CREST NICHOLSON

SHAPING COMMUNITIES RESHAPING OUR BUSINESS

Annual Integrated Report 2019

We aim to create quality homes for our customers where people and communities can thrive. Changing customer needs and the requirement for affordable and sustainable homes are reshaping our business.

Highlights[1]

£121.1m

Adjusted profit before tax[2]

2018	£168.7m

38.0p

Adjusted basic earnings per share[3]

2018	53.3p

£102.7m

Profit before tax

2018	£168.7m

32.1p

Basic earnings per share

2018	53.3p

Approval

The Strategic Report for the financial year ended 31 October 2019 as presented on pages 1 to 55 was approved by the Board of Directors on 28 January 2020 and signed on its behalf by:

Kevin Maguire
Company Secretary

1 Comparator figures have been restated to reflect the adoption of IFRS 15 'Revenue from Contracts with Customers'. See note 29 for the impact of this change.

2 Adjusted profit before tax is an alternative performance measure consisting of statutory profit before tax adjusted for the exceptional item relating to the combustible materials provision. See page 123 for further details.

3 Adjusted basic earnings per share is an alternative performance measure consisting of statutory basic earnings per share adjusted for the impact of the exceptional item relating to the combustible materials provision. See page 123 for further details.

Contents

Finberry, Kent

HEADLINES FROM THE YEAR

Against a challenging backdrop in 2019 we are fully committed to improving our performance

Highlights

Recruitment of a new Executive Leadership Team and Chairman

Challenging market backdrop

Launch of an updated strategy

Significant improvement to customer service and satisfaction ratings

Read more on **pages 10–17**

New Values

- Work as One Crest
- Committed to success
- Considered decision making
- Investing in our people
- A positive legacy for our customers and communities.

Read more on **page 45**

Financial highlights

£1,094.9m

Sales[1]

2018 £1,122.0m

£1,086.4m

Revenue

2018 £1,121.0m

33.0p

Dividend per share

2018 33.0p

Environmental highlight

3%

Reduction in construction waste volume (yd³/1,000 sq ft) since last year

Social highlights

372

Annual Injury Incidence Rate

2018 342

£1.3m

Investment in training

2018 £1.5m

1 Sales is an alternative performance measure consisting of statutory revenue as per the consolidated income statement and the Group's share of sales revenue earned by joint ventures. See page 36 for further details.

CHAIRMAN'S INTRODUCTION

It is a privilege to welcome you to my first report as Chairman of the Crest Nicholson Board

I joined the Board in September following a year of change and challenge for the Group. The Board had to make some tough decisions during the year and as a result we reached the end of the year with a new Executive Leadership Team and Chairman in place.

The new team has acted quickly and the Board welcomed their updated strategy proposals in November. We are confident that we have a talented and highly motivated leadership team who have the necessary skills and capabilities to restore Crest Nicholson as one of the UK's leading house builders.

Significant change, especially involving senior personnel who have been with an organisation for a long time, can be unsettling to any business. We have also experienced change outside of our control.

The macro-economic environment has been challenging for us. Brexit-related uncertainty has weighed heavily on our customers' minds and we have had to navigate our way through that while the new leadership team conducted its review and developed its recommendations.

I would like to thank every Crest Nicholson employee for their hard work and commitment during the past year. I am confident that we can look forward to a brighter future in 2020 as we deliver improved financial performance and create value for customers and shareholders.

Iain Ferguson CBE
Chairman

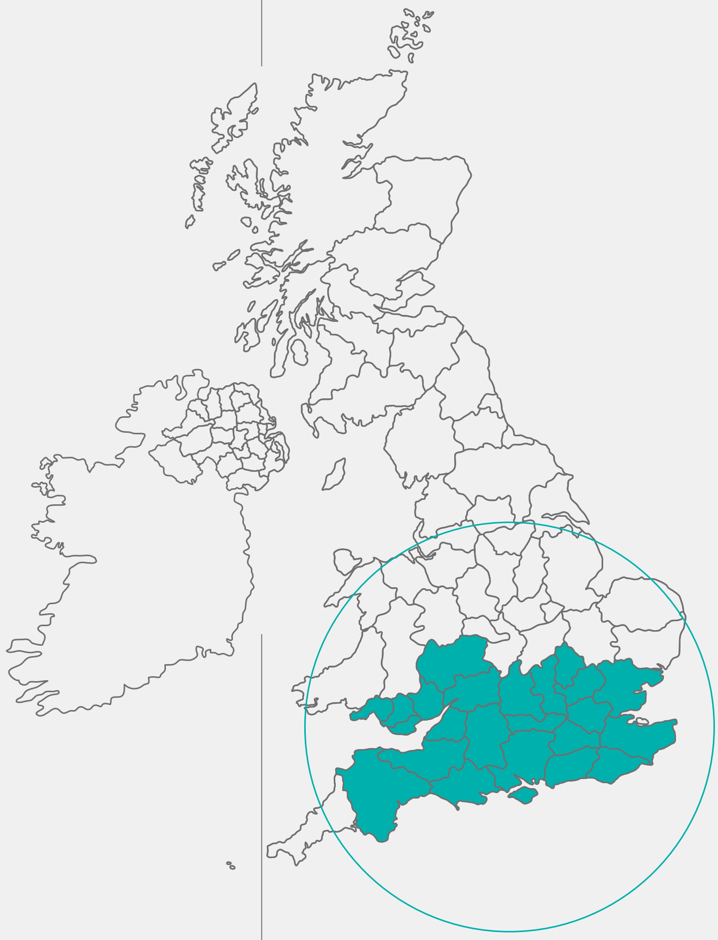
WE ARE CREST NICHOLSON

Our mission is to improve the quality of life for individuals and communities, both now and in the future, by providing attractive homes, workplaces, retail and leisure spaces. Most importantly, we place our customers at the heart of everything we do.

Our operations

Our regional focus

Our divisional structure enables us to develop local insight and relationships. Our updated strategy is focused on blending this regional experience with a more disciplined approach to design and specification and consistent execution across the Group.



Our updated strategy

During FY2019 our strategy was focused on three priorities:

- Prioritising cash flow and dividends by increasing partnerships and more forward sales to Registered Providers (RPs) and the Private Rented Sector (PRS);
- Maximising value in the land portfolio; and
- Driving operational efficiencies especially through investment in off-site construction.

Our business model reflects how our business is structured and managed to support the delivery of our strategy. Our KPIs illustrate how we measure our success in delivering against our strategic priorities.

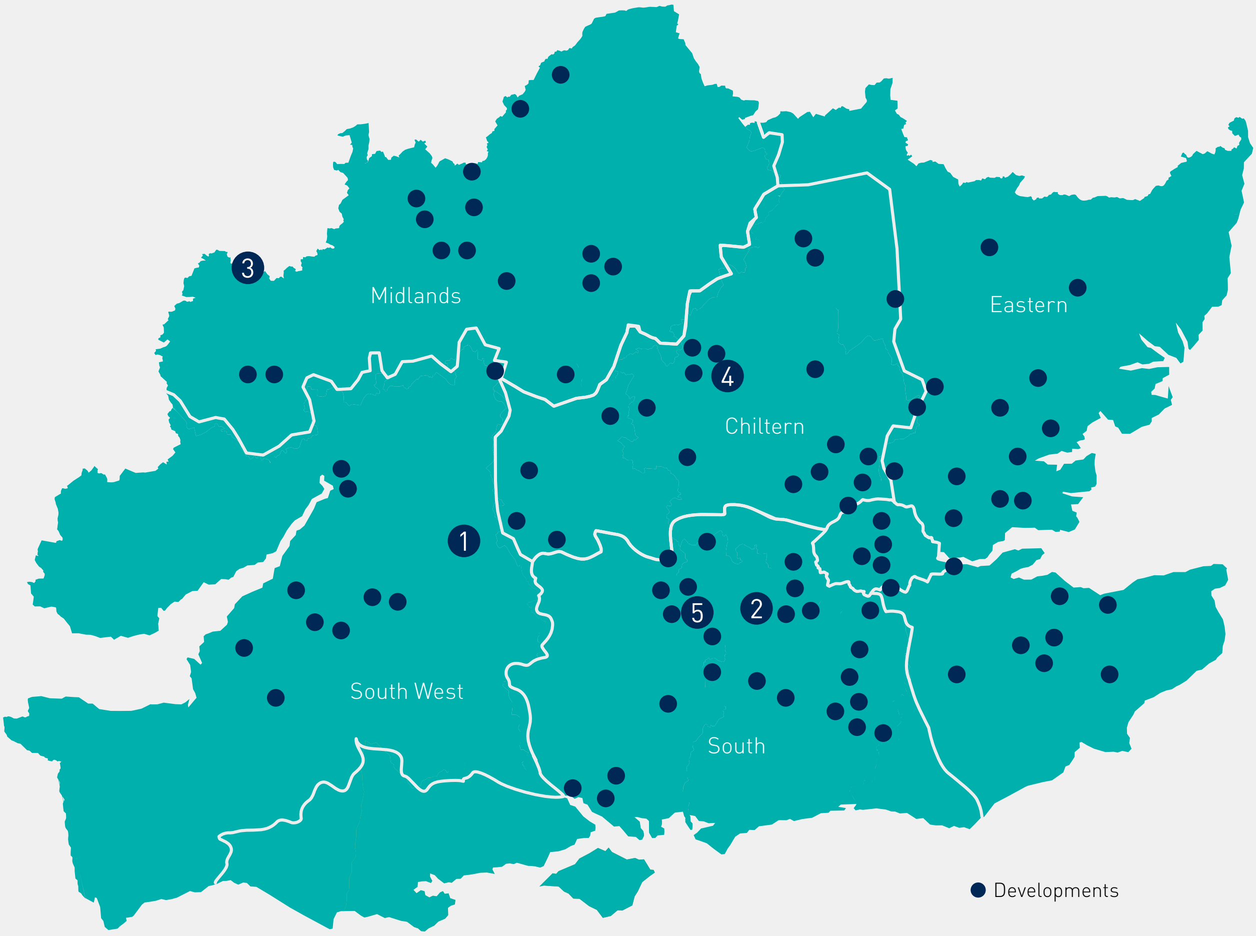
Following the appointment of a new Executive Leadership Team during FY2019 a detailed strategy review was conducted. The updated strategy for FY2020 and beyond builds on many of our existing strengths and as such we consider that our business model remains appropriate to support its delivery. We have also reviewed our KPIs and consider these to remain relevant but have taken the opportunity to replace our Strategic Land metric for a Net Cash measure. A greater focus on cash generation carries a greater importance to the majority of our stakeholders than the longer-term and less certain value of Strategic Land.

Our updated strategy is outlined in detail in our Chief Executive's review on pages 10 to 17. We will continue to review the impact of our updated strategy on both our business model and KPIs in our next Annual Integrated Report.

1 Tadpole Garden Village, Wiltshire p19

66%

Of Tadpole Garden Village, Wiltshire is dedicated to open green space



2 Longcross, Surrey p21

4 Morton Park, Buckinghamshire p25

3 St. Laurence View, Shropshire p23

5 Waterman's Reach at Arborfield Green, Berkshire p27

FTSE4Good

In 2019, Crest Nicholson retained its place in the FTSE4Good Index, scoring particularly highly for Corporate Governance, Anti-Corruption, Climate Change and Labour Standards.

OUR BUSINESS MODEL

How we create value for our stakeholders

Our resources and relationships

Our people
Having experienced, dedicated and motivated employees enables us to deliver our vision.

Natural and manufactured resources
We build homes that are high quality and energy efficient and we aim to procure our materials from sustainable sources.

Partnerships
Our business works with carefully selected partners. We also maintain close relationships with regulatory and industry bodies to keep abreast of policy issues that might affect us.

Customers
We are committed to delivering a five-star customer service experience.

Innovation and Technology
We encourage innovation to improve the quality and efficiency of our business and develop modern construction techniques.

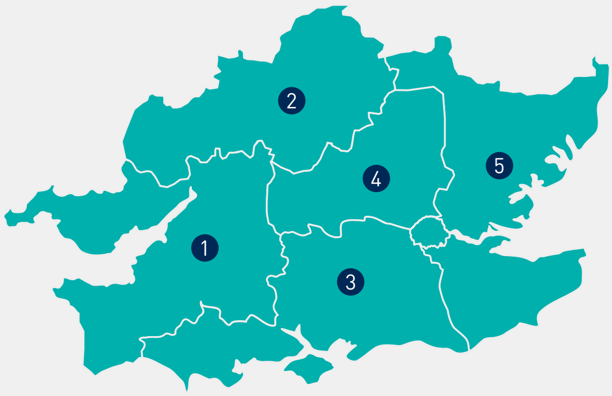
Financial resources
We maintain a robust capital structure, with a prudent approach to risk. We invest in land and development using cash generated from our operations, as well as employing different types of debt financing and accessing government and partnership funding, such as the Housing Infrastructure Fund.

What we do to create value

We design and deliver sustainable homes and mixed-use communities, from small housing-led residential developments to larger urban regeneration schemes and Garden Villages.

Five regional house building divisions in 2019
Our five house building divisions:

1. South West
2. Midlands
3. South
4. Chiltern
5. Eastern



Areas of business expertise
We provide major project skills and experience and have a strong track record in delivering partnerships:

1. **Strategic Projects**
Our Strategic Projects team source unallocated sites and secure valuable planning permissions over time for medium to long-term development which are delivered by our divisions.

2. **Large scale projects**
We procure and manage large scale regeneration developments with public and private partners, incorporating residential and mixed use projects.

Group central support functions
Support the business to operate efficiently, consistently and responsibly.

The value we create

Our business model enables us to create long-term value for our business and our stakeholders to achieve our strategic priorities.

Investors

We maintain a robust balance sheet and have a focus on cash generation. This leads to sustainable returns for shareholders.

33.0p
2019 dividend per share

38.0p
Adjusted basic earnings per share

£121.1m
Adjusted profit before tax

Customers

We support our customers throughout the home buying process and provide them with high quality homes.

2,912
Home completions

4*
Customer satisfaction rating

741
Affordable homes delivered in 2019

Our people

Our employees are empowered to make decisions to deliver our success. We treat each other with fairness and respect recognising each others' valuable perspectives.

966
Employees at year end

24.0
Training hours per person

37%
Proportion of female employees

Suppliers

Our suppliers work with us to address shared challenges and opportunities to deliver projects safely, sustainably, on time and in line with financial targets.

56%
Total direct spend on materials with Group-approved suppliers

97%
Of timber purchased through direct suppliers either FSC or PEFC certified

Local community

We provide attractive communities, infrastructure and create and regenerate green space that supports nature and people's well-being.

30%
Of homes have access to sustainable transport initiatives

£196.3m
Committed s106 and Community Infrastructure Levy payments

Government and other regulatory bodies

We engage with Government and regulatory bodies so that new policies and regulations support developments that respond to UK housing needs, and wider societal issues like climate change.

25%
Affordable homes

67%
Of developments with ecological enhancements or protection

CHAIRMAN'S STATEMENT

2019 has been a year of significant change for Crest Nicholson

With a backdrop of Brexit uncertainty and challenging market conditions, results have not been as positive as we would have liked. Crest Nicholson is a resilient business capable of building on its key strengths in the future.

Iain Ferguson CBE
Chairman

Governance highlights

The Board's focus this year

- Executive Director and Chairman recruitment
- Succession planning
- Control environment and assurance processes
- Employee engagement.

The Board's focus for 2020

- Health and safety
- Sustainability in operations
- People as a key foundation of our strategy
- Delivery against financial and operational targets.

Results and dividends

£121.1m

Adjusted profit before tax

2018	£168.7m

£102.7m

Profit before tax

2018	£168.7m

21.8p

Final dividend per share

2018	21.8p

33.0p

Dividends per share for the year

2018	33.0p

Read more on the Group's governance, audit and remuneration in the Governance section on **pages 56–104**

Read more on the Board's priorities and activities during the year in the Governance section on **pages 66–67**

Board changes

The past year has been a busy one for the Board and I would like to begin by thanking our Deputy Chairman, Leslie Van de Walle, for his central role in recruiting the new Executive Leadership Team, and myself as Chairman. I would also like to thank our previous Chairman, Stephen Stone, who remained committed to Crest Nicholson throughout the period of transition, and to recognise Chris Tinker for stepping up as interim Chief Executive and ensuring the business continued to deliver during this period.

In September, our new Chief Executive, Peter Truscott joined the Company. He is supported by Tom Nicholson who joined the Company as Chief Operating Officer in May. Tom was subsequently promoted to the Board in January 2020. The Board also appointed Duncan Cooper as the new Group Finance Director in June. I am looking forward to working with all of them in the future.

Trading performance

2019 has been a challenging year for the Group, both internally and externally. Despite the level of adversity and market challenges, we completed the sale of 2,912 homes (2018: 3,048), achieved sales of £1,094.9m (2018: £1,122.0m) with adjusted profit before tax of £121.1m (2018: £168.7m).

Updated strategy

Although our financial results were below our expectations, Peter and the Executive Leadership Team have worked quickly to develop an updated strategy for the business to improve performance. It builds on Crest Nicholson's strengths while delivering expedited change in a number of areas, particularly in light of the current political and economic uncertainty affecting the business. The revised strategy is centred on five priorities: great placemaking and quality; realising the value in our strong land portfolio, a greater focus on operational efficiency; attaining and maintaining a five-star customer service rating; and building a multi-channel, multi-tenure offer for partners. Over the next 12 months, the Board will both support and hold to account the new team in implementing the updated strategy, which I strongly believe will drive an effective and sustainable response.

Political and economic environment

While the result of the General Election in December may have reduced some political uncertainty, the focus has now switched to the nature of the trading relationship the UK will have with the EU in the future. The Group remains mindful that this uncertainty is likely to continue to exhibit a greater influence on customers in our operating geographies. However, we believe our plans will make Crest Nicholson a more resilient business, capable of navigating whatever political or economic challenges we may face.

Safety, Health & Environment (SHE)

SHE is our number one priority. While we recognise that entirely eradicating the risk of accidents on sites is a challenge, we continuously reinforce our established safety procedures in all parts of the organisation.

We are therefore deeply saddened that a sub-contractor working on one of our sites was fatally injured in October. This reinforces the crucial importance of having a strong safety culture across all our activities and sites as it applies to over 4,000 people, including our suppliers. We set clear expectations around safe processes and policies and we extend these to all our employees and third parties.

I believe that a strong safety culture should run throughout any successful construction business. The benefits can be transformational in shaping broader organisational culture and attitude.

Dividend and capital return plan

As the Company sets out its plans to rebuild operating profits, it also recognises the importance of the dividend to shareholders, while maintaining a robust balance sheet. I am pleased to say that we ended the year with positive net cash and we are fulfilling our commitment to pay a dividend of 33.0 pence per share for 2019.

Summary

On behalf of the Board, I would like to take this opportunity to thank everyone in the business for their hard work and contribution over the past year. 2020 will be a year of transition for Crest Nicholson. I am confident and optimistic about the future and I thank you for your continued support.

Iain Ferguson CBE
Chairman

CHIEF EXECUTIVE'S REVIEW

2019 has been a year of considerable change, challenge and opportunity for Crest Nicholson

I am delighted to have joined a business that has a strong brand and reputation for building high quality homes and creating attractive, sustainable communities.

Having visited all of our sites and divisions I can see that Crest Nicholson is, fundamentally, a strong business. However, the recent disappointments in financial performance illustrate the need to evolve and change.

Towards the end of the year, I led the new Executive Leadership Team's review of our strategy. We concluded that we want to retain and develop many of the elements that have made Crest Nicholson the business it is today. However, we also identified, and have already implemented, a number of major changes to the way we do things, our structure, and how we operate as a Group.

I am confident that the new Executive Leadership Team has the experience and capabilities it needs to build on these strengths and to introduce new standards and ideas that will take the Company forward, leading to improved operational and financial performance.

I look forward to being able to update you on progress against our updated strategy over the course of the coming year. Finally, I would like to thank Chris Tinker for all his efforts as interim Chief Executive and for the support he gave me on joining in September.

