for the control and management of the site's development, with each party funding 50% of the cost of the land acquisition and development of the site, in return for 50% of the returns. As such this arrangement has been designated as a joint operation.

The Group is party to a joint arrangement with Passion Property Group Limited, the purpose of which was to develop a site in London. The development was completed in 2014 and there are no material balances in the Group financial statements relating to this joint arrangement as at 31st October 2018. The two parties were jointly responsible for the control and management of the site's development, with each party having prescribed funding obligations and returns. As such this arrangement has been designated as a joint operation.

In line with the Group's accounting policies, the Group has recognised its share of the jointly controlled assets and liabilities, and income and expenditure, in relation to these joint arrangements on a line-by-line basis in the consolidated statement of financial position and consolidated income statement.

Crest Nicholson Employee Share Ownership Trust

The Group operates The Crest Nicholson Employee Share Ownership Trust, which is used to satisfy awards granted under the Groups share incentive schemes; shares are allotted to the trust or the trust is funded to acquire shares in the open market. The Crest Nicholson Employee Share Ownership Trust falls within the scope of IFRS 10 Consolidated statements, and is consolidated within the Group financial statements, as the Group is considered to have control over the Trust.

Company statement of financial position

As at 31st October 2018

	Note	2018 £m	2017 £m
ASSETS			
Non-current assets			
Investments	4	1.0	-
Current assets			
Trade and other receivables	5	222.9	297.5
TOTAL ASSETS		**223.9**	**297.5**
LIABILITIES			
Current liabilities			
Current income tax liabilities		(2.1)	(1.1)
TOTAL LIABILITIES		**(2.1)**	**(1.1)**
NET ASSETS		**221.8**	**296.4**
SHAREHOLDERS' EQUITY			
Share capital	6	12.8	12.8
Share premium account	6	74.2	74.1
Retained earnings		134.8	209.5
TOTAL SHAREHOLDERS' EQUITY		**221.8**	**296.4**

The Company recorded a profit for the financial year of £10.0m (2017: £14.7m).

The notes on pages 163 to 165 form part of these financial statements.

The financial statements on pages 161 to 165 were approved by the Board of Directors on 29th January 2019.

On behalf of the Board

P Bergin
Director

Company statement of changes in equity

For the year ended 31st October 2018	Note	Share capital £m	Share premium account £m	Retained earnings £m	Total equity £m
BALANCE AT 1ST NOVEMBER 2016		**12.7**	**73.0**	**270.7**	**356.4**
Profit for the financial year and total comprehensive income		-	-	14.7	14.7
Transactions with shareholders					
Dividends paid	3	-	-	(75.9)	(75.9)
Share capital issued		0.1	1.1	-	1.2
BALANCE AT 31ST OCTOBER 2017		**12.8**	**74.1**	**209.5**	**296.4**
Profit for the financial year and total comprehensive income		-	-	10.0	10.0
Transactions with shareholders					
Dividends paid	3	-	-	(84.7)	(84.7)
Share capital issued		-	0.1	-	0.1
BALANCE AT 31ST OCTOBER 2018		**12.8**	**74.2**	**134.8**	**221.8**

Notes to the company financial statements

For the year ended 31st October 2018

1 ACCOUNTING POLICIES

Crest Nicholson Holdings plc (the 'Company') is a public company limited by shares, incorporated, listed and domiciled in England and Wales. The address of the registered office is Crest House, Pyrcroft Road, Chertsey, Surrey KT16 9GN. The Company financial statements have been prepared and approved by the Directors in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'), in accordance with the Companies Act 2006 as applicable to companies using FRS 101, and have been prepared on the historical cost basis.

The preparation of financial statements in conformity with FRS 101 requires management to make assumptions and judgements that affect the application of policies and reported amounts within the financial statements. Assumptions and judgements are based on experience and other factors that management consider reasonable under the circumstances. Actual results may differ from these estimates.

The financial statements are presented in pounds sterling and amounts stated are denominated in millions (£m). The accounting policies have been applied consistently in dealing with items which are considered material.

These financial statements present information about the Company as an individual undertaking and not about its group. Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

As outlined in FRS 101 paragraph 8(a) the Company is exempt from the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payments. This exemption has been taken in the preparation of these financial statements.

As outlined in FRS 101 paragraph 8(d-e) the Company is exempt from the requirements of IFRS 7 Financial Instruments: Disclosures, and from the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement. These exemptions have been taken in the preparation of these financial statements.

As outlined in FRS 101 paragraph 8(h) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements. This exemption has been taken in the preparation of these financial statements.