Peter Truscott
Chief Executive

Trading summary

We are disappointed with the financial results achieved in FY2019 against the strategy established in the previous year.

Our strategy in FY2018 set out to de-risk the business amid continued market uncertainty, with a focus on three strategic priorities:

1. Prioritising cash flow and dividends by increasing partnerships and more forward sales to Registered Providers (RPs) and the Private Rented Sector (PRS)
2. Maximising value in the land portfolio
3. Driving operational efficiencies, especially through investment in off-site construction.

Despite the financial performance, we did make some progress against these priorities. Firstly, we continued to build our partnerships business, delivering good levels of forward sales, especially in the first half. We delivered on our commitment to end the year with a stronger level of net cash than in the previous year and we took decisive action over the course of the autumn to reduce sales-related costs and central overheads.

We also took action in two other areas. We regularly review the selling prices and rates of all of our housing stock and we decided to reduce the prices of a number of properties located within the greater London area. The effect of these reductions has created a charge in this year's income statement of £7.0m as we have had to adjust their carrying value on the balance sheet. We feel this is a necessary step to reposition these properties in a challenging sales market in London and it strikes the right balance between realising margin and cash utilisation.

In addition, David Marchant, our Group Production Director, has been undertaking a detailed review of all legacy-sold and for-sale properties in respect of the latest guidance on fire risk. This has rightly been an increasing area of regulatory focus since the tragic incident at Grenfell Tower and the Executive Leadership Team takes this matter very seriously. This year, new Government guidance notes were issued which we have been carefully considering in respect of any investigative or remedial work which may be required to comply with the updated guidance. Accordingly, we have concluded that it is necessary to make a charge to this year's income statement of £18.4m to cover these potential liabilities and work is now underway on several properties.

Safety, Health & Environment (SHE)

SHE is our number one priority. We are taking steps to reinforce this as we strive for continuous improvement in this area. We are setting ourselves a target to be amongst the best in the industry in terms of our SHE performance and culture. SHE is integral to our operations and the Executive Leadership Team and I are fully committed to taking all necessary steps to ensure we realise this ambition.

During the year, we implemented further improvements to our SHE compliance policies and procedures and to our leadership structure, with David Marchant, now the new executive lead for SHE.

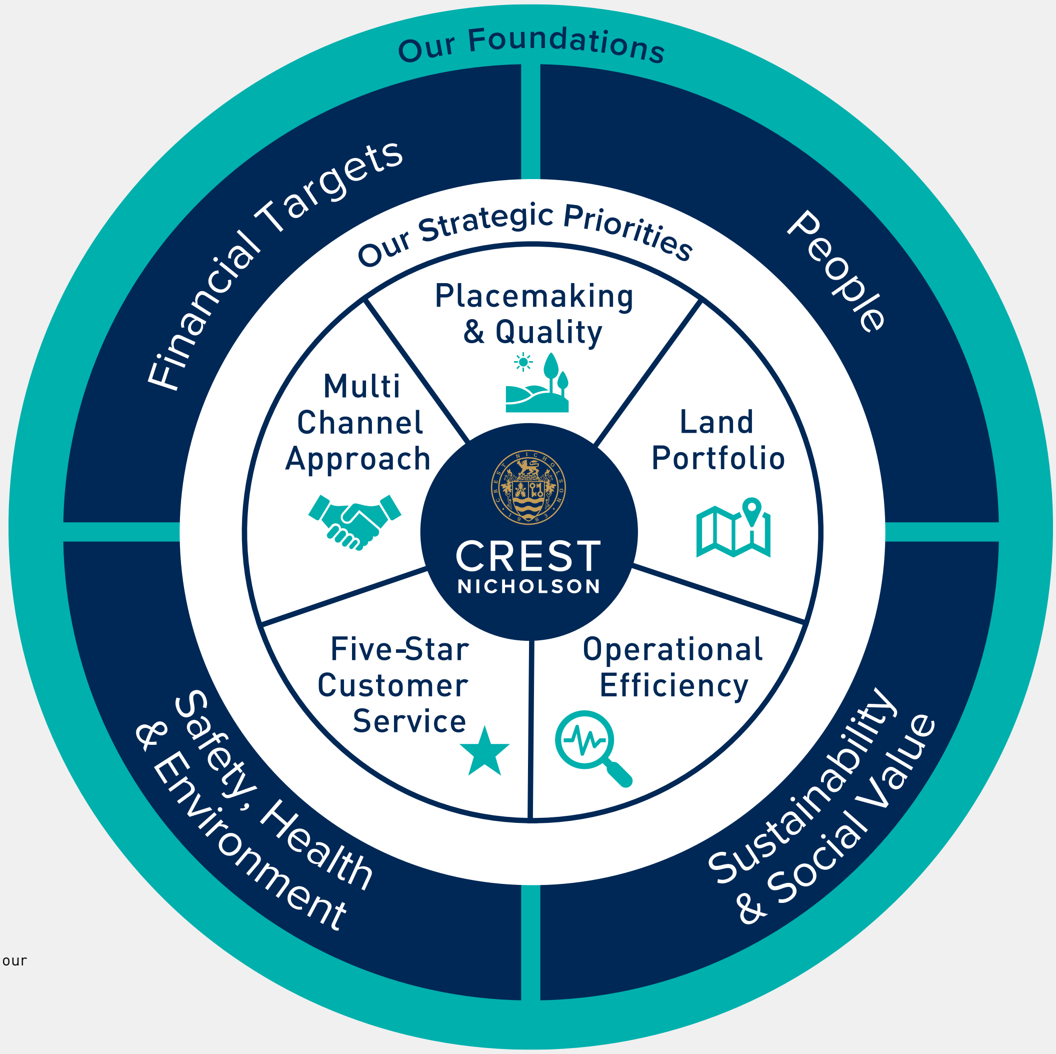
As a reminder of the critical importance of maintaining a constant focus in this area, I was deeply saddened to report the tragic loss of one of our subcontractors who was fatally injured on site late last year. Clearly this tragedy is unacceptable and we must maintain our strong focus on safety and risk management across all sites.

We have made commitments in the following areas in respect of Safety, Health & Environment:

- Demonstrating strong leadership throughout the organisation
- Delivering compliance with legislation and our own policies
- Health and well-being
- Supply chain competence and management
- The competence, training and qualifications of our employees
- New reporting and insights
- Environmental management.

CHIEF EXECUTIVE'S REVIEW CONTINUED

An updated strategy and a renewed focus



Read more about our updated strategy **pages 13–17**

When I joined the business in September, I initially spent of lot of time visiting all of our sites and listening to our teams. I was immediately struck by the passion and talent that exists within the organisation. I was also impressed by the quality of our land portfolio. It was a major reason for me wanting to join as Chief Executive and my confidence has only grown that this represents a significant opportunity to generate value for customers, communities and shareholders.

However, I and the rest of the new Executive Leadership Team also identified some obvious challenges getting in the way of performance. We observed a bespoke mindset to house type design and specification which had led to inherent procurement inefficiencies. The ratio of sales and marketing costs and central overheads needed reducing in order to reflect our weaker trading performance and align with industry norms. In some regions, we were seeking to command a price premium versus our competition that was unsustainable against a market backdrop of more generous discounts and incentives. This was starting to impact on volumes and was causing stock levels to rise.

Our updated strategy seeks to build on the many positive elements of Crest Nicholson. We want to maintain and enhance our good reputation for placemaking and quality and continue our strong heritage in sourcing and developing both short-term and strategic land. In order for this to be an effective business model capable of delivering the returns our shareholders rightly expect, we must bring much more discipline to our operational efficiency.

I also believe it is essential for Crest Nicholson to be consistently rated five-star for customer service and we have made that ambition very clear internally.

Finally, we have made significant progress in the past few years in building both relationships and capabilities to deliver our housing with partners or other organisations. Our updated strategy sets out to accelerate these plans, recognising that the economic model is often very different and that it must demonstrate strong capital efficiency and reduced risk to justify the lower margin.

Strategy in detail

Placemaking & Quality

Crest Nicholson enjoys an enviable reputation for its placemaking skills, and we intend to preserve and build on this. In many ways, it is what we are known for.

We define placemaking in subjective terms – aiming to create developments that, through their distinctive design, quality public realm and attention to detail, are simply 'places in which our customers wish to live'. The Government agenda, led by its new National Design Guide, is very much aligned to our strengths in this area.

However, placemaking extends far beyond the physical environment that we create; it also encompasses building strong, sustainable communities. Some of the best examples of where we have delivered this are seen in our Garden Villages, such as Tadpole Garden Village in Swindon, Wiltshire.

We enjoy a reputation for building high quality, well-specified developments using careful methods of construction. We will continue setting ourselves these high standards. However, great placemaking and build quality must be balanced with delivering strong returns. We are a business of significant scale, operating across a number of geographies in the UK, and we must ensure we focus our investment in design and quality on the areas most valued by customers and communities.

Tadpole Garden Village, Swindon
Once completed, Tadpole Garden Village, Swindon, will consist of over 1,800 homes and a range of community facilities. This includes a retail centre, pavilion and community centre, a cricket pitch, football pitches and a public house. Four new schools will benefit local families, as well as 8 children's play areas, and substantial green space.

Land Portfolio

Kilnwood Vale, West Sussex

Crest Nicholson has a large and desirable land portfolio with a strong weighting in Southern England where the demand is high and the supply side is more constrained. The larger proportion of this land is held under option, or is drawn down gradually, representing good capital efficiency for the Company and its shareholders. The Executive Leadership Team believe there is significant future value in this portfolio for our stakeholders, and that enhanced returns can be delivered by overlaying our planned operational efficiencies onto these assets. This is a core part of the Group's future investment proposition.

In recent years the Group has sold an increasing proportion of land to realise immediate value. While some external land sales can be supported by an overwhelmingly strong economic case, and because our land is held in a capital-efficient manner, there is limited need from a cash flow perspective to sell these assets in the short term. We will adopt an approach on our larger sites whereby the land portfolio is utilised firstly for our own operational needs and, only after this, for partnerships and joint ventures or external disposals.

We will need to increase our number of outlets and points of sale. In each case, our initial priority is for one Crest Nicholson sales outlet, or two where the product offering can be differentiated.

In the future, we will assess the demand and returns for bulk sales to institutional investors. Joint venture undertakings and external land sales, each offering different risks and benefits, will be assessed on a case by case basis.

We will also seek to improve the interface between Crest Strategic Projects (CSP) and the divisions when servicing larger sites and handing over the individual parcels.

In summary, the land portfolio is extensive, of high quality and efficient to hold. Our initiatives will add to what is already an excellent asset base.

CHIEF EXECUTIVE'S REVIEW CONTINUED

Strategy in detail continued

Operational Efficiency

This is the strategic priority that will have the biggest impact on our earnings growth in the future. Historically, we have defined operational efficiency in terms of building an off-site manufacturing (OSM) capability. OSM will remain an important development for our sector and we will continue to assess its relevance for our delivery model. However, our operational efficiency opportunity is much wider than just OSM and this historically narrow view reflects where we have lost pace with our competitors and their ways of working.

Currently, we are inconsistent with many aspects of our operations, often doing things differently from site to site and from one division to another. This has led to higher build costs than necessary, inconsistent quality and delivery, excessive overheads and selling costs, and inefficient use of working capital. Additionally, this inconsistency means there is limited opportunity to develop best practice through benchmarking.

Significant benefits will be derived from the adoption of our new house type range which is currently being rolled out across the Group. It comprises 24 core house types and builds on some of the benefits of open and broken plan living that was pioneered through the previous Aurora Range. The new range also adds closed plan options within the same building shell. It is designed to be plotted effectively with common depths enabling efficient roof construction and the ability for accommodation to be arranged over two, two and a half, and three floors. An added benefit is the flexibility of the range to be dressed with a wide variety of elevational styles so as to ensure the built design is always individual and appropriate to its local vernacular, supporting our commitments to placemaking and distinctiveness. We will target 80% of our production coming from this new range over time and we have begun the process of re-planning current sites starting with St. Laurence View in Ludlow, Shropshire.

Our build costs will benefit from the introduction of the new house type range and we also anticipate significant savings being derived from a standard group specification. Previously, we specified our product too widely across divisions and our supply chain, leading to excessive costs and insufficient buying power. We will continue to provide a high quality specification within our homes, but we will do so in a more consistent and cost effective manner.

Tom Nicholson, Chief Operating Officer

Tom was recruited because of his extensive industry experience. He was a key part of the team that improved Linden Homes' operating margin by 3.5% in three years. He has the skills necessary to effectively deliver the operational efficiency changes we need.

Our delivery processes have become inconsistent and cumbersome, driving complexity and execution challenges. Accordingly, our overhead costs are far higher than our peer group. We have already made significant reductions in this area without impacting on operational performance. Over time, we will continue to reduce overhead costs as our model is simplified.

As with our build costs and overheads, our selling costs are also too high due to a lack of consistency, challenge and benchmarking. Again, action has been taken to address this without impacting the quality of our customer experience. These activities and associated costs will continue to reduce as our product and processes are standardised across our divisions.

Our use of working capital is also inefficient and can improve significantly with greater focus and use of best practice. Build times are inconsistent across sites and can be improved with more focus and challenge.

Many of the above challenges can be addressed by greater uniformity of method and execution. Almost everything identified is already done well somewhere in Crest Nicholson, so the evidence is there and the challenges are not beyond our teams. It is the absence of standardised products and processes that makes performance measurement and improvement across divisions extremely difficult to achieve. In order to drive this Group-wide change in focus, we decided to create the role of Chief Operating Officer and to bring in someone with Tom Nicholson's experience and capabilities to help lead the change.

The final action that we have taken to address this strategic priority is to review our organisational structure. Currently, we have five dedicated divisions operating in clearly defined areas. Alongside this, the Crest Nicholson Regeneration (CNR) division builds and sells homes in these geographies, overlapping with other divisions and tackling the most complex projects. In addition to the build and sales operation, CNR deals with key external partnering arrangements.

In future, the type of projects we deliver will be less specialised in nature. We have therefore announced internally our intention to create a sixth division, based on a newly defined geographical area – Crest Nicholson Southern Counties (CNSC). It will be based in Hampshire and will initially develop the majority of CNR's current projects with a dedicated team.

The balance of the CNR operation, comprising its Major Projects bid-winning specialism and its relationship management and commercial development arms, will become Crest Nicholson Partnerships and Regeneration (CNPR). CNPR will operate a team of sales professionals focused on the third-party investor and affordable homes markets. Essentially, this will create a dedicated business development function with the build and individual sales functions being undertaken by the divisions that have the regional knowledge and insight.

Five-Star Customer Service

To be considered as a leading UK house builder, we must be able to demonstrate commitment to delivering an outstanding customer experience. This is assessed during the process of buying a new Crest Nicholson home and through the quality of the aftercare service that we provide. Excellence in this respect is best acknowledged by being a five-star housebuilder accredited by the Home Builders Federation (HBF). We must strive to achieve this status every year.

While I am pleased with the progress we have made this year, we must do more. Our quality and aftercare service must become more consistent; we have sites that have achieved outstanding results but, on some occasions, we have to acknowledge that we have fallen below the standards that we set for ourselves.

David Marchant, Group Production Director, is taking a lead on this strategic priority at Executive Leadership Team level. He is working on a fundamental review of our delivery of homes and aftercare, with a stronger emphasis on site teams having more direct responsibility for quality, supported by the divisional-based customer service teams in providing aftercare.

Multi-Channel Approach

Our desire to build a multi-channel, multi-tenure business is driven by two factors – how we source our land and how the way our customers choose to live is changing.

We are a better and more resilient business for being able to acquire land from different sources. We already have a large strategic land portfolio, managed by CSP. This capability enables us to acquire land following the granting of planning permission, usually at a discount and usually in the context of a one-to-one price negotiation. It results in enhanced margins and is a capital-efficient method of controlling land. However, this approach to acquisition comes with a high degree of uncertainty of delivery timescales and often sites are large and complex.

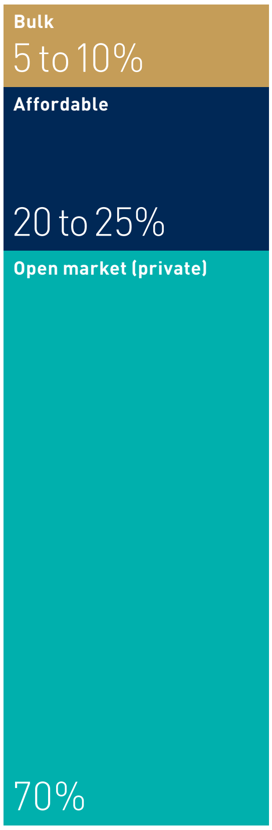
Crest Nicholson also has a strong track record of working with partners to acquire land to be developed jointly. Our partners range from Homes England and the Defence Infrastructure Organisation to financial institutions. Again, these sites tend to be large and complex, and in or near urban areas. These partnering arrangements can be very capital efficient for all parties concerned, with the risk being shared. Our reconfigured CNPR entity will be responsible for managing these projects and the relationships that accompany them.

The nature of these developments results in generally complex projects with uncertainty around the time that they will come through to production. Accordingly, we also need to acquire a proportion of our land on the open market. This land is short term in nature and far more predictable from a timing and delivery perspective, but it is more likely to have been purchased following a competitive process and can carry a larger capital investment in the initial land cost. These shorter-term sites have lower associated margins, reflecting the lower level of risk and higher level of certainty.

Broadening our channels to market

New sales profile

Historic sales profile[1]



1 Based on average unit numbers for the trading period 1 November 2014 to 31 October 2017.

CHIEF EXECUTIVE'S REVIEW CONTINUED

Strategy in detail continued

Multi Channel Approach continued

Our ability to acquire these sites in competition, and then to deliver to at least our target margins, means we must be very efficient as a business. In many ways, this discipline is good for the organisation as the benefit of efficiency enables stronger returns to be delivered from our discounted land.

Although the larger part of our sales will still come from selling individual homes to individual buyers, where margins will be at their highest, these sales tend to be more discretionary, and more cyclical. We will therefore be a stronger business overall, and a better investment proposition, by having more than one route to market.

Bulk sales are typically undertaken at times of market difficulty or stress and, therefore, have a greater chance of being completed on less favourable economic terms. Given the land portfolio we control and the longer term appetite for well capitalised institutional investors to acquire stock across the different points of the cycle, we see an opportunity to develop strategic relationships and dependent revenue streams in all market circumstances. While these sales will, in all likelihood, be at lower prices than could be achieved for individual sales, the advanced cash inflows and certainty yield a stronger return on capital employed for a portion of our future business. Our CNPR team will be responsible for bulk sales and key relationships, with the divisions delivering the build.

We will continue to focus on sales of homes to RPs for the provision of affordable homes of different tenures. The key to maximising revenue streams from this part of our business is through close working with RPs to maximise the grant funding available, as they identify the appropriate homes and tenure models needed. CNPR will manage these relationships and will seek to develop them over the long term.

These different sources of acquiring land and routes to market for our completed homes will diversify our income streams and make us more resilient to changes in the economic cycle over time.

Finally, in order to ensure we move at pace on this strategic priority, I am delighted that we have been able to recruit Kieran Daya to the role of Managing Director for CNPR. Kieran brings a wealth of experience in this area gained as a senior executive in Galliford Try plc's partnerships division.

Arborfield Green, Berkshire
Crest Nicholson was appointed as Development Manager on behalf of the Defence Infrastructure Organisation (DIO) to manage and deliver the Arborfield Green development near Wokingham. This partnership approach has facilitated a multi-tenure model to maximise delivery.

Read more on **page 27**

People

The quality of its people, and the decisions they make, is fundamental to the success of any organisation – and this is certainly the case in the housebuilding sector. Accordingly, 'People' is one of the four foundations of our updated strategy.

Although it has been necessary to make significant changes to the Executive Leadership Team, both as a result of retirements and because of a need to inject new ideas and ways of working into Crest Nicholson, I have been impressed with the quality of the people I have met throughout the Company.