As outlined in FRS 101 paragraph 8(i) the Company is exempt from the requirement to provide information about the impact of IFRS that have been issued but are not yet effective. This exemption has been taken in the preparation of these financial statements.

Under FRS 101 paragraph 8(j) the Company is exempt from the requirement to disclose related-party transactions with its subsidiary undertakings on the grounds that they are wholly owned subsidiary undertakings of Crest Nicholson Holdings plc. This exemption has been taken in the preparation of these financial statements.

The Company is the holding company of the principal trading entity of the Group headed by Crest Nicholson Holdings plc (the 'Group'). The Group financial statements, which include all the above exemptions can be obtained from Crest House, Pyrcroft Road, Chertsey, Surrey KT16 9GN. The Company and certain of its subsidiaries are cross-guarantors to the debt facilities of the Group. Accordingly, the Directors have considered the Group's position for the purposes of assessing the use of the going concern basis.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

There were no new standards, amendments or interpretations that were adopted by the Company and effective for the first time for the financial year beginning 1st November 2017 that had a material impact on the Company.

The principal accounting policies adopted are set out below.

Taxation

Income tax comprises current tax and deferred tax. Income tax is recognised in the Company's income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income.

Current tax is the expected tax payable on taxable profit for the year and any adjustment to tax payable in respect of previous years. Taxable profit is profit before tax per the Company's income statement after adjusting for income and expenditure that is not subject to tax, and for items that are subject to tax in other accounting periods. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date. Where uncertain tax liabilities exist, the liability recognised is assessed as the amount that is probable to be payable.

Deferred tax is provided in full on temporary 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. 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. Deferred tax is calculated using tax rates that have been substantively enacted by the statement of financial position date.

Dividends
Final and interim dividend distributions to the Company's shareholders is recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders.

Investments
Investments relate to Company contributions to The Crest Nicholson Employee Share Ownership Trust. The trust will use the contribution to acquire Company ordinary shares in the market in order to satisfy share options under the Company's share incentive schemes.

Trade and other receivables
Trade and other receivables are stated at their fair value at the date of recognition and subsequently at amortised cost less impairment. A provision for impairment of trade receivables is made when there is evidence that the Company will not be able to collect the amounts due.

Audit fee
Auditor's remuneration for audit of these financial statements of £11,500 (2017: £10,815) was met by Crest Nicholson plc. No disclosure of other non-audit services has been made as this is included within note 3 of the consolidated financial statements.

Critical accounting estimates and judgements
The preparation of the Company financial statements under FRS101 requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses and related disclosures.

In applying the Company's accounting policies, the Directors have made no individual judgements that have a significant impact on the financial statements, apart from those involving estimates, which is described below.

Estimates and associated assumptions affecting the financial statements are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years. Management do not consider there are any significant sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying value of assets and liabilities of the Company.

2 DIRECTORS AND EMPLOYEES
The Company had no employees during either year. Details of Directors' emoluments, which were paid by another Group company, are set out in the Directors' Remuneration Report on pages 92 to 112.

3 DIVIDENDS
Details of the dividends recognised as distributions to equity shareholders in the year and those proposed after the statement of financial position date are shown in note 7 of the consolidated financial statements.

4 INVESTMENTS

	2018 £m	**2017** £m
Investments in shares of subsidiary undertaking at cost at 1st November	-	-
Additions	1.0	-
INVESTMENTS IN SHARES OF SUBSIDIARY UNDERTAKING AT COST AT 31ST OCTOBER	**1.0**	**-**

Additions in the year relate to Company contributions to The Crest Nicholson Employee Share Ownership Trust.

The Directors believe that the carrying value of the investments is supported by their underlying assets.

5 TRADE AND OTHER RECEIVABLES

	2018 £m	2017 £m
Amounts due from Group undertakings	**222.9**	**297.5**

£222.9m of amounts due from Group undertakings are unsecured, repayable on demand and carry an interest rate of 5.0% (2017: 5.0%).

6 SHARE CAPITAL

The Company share capital is disclosed in note 21 of the consolidated financial statements.

7 CONTINGENT LIABILITIES

There are performance bonds and other arrangements, including those in respect of joint venture partners, undertaken in the ordinary course of business. It is impractical to quantify the financial effect of performance bonds and other arrangements. Management consider the possibility of a cash outflow in settlement of performance bonds and other arrangements to be remote.

In addition, the Company is required from time to time to act as guarantor for the performance by subsidiary undertakings of contracts entered into in the normal course of their business and typically provide that the Company will ensure that the obligations of the subsidiary are carried out or met in the unlikely event that any subsidiary default occurs. The Company considers the likelihood of an outflow of cash under these arrangements to be remote.