Retaining and developing our valuable pool of talent will ensure the best of Crest Nicholson's legacy is maintained, while at the same time supporting talented individuals in their development by introducing new and better ways of working.

The quality of our teams is a testament to the success of the strong graduate and trainee management schemes that have existed within Crest Nicholson over many years.

In the period ahead, it is important that we reflect the changing ways in which people wish to work. For this reason, the Executive Leadership Team have quickly communicated our plans for a more flexible approach to working for many job roles. This 'Agile Working' approach will help us to recruit and retain a more diverse workforce which will make us a stronger, more resilient business.

We are currently working on a number of initiatives to increase the proportion of female employees in Crest Nicholson, as well as extending this focus to ethnicity, sexual orientation, disability and other minority groups. We will also focus on social mobility challenges and second careers for the senior workforce. We will be a far more effective business if we have a workforce that better reflects the communities in which we operate.

We recognise the considerable challenge across the wider construction sector in recruiting and training a workforce to replace workers who retire or otherwise leave the industry. It is possible that fewer construction workers will come into the UK from the EU in the years ahead.

In time, OSM will help in this regard but this is some way from being a mature model that we can quickly transition to. We will work closely with Government to better understand and tackle the constraints to the wide and timely adoption of OSM to supplement traditional ways of working.

Financial targets

As part of our updated strategy, we have set new financial targets for the business. We understand the importance of re-building trust in our performance.

	Financial year 2019	Financial year 2022
Home completions (units) Outlets	2,912 59	>3,500 >70
Adjusted operating profit margin[1,2] Admin expenses as % of sales	12.2% 6%	Minimum of 250bps growth by FY2022 5%
Return on capital employed[1]	15.9%	>20%
Net cash Dividend per share	£37.2m 33.0p	Strong cash surplus to invest or return 33.0p + RPI from FY2021
	Historic[3]	**Future**
Broadening our channels to market	Multi-channel sales contribution Private: 70% Affordable: 20–25% Bulk 5–10%	Diversify income at better ROCE Private: 60% Affordable: 20–25% Bulk 15–20%

1 Adjusted operating profit margin is an alternative performance measures consisting of statutory operating profit margin adjusted for the impact of the exceptional item relating to the combustible materials provision. See page 123 for further details.

2 Adjusted operating profit margin is calculated on the same basis as earnings before interest and tax (EBIT) as referred to in the Directors Remuneration Report on pages 81 to 101.

3 Based on average trading units for the period 1 November 2014 to 31 October 2017.

Placemaking & Quality

Tadpole Garden Village, Swindon

CASE STUDY: TADPOLE GARDEN VILLAGE, SWINDON

PLACEMAKING & QUALITY
A THRIVING GARDEN VILLAGE DEVELOPMENT IN WILTSHIRE

Linking Placemaking & Quality to our business model

- Customers
- Local community
- Natural and manufactured resources

Read more on how we create value: **pages 6–7**

We aim to deliver attractive, high quality homes in sustainable and diverse communities where people can thrive. We achieve it by creating well-planned developments with good transport links, community facilities and natural green space for residents to enjoy and where nature and wildlife can flourish.

Tadpole Garden Village in Swindon, Wiltshire is a prime example. Once complete, it will consist of over 1,800 homes and community facilities including a retail centre, pavilion and community centre, cricket pitch, football pitches and a public house. Four new schools will benefit local families in addition to eight children's play areas and an abundance of high quality green space including a new woodland area and 70 allotments.

66% of Tadpole Garden Village is dedicated to open space, including the 56 hectare Nature Park. This demonstrates our commitment to creating public spaces that promote people's health, happiness and well-being.

With over 1,200 homes now occupied, all residents are members of the Community Interest Company (CIC). They are encouraged to set up their own steering groups and expand on the variety of activities in place to support well-being, gardening, public arts and open spaces.

1,200

Home completions at Tadpole Garden Village

66%

Of the development dedicated to open green spaces

"I realise with Tadpole Garden Village what it really means, it's not just wide space, it's the whole integration with the community, with your family, with your neighbours."

Resident
Tadpole Garden Village, Swindon

Land Portfolio

Longcross, Surrey

CASE STUDY: LONGCROSS, SURREY

LAND PORTFOLIO
REGENERATING A FORMER TANK TESTING SITE

Linking Land Portfolio to our business model

- Customers
- Financial resources
- Government and other regulatory bodies
- Local community
- Natural and manufactured resources
- Partnerships

Read more on how we create value: **pages 6–7**

Longcross Garden Village in Surrey is a joint venture with Aviva Investors. The site is a former tank testing facility which was transformed and has been run as a film studio since 2006. While the site is promoted through Runnymede Borough Council (RBC), the film studio has provided a significant revenue stream, offsetting holding and promotional costs to date.

The Longcross site comprises two sections, known as Longcross North and Longcross South. The north site has the benefit of hybrid consent for a commercial park of approximately one million sq ft and 200 new homes. The first phase of 108 new homes is fully sold, with a second phase of 78 apartments under construction. A third phase is being planned on the north site, with the aim to deliver 250 new homes for the rental market, being ideally situated in close proximity to a train station and the commercial area.

Longcross South comprises a new Garden Village with the potential to deliver up to 1,400 new homes, a district centre and a primary school. Located in an established landscaped setting with a wooded backdrop, the site will be able to accommodate multiple outlets and will provide a continued delivery pipeline for the strong Surrey market.

£5.5bn

Gross development value in the short-term land pipeline – comprising 16,960 plots

1,775

New plots added to the short-term land portfolio

20%

Increase in our strategic land portfolio to 20,169 units

We have been very pleased with Crest Nicholson and the level of proactive communication and engagement with ourselves, the ward councillors and the local community. We have also appreciated being party to the evolution of their plans and the time spent both on and off site, putting the plans into context.”

Cllr Don Whyte
Ward Councillor for Longcross, Lyne and Chertsey South

Operational Efficiency

CASE STUDY: ST. LAURENCE VIEW, LUDLOW

OPERATIONAL EFFICIENCY
ADOPTING A NEW HOUSE TYPE RANGE

Linking Operational Efficiency to our business model

- Financial resources
- Government and other regulatory bodies
- Innovation and technology
- Natural and manufactured resources

Read more on how we create value: **pages 6–7**

Significant operational efficiency benefits will be derived through adoption of a new house type range. Over time, 80% of production will come from this new range.

The process of re-planning current sites has begun, starting with St. Laurence View in Ludlow, Shropshire.

The Ludlow development was originally granted planning consent for 137 homes with a total coverage of 165,689 sq ft. With the introduction of a new house type range, the Midlands technical team took the opportunity to review and re-plan 25 of the consented plots due to be built in the first phase.

New house type formats have enabled more efficient plotting. Adopting the new house types at Ludlow eliminated semi-detached homes from the first phase, meaning all dwellings will be detached homes. Originally challenging compromises to garage arrangements were resolved. Carefully considering the combination of house types avoided compromising garden spaces and delivered more usable outdoor areas for customers. It also enabled dwellings to be arranged into a more uniform building line, providing a stronger, more attractive street scene.

The original development, comprising 96 bedrooms, has increased to 104 bedrooms as a result of the re-plan. Three bedroom homes were upgraded to four bedroom homes and four first phase houses became five bedroom homes, where the original scheme had none.

Due to the improvements resulting from the re-plan, and an increase in average home size from 1370 sq ft to 1409 sq ft, consent was given to the revised plan in just seven days.

Overall, the re-planning exercise has improved the attractiveness of the development and will deliver wide ranging operational efficiencies. They include reduced build costs, increased coverage, and more timely delivery of quality homes due to reduced complexity of the product range.

> At Ludlow, the new house type range not only plotted more efficiently, it also helped enhance the overall design aesthetic."
>
> **Nick Wilkins**
> Technical Director, Midlands

Five-Star Customer Service

CASE STUDY: MORTON PARK, WAVENDON, BUCKINGHAMSHIRE

FIVE-STAR CUSTOMER SERVICE
DELIVERING AN EXCELLENT CUSTOMER EXPERIENCE

Linking Five-Star Customer Service to our business model

- Customers
- Local community
- Our People

Read more on how we create value: **pages 6–7**

Our ambition is to provide customers with excellent service, support and after-care at every stage of the purchasing journey.

Our people endeavour to put customers at the heart of what they do and their efforts continue to improve our customer feedback.

On-site teams work continuously to achieve and maintain 100% Customer Satisfaction Scores. Within the Chiltern division, the on-site team at Morton Park, Buckinghamshire attribute consistently positive Customer Satisfaction Scores to several factors.

The team strives to offer a welcoming and helpful environment for all potential customers. They place high importance on creating rapport from the outset and on seeking to understand and meet customer requirements.

Great teamwork is key. The sales team at Morton Park work closely with the build team, who take care and pride in ensuring each stage of the build is completed to a high standard.

This collaboration enables the sales team to provide regular communication to customers on the status of their new home.

The approach has led to 100% of customers at Morton Park being satisfied with their new home during FY2019.

The Chiltern division celebrated the success of several team members who won awards in the year.

Sales Advisor, Matthew Sparkes, was awarded Gold in the Crest Nicholson Excellence Awards, Sales Advisor category. These awards celebrate excellent performance and recognise individuals who strive to excel every day and be the best within their field.

Morton Park Site Manager, Paul Hazel, is one of the division's most experienced Site Managers. He received an NHBC Pride in the Job award in 2019.

My home is built to a high standard, structurally and aesthetically. I know so because I viewed numerous new builds before deciding on mine. Thank you for being passionate about your job and what you do."

Resident
Morton Park, Buckinghamshire

Multi Channel Approach

Barkham Place at Arborfield Green, Berkshire

CASE STUDY: ARBORFIELD GREEN, WOKINGHAM, BERKSHIRE

MULTI CHANNEL APPROACH
MAXIMISING DELIVERY WITH A BROAD MIX OF HOMES

Linking Multi Channel Approach to our business model

- Customers
- Financial resources
- Government and other regulatory bodies
- Investors
- Local community
- Natural and manufactured resources
- Partnerships

Read more on how we create value: **pages 6–7**

£8.5m

Group's share of sales from joint ventures

2018	£1.0m

708

Bulk units

2018	522

In 2013, Crest Nicholson was appointed as Development Manager, on behalf of the Defence Infrastructure Organisation (DIO), to manage and deliver the Arborfield Green development near Wokingham.

The partnership approach has facilitated a multi-outlet and multi-tenure model which maximises delivery in line with the land disposal strategy.

Two divisions have sales outlets delivering concurrently. In addition, land is sold on the open market on behalf of the DIO, allowing further up-front delivery.

The strategy allows a broad mix and type of units to be delivered, while maintaining sympathetic aesthetics and a consistently high quality of build.

All developers who acquire land at Arborfield Green are contractually obliged to adhere to detailed branding guidelines. This ensures a consistent approach across the Arborfield Green site.

Crest Nicholson manages the outline planning, s106 and design codes for the development, maintaining overall control on site and monitoring timings to ensure maximum unit delivery.

Two phases of Private Rented Sector (PRS) homes have been developed in partnership with M&G Real Estate.

In addition, 35 affordable homes are being delivered in partnership with Metropolitan Thames Valley Housing.

The redevelopment of the former Arborfield Garrison has proven to be one of the most successful and fastest delivery of all Wokingham Borough Council's (WBC) current Strategic Development Locations. This has been largely down to the teamwork and close working relationship between WBC officers and Crest Nicholson."

Connor Corrigan
Service Manager – Strategic Development Locations, Planning Delivery

MARKET OVERVIEW

The macro-economic and environmental trends affecting our business

Economic and political uncertainty

Ongoing uncertainty around the terms of the UK leaving the EU has yet to offer a clear picture of what the outcomes will mean for domestic businesses.

While fundamental strengths in the housing market remain, and underlying demand for housing continues to be strong in most parts of the country, London and the South East has shown a greater sensitivity to this political uncertainty and its impact on consumer confidence.

Uncertainties surrounding Brexit, combined with increased levels of stamp duty on higher value properties, has contributed to the stalling second-hand market.

How we're responding

- Disciplined approach to capital allocation and operational efficiency measures to improve working capital levels
- Implemented reductions in sales-related costs and overheads of running the business. Part of a larger strategic priority focused on operational efficiency across all areas of the business
- Gradual diversification of geography and progressive reduction of average selling prices (ASPs)
- Creating a dedicated partnerships business unit focused solely on developing our multi-tenure offer for open market sales, bulk sales and affordable sales.

Shift in house price inflation

House price inflation in London and the South East has reduced significantly and the outlook remains benign. Against a backdrop of build cost inflation, this has led to a reduction in margins.

There has been a 7.0% drop in transactions in the South East, compared to a 3.4% drop nationally1 partly driven by the lack of urgency that house price inflation tends to engender in buyers.

Boosted by increasing availability of higher Loan to Value (LTV) mortgages outside London, and support targeted at first-time buyers (FTBs), FTB sales were up 3% in the year to March 2019 and 13% since 2014 in the South and East[1].

How we're responding

- Implemented reductions in sales-related costs and overheads of running the business. Part of a larger strategic priority focused on operational efficiency across all areas of the business
- Introduction of new standardised housing range with clear focus on specification and procurement efficiencies
- Gradual diversification of geography and progressive reduction of ASPs.

Constraints on labour and skills

Lack of skilled labour is a significant challenge for our industry. The industry has an ageing workforce and a lack of new talent joining.

9% of the UK's construction workforce comprises EU Nationals[2] with the largest participation being in London and the South East. Brexit-related uncertainty has had an impact on availability of this population.

How we're responding

- We operate a range of talent development programmes including apprenticeships, graduate intake and a Site Management Academy
- Lobbying government through bodies such as the HBF to ensure that our industry has greatest access to EU labour after Brexit
- Developing skills around off-site manufacturing (OSM)
- Working together as an industry to attract a diverse workforce and invest in skills across all disciplines.

Housing stock affordability

Despite Government efforts to increase the build rate of new homes, the imbalance between supply and demand of housing stock in the UK continues to increase.

Affordability continues to be a considerable challenge for many prospective home buyers.

Affordable housing and use of Government schemes such as Help to Buy, are becoming increasingly attractive to potential buyers, particularly those with a limited deposit affordability.

How we're responding

- Gradual diversification of geography and progressive reduction of ASPs
- Creating a dedicated partnerships business unit focused solely on developing our multi-tenure offer for open market sales, bulk sales and affordable sales.

1 Savills analysis for Crest Nicholson, October 2019.
2 www.fmb.org.uk/about-the-fmb/newsroom/simple-brexit-visa-system-needed-for-construction-workers/

Government policy

The Government's Help to Buy equity loan scheme has boosted new homes sales volumes, with 35% of new homes sales supported by Help to Buy[1].

The Government has committed additional grants for shared ownership and affordable housing. Its £5bn Housing Infrastructure Fund is helping to unlock new homes in areas with the greatest housing demand.

The Government continues to review the issuance of guidance notes in respect of combustible materials and fire safety for residential dwellings.

How we're responding

- Gradual diversification of geography and progressive reduction of ASPs
- Creating a dedicated partnerships business unit focused solely on developing our multi-tenure offer for open market sales, bulk sales and affordable sales
- Using Housing Infrastructure Funding wherever possible to bring forward delivery
- Continuing to assess and implement the latest interpretations of fire safety guidance notes, alongside carefully reviewing any potential liability.

Mortgage rates and earnings

While access to mortgages remains good for home owners with established levels of equity, for buyers with a limited deposit affordability this continues to be a significant barrier to purchase.

Changes in work patterns including self-employment models can affect borrowing levels or the range of accessible products.

Interest rates remain low and employment levels are high. Encouragingly average earnings are starting to also increase which over time should ease affordability issues.

How we're responding

- We seek to build our developments in areas with high demand, offering high quality homes that not only meet our customers' needs but are also attractive long-term lending opportunities for mortgage providers
- Our sites typically feature good transport links, high-speed broadband and excellent commuting options
- We actively communicate schemes and options which support affordability such as Help to Buy and Part Exchange.

Good land and planning environment

Availability for land with pre-existing planning permission remains good, but the planning system remains slow and unpredictable, posing major challenges for house builders seeking to increase output to meet the Government's homes target.

The National Planning Policy Framework (NPPF) continues to support the release of land for development in good quantities but the detailed approval process often remains under-resourced and can delay the start of site activity.

How we're responding

- Our strong relationships with local government and public bodies are important in enabling us to secure detailed planning consents and technical approvals
- We have a particular strength in promoting and delivering larger sites
- We continue to believe in the advantages of strategic land and its importance in a diverse land portfolio which consistently supplies our divisions in a timely manner.

Climate change regulation

In 2019, the UK became the first major economy in the world to pass laws to end its contribution to global warming by 2050. As part of its commitment, the Government opened a consultation into the Future Homes Standard which will be implemented through building regulations over the course of 2020.

It has pledged to end gas heating in new homes from 2025 and indicates a significant shift towards greater energy efficiency and green technology in homes and communities.

How we're responding

- Environment, Social and Governance considerations (ESG) form part of our ongoing strategy and the decisions we make
- We continually review developments in this area seeking to influence Government through forums such as the Home Builders Federation (HBF)
- We engage with our supply chain and stakeholders to support our initiatives to reduce the use of unnecessary resources and improve our ESG performance.

STAKEHOLDER RELATIONSHIPS

We have responsibilities to a range of stakeholders

	Customers	Our people	Suppliers
How we engage with our stakeholders	We engage with customers throughout the purchasing process to ensure their experience with Crest Nicholson is excellent. We participate in the Home Builders Federation's (HBF) Customer Satisfaction Survey and aim to achieve a five-star performance by receiving a Customer Satisfaction Score of above 90%.	We engage with employees in many ways, including through our Employee Engagement Survey, regular communication from their divisional lead, messages from the Chief Executive and Company roadshows.	We engage with suppliers and work closely with them to address shared challenges and opportunities, increase production capacity, tackle skills shortages and risks, and share knowledge and good practice.
What matters to our stakeholders	– Quality homes delivered on time – Excellent service and after care – Amenities, infrastructure and open spaces – Support to enable sustainable lifestyles – Strong social and environmental legacy.	– A safe and healthy working environment – Supportive, diverse and inclusive culture – Fair benefits and reward – Professional development and career opportunities – Challenging and meaningful work – Flexible and agile working arrangements.	– Mutually beneficial working relationships – Sharing risk and reward – Operational efficiency – Projects delivered safely and on time, in line with financial targets – Strong financial performance – Timely payment.
Activity in 2019	– Trending strongly ahead as a four-star rated house builder with an improved HBF Customer Satisfaction Score – Increased customer focus in performance management and remuneration schemes. 2,912 **Crest Nicholson home completions**	– 966 employees – New Values developed in November 2019 – 9% increase in Annual Injury Incidence Rate (AIIR) – Eight employees enrolled in our award-winning Graduate Programme – 37% of our employees are female – Women's Forum established.	– Review of all major material suppliers – Reviewed specifications, simplifying product lists – Greater focus on sourcing from Group approved suppliers – Tablet-based Field View system supporting monitoring and feedback with sub-contractors – Average time taken to pay invoices 36 days[1].

1 From 1 May to 31 October 2019.

Our Board's commitment to stakeholders

The Board continues to take account of the impact of its decisions on all of our stakeholders, including as set out in s172 of the Companies Act 2006. The Board believes that part of that responsibility includes understanding the views of those stakeholders and building constructive relationships with them.

	Local communities	Investors	Government and other regulatory bodies
How we engage with our stakeholders	We engage with communities through public meetings, consultations and publicly available documentation, ensuring we listen to their views and seek to meet their local needs.	We engage with investors through a programme of presentations and investor meetings, ensuring we set out a clear plan for delivering long-term, sustainable value.	We engage with the Government and our peers by participating in industry bodies and meetings to discuss emerging policy developments, regulation, best practice and ways to increase the delivery rate and quality of new homes.
What matters to our stakeholders	– Well-designed, quality homes with character – Advanced investment in infrastructure – School and health facilities – Engagement and two-way communication.	– Consistent level of dividend return and value creation – Operational efficiency – Robust corporate governance and business ethics – Clear and transparent reporting and communications – Sustainability and environmental policies.	– Increasing the number of homes – Support for small and medium-sized enterprises – Faster housing delivery – Developments that support biodiversity and climate change priorities.
Activity in 2019	– 597 homes delivered in Garden Villages – 30% of homes have access to sustainable transport initiatives. £196.3m **Committed combined s106 and Community Infrastructure Levy payments**	– 126 presentations and investor meetings – Trading updates – Appointment of a new Head of Investor Relations. 126 **Investor meetings in 2019**	– Contributed to consultations including leasehold tenure, biodiversity and CIL and planning obligations – Participation in all major HBF working groups and Committees, including areas such as housing policy, planning, health and safety and legal.

MEASURING OUR PERFORMANCE

Key performance indicators

The following is a summary of our performance against key performance indicators (KPIs) in 2019. These measures reflect our overall performance against our FY2018 strategy. We use them to improve the quality of our business and ensure that we deliver value to our shareholders and other stakeholders over the long term. To align the focus of management with the interests of shareholders, some KPIs are reflected in our management incentive schemes.

Deliver long-term shareholder value and maximise operational efficiency

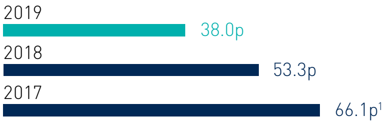
Sales

£1,094.9m

Sales is a combination of statutory revenue, as per the consolidated income statement, and the Group's share of sales earned by joint ventures. Revenue is £1,086.4m.

Adjusted basic earnings per share

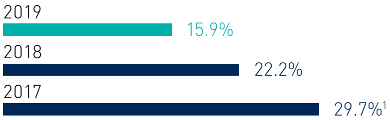
38.0p



This measures the amount of profit allocated to each share of our stock. Basic earnings per share is 32.1p.

Return on capital employed

15.9%



Return on capital employed is a measure of our financial efficiency. Following a challenging period of trading, our updated strategy intends to improve our performance.

Adjusted profit before tax

£121.1m

With pressure on gross margins, adjusted profit before the payment of corporation tax reduced by 28.2%. Profit before tax is £102.7m.

Dividends per share

33.0p

We had 1.2x dividend cover in 2019.

Net cash

£37.2m

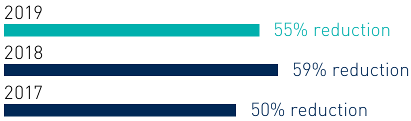
Net cash is a key focus of the historic and updated strategy. Management consider net cash KPI to be a more relevant KPI than strategic land, which by its nature is longer term and less predictable.

The Profit before tax, Basic earnings per share and Return on capital employed KPIs above are directly linked to remuneration (for more information please refer to the Directors' Remuneration Report, pages 81 to 101.

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

Annual Injury Incidence Rate (AIIR)

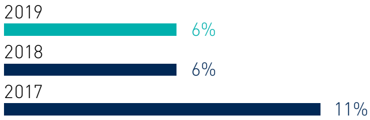
372



Our AIIR was 372, a 55% reduction against the baseline set in 2008 and a 9% increase on 2018.

Apprentices in total workforce

6%



A consistent proportion of apprentices has been retained within our workforce, reflecting the ongoing commitment to our Apprenticeship Scheme and similar initiatives.

Employee turnover[2]

28%

Employee turnover increased during a year of change for the business.

1 Historic figures, not restated to reflect the adoption of IFRS 15.
2 Employee turnover at 31 October 2019.

Updates to our KPIs during the year

In the last Annual Integrated Report we made a commitment to include a KPI on cash management. We have removed Strategic Land Bank as a KPI. Management consider the focus on Net Cash is a more relevant indication than the longer term unpredictable nature of strategic land. Management will continue to review the KPIs in FY2020 but does not expect significant change to these.

Ensure high levels of customer satisfaction, product quality and placemaking

Customer satisfaction rating (HBF survey)

4★

2019	4*
2018	4*
2017	4*

Our customer satisfaction rating is directly linked to remuneration (please refer to the Directors' Remuneration Report, pages 81 to 101.

People who would recommend Crest Nicholson to a friend

9/10

2019	9/10
2018	9/10
2017	9/10

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. Score of 89.5%. 12 month rolling customer satisfaction 'recommend' data as at end June 2019.

Home completions

2,912

2019	2,912
2018	3,048
2017	2,935[1]

Our aim is to increase the number of home completions we deliver to help meet our own targets and help alleviate the housing shortage.

Develop lasting relationships with partners and the supply chain

Number of plots in our portfolio under a partnership

14.8%

2019	2,493 (14.8%)
2018	3,174 (16.5%)
2017	3,827 (24%)

Working with development partners continues to be an important part of our business and our land portfolio.

Total direct spend on materials with Group approved suppliers

56%

2019	56%
2018	55%
2017	56%

We started a renewed focus on procurement from Group-approved suppliers which will continue into 2020, resulting in a small increase.

Continually improve environmental, social and governance (ESG) performance

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

4.27

2019	4.27
2018	4.17
2017	3.38

The normalised carbon footprint reflects the whole of our energy use, including at our offices, transport and diesel used on our construction sites. See page 104 for further details.

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

46.09

2019	46.09
2018	47.57
2017	43.57

We aim to reduce waste across our operations and develop Group-wide initiatives to drive down all waste streams, compared to the 2013 baseline of 41.85. See page 41 for further details.

FINANCIAL REVIEW

An updated strategy to strengthen operational and financial performance

I am pleased to present my first full-year set of results since joining Crest Nicholson as Group Finance Director in June 2019. During this year of significant change, our trading performance and results have clearly been disappointing, delivering beneath our original expectations. We are taking decisive action to return the business to growth and have an updated strategy with clear ambitions and targets for the future. I look forward to playing my part in delivering on our commitments for our customers and shareholders.

Duncan Cooper
Group Finance Director

Our updated strategy focuses on implementing a more efficient operating model that converts our land into developments which deliver attractive returns, by way of either increased margins or return on capital employed."

£1,094.9m

Sales

2018 £1,122.0m

£1,086.4m

Revenue

2018 £1,121.0m

£121.1m

Adjusted profit before taxation

2018 £168.7m

£102.7m

Profit before taxation

2018 £168.7m

33.0p

Dividend for the year

2018 33.0p

The Group has restated all relevant comparator figures following the adoption of IFRS 15 'Revenue from Contracts with Customers' in the year. See note 29 for the impact of this change.

As in previous years, the business continues to report two alternative performance measures relating to sales and return on capital employed. During the year, management introduced a further alternative performance measure, being 'adjusted' performance metrics as a result of the exceptional charge relating to the combustible materials provision. All alternative performance measures are detailed on page 36.

Sales, including joint ventures, was £1,094.9m (2018: £1,122.0m), down 2.4% on the previous year. This comprised £1,086.4m of statutory revenue (2018: £1,121.0m) and £8.5m of the Group's share of revenue through joint ventures (2018: £1.0m).

Total home completions were 4.5% lower for the year, at 2,912 (2018: 3,048). This comprised open market completions of 2,171 (2018: 2,371), down 8.4%, and affordable completions of 741 (2018: 677), up 9.5%.

Continuing our commitment to re-position more of our developments to lower average selling price (ASP) locations and housing types, open market ASPs declined 2.0% in the year to £388,000.

In the first half of the year, Crest Nicholson delivered a number of bulk sales to Registered Providers (RPs) and Private Rented Sector (PRS) investors, which were supportive to revenue growth.

During the second half of the year, there was increased volatility in the number of site visits, reservations and completions, and elevated cancellation rates as customers continued to cite concerns over political and economic uncertainty stemming from Brexit.

Over the summer, a new Prime Minister was appointed generating speculation of an impending Budget update and possible amendments to Stamp Duty charges. Housing became an active policy discussion point for all parties with possible reform of the current planning system a key feature in the debate.

As we moved into the traditionally stronger autumn selling season, it became increasingly clear that the composition of MPs in Parliament would be unable to agree on a way forward on Brexit, and that a General Election or similar event would be necessary to break the deadlock. In our geographies and at our price points, the resulting uncertainty has led consumers to refrain from buying until the economic and political landscape is clearer.

Our market remains an attractive one. We have a shortfall of housing supply to meet demand in the UK and Crest Nicholson has a strong track record of delivering high quality homes with attractive designs and appearance. We have a strong land portfolio biased to the South of the UK, where economic and population growth has traditionally been strongest. We are hopeful that a more stable political backdrop will now support a more positive sales environment and that the actions we are taking in respect to costs and simplifying our business model will return the business to profit growth.

We generated revenue from land sales and mixed-use commercial property sales in the year of £99.4m (2018: £55.7m). As part of our updated strategy, we have outlined that we intend to deliver a lower level of land sales in the next financial year. As a business with an enviable land portfolio in attractive geographies, we will continue to appraise land sale opportunities as they arise. However, this will only be when the value created through such a transaction will, in all certainty, exceed that of developing it, either ourselves, with a partner or through increasing outlet breadth.

During the year, we experienced project-specific cost challenges in the Midlands division. We continue to experience build cost inflation as the weak value of sterling pushes up prices of imported materials. In the labour market, uncertainty surrounding Brexit has added to the increasing scarcity of skilled resources in the construction sector as EU nationals consider the possible implications and outcomes.

FINANCIAL REVIEW CONTINUED

Adjusted gross margin for the year declined to 18.6% (2018: 22.0%). A number of factors contributed to this decline including poorer than expected levels of open market sales, especially in the second half of the year. A lack of sales price growth together with build cost inflation also had a dilutive effect on margin rate. In addition, we reduced selling prices on a number of London-located sites to reflect current trading conditions in the capital. This necessitated a £7.0m charge to reduce the carrying values of those sites. These downward pressures on gross margin were offset by a higher year-on-year level of contribution from land sales.

Adjusted operating profit also fell to £133.0m (2018: £182.0m), down to 12.2% (2018: 16.2%). This reduction was principally driven by lower year-on-year gross profits. We also recorded a charge of £3.2m in the year relating to a provision for future expected credit losses on recoverable interest from the Bonner Road joint venture, representing our latest valuation of that scheme.

Administrative expenses as a percentage of revenue increased to 6.0% (2018: 5.8%). As part of the updated strategy, the business has identified and implemented an immediate reduction in sales-related costs and overheads. These represent £9m of annualised savings to be realised in the next financial year. Additional overhead, specification and build cost savings will be delivered as part of the operational efficiency programme.

Exceptional item

Following the latest Government guidance notes in respect of combustible materials, fire risk and protection and regulatory compliance on completed developments, the Group has recorded an exceptional charge of £18.4m (2018: £nil). The Group has conducted a detailed review of all current and legacy buildings impacted, forecasting remediation costs for each building, where appropriate. Due to the size and nature of the charge management has considered it appropriate to report this as an exceptional item. See note 4 for further information.

Finance expense and taxation

Net financing expense of £11.0m (2018: £12.0m) is £1.0m lower, primarily due to lower levels of borrowing using our revolving credit facility throughout the year, offset by slightly higher rates.

Adjusted income tax expense in the year of £23.7m (2018: £32.1m) represented an effective tax rate of 19.6% (2018: 19.0%).

Profit before taxation

Adjusted profit before tax for the year of £121.1m (2018: £168.7m) was 28.2% lower than the prior year. This was due to pressures on margins during the year, as outlined above. Profit before tax after exceptional items for the year was £102.7m (2018: £168.7m), reflecting the impact of the one-off combustible materials charge outlined above.

Dividend

The Board proposes to pay a final dividend of 21.8 pence per share for the financial year end 31 October 2019 which, subject to shareholder approval, is expected to be paid on 9 April 2020 to shareholders on the register at the close of business on 20 March 2020.

We recognise the importance of our dividend policy to shareholders. The updated strategy has a strong focus on cash generation, supported by a disciplined approach to capital allocation. We believe there is a significant opportunity to optimise the use of cash in the business, particularly in the way we manage our work-in-progress and site completion programmes.

Our revised financial targets forecast the generation of a cash surplus over the next three years and, subject to no material deterioration in market conditions, we are committed to paying this dividend in the future as well.

Cash flow and financial position

The Group had net assets at 31 October 2019 of £854.4m (2018: £872.7m), a decrease of 2.1% on the previous year.

OUR ALTERNATIVE PERFORMANCE MEASURES

Sales

The business uses sales as a core management measure to reflect the full extent of its 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 revenue earned by joint ventures, as detailed in the below table.

	2019 £m	2018 £m
Revenue	1,086.4	1,121.0
Group's share of joint venture revenue:		
Elmsbrook (Crest A2D) LLP	5.6	1.0
Crest A2D (Walton Court) LLP	2.9	–
Sales	1,094.9	1,122.0

Return on capital employed (ROCE)

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 adjusted 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 15.9% (2018: 22.2%).

Adjusted performance metrics

Adjusted metrics as shown below are alternative performance measures, consisting of statutory metrics adjusted for the £18.4m exceptional item relating to the combustible materials provision. Management believe that the fire provision is a material impact to reported performance and arises from the recent, unforeseen changes in the regulatory environment. As such it believes these alternative metrics reflect a more accurate view of its core operations and underlying performance.

	Statutory	Exceptional item	Adjusted
Gross margin (%)	16.9	1.7	18.6
Operating profit (£m)	114.6	18.4	133.0
Operating profit (%)	10.5	1.7	12.2
Profit before taxation (£m)	102.7	18.4	121.1
Income tax expense (£m)	20.2	3.5	23.7
Basic earnings per share (Pence)	32.1	5.9	38.0

Inventories at 31 October 2019 were £1,151.1m (2018: £1,213.2m), down 5.1% year-on-year – reflecting lower levels of work in progress at the year end date. Land inventory continues to represent approximately two-thirds of the inventory balance.

Stocks of completed units have risen to £207.1m (2018: £168.1m), principally due to slower than expected open market sales throughout the year. About one-fifth (2018: one-fifth) of the stock of completed units was represented by show homes. Our updated strategy places a significant focus on better stock and working capital management.

Net cash generated from operating activities amounted to an inflow of £125.2m (2018: £62.3m) as the Group continued its focus on cash generation and maintaining a robust balance sheet. Reduced operating profit meant the return on capital employed (ROCE) achieved in the year decreased to 15.9% (2018: 22.2%).

During 2019, the Group extended its bank revolving credit facilities for a further year to June 2024 (2018: the Group extended its revolving credit facilities for one year to June 2023). Our current financing facilities provide adequate liquidity to allow the business to execute its updated strategy and give the Group appropriate resilience should market conditions become more challenging.

At 31 October 2019, the Group had net cash of £37.2m (2018: £14.1m) and was ungeared (2018: ungeared).

	2019		2018	
	Units	GDV[1] – £m	Units	GDV – £m
Short-term housing	16,960	5,417	19,507	6,365
Short-term commercial	–	95	–	263
Total short-term	**16,960**	**5,512**	**19,507**	**6,628**
Strategic land	20,169	6,624	16,837	5,538
Total land pipeline	**37,129**	**12,137**	**36,344**	**12,166**

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 portfolio.

Short-term portfolio

16,960

Units

2018 19,507

£5,512m

GDV total short-term portfolio

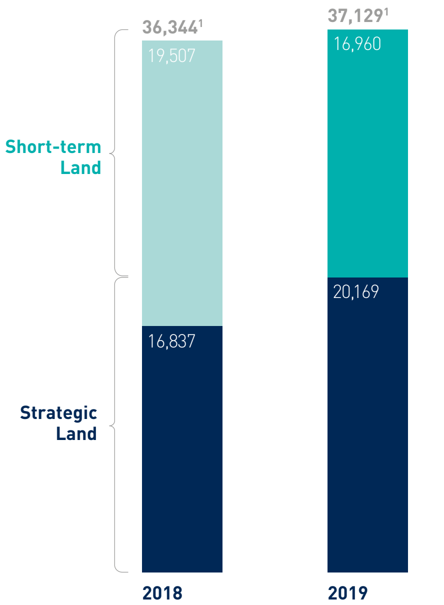
2018 £6,628m

£319k

Average selling price of short-term housing portfolio

2018 £326k

Land portfolio and pipeline units



1 Plot numbers based on management estimates of site capacity, which are updated quarterly.

Land portfolio and pipeline

The Group has a strong and attractive land portfolio built over many years through our knowledge, capabilities and relationships with a wide range of stakeholders. The updated strategy focuses on implementing a more efficient operating model that converts our land into developments which deliver attractive returns, by way of either increased margins or ROCE.

The opportunity in our short-term land portfolio remains compelling with approximately £1.3bn of embedded gross margin, representing 5.8 years of supply.

During the year, we added 1,775 further plots to the short-term land portfolio. This growth predominantly arose in our expanding Midlands division and included transfers from our strategic portfolios at our Surrey-based developments, Longcross and Cranleigh. This was offset by the utilisation of 4,322 plots – 2,912 home completions, 419 units transferred to our joint venture with Sovereign Housing Association, and the remainder being land sales and other movements across several other sites. Accordingly, our short-term land portfolio at 31 October 2019 was 16,960 units (2018: 19,507), down 2,547 on prior year.

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 £319,000 (2018: £326,000), 2.1% lower than prior year.

The updated strategy clearly outlines our prioritisation for developing our land – opening a Crest Nicholson outlet and then additional outlets, PRS developments or bulk deals to RPs, JV developments or an outright disposal of land. We expect to record a lower level of land contribution in 2020 than in 2019. Any of these land transactions will be subject to a disciplined approach of capital allocation and a rigorous monitoring of returns.

Duncan Cooper
Group Finance Director

SUSTAINABILITY & SOCIAL VALUE

Our approach to Sustainability & Social Value

In the past few years, there has been a sharp increase in the expectation for businesses to deliver more than just a strong financial return to markets. Now, more than ever, we must ensure that we are effectively responding to the critical social and environmental issues facing us. This is why Sustainability & Social Value is one of the foundations of our strategy. The nature of our business means that we can make a sizeable positive contribution, both environmentally and socially, through our operations and creation of new homes and communities.

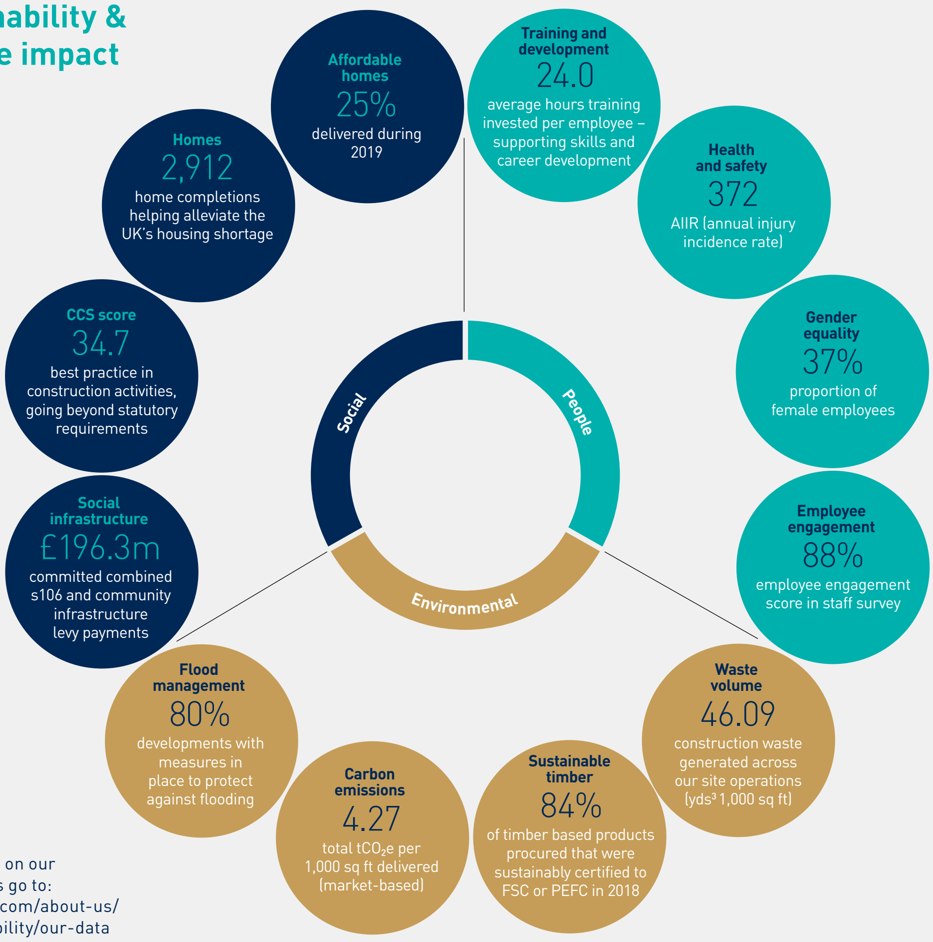
We are engaging with colleagues across the business to update our Sustainability & Social Value strategy. As part of this, we carried out a review of the UN Sustainable Development Goals (SDGs) and have aligned with the goals that are most material to our business. These are set out on page 41.