8 GROUP UNDERTAKINGS

A list of all the Group's undertakings at 31st October 2018 is given in note 26 of the consolidated financial statements.

Historical summary (unaudited)

For the year ended 31st October 2018

	Note		2018	2017	2016	2015	2014
Consolidated income statement							
Revenue		£m	1,136.1	1,043.2	997.0	804.8	636.3
Gross profit		£m	254.7	274.9	265.8	221.3	182.0
Gross profit margin		%	22.4	26.4	26.7	27.5	28.6
Operating profit before joint ventures		£m	189.8	211.6	203.8	163.3	128.1
Operating profit before joint ventures		%	16.7	20.3	20.4	20.3	20.1
Share of post-tax (loss)/profit of joint ventures		£m	(1.4)	3.7	(0.7)	0.2	-
Operating profit after joint ventures		£m	188.4	215.3	203.1	163.5	128.1
Net finance expense		£m	12.0	8.3	8.1	9.5	11.4
Profit before taxation		£m	176.4	207.0	195.0	154.0	116.7
Income tax expense		£m	(33.6)	(38.4)	(38.2)	(29.9)	(17.9)
Profit after taxation attributable to equity shareholders		£m	142.8	168.6	156.8	124.1	98.8
Basic earnings per share		Pence	55.7	66.1	62.0	49.3	39.3
Consolidated statement of financial position							
Equity shareholders' funds		£m	878.6	817.8	719.2	630.7	536.5
Net (cash)/borrowings		£m	(14.1)	(33.2)	(77.0)	30.6	19.3
Capital employed closing		£m	864.5	784.6	642.2	661.3	555.8
Gearing		%	(1.6)	(4.1)	(10.7)	4.9	3.6
Return on average capital employed	1	%	23.0	29.7	31.3	26.8	26.0
Return on average equity	2	%	16.8	21.9	23.2	21.3	19.6
Housing							
Units completed		Units	3,020	2,935	2,870	2,725	2,530
Average selling price – open market		£000	393	388	369	311	287
Short-term land		Units	19,291	16,260	15,901	16,064	17,247
Strategic land		Units	16,837	18,174	17,026	17,712	16,219
Land pipeline gross development value		£m	12,083	11,736	10,646	10,466	9,342

1 Return on capital employed = operating profit before joint ventures divided by average capital employed (capital employed = equity shareholders' funds plus net borrowing or less net cash).

2. Return on average equity = profit after taxation attributable to equity shareholders divided by average equity shareholders' funds.

Group Directory

Crest Nicholson Chiltern
Jon Cook
Managing Director
Telephone: 01727 616 940

Crest Nicholson Eastern
Adrian Bohr
Managing Director
Telephone: 01277 693 230

Crest Nicholson Midlands
Ben Miller
Managing Director
Telephone: 01214 351 100

Crest Nicholson Regeneration
Scott Black
Managing Director
Telephone: 01932 580 333

Crest Nicholson South
John Shelbourne
Managing Director
Telephone: 01932 580 444

Crest Nicholson South West
Darren Dancey
Managing Director
Telephone: 01179 236 600

Crest Strategic Projects
Andrew Dobson
Managing Director
Telephone: 01932 580 555

www.crestnicholson.com

Useful contacts

Crest Nicholson

Company Secretariat
Crest House
Pyrcroft Road
Chertsey
Surrey
KT16 9GN

Email: **info@crestnicholson.com**
Switch Board: 01932 580 555
Fax: 0870 243 8395

For shareholding notifications required under the FCA Disclosure Guidance and Transparency Rules please email: **dtr-notifications@crestnicholson.com**

Registrar

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

UK Shareholder
Helpline: 0371 384 2030

International Shareholder
Helpline: +44 (0)121 415 7047

www.shareview.co.uk

Press Enquiries

Finsbury
Financial Enquiries
Email: **crestnicholson@ finsbury.com**
Telephone: 020 7251 3801

Red Consultancy
Corporate Enquiries
Email: **CrestNicholsonTeam@redconsultancy.com**
Telephone: 020 7025 6607

ABOUT THIS ANNUAL INTEGRATED REPORT

This is our fifth annual integrated report, focusing on how we have achieved business success through our financial and non-financial performance and risk management. It also describes the wider impacts of our business and how we are working to sustain long-term value for our stakeholders and the environment.

The report complies with all relevant strategic reporting requirements for UK listed companies. We provide further sustainability information on our website **www.crestnicholson.com/about-us/integrating-sustainability**

Crest House
Pyrcroft Road
Chertsey
Surrey
KT16 9GN

Tel: 01932 580 555

www.crestnicholson.com

Crest Nicholson Holdings plc
Registered number 6800600