We aim to minimise our impact on the environment, respond to the threat posed by climate change and maximise our positive impact on people and communities through the way we do business – through our relationships with customers and suppliers, our commitment to developing our people, and by providing a fair and inclusive workplace that respects human rights.

In 2019, Crest Nicholson retained its place in the FTSE4Good Index, scoring particularly highly for Corporate Governance, Anti-Corruption, Climate Change and Labour Standards.

We aim to comply with the 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 and charts or by weaving commentary in the content.

Our Sustainability & Social Value impact



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

SAFETY, HEALTH & ENVIRONMENT MANAGEMENT (SHE)

SHE is our top priority and we are always looking at how we can improve in this area. Supported by the Board, the Executive Leadership Team has taken steps to strengthen leadership, monitoring and compliance across the business. David Marchant, Group Production Director is now the Executive lead for SHE.

We aim to be among the industry leaders for safety performance. We have developed a new SHE strategy which has been communicated to colleagues across the Group. It is underpinned by a strong governance structure to ensure we comply with our legal obligations and good industry practice. This includes:

- Executive-level oversight through the SHE Committee, chaired by David Marchant, Group Production Director
- An independent audit programme to provide expert external advice and help monitor and continually improve our safety management practices
- An internal compliance programme featuring routine safety tours by the Executive Leadership Team, divisional directors and SHE advisor inspections
- Screening of all new sub-contractors for the SMAS Worksafe Certificate[1], where applicable, to certify safety and health competence.

Site teams receive regular training and are well equipped to manage safety on site, while all new sub-contractors are required to complete a new SHE induction prior to starting work.

The strategy is complemented by our Corporate Health and Safety Policy, which covers the safety and health of our employees, workers, sub-contractors and visitors.

We have improved internal reporting and analysis and the methods by which we learn from incidents and compliance monitoring. In 2019, SHE performance was directly linked to Executive Director's remuneration for the first time.

SHE performance and compliance

We were deeply saddened to report the tragic loss of one of our subcontractors on site in October 2019. We are working closely with the relevant authorities to conduct a full and thorough investigation into the incident. We will ensure that we learn from this event as we continue to embed a strong SHE culture across our business.

Our Annual Injury Incidence Rate (AIIR) was 372 in 2019, an increase of 9% compared with last year (2018: 342). We are actively implementing measures to improve performance through our new SHE strategy.

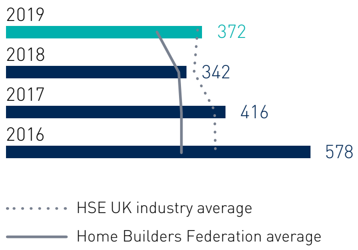
In 2019, we increased the number of site safety tours carried out by members of the Executive Leadership Team and divisional directors. In total, 143 site tours were completed (2018: 132).

The SHE Committee met six times during the year to review performance and develop and improve the way we work.

We continue to work with independent SHE consultants who complete external audits of our sites to help us align to industry best practice. This compliance measure is supported by our own internal audits. In 2019, 238 independent site safety inspections took place (2018: 228).

Annual Injury Incidence Rate (AIIR)

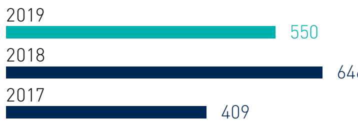
372



AIIR rate	2019
Crest Nicholson	372
UK Industry (Health and Safety Executive)	366
Home Builder Peer Group (Home Builders Federation)	287

SHE person days training

550



Divisional directors' and Executive Leadership Team SHE tours

143

1 www.smasltd.com/smas-worksafe-accreditation-ssip-scheme-of-choice/

SUSTAINABILITY & SOCIAL VALUE CONTINUED

To reinforce SHE requirements across our supply chain, a yellow and red card process allows site managers to highlight offences, based on severity, and to decide on appropriate enforcement action. Throughout 2019, 130 red cards and 504 yellow cards were issued. The process improves dialogue between teams and suppliers to reduce the risk of poor, inappropriate and dangerous behaviour.

We maintained our Safety Schemes in Procurement Accreditation, working with Alcumus SafeContractor which independently assessed and certified our safety and health competence.

During 2019, The Health and Safety Executive issued one Notice of Contravention. There were no improvement notices, prohibition notices or prosecutions.

We received no environmental prosecutions. We will be conducting a full review of our existing environmental procedures to ensure we continue to mitigate against environmental incidents on our sites going forwards.

Developing our safety culture

'Be Safe' is our SHE communications programme which was piloted in 2018 and which started to be implemented across the business in 2019.

The Be Safe principles are designed to help create and maintain a culture where everyone believes work can, and will be, carried out safely, and where people behave in such a way that they do not put themselves, others or the environment at risk of harm.

The programme focuses on three key priorities to create a safe working environment: consistency, communication and education. Be Safe branded material is clearly visible at each site where the campaign has been implemented. We will continue to roll this out across new and existing sites in 2020.

As part of the campaign, we launched a new SHE induction which all employees – including both direct employees and contractors – are required to complete before they begin working on our sites. We are planning to translate the induction into other widely-used non-English languages.

ENVIRONMENTAL SUSTAINABILITY

Climate change has far reaching implications for all sectors and industries. In 2019, the Government committed to reach net zero carbon emissions by 2050. In addition, a consultation on the Future Homes Standard was launched. It is likely to see more stringent carbon emission requirements delivered through Building Regulations.

Aside from climate change, there are many other important environmental aspects to consider, ranging from responsibly sourced materials to improving biodiversity and providing places for nature on our sites.

We have a proven track record of building high quality, energy-efficient homes and we aim to procure timber and other materials from sustainable sources. We have stretching procedures in place to ensure that we protect and enhance the natural environment on our schemes, while also working with stakeholders to ensure our homes and developments are future-proofed against a changing climate.

Managing our impacts

Our Sustainability Policy drives us to respond to industry and global challenges to enhance the built environment and integrate environmental, social and economic considerations into our decision-making processes.

We comply with all relevant environmental legislation as a minimum, by both minimising the adverse environmental impacts of development, while making a positive impact where we can. By constructing well-built energy efficient homes, we minimise impacts throughout the life of our homes.

In particular we aim to:

- reduce carbon emissions of our operations and the homes we build by progressively implementing our Climate Change Policy;
- pro-actively manage resource efficiency and reduce waste in our operations and supply chain;
- protect and enhance biodiversity and ecology at our development sites; and
- prevent pollution to air, land and water through effective environmental procedures and best practice specifications.

Climate change

Our Climate Change Policy commits to the progressive reduction of our carbon footprint and to working with Government to help realise lower carbon developments. Cutting our energy and water consumption and reducing our carbon emissions is a key part of our strategic drive for operational efficiency.

The changing climate requires us to consider and, where necessary, incorporate adaptation measures designed to future-proof our developments. For example, flood risk assessments are undertaken on all sites and, in 2019, 76% of our developments were built with sustainable drainage systems (SuDS). We conduct overheating assessments on all developments and, for plots at risk, implement dynamic modelling and mitigation measures.

Climate change and other environmental, social and governance (ESG) issues are considered as part of our overall risk management procedures. More information on how we are mitigating and adapting to climate change can be found online in our climate change risks and opportunities assessment and in our Carbon Disclosure Project (CDP) annual disclosure. We improved our CDP score in 2019 to a B (2018: C).

Carbon emissions

We collect a range of data across our sites and operations to calculate and report our carbon footprint.

In 2019, our Company's carbon footprint decreased by 14% using the market-based methodology. When normalised by the sq ft built, this is an increase of 2%. Over two-thirds of our emissions are linked to our construction sites. Here we saw a 19% decrease in emissions associated with site activities compared with 2018. This represents a decrease of 3% when normalised against the sq ft built.

We have increased the use of renewable electricity tariffs at our sites, show homes and marketing suites and we continue to procure renewable electricity for offices where the energy supply is under our control. In 2019, renewable electricity tariffs accounted for 32% of our total electricity consumption (2018: 6%).

Our absolute diesel and LPG emissions decreased by 1% compared with 2018. However, this represents an increase when normalised by our sq ft built. To help reduce diesel use on site, we issue forklift utilisation reports, based on telematics data, to help drive efficient use.

We also conducted a series of energy efficiency surveys on our sites in 2019 as part of the Energy Savings Opportunity Scheme (ESOS). The surveys highlighted a number of recommendations, including the sizing and specification of generators. We will work to implement the cost-effective actions in 2020 to improve energy and fuel efficiency on site.

This year, the methodology we use to calculate business travel emissions was improved to include the vehicle manufacturer's gCO_2/km data for employees receiving a company car or allowance. In 2019, our emissions associated with business travel, recalculated on this revised basis, increased by 2% compared with 2018.

We implement a number of initiatives to reduce business travel emissions and travel overall. They include flexible working and holding meetings by telephone and video conference wherever possible. In 2019, we updated our car policy to incentivise employees to choose vehicles at or below 110gCO_2/km.

Monitoring the performance of energy saving initiatives requires good quality management reporting. In 2019, we developed new energy performance dashboards that will allow teams across the business to have a clear view of their spend and consumption data, and opportunities to achieve reductions. These will be made available across the business in 2020.

Resource efficiency and waste

Construction, demolition and excavation waste accounts for 61% of total waste in the UK.[2]

We continue to review and implement opportunities to reduce the waste we create. In 2019, our total construction waste volume reduced by 18% compared with 2018. This represents a 3% reduction in our waste intensity to 46.09 yd^3/1,000 sq ft (2018: 47.57). Site teams continue to receive monthly dashboards that allow them to identify opportunities to reduce waste.

We continued to use a dedicated pallet return scheme which uses empty return transport capacity to recover pallets for reuse or recycling. During the year, 13,559 pallets were returned this way (2018: 6,324). Keeping reusable pallets out of our skips has contributed towards a 4% reduction in timber waste. We will implement a paint can return scheme in 2020 as we continue to drive better management of our waste streams.

Overall, we maintained a high diversion from landfill rate of 96% against our 95% target (2018: 97%).

Adoption of the new house type range will reduce build complexities and contribute towards resource and waste efficiencies, as well as enhanced quality.

Our 2020 areas of focus

- Reducing waste through design and improved operational practices
- Embedding waste, energy and fuel reduction initiatives on site, including recommendations from our ESOS energy efficiency surveys
- Increasing procurement of renewable energy
- Improved employee awareness and engagement through stronger internal communications and performance reporting.

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

Sustainable procurement

Our Sustainable Procurement Policy sets out to build long-term strategic relationships with supply chain partners to improve our procurement of sustainable materials, as well as support ethical labour practices. We consider quality, cost, availability and environmental considerations when choosing materials. We seek to give preference to products that have a lower environmental impact and are locally and responsibly sourced.

Our suppliers are contractually obliged to adhere to our policies and expectations in relation to important social and environmental matters by signing up to our Supply Chain Code of Conduct.

In 2019, we worked with suppliers to improve the telematic capabilities of our forklift trucks and generators. This allows us to monitor performance and identify opportunities to improve efficiency.

United Nations Sustainable Development Goals

The UN's Sustainable Development Goals (SDGs) set out to address the key global challenges facing society including inequality, climate change and health and well-being. We recognise that business has an important role to play in contributing to the goals and creating a sustainable future for all.

While updating our Sustainability & Social Value strategy, we carried out a review of the SDGs to determine the goals that are most material to our business, and those to which we can make the most significant contribution. We identified eight goals, illustrated below, with which to align and embed within our new strategy in 2020.

2 assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/784263/UK_Statistics_on_Waste_statistical_notice_March_2019_rev_FINAL.pdf

SUSTAINABILITY & SOCIAL VALUE CONTINUED

Social enterprise through timber recycling

We continue to work with the social enterprise, Community Wood Recycling, to collect timber waste from our sites.

Community Wood Recycling provides jobs for local people, equipping them with carpentry skills for future employment. In 2019, the timber collected from our sites supported 25 carpentry training places and 10 jobs across the Community Wood Recycling network. 100% of the timber waste collected by Community Wood was diverted from landfill and 16% was reused.

For example, at our Bath Riverside site, timber was used to create medals for an anti-bullying charity, the 401 Foundation, and to make bat and bird boxes for use along cycle paths.

Procuring sustainable timber

Our Sustainable Timber Procurement Policy supports the procurement of sustainably sourced timber. We set a clear preference for Forest Stewardship Council™ (FSC) certified timber and, where this is not available, we also accept timber assured by the Programme for the Endorsement of Forest Certification™ (PEFC).

We conduct internal audits of our supply chain to trace the origin of timber products to the forest source. All potential suppliers and contractors involved in procuring timber are vetted for certification. In 2018, 97% (2017: 98%) of our timber procured through suppliers and 50% (2017: 47%) through sub-contractors was either FSC or PEFC. 100% was procured from sources assessed to be legal. Figures for 2019 will be published on our website in spring 2020.

We were proud to receive the highest possible 'three trees' score in the WWF-UK 2019 Timber Scorecard[3]. The scorecard assesses UK businesses on their timber product sourcing policies and performance to eliminate illegal and unsustainable timber.

Enhancing ecology and biodiversity

Since the release of the UK's 25 Year Environment Plan, the Government has committed to mandating a 'biodiversity net gain' on all construction sites. This means that all developers must leave biodiversity in a better state than it was before construction.

We work closely with ecologists and landscape architects to provide spaces that enhance local biodiversity and create attractive places for the community to enjoy.

An example is The Stray, a large green open space at the heart of Tadpole Garden Village, Swindon. The area provides natural habitat for flora and fauna, together with a woodland play area for the local community. A series of ponds has been created, lined with native planting to provide habitat for wildlife while alleviating the risk of flooding. A network of paths within The Stray connects the residential areas with a nature park which was delivered in collaboration with the Wiltshire Wildlife Trust.

As the biodiversity net gain mandate develops, we will continue to work to ensure we respond effectively.

Designing sustainable solutions for our customers

Our homes and developments are designed to benefit the health and well-being of customers and the environment.

Developments incorporate a variety of features that support customers in adopting sustainable lifestyles and that ensure developments will remain resilient to the impacts of climate change. Examples include:

- Green open spaces incorporating parks, playing fields and woodland
- Sustainable transport options such as good links to public transport, access to cycle lanes and car clubs
- Sustainable drainage systems (SuDS) to reduce flood risk
- Energy and water efficient homes.

We carry out Building Performance and Post Occupancy Evaluation on certain plots to assess how well our homes perform.

In 2019, the Government launched its consultation on the Future Homes Standard.[4] The new Standard pledges to achieve world-leading levels of energy efficiency and includes proposals to eliminate gas heating in new homes from 2025. We are working to understand the implications and opportunities to ensure we are well prepared to deliver the new requirements. It will be essential that Government, the power industry and the housebuilding sector work together to ensure the right products, services and power infrastructure are available to meet future changes.

CUSTOMERS AND COMMUNITIES

A five-star customer experience

Our customers expect an outstanding product and service. Meeting their needs and guaranteeing the quality of our homes is central to the success of our business model.

We continue to improve our customer feedback performance. Our score at the end of June 2019[5] was 89.5%, up from 89% in 2018 and 88% in 2017. We are pleased with this progress and remain committed to becoming, and then remaining, a Home Builders Federation (HBF) five-star housebuilder.

3 www.wwf.org.uk/timberscorecard

4 www.gov.uk/government/consultations/the-future-homes-standard-changes-to-part-l-and-part-f-of-the-building-regulations-for-new-dwellings

5 HBF 12 month rolling customer satisfaction 'recommend' data.

Designing sustainable solutions for our customers

82.75[1]
SAP energy efficiency rating compared to a UK average for new builds of 81[2] (2018: 83.77)

34%
of our homes have at least one type of renewable or low carbon energy (2018: 27%)

98%
of our homes are specified for 105 litres per person per day (2018: 95%)

This is 16% more water efficient than current building regulations require

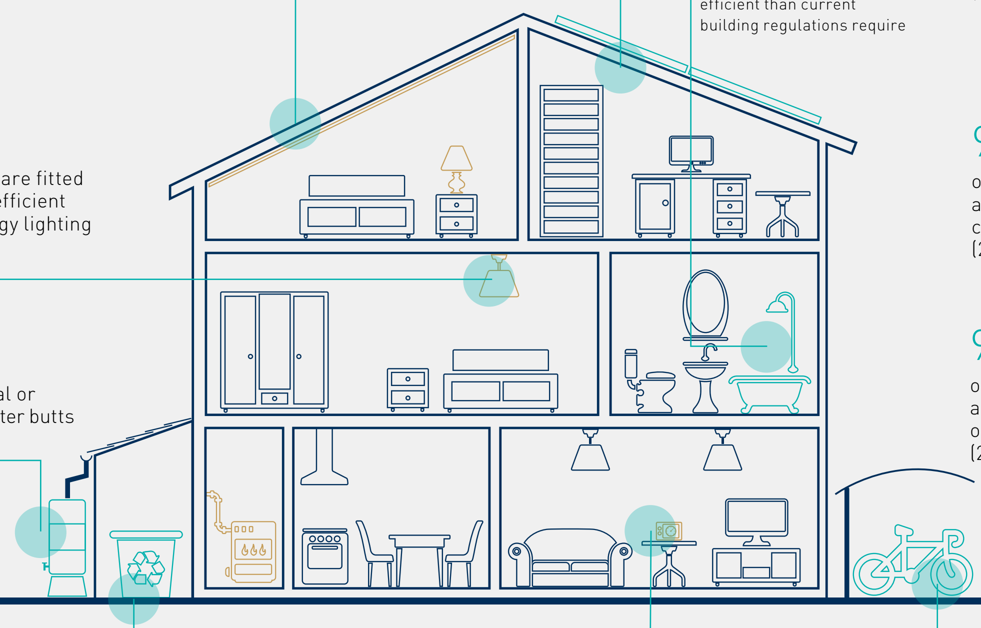
30%
of our homes have sustainable transport initiatives, including access to cycle routes and car-share clubs (2018: 23%)

100%
of our homes are fitted with energy-efficient and low-energy lighting (2018: 100%)

9%
of our homes have access to electric car charging points (2018: 6%)

28%
of our homes have individual or communal water butts (2018: 36%)

91%
of our developments are within 1,500 metres of a bus service (2018: 98%)



80%
of our homes have private, internal recycling facilities (2018: 98%)

95%
of our homes have smart meters (2018: 87%)

58%
of our homes have individual or communal bike storage (2018: 45%)

1 Standard Assessment Procedure (SAP) energy rating scored 1 to 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

Customer service performance is a performance metric within relevant bonus schemes, including for Executive Directors.

We induct and train people on Crest Nicholson's customer service standards and procedures through the 'Making our customers feel special and valued' programme. Each year, the Crest Nicholson Excellence Awards recognise individuals who have delivered the very best in customer service and help to promote best practice across the business.

We have rolled out a new Customer Relationship Management (CRM) system, designed to support delivery of outstanding customer service across our divisions. It also supports our data security strategy by ensuring we protect customers' privacy.

We will continue to develop the CRM system to provide home owners with a faster aftercare service.

One of the things that matters most to our customers is the build quality of their new home. We continue to review our processes for quality control. We expect to make further changes over the coming year to achieve this as we place greater emphasis on enhancing the customer journey.

Engaging with communities

Community relationships and engagement are key to delivering successful projects. We focus on ensuring our stakeholders are fully informed of proposed and current developments and able to provide feedback on projects.

With some of our developments spanning 10 years or more, the evolution of a community requires progressive, regular dialogue to ensure the vision and priorities remain aligned to the needs of the community. There will always be some opposition to new development and we aim to listen and respond to concerns. We are committed to building the right infrastructure and community spaces within our development masterplans to create shared value and reach a positive outcome for all those impacted and concerned.

SUSTAINABILITY & SOCIAL VALUE CONTINUED

Hunts Grove Primary Academy

The Hunts Grove Primary Academy opened in September to coincide with the new school year. The state-of-the-art facility, delivered in partnership with Willmott Dixon, achieved a BREEAM[6] excellent standard and will provide places for 420 new school pupils. The school features 14 classrooms, a technology suite, large multi-use games area and sports pitch.

Kilnwood Vale Primary School

In September 2019, Kilnwood Vale Primary School opened its doors for the first time to pupils in Horsham, West Sussex. Built in partnership with Willmott Dixon, the school has been future-proofed to respond to a growing community. The building currently provides places for 420 pupils but can be extended to provide a further 210 spaces. The school is also home to more than two hectares of open space, including a dedicated wildlife area.

Community investments

We create long-term benefits for new and existing communities by investing in social infrastructure such as schools, community buildings, shops and restaurants, green and open spaces, leisure facilities, and road and pedestrian systems.

Our business activity also creates many other socio-economic benefits and economic growth. We create new employment opportunities for local contractors, apprentices and graduates, while also creating additional employment in our supply chain through our spend on materials and labour.

Our committed combined s106 contributions and Community Infrastructure Levy payments is £196.3m. This is used to develop local travel and transport networks as well as education, health and community facilities.

Supporting communities

We support community events, such as the 'Party in the Park' held at Bath Riverside in July 2019. The party launched the opening of Elizabeth Park, a landscaped open space for residents and the local community by the River Avon. Visitors enjoyed the new space together with a selection of art installations and an open-air showing of 'The Greatest Showman'.

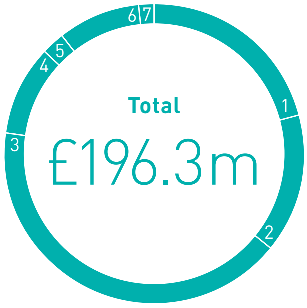
"We are proud to unveil the brand new primary school and nursery at Kilnwood Vale which will benefit the local people for generations to come. At Crest Nicholson it is important that we do not only build homes, we also build communities, and Kilnwood Vale Primary School shows our commitment to this."

Andrew Dobson
Managing Director
Crest Strategic Projects

We supported the Kilnwood Vale Community Fun Day in July. It included over 30 stalls from local charities and businesses.

Crest Nicholson has supported Variety, the Children's Charity, since 2005. This year, employees raised £308,408 (2018: £356,158), bringing the total donated to £1.9m. We look forward to exceeding £2m in 2020.

Committed combined s106 contributions and Community Infrastructure Levy payments



1	Travel and transport	£41.2m
2	Offsite highways	£29.4m
3	Education and libraries	£81.3m
4	Community, leisure and sports facilities	£19.3m
5	Health, ecology and art initiatives	£4.7m
6	Community Infrastructure Levy	£17.3m
7	Other	£3.1m

Cost of works to be delivered

1	On and off-site common infrastructure	£113.9m
2	Landscape and play	£41.6m
3	Community facilities	£7.9m
4	Other	£19.7m

Commitment to future affordable housing delivery

1	On-site delivery subsidy	£657.7m
2	Off-site combined contributions	£32.3m

6 BREEAM is a leading sustainability assessment method for buildings in the UK.

DEVELOPING OUR PEOPLE

At Crest Nicholson, we recognise the importance of employing and developing great people. That is why people represent one of the foundations of our updated strategy.

We seek to be an ethical and progressive employer. This means encouraging a culture of openness, collaboration and continuous professional development and rewarding the effectiveness and loyalty of our employees.

We refreshed our values at the end of 2019, setting out how we work and the principles we expect everyone in our business to follow. Together, these values create the framework for building on our positive culture and being an employer of choice.

Attracting and retaining the best people

We operate within a challenging recruitment environment where there is fierce competition for the most talented people. Attracting and retaining talent remains a high priority and we are focused on developing our talent pipeline to deliver our strategic objectives and long-term ambitions.

The Talent Review Group identifies future managers, directors and those who are ready to take the next steps in their careers. We launched two new programmes in 2019 to provide colleagues with training and coaching to develop performance and skills in their current roles and as part of identifying future talent.

As well as the Graduate and Apprentice Schemes and Site Management Academy, we consider other ways to recruit and develop talent. For example, we signed the Armed Forces Covenant in 2018 and, as a result, in September 2019 Crest Nicholson was awarded the Silver Employer Recognition Award by the Reserve Forces and Cadets Association. It recognises the opportunities and training we provide to enable ex-military personnel to build a career in the housebuilding sector.

As we implement our updated strategy, we will continue to engage with our workforce. Our most recent Employee Engagement Survey, conducted in 2018, made it clear that people want more time dedicated to discussing career development, training, flexible working arrangements and work life balance. In 2019, we increased opportunities for flexible and agile working, alongside simplifying meeting structures to encourage remote participation.

In 2020, we will extend the Delivering Professional Excellence programme to include a robust Performance Development Review (PDR) process. All employees will receive a PDR which will set key objectives, assess performance and provide a training and development framework.

Our Values

1 Work as One Crest

We work towards a common goal and see the bigger picture

- We have a clear understanding of our Company goals, and collaborate to achieve success
- We are effective and open communicators, sharing knowledge and best practice, to the benefit of the whole organisation
- We adopt common processes and procedures, working in a consistent way
- We are considerate and engage with our colleagues to understand how our roles and actions impact each other.

2 Committed to success

We strive to be the best and deliver on our promises

- We are ambitious, focused and personally accountable
- We are highly efficient at everything we do in our business and have a rigorous focus on value
- We embrace change, always seeing it as an opportunity to improve
- We take pride in our work and deliver what we promise to our customers, colleagues and other stakeholders.

3 Considered decision making

We act with integrity and make thoughtful decisions

- We make thoughtful and intelligent decisions considering the needs of all of our stakeholders
- We do the right thing balancing well-being, moral and legal considerations with business goals
- We act with integrity, building trust
- We think about the future impact of our decisions.

4 Investing in our people

We empower our people to deliver our success

- We look out for each other and focus on safety, health and the environment throughout our operations
- We empower our colleagues to make decisions that support the delivery of our strategy and goals
- We appreciate others' perspectives and expertise and recognise the value of a diverse workforce
- We communicate openly, are transparent and treat each other with fairness and respect
- We invest in our people through ongoing training and development.

5 A positive legacy for our customers and communities

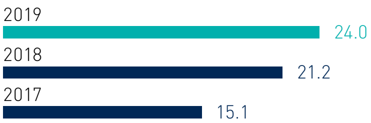
We deliver high quality, sustainable communities

- We create attractive and diverse communities where people want to live
- We deliver high quality homes and a great customer experience
- We value our Company reputation and work to strengthen it
- We proactively manage our use of resources and operate our business in a sustainable and responsible way.

SUSTAINABILITY & SOCIAL VALUE CONTINUED

Total training investment

Average training hours per person



Ethnic diversity

1	White British	82%
2	Non-white British	12%
3	Undisclosed	6%

Training and development

We have continued to evolve our new e-learning platform, 'My Learn', launched in 2018. As the main portal for personal development, it delivers a range of e-learning courses and acts as a learning management system for the Group HR team.

A key focus of e-learning in 2019 was core compliance training, including Cyber Security, SHE, data protection and privacy, fraud and modern slavery. We have a process in place to monitor completion rates of mandatory courses and we intend to increase the use of My Learn over the coming year.

Our Site Management Academy offers a full syllabus of learning for trainee site managers and includes training towards formal qualifications, supported by mentoring from senior management and structured on-site experience including safety and Company processes. At the end of 2019, 25 employees were in the programme.

We enrolled another eight employees in our award-winning Graduate Programme – designed to provide a strong platform for identifying future talent. This brought the total intake since 2014 to 69 graduates.

As part of our commitment to meeting housing demand, apprentices make up around 6% of our entire workforce. In 2013, we committed to bring 200 apprentices into the business by 2019. We have exceeded this commitment with 250 apprentices having entered our Apprenticeship Scheme.

We are working alongside the Home Building Skills Partnership and further education colleges to implement new Construction Trailblazer Apprenticeships. In 2019, we also reviewed our wider approach to apprenticeships. To maximise the breadth of opportunity, we have expanded our programme to include office-based apprentices from technical and commercial disciplines.

Employee engagement

Over the year, we increased our focus on ensuring open, two-way communication and engagement with employees. Our new Chief Executive, Peter Truscott, has made it a priority to communicate directly with employees through regular messages, Q&A and site visits.

Having appointed Octavia Morley as our Non-Executive Director responsible for workforce engagement, Octavia participated in recent Health & Well-being workshops.

Following the 2018 Employee Engagement Survey, we are planning to complete another Group-wide employee survey under the new Executive Leadership Team in 2020.

Creating a diverse workforce

We aim to provide equal opportunities for everyone as we strive to build a diverse workforce that reflects the communities we serve. Workplace discrimination or harassment is not tolerated in any form.

Our Equality and Diversity Policy ensures all employees are accorded equal opportunities for recruitment, remuneration, access to benefits, training and promotion, with ongoing emphasis on monitoring and developing the diversity of our workforce. Our Equality and Diversity Policy is available on our website. Any matters raised under the policy are managed and resolved by the Group HR team. Diversity and promotion statistics are reported to the Executive Leadership Team each month.

Improving our gender balance

Women account for 37% of our workforce (2018: 36%), compared with just 14%[7] in the wider construction industry. We are working to improve our gender balance by developing talented female employees. In 2019, we launched a Women's Forum to support and mentor senior women in the business, help identify opportunities to advance their careers, and to share actual or potential obstacles so that we can understand and address them. The Talent Review Group is working to identify opportunities to promote gender balance and its focus extends to our Site Management Academy, Graduate Programme and Apprenticeship Scheme.

Women made up 32% of new starters in 2019. 18% of our senior managers and 44%[8] of our Board are now women. At the end of 2019, 20% of employees on our Site Management Academy were women.

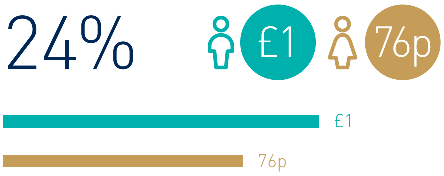
In 2020, we will develop our diversity and inclusion programme for senior management to further promote the benefits of diversity. This will include setting up a Diversity and Inclusion Advisory group, formed of champions from across the business. Its role will be to set key objectives and monitor progress of our diversity programme.

7 researchbriefings.files.parliament.uk/documents/SN06838/SN06838.pdf

8 On 31 October 2019, the Board included outgoing Chairman Stephen Stone and Chairman-designate Iain Ferguson who became Chairman on 1 November 2019. This statistic excludes Stephen Stone reflecting the transition taking place that day.

Mean hourly pay gap

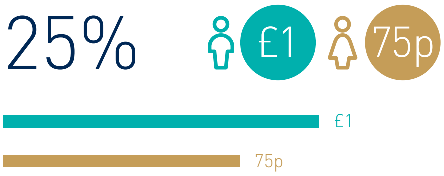
24%



Disclosed 2018: 26%

Median hourly pay gap

25%



Disclosed 2018: 22%

Age breakdown

1	20 years or less	32
2	21 to 25 years	89
3	26 to 35 years	248
4	36 to 50 years	338
5	Over 50 years	259

Health and well-being

We support the general health and well-being of our permanent employees through initiatives and measures including:

- Private medical insurance
- A healthcare cash plan providing assistance with day-to-day health costs like prescriptions and discounted gym memberships
- An Employee Assistance Programme, including a confidential and professional counselling service
- An occupational health and safety service for managers to refer employees with long-term health concerns
- Health & Well-being workshops.

We have invested in defibrillators across all our sites and offices, allowing for immediate, life-saving treatment in the event of a cardiac arrest.

We take the mental health of our employees very seriously. In 2019, Crest Nicholson signed up to the Building Mental Health Charter. It sets out our commitment to managing mental health within the business. During Mental Health Awareness Week, we provided a short online learning module to our employees on a daily basis.

Fair pay

We are committed to paying directly employed staff at or above the National Living Wage. Apprentices are subject to a different pay scale, which we ensure is above statutory guidelines. We are also committed to ensuring equal pay; our male and female employees receive the same pay rate for the same or a similar job. As disclosed in our 2019 Gender Pay Gap Report, the mean hourly pay gap between men and women across all roles is 24% (disclosed in 2018: 26%) and the median hourly pay gap is 25% (disclosed in 2018: 22%). We have developed a number of initiatives in conjunction with the Women's Forum to reduce our Gender Pay Gap.

Upholding human rights

We apply strong principles to ensure we act in an ethical manner, with respect for people and human rights, across our business and supply chain. Our policies and processes abide by International Labour Organization (ILO) standards, conventions on human rights and UK law and guidelines. 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 continue to be met.

Reporting concerns

An anonymous and independent 24-hour whistleblowing hotline is available to all employees and our supply chain to raise issues of concern and suspected non-compliance with policies. We promoted the hotline again in 2019. An internal escalation procedure, managed by Group HR, ensures any reported concerns are effectively escalated and addressed. Any reports received are fully investigated and involve the appropriate authorities.

Tackling modern slavery

Modern slavery is a material and growing risk impacting the entire construction industry. Our Modern Slavery Statement, which is approved by the Board and available on our website, sets out the areas of our business, operations and supply chain that we consider to be at risk of modern slavery and human trafficking. It also describes our approach to identifying and preventing such practices. The terms of our contractual agreements and our Supply Chain Code of Conduct outline expectations and requirements with regards to addressing modern slavery risk in our supply chain.

In 2019, we continued to raise awareness of modern slavery risks through our e-learning course, which is mandatory for our site teams. The training provides important information on how to spot potential victims of modern slavery and how to report concerns.

As a result of our training and other internal communication initiatives, we are seeing a greater dialogue around modern slavery among site teams.

Anti-bribery and corruption

We demand the highest standards from our employees and supply chain partners when it comes to bribery and corruption. Group policies and procedures to prevent bribery and corruption include an Anti-Bribery and Corruption Policy, Gifts and Entertainment Policy and guidance on bribery risk areas. We require all employees to comply with these, along with our obligations arising from the UK Bribery Act 2010. There were no employee dismissals for non-compliance.

All employees are required to complete compulsory training at the start of their role with Crest Nicholson and to refresh training every two years.

SUSTAINABILITY & SOCIAL VALUE CONTINUED

The following information summarises our main non-financial policies and their key risks and impacts as part of compliance with sections 414CA and 414CB of the Companies Act 2006.

SOCIAL AND HUMAN RIGHTS MATTERS

We are committed to building homes and communities that support critical social issues and create a positive long-term legacy in the UK. Our policies and procedures help to manage social and human right risks within our operations and our wider supply chain.

Sustainable procurement

Policy and due diligence:	See page 41
Key risk:	Access to site labour and materials, see page 52
Measured by:	% of total budget spent with Group approved suppliers, see page 33

Modern slavery

Policy and due diligence:	See page 47
Key risk:	Laws, policies and regulations, see page 55
Measured by:	Employees completing their modern slavery training

Anti-bribery and corruption

Policy and due diligence:	See page 47
Key risk:	Laws, policies and regulations, see page 55
Measured by:	Employees completing their anti-bribery and corruption training

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 and due diligence:	See page 40
Key risk:	Safety, health and environment, see page 51
Measured by:	Total tCO_2e per 1,000 sq ft delivered, see page 33; sustainability data for homes and developments, see page 43; % of ecological enhancements and protection measures, see page 7

Sustainable timber procurement

Policy and due diligence:	See page 42
Key risk:	Access to site labour and materials, see page 52
Measured by:	Annual timber procurement audit and results, see page 42 and www.crestnicholson.com/about-us/integrating-sustainability/our-data

Sustainability Policy

Policy and due diligence:	See page 40
Key risk:	Safety, health and environment, see page 51
Measured by:	Selection for the FTSE4Good Index, see page 38

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 and due diligence:	See page 39
Key risk:	Safety, health and environment, see page 51
Measured by:	Annual Injury Incidence Rate; number of divisional director and Executive Leadership Team health and safety tours; person days' health and safety training, see page 39

Equality and diversity

Policy and due diligence:	See page 46
Key risk:	Attracting and retaining employees, see page 54
Measured by:	Gender ratio and gender pay reporting, see pages 46 and 47

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 pages 41 and 47.

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.

Risk management is central to our strategic and operational planning

To continue to be a successful house builder in the long term, our decision making must be informed by a clear understanding of our business risks and opportunities, including their potential likelihood, impact and outcomes, as well as our risk appetite.

When reviewing risks, we consider the financial impact, the impact on our stakeholder groups, and the reputational risk to the Crest Nicholson brand.

Risk management overview

The Board has overall responsibility for risk management. It sets the Group's appetite for risk and provides support and oversight to management. The Board specifically considers risk twice a year. It is supported in its approach by the Audit and Risk Committee which has specific responsibility for monitoring financial reporting, internal and external audit programmes, as well as providing assurance to the Board on financial, operational and compliance controls.

The Executive Leadership Team is responsible for implementing Group policies, risk management performance tracking, identifying principal risks and ensuring resources are allocated for effective risk management and mitigation. Each divisional Board is responsible for identifying, assessing and monitoring their respective business and functional risks and measuring the impact and likelihood of the risk to the business. Significant areas of risk are subject to regular review as the business and the context in which it operates changes.

Refining our risks and alignment with our strategy

During the year, the Executive Leadership Team undertook a risk workshop, supported by Deloitte LLP. This considered the potential impact and likelihood of occurrence for each risk identified and its materiality. The output of the review was then mapped to the Group risk register, assessed and considered by the Executive Leadership Team before, being presented to the Audit and Risk Committee and submitted to the Board for approval.

Emerging and reducing risks

The external environment remains challenging. London and South East house price inflation has reduced significantly due to economic and Brexit uncertainties. This has impacted our performance with lower than anticipated completions and prices. While we have taken action to mitigate this impact on our performance, including market risk and focusing more on developments in other regions, the risk associated with the macro-economic environment remains our top risk. The Board continues to carefully consider the economic and political context, including uncertainties surrounding the terms of the UK's exit from the European Union, at each of its Board meetings.

The past year saw the appointment of a new Executive Leadership Team, who have developed an updated strategy. The Executive Leadership Team are simplifying the business and operations, maximising operational efficiencies and building on Crest Nicholson's existing strengths of placemaking, quality and customer service. While we consider the updated strategy to be the right one, any change in Company direction brings risk in the ability to execute the strategy. Taking this into account, we have included 'Business strategy and change management' as a new risk.

As reported in our HY2019 results, the Board have categorised the Group's efficiency to manage build costs as a new principal risk. The risk of build cost inflation and unforeseen cost increases driven by demands in the supply chain and failure to implement core cost systems continues to remain a risk to the Company's operating margin. We have included further detail overleaf.

Having considered the risk 'Laws, policies and regulations' together with ongoing changes to the regulation of combustible materials and fire safety, we consider this risk to have increased over the past year. As part of mitigating this risk, we are continuing to assess and implement the latest interpretations of fire safety alongside carefully reviewing any potential liabilities.

The following three risks remain significant to the Group:

Safety, health and environment (SHE)
The leadership are focused on strengthening the business SHE strategy, and this is the number one priority for the Group. Harm to people or the environment is unacceptable, and this will remain a significant risk to the business that we will continually strive to improve.

Solvency and liquidity
Our updated strategy has a strong focus on cash generation and disciplined capital allocation. We see a significant opportunity to improve our working capital position as we implement our planned operational efficiencies and changes to ways of working. The Company has a robust balance sheet and is well funded having recently extended its Rolling Credit Facility to expire in June 2024.

Information security and business continuity
The potential impact of Cyber Security is an increasing risk for all businesses. Over the past year, we have put processes in place to increase our network security measures, intrusion detection, crisis planning, and staff training on data protection and internet security.

OUR APPROACH TO RISK MANAGEMENT CONTINUED

Environmental, social and governance risk

As part of the risk management process, the Executive Leadership Team completes an environmental, social and governance (ESG) risk assessment on a bi-annual basis. One of the key emerging risks is climate change, which has short, medium and long-term implications for the business. The risks associated with climate change are broken down into transitional and physical risks. Transitional risks include new policy and regulatory developments as we move towards a net zero carbon economy, and our ability to successfully implement new technology aimed at reducing carbon emissions. Physical risks include the comfort levels of homes in a warming climate and increasingly frequent and severe weather events that can impact our sites and supply chain. ESG risks are considered as part of the risk reviews, and the most material risks – including climate change – are incorporated into the Group Risk Register.

ESG risks: (medium and above)

1. Increasing regulatory requirements to adapt and mitigate to climate change
2. Safety, health and employee well-being
3. Biodiversity net gain
4. Availability of skilled labour
5. Advances in technology
6. Changing stakeholder attitudes towards ESG risks
7. Physical impacts from climate change on operations and homes
8. Population growth and changing demographics
9. Physical impacts from climate change on supply chain
10. Pollution incidents on site
11. Human rights issues on site and in supply chain
12. Levels of diversity across the business
13. Data protection and IT security

Viability statement

Notwithstanding the increased levels of uncertainty within the macro-economic and political 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 2024 and sufficient headroom exists within these to fund our projected activities.

The assessment has been made having regard to our current position, while also considering the impact of severe but plausible adverse trading conditions arising from the principal risks set out on pages 51 to 55, on the solvency and liquidity of the Group.

Political uncertainty in the UK remains the biggest possible influence in this respect. It is not yet clear what changes may occur to Government policies in respect of housebuilding and what broader economic policies will be pursued in due course. These could affect housing affordability and disposable income levels.

In addition, whilst the decision to leave the European Union now looks certain, the future trading relationship between the UK and the European Union has not been settled. Speculation around the terms of this relationship including its actual impact could continue to impact consumer confidence levels in the UK. We have modelled the impact of these factors on volumes, prices and costs and considered relevant mitigating actions that we would deploy should they arise.

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 31 October 2022.

Material issues
We perform periodic materiality assessments to understand the key risks to our stakeholders. A list of our material issues and their full definitions is available online at www.crestnicholson.com/about-us/our-business/material-issues

Our principal risks

The macro-economic environment

Risk owner	Change since 2018	Time frame	Inherent risk rating	Residual risk rating	Category
Board	Increased	Short to medium-term	High	High	External

Material issues affected:
- **Political and legislative uncertainty and change**
- **Housing affordability**
- **Responsible investment and delivery models.**

Risk description:
The ongoing challenging macro-economic environment including risks from: uncertainty following the UK's vote to leave the EU; general economic slowdown; affordability of homes; climate change; and wider global growth issues.

Impacts:
Pressure on sales volumes and prices from:

- Consumer confidence and affordability:
  - Ongoing economic uncertainty
  - Weak real wage growth and reduced disposable income
  - Higher taxes
- Business uncertainty due to policy changes
- Inflation due to foreign exchange
- Business becomes over-dependent on Help to Buy and other Government-backed ownership schemes
- Increased demand for social housing
- Increased units held as unreserved stock.

Key mitigating actions:
Monitoring impact of Brexit discussions and potential outcomes.

Updated business strategy focused on:

- Reducing ongoing sales-related and overhead costs
- Further development of schemes of differing tenure type
- A gradual repositioning of our average selling price (ASP) and moving to lower priced regions.

Safety, health and environment

Risk owner	Change since 2018	Time frame	Inherent risk rating	Residual risk rating	Category
Executive Leadership Team	Increased	Ongoing	High	Medium	Operating

Material issues affected:
- **Health, safety and well-being**
- **Reputation and trust**
- **Responsible investment and delivery models**
- **Environmental impact.**

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).

Lack of recognition of the importance of the well-being of employees.

Impacts:
- Immediate personal injury suffered or damage to property and the environment
- 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
- Poor employee well-being impacting on their productivity, increased employee turnover and the associated costs.

Key mitigating actions:
- Strengthening the safety leadership culture and alignment of safety and operational performance
- Focus on strengthening management systems with increased authority for SHE advisors to undertake incident investigations and implement follow up actions
- Appointment of an independent auditor to conduct safety reviews as appropriate and without warning, while maintaining inspections from the NHBC
- Use of Construction Environment Risk Assessments and Environmental Management Plans
- Use of external specialist consultants and/or contractors where specific health and safety requirements demand
- Development of well-being roadshows for employees and implementing flexible working arrangements to enable employees to meet both their professional and personal needs.

OUR APPROACH TO RISK MANAGEMENT CONTINUED

Business strategy and change management

Risk owner	Change since 2018	Time frame	Inherent risk rating	Residual risk rating	Category
Board	New risk	Short to medium-term	High	Medium	Strategic

Material issues affected:
- **Responsible investment and delivery models**
- **Corporate responsibility and business ethics**
- **Operational efficiency**
- **Stakeholder relationships**
- **Reputation and trust.**

Risk description:
The Board adopting the wrong business strategy.

Failure to embed and retain the new Executive Leadership Team into the organisation to effectively deliver the revised strategy.

The risk of failure to effectively implement change programmes and cost control mechanisms that are essential for delivery of the strategy.

Failure to communicate the benefits of the strategy to major investors and senior management.

Impacts:
- Failure to meet anticipated returns, lack of confidence from investors and fall in share demand
- Change programmes managed ineffectively leading to ineffective operational performance and unexpected costs
- Failing to seek buy in from senior management and employees and increased employee turnover.

Key mitigating actions:
- The progress against strategic programmes is regularly reviewed by the Board
- Major investors have been briefed on the business strategy and a Head of Investor Relations has been appointed to strengthen engagement
- The Executive Leadership Team is focused on standardised Group reporting to easily identify negative performance
- The Chief Executive regularly updates and engages employees, in person, on strategic progress and actively seeks feedback from them.

Access to site labour and materials

Risk owner	Change since 2018	Time frame	Inherent risk rating	Residual risk rating	Category
Executive Leadership Team	Stable	Short to medium-term	High	Medium	Operational

Material issues affected:
- **Industry skills and capacity**
- **Sustainable procurement of materials**
- **Operational efficiency.**

Risk description:
Rising production levels across the industry put pressure on our materials supply chain.

Industry failing to attract the next generation of talent into skilled trade professions, coupled with impact of reduction in availability to the EU labour market.

Increased use of more modern methods of construction could result in a labour market unwilling and unable to meet the skills and knowledge required and a material supply chain lacking the scope and capacity.

Increasing occurrences of severe weather could result in an impact to the supply chain.

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 mitigate 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 positive and negative impacts on our supply chain management.

Demand for housing

Risk owner	Change since 2018	Time frame	Inherent risk rating	Residual risk rating	Category
Executive Leadership Team	Stable	Short to medium-term	Medium-high	Medium	External

Material issues affected:
- **Housing affordability**
- **Responsive investment and delivery models**
- **Political and legislative uncertainty and change.**

Risk description:
Heavily influenced by macro-economic factors as outlined in the first risk on page 51.

Lack of suitable land availability and failure to develop suitable homes for the required demand.

Changes to regulations and taxes, for example Stamp Duty Land Tax (SDLT), taxes on additional home 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 housing demand, 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
- An over-reliance 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.

Customer service, quality and product safety

Risk owner	Change since 2018	Time frame	Inherent risk rating	Residual risk rating	Category
Executive Leadership Team	Stable	Ongoing	Medium	Medium	Operational

Material issues affected:
- Well-built, high-quality homes and customer satisfaction
- Production design and development
- Placemaking
- Reputation and trust
- Stakeholder relationships.

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.

Our ability to respond to new building regulations and new technologies.

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:
- The updated strategy focuses on strengthening quality of build, becoming a five-star rated house builder and maintaining our excellence in placemaking
- Customer service and quality is an Executive remuneration measure.
- Quality inspections and build stage inspections to monitor adherence to our quality standards.

Build cost management

Risk owner	Change since 2018	Time frame	Inherent risk rating	Residual risk rating	Category
Chief Operating Officer	New risk	Short to medium-term	Medium-high	Medium	Operational

Material issues affected:
- Operational efficiency
- Sustainable procurement of materials
- Stakeholder relationships
- Product design and development.

Risk description:
Build cost inflation and unforeseen cost increases driven by demands in the supply chain and failure to implement core cost control systems.

Lack of awareness and understanding of external factors that may impact build costs including complex planning permissions and emerging sustainability and environmental regulations.

Impacts:
- Build cost inflation absorbs or exceeds benefits from sales price uplift
- Investor disappointment with margin progression as margins are suppressed
- Inflationary environment adds to delivery uncertainty and long lead-in times for materials as supply chain chases best price opportunities
- Pressure to contain costs results in poor quality developments and/or product.

Key mitigating actions:
- Investigate alternative sources of supply and/ or alternative production methods. Benchmark against existing sites to ensure rates remain competitive
- Ongoing communication with supply chain to mitigate price increase where possible
- Build relationships and seek to leverage volume, certainty and prompt payment with sub-contractors and suppliers.

Information security and business continuity

Risk owner	Change since 2018	Time frame	Inherent risk rating	Residual risk rating	Category
Executive Leadership Team	Stable	Ongoing	High	Medium	Operational

Material issues affected:
- Corporate responsibility and business ethics
- Reputation and trust
- Stakeholder relationships.

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.

OUR APPROACH TO RISK MANAGEMENT CONTINUED

Attracting and retaining employees

Risk owner	Change since 2018	Time frame	Inherent risk rating	Residual risk rating	Category
Executive Leadership Team	Increased	Ongoing	Medium	Low-Medium	Strategic

Material issues affected:
- **Industry skills and capacity**
- **Operational efficiency**
- **Health, safety and well-being**
- **Reputation and trust.**

Risk description:
Increasing skills gap in the industry at all levels. Difficulty recruiting the right people for vacant positions.

Staff turnover and inducting and embedding new staff and the cost of wages increase as a result of inflated offers in the market.

Longer-term succession affected.

Recognition of the importance to attract diversity into the Group to enhance skill set and dynamics of thought.

Impacts:
- Inefficiencies, productivity loss, delays to business operations and increasing costs
- Overuse or reliance on consultants and the supply chain
- Pressurised workloads due to under-resourced teams
- Threat of Group-think and lack of challenge across the organisation.

Key mitigating actions:
- Through our HR team, monitor 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
- Increase in annual leave allowance in line with our industry peers and introduction of flexible working arrangements to support employees personal arrangements throughout life changes
- Providing quality training and professional development opportunities through our Apprenticeship Scheme and Graduate Programme
- Reviewing our recruitment and induction of site managers.

Solvency and liquidity

Risk owner	Change since 2018	Time frame	Inherent risk rating	Residual risk rating	Category
Group Finance Director	Stable	Short- to medium-term	Medium-low	Medium-low	Strategic

Material issues affected:
- **Operational efficiency**
- **Land availability and cost**
- **Legacy and long-term management.**

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 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
- Private Rented Sector (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
- 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

Risk owner	Change since 2018	Time frame	Inherent risk rating	Residual risk rating	Category
Executive Leadership Team	Increased	Ongoing	Medium	Medium	External

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

Risk description:
Future potential regulatory changes due to Brexit and fire safety 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.

The National Planning Policy Framework continues to embed with lack of clarity in an environment where local authorities and public sector resources are constrained.

Failure to effectively implement new environmental regulations including The Future Homes Standard and net biodiversity gain.

Failure to effectively implement the guidance notes issued by the Government in respect of combustible materials and fire safety for residential dwellings.

Impacts:
Where solutions remain uncertain and there is a lack of clarity on forthcoming and 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 s106), regulatory requirements, 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 Home Builders Federation (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 modern slavery, bribery and corruption, backed up by formal whistleblowing procedures and anti-money laundering processes
- Continuing to assess and implement the latest interpretations of fire safety alongside carefully reviewing any potential liabilities.

Supply of permissioned and viable land

Risk owner	Change since 2018	Time frame	Inherent risk rating	Residual risk rating	Category
Executive Leadership Team	Stable	Ongoing	Medium	Low	Strategic

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

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:
- 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
- Targeted approach to land acquisitions through our dedicated strategic land division
- Maintain sufficient skills and experience within the organisation to negotiate timely and viable consents.

GOVERNANCE

We are committed to becoming a better business, where build quality and the development of attractive, sustainable communities is supported by strong operational efficiency. We recognise that we need a strong governance framework to achieve our ambitions.

CONTENTS

GOVERNANCE OVERVIEW

LEADERSHIP

There is a clear division of responsibilities between the Chairman, who runs the Board, and the Chief Executive, who leads the Group's operations. During the year a Non-Executive Chairman, independent on appointment, was recruited to strengthen this division. Directors provide rigorous and constructive challenge on matters that, owing to their strategic, financial or reputational implications or consequences, are considered significant or material to the Group.

For more information:
Board of Directors p60–61
Board composition p64–65

EFFECTIVENESS

The skills, knowledge and experience needed for an effective Board are regularly reviewed. Appointments to the Board are made following a formal, rigorous and transparent process, based on merit. This process takes into account the skills, experience and diversity needed on the Board in the context of Crest Nicholson's strategic direction.

For more information:
Nomination Committee Report p71–74
Board evaluation p68–69
Board composition p64–65

ACCOUNTABILITY

Assisted by the Audit and 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 and Risk Committee also reviews the effectiveness of the Group's system of internal controls and oversees the performance of the Group's internal and external auditors.

For more information:
Audit and Risk Committee Report p75–80
Our approach to risk management p49–55

REMUNERATION

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

For more information:
Directors' Remuneration Report p81–101

RELATIONS WITH SHAREHOLDERS

The Group has recently appointed a new Head of Investor Relations to strengthen engagement with shareholders. Dialogue focuses on financial, operational and corporate governance matters, as required, throughout the year.

For more information:
Shareholder and stakeholder relations p70

CHAIRMAN'S INTRODUCTION

"The Board remains fully committed to a strong governance framework. Its members are determined to meet their responsibilities to shareholders and to seek continuous improvements in governance standards across Crest Nicholson."

I am pleased to present my first Corporate Governance Report for Crest Nicholson. It has been a challenging year resulting in another period of deteriorating financial performance. Given these circumstances, the Board decided to appoint a new Executive Leadership Team, identifying Peter Truscott as Chief Executive, Duncan Cooper as Group Finance Director and Tom Nicholson as Chief Operating Officer.

The new Executive Leadership Team have worked quickly in conducting a thorough review of the Company's operations and have developed an updated strategy to drive improved performance.

The Board is committed to ensuring Crest Nicholson's governance framework provides the strong oversight needed for the effective management of the Group. The annual Board evaluation is a key mechanism for informing future development plans. Following an externally-facilitated assessment in 2018, an internally-led process took place in 2019. This provided the opportunity to observe and appraise the Board's performance. The process and how we have integrated agreed actions into our forward plan of work is explained on pages 68 to 69. As a new Chairman, I will focus on all the feedback from the Board evaluation and oversee the delivery of actions for suggested areas for improvement.

The Board Committees continue to support many aspects of the Board's role. Each Board Committee presents its own detailed report in the pages that follow. We reviewed the need for a Technical Committee during the year and concluded that its areas of responsibility would be carried out by the Executive Committee (see page 63).

The key areas of focus for the Nomination Committee in 2019, under the Chair of Leslie Van de Walle, has been the Executive Director and Chairman changes, along with strengthening succession planning throughout the business. It has also focused on inclusion and diversity and we will be constantly striving to strengthen diversity at both Board level and across the Company. Further details on the work of the Nomination Committee can be found on pages 71 to 74.

The Audit and Risk Committee has been especially mindful of the need for a strong control environment during the transitionary period of leadership. As a result, the Committee will remain focused on the control environment for the Group and its divisions and the supporting assurance processes. Further details on the work of the Audit and Risk Committee can be found on pages 75 to 80.

Following shareholder engagement and in line with the three-yearly review, Crest Nicholson's Remuneration Policy will be put forward for shareholder consideration at the 2020 AGM. The full Policy is outlined in the Directors' Remuneration Report on pages 81 to 101. I am also pleased to report that during the year, our Remuneration Committee Chair, Octavia Morley was appointed as our Non-Executive Director responsible for workforce engagement. Octavia is working with the HR function to develop workforce engagement to strengthen the Board's understanding of the matters affecting employees.

For this financial year, we have reported under the UK Corporate Governance Code 2016 (Code 2016). The Board is pleased to confirm that it considers that the Company has complied in full, throughout the accounting period with all the relevant principles and provisions, other than provisions A.2.1 and A.3.1, the period where Stephen Stone was Executive Chairman from March 2018, becoming Non-Executive Chairman in April 2019 and stepping down from the Board at the end of October 2019. The Board considered it appropriate for Stephen to act as Chairman following his role as Chief Executive to provide stability during a period of change in executive management.

For the next financial year, we will report our compliance with the UK Corporate Governance Code 2018 (Code 2018), which is focused on transparency, integrity and stakeholder engagement. With an updated strategy in place, I look forward to updating you further on what this means for Crest Nicholson and its stakeholders.

While the Board has seen a number of Directorship changes over the year, there was a consistent presence from the Deputy Chairman and Non-Executive Directors. I feel that the Board has a clear view on how it can support the Executive Leadership Team in delivering its strategy going forward.

I am confident that Crest Nicholson is well placed to meet the challenges in 2020 and beyond. I look forward to engaging further on our role in governing and supporting Crest Nicholson's long-term success.

Iain Ferguson CBE
Chairman

2019 AGM vote

At the AGM in 2019, the Company received overwhelming support for all its resolutions.

However, the Company was included on the Investment Association Register with respect to withdrawing Resolution 4 (the re-election of Patrick Bergin).

The Company recognises that the withdrawal of resolutions is rare and undesirable. However, sensitive matters such as Board changes need to be actioned at the most appropriate time for the Company. Occasionally, this may fall after an AGM notice has been issued and prior to a meeting taking place.

The Company thanks its shareholders for their support during the recent period of Board changes and does not expect to withdraw resolutions at its AGM in 2020.

LEADERSHIP AND PURPOSE

Board of Directors

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Key to Committee membership

- **A** Audit and Risk Committee
- **N** Nomination Committee
- **R** Remuneration Committee
- **E** Executive Leadership Team
- ◯ Chair of Committee

Read more about our Committees on **p71–101**

1 Iain Ferguson CBE
Non-Executive Chairman

Appointed	September 2019
Age	64
Independent	On appointment

Experience and qualifications

Iain is a highly experienced public company Chairman, Non-Executive Director and former FTSE 100 CEO. He has extensive and diverse leadership experience and a sound practical understanding of corporate governance. Iain has a deep appreciation of capital markets and investor sentiment which he brings to Board deliberations, in addition to financial expertise and construction experience.

Iain was Chief Executive Officer of Tate & Lyle plc, later chairing Berendsen plc and the Stobart Group Ltd. He was also Senior Independent Director of Balfour Beatty plc and Non-Executive Director at Greggs plc. In addition, Iain was Lead Independent Director at the Department for Environment, Food and Rural Affairs, Chair of Wilton Park (Agency of the Foreign and Commonwealth Office) and a Member of the PricewaterhouseCoopers LLP UK Advisory Board.

In 2003, Iain became a Commander of the British Empire for his services to the food industry.

External appointments

Non-Executive Director, Personal Assets Trust plc (2017 onwards), Non-Executive Director, Copenhagen Topco Ltd (2018 onwards), Pro-Chancellor, Cranfield University (2015 onwards).

2 Peter Truscott
Chief Executive

Appointed	September 2019
Age	57
Independent	No

Experience and qualifications

Peter has vast experience in the housebuilding industry across a range of models and tenures. He was formerly Chief Executive of Galliford Try plc. Peter also worked at Taylor Wimpey plc for 30 years where he held various positions including divisional Chairman and was a member of its Group Management Team. Previously, he worked for CALA Homes. Peter brings valuable operational and public company experience to lead the Company and is highly experienced at delivering a broad range of housing needs to stakeholders.

External appointments

None.

3 Duncan Cooper
Group Finance Director

Appointed	June 2019
Age	40
Independent	No

Experience and qualifications
Duncan has extensive financial experience across a range of industries. He formerly worked at J. Sainsbury plc where he held multiple roles since 2010, culminating in Director of Group Finance. Prior to that he held finance roles at Sky plc, GlaxoSmithKline plc and Deloitte LLP. Duncan's extensive knowledge of financial markets and experience of shareholder engagement will be valuable in communicating the Company's updated strategy and future financial targets. Duncan is a chartered accountant.

External appointments
None.

4 Tom Nicholson
Chief Operating Officer

Appointed	January 2020
Age	54
Independent	No

Experience and qualifications
Tom brings the breadth of experience in the key operational areas we are focusing on as we re-position the Company's margins and returns. Tom joined the Company in May 2019, before becoming an Executive Director in January 2020. Tom is a seasoned executive in the housebuilding sector with 30 years' industry experience. He has particular expertise in driving operational improvements and increasing productivity. Tom was a divisional Chairman at Linden Homes and he served on the Executive Board of Galliford Try plc. He has previously worked for Try Homes, Berkeley Group Holdings plc and Trafalgar House.

External appointments
None.

5 Lucinda Bell
Non-Executive Director

Appointed	May 2018
Age	55
Independent	Yes

Experience and qualifications
Lucinda 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. She has held a range of finance roles in the real estate industry. Lucinda's background in capital markets, investor engagement, tax and the financing of corporate transactions provides valuable insight to the business. The Board welcomes Lucinda's keen interest in corporate responsibility. At British Land, Lucinda played a leading role in its sustainability initiatives. Lucinda currently chairs the Audit Committee at Rotork plc and Derwent London plc. Lucinda is a chartered accountant.

External appointments
Non-Executive Director of Rotork plc and Derwent London plc, Non-Executive Treasurer of The National Association of Citizens Advice Bureaux.

6 Sharon Flood
Non-Executive Director

Appointed	April 2015
Age	54
Independent	Yes

Experience and qualifications
Sharon is a highly experienced Director having held senior finance and strategy roles across a range of companies including John Lewis Partnership plc, Kingfisher plc and more recently as Group CFO at Sun European Partners LLP. Her non-executive experience spans plc, Government, and not for profit organisations chairing Audit and Finance Committees. Specifically, Sharon spent six years at housing charity Shelter as Chair of Audit, Risk and Finance and over five years at Network Rail Ltd, where she chairs its Audit, Treasury and Environmental Sustainability Committees bringing a range of housing and infrastructure experience.

External appointments
Non-Executive Director of Network Rail Ltd and Pets at Home Group plc, Trustee of the Science Museum Group, Council Member of the University of Cambridge.

7 Louise Hardy
Non-Executive Director

Appointed	January 2018
Age	53
Independent	Yes

Experience and qualifications
Louise was 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 been a Non-Executive Director at the Defence Infrastructure Organisation for the Ministry of Defence. In 2019, she was named as one of the 100 Most Influential Women in Engineering. Louise's engineering expertise across large and complex projects has been particularly insightful in the Board's review of off-site manufacturing (OSM) techniques. Louise is a fellow of the Institution of Civil Engineers and of the Chartered Management Institute.

External appointments
Non-Executive Director of Sirius Minerals plc, Polypipe Group plc, Severfield plc, Ebbsfleet Development Corporation and North West Cambridge Development.

8 Octavia Morley
Non-Executive Director

Appointed	May 2017
Age	51
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 was 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. Octavia brings customer experience insight to the Board, gleaned through her various retail and consumer roles.

External appointments
Chair of The Spicers-Office Team Group Ltd, Senior Independent Director of the Card Factory plc, Non-Executive Director of Marston's plc and Ascensos Ltd, Director of Stat Company Ltd and Zenoffice Ltd.

9 Leslie Van de Walle
Deputy Chairman and Senior Independent Director

Appointed	January 2018
Age	63
Independent	Yes

Experience and qualifications
Leslie has a wide range of senior management business experience with over 20 years at board level, having been Chair at Robert Walters plc and SIG plc (a specialist construction product supplier). Leslie has previously held Chief Executive positions at United Biscuits plc and Rexam plc. He has also undertaken a range of non-executive roles across industries such as oil and gas, food and drink, manufacturing and insurance. Leslie has international and cross-sector experience, bringing expertise in the development of corporate strategy for multi-business organisations. Through his roles in both the private and public sector, including finance, risk, and trade and industry, he brings strong commercial knowledge to the Board. Having served on the Board and Board Committees of a number of organisations, including in the position of Chair and Senior Independent Director, Leslie has the oversight and understanding required for his current role, including a strong view and understanding of governance and boardroom dynamics.

External appointments
Chairman of Euromoney Institutional Investor plc, Non-Executive Director of DCC plc and HSBC UK Bank plc.

Departures during the year

Patrick Bergin
Chief Executive
Stepped down from the Board: 26 March 2019

Stephen Stone
Non-Executive Chairman
Stepped down from the Board: 31 October 2019

Chris Tinker
Chairman of Major Projects and Strategic Partnerships
(Interim Chief Executive March 2019 – September 2019)
Stepped down from the Board: 31 December 2019

LEADERSHIP AND PURPOSE CONTINUED

Executive Leadership Team

Biographies available on previous page

Peter Truscott
Chief Executive
See biography on p60

Duncan Cooper
Group Finance Director
See biography on p61

Tom Nicholson
Chief Operating Officer
See biography on p61

David Marchant
Group Production Director

Joined	March 2019
Age	55

Experience and qualifications
David has over 30 years' construction and home building industry experience in design and leadership roles. He was previously a Group Director of Bellway plc and Director at the NHBC. David is a structural engineer and chartered builder. He leads responsibility for SHE, the Group's new core housing range, OSM and maintaining rigorous oversight of build costs.

Kevin Maguire
General Counsel and Company Secretary

Joined	January 2009
Age	35

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. Kevin has a comprehensive understanding of the legal, compliance, governance and risk considerations relevant to Crest Nicholson, and of the regulatory environment in which its business operates.

Governance framework

The Board

Responsible for creating and delivering sustainable shareholder value and contributing to wider society.

Matters reserved for the Board

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 or 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 Committee

The Executive Committee is comprised of the Executive Leadership Team and assists the Chief Executive with the development and implementation of Group strategy, the management of the business and the discharge of responsibilities delegated by the Board.

Divisional Boards

Considers the operational matters and key risks of the divisions.

Safety, Health & Environment (SHE) Committee

Considers SHE performance, sets the Group's SHE strategy, procedures and initiatives, and reports to the Executive Committee and Board.

Projects Committee

In line with agreed delegations and limits, manages the land portfolio, allocation of capital across the Group and oversees all major investment and divestment decisions on behalf of the Executive Committee.

Audit and Risk Committee

Monitors the integrity of the Group's financial statements, reviews the relationship with the external and internal auditors and the role and effectiveness of the internal audit function. Oversees the risk management process, internal control environment and the external audit function.

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 Committee. The Committee leads any Board appointment process, and makes recommendations to the Board accordingly.

Remuneration Committee

Determines the reward strategy for the Executive Directors to align their interests with those of shareholders and employees.

Former Board Committee:

Technical Committee

The Technical Committee reviewed and advised the Board on technical innovations and forthcoming legislation that may have construction and commercial implications. A particular focus had been the development, roll-out and continued review of the new Group house types.

The Committee also reviewed the trialling of OSM techniques. Feedback on the use of OSM, together with performance testing of the technology, were monitored closely. The Group's focus is now on the refinement of the house type range to maximise efficiencies, together with a controlled approach to further OSM trials.

From 1 November 2019, the oversight of OSM and the Group house type range was assumed by the Executive Committee, who provide updates directly to the Board.

CORPORATE GOVERNANCE REPORT CONTINUED

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 Leadership Team. The specific responsibilities agreed and assigned to each Director in line with their position on the Board include:

Individual roles and responsibilities

Chairman

Iain Ferguson leads the Board, governance, major shareholder and other stakeholder engagement. Iain supports and advises the Chief Executive on the day-to-day management of the business, committing additional time to build his skills and knowledge.

Iain's role includes:

- Leadership, effective operation and governance of the Board
- Application of independent and objective judgement
- Setting agendas that ensure appropriate coverage of all areas material to the Board and which support efficient and balanced decision making
- Facilitating an environment for effective relationships between Directors and driving a culture that supports constructive discussion, challenge and debate
- Ensuring the views of all stakeholders are understood and considered appropriately in Board discussions
- Overseeing the annual Board performance evaluation and identifying required actions
- Leading initiatives to assess the culture across Crest Nicholson and ensure that the Board leads by example.

Chief Executive

Peter Truscott is responsible for the leadership of the Group and implementing the Group's strategy, managing the overall performance of the business and providing effective leadership to the Executive Leadership Team.

Peter's role includes:

- Proposing and leading the delivery of strategy as agreed by the Board
- Leading the Executive Committee which oversees operational and financial performance and gives focus to strategic and governance issues for Crest Nicholson
- Communicating and providing feedback about the implementation of Board-agreed policies, and their impact on behaviours and Company culture, to ensure Crest Nicholson operates in a way that is consistent with its values
- Leading and supporting Crest Nicholson's divisions and its Group functions
- Engaging with Crest Nicholson's key stakeholder groups and the Government
- Communicating to employees outcomes and developments from the Board on specific matters.

Group Finance Director

Duncan Cooper provides leadership, direction and management of Group Finance, overseeing Group and divisional financial control functions.

Duncan's role includes:

- Group reporting and implementation of reporting standards
- Group consolidation and financial control mechanisms
- Overseeing the Company's tax strategy
- Delivery of Investor Relations and communication with the capital markets
- Implementation of the Group's risk management actions.

Chief Operating Officer

Tom Nicholson provides leadership and direction to the divisional businesses.

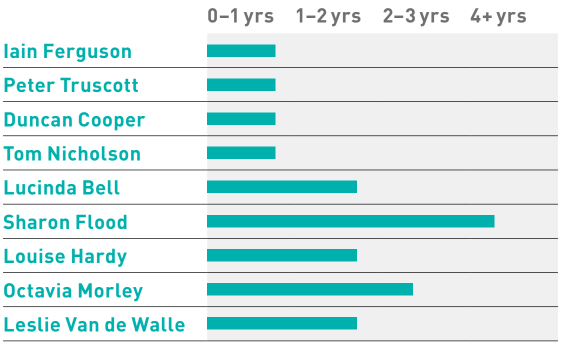
Tom's role includes:

- Overseeing delivery of the Company's strategy across the Group
- Maintaining a strong control environment
- Setting exemplary standards and embedding assurance processes for SHE and quality management.

Deputy Chairman and Senior Independent Director

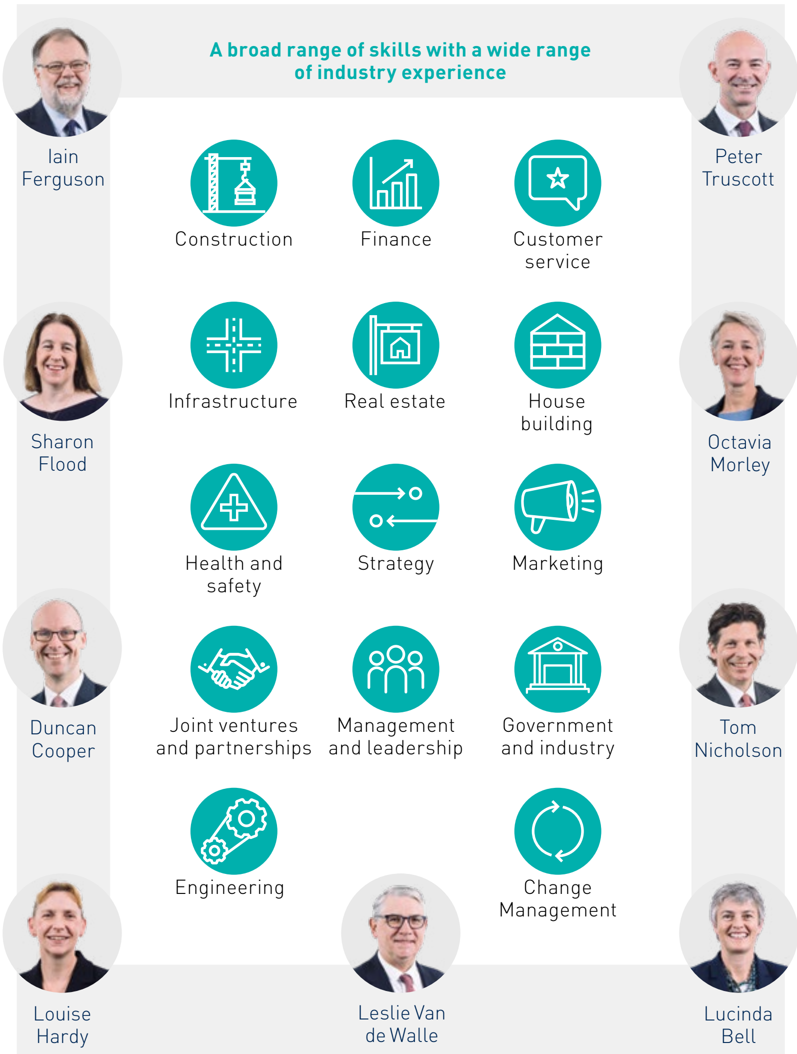
Leslie Van de Walle acts as a sounding board for the Chairman and as a trusted intermediary for other Directors. He is also available to discuss concerns with shareholders that cannot be resolved through the normal channels of communication with the Chairman or the Executive Directors. The Senior Independent Director is also responsible for leading the Chairman's performance evaluation. Leslie Van de Walle will be stepping down from the

Board tenure



Gender diversity at 1 November 2019

Board experience



Board at the 2020 AGM. The Board has agreed to appoint Octavia Morley to the position of Senior Independent Director. As the Company now has a Non-Executive Director independent on appointment, the Board has agreed a Deputy Chairman will no longer be required.

Independent Non-Executive Directors

Lucinda Bell, Sharon Flood, Louise Hardy and Octavia Morley are responsible for bringing an external perspective, sound judgement and objectivity to the Board's deliberations and decision making. From 1 November 2019 all Non-Executive Directors are determined by the Board to be independent in character and judgement, in compliance with the Code 2016.

The Non-Executive Directors:

- Scrutinise, measure and review the performance of management
- Constructively challenge and assist in the development of Group strategy
- Provide independent insight and support based on relevant experience
- Review Group financial information and monitor the effectiveness of the systems of internal control and risk management
- Review succession plans for the Board and key members of senior management
- Engage with internal and external stakeholders and feedback insights as to their views, including employees' views on the Company's culture
- Set policy with respect to executive remuneration.

General Counsel and Company Secretary

Kevin Maguire provides advice and assistance to the Board, the Chairman and other Directors, particularly in the development of agendas for Board meetings, provision of information to the Board, advising and keeping the Board updated on corporate governance developments, and considering Board effectiveness and Directors' training needs in conjunction with the Chairman.

Board skills

The Board plays an active role in shaping the Group's strategic direction. The Board contribute their skills and expertise and provide the framework for management's decision making.

Directors are sought with functional skills (e.g. operations, finance, legal) and experience from the house building industry or other relevant backgrounds.

The Board seeks a complementary diversity of skills, backgrounds and experience across its members, recognising the complex and varied issues the Group faces.

CORPORATE GOVERNANCE REPORT CONTINUED

Board activities
What we did in the year

Between November 2018 and October 2019 we have:

Financial performance and risk

- Debated significant and emerging risks including building regulations, fire risk, Cyber Security and political risk.
- Monitored trading performance conditions throughout the year, and supported management's actions.
- Approved the budget for 2019, set wider financial targets and set market guidance and messaging.
- Reviewed and responded to the impact of IFRS 15 on the 2018 and 2019 accounting treatment.
- On the recommendation of the Audit and Risk Committee, reviewed and approved half-yearly and annual results, viability statement and going concern matters.
- Reviewed the Group's risk register and the effectiveness of the systems of internal control and risk management.

Read more on **p49–55**

Leadership and effectiveness

- Oversaw the 2019 strategy and implementation as it focused on cash flow, dividends and other initiatives such as joint ventures.
- Visited divisions and sites, meeting divisional management and staff. The Board received presentations on local performance and insights and provided opportunities to interact with Board members and ask questions.

Monitored SHE performance and initiatives throughout the year and supported the Be Safe initiative. The Board met Health and Safety representatives during site visits to understand their challenges first hand.

Under its Be Safe brand, updated its SHE strategy.

Read more on **p38–48**

Shareholders, stakeholders and governance

- Received an in-depth presentation from the Group Governance and Sustainability Manager setting out the ESG and climate change landscape and emerging structure for the Group's updated sustainability strategy.
- Extensive shareholder engagement throughout the year in relation to business performance, Board changes, and actions the Board was taking to address shareholder feedback.

Reviewed customer service and quality performance and supported initiatives to improve performance towards becoming a five-star home builder.

Read more on **p42–43**

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 six times during the year, in addition to holding a range of briefings and calls outside of these meetings.

The Board monitors and assesses the external operating environment to ensure that at any time, in a given set of circumstances, appropriate decisions are taken. This often requires balancing the needs of those parties interested or affected by a particular decision and requires a sound understanding of stakeholder views alongside the range of possible outcomes.

Reviewed the Company's dividend policy and commitments, maintaining its dividend despite challenging market conditions.

33.0p

Dividend paid per share

2018	33.0p

- Worked with its primary lenders to extend the Group's revolving credit facility for a further year to 2024.
- Following the identification of certain significant build cost increases in the London division in 2018, the Board reviewed and approved new build cost controls and processes.
- Approved significant land acquisitions and joint ventures.
- Received regular litigation reports from the General Counsel and Company Secretary.
- Continued to review the effectiveness of OSM and the Group's projects using OSM.
- With detailed technical input, approved provisions with respect to Net Realisable Value on certain London sites, including an exceptional provision in respect of fire related matters.

Supported by the Nomination and Remuneration Committees took decisive action in appointing a new Chief Executive, Group Finance Director, Chief Operating Officer and Chairman.

Read more on **p71–74**

- Implemented induction processes for the Chief Executive, Group Finance Director, Chief Operating Officer and Chairman.
- Received a presentation about the Group's sales and marketing strategy and a revised approach being developed in 2019.
- Understood relevant capital market considerations in the context of the Company's position and wider political environment throughout the year.
- Considered and reviewed the Board's composition, diversity and succession plans.
- Conducted an internally facilitated Board Evaluation covering the Board's effectiveness, with feedback from individual Directors provided and the outcome discussed by the Board.

Read more on **p68–69**

- Appointed a Non-Executive Director responsible for employee engagement and engaged with employees across the business, giving feedback to the Board.
- Hosted an open discussion with members of the Women's Forum to understand the findings of their research work and their views on how the Company can respond.

Read more on **p46–47**

- Monitored significant regulatory and legislative developments and considered potential implications for the Group.
- Considered and approved the Company's Modern Slavery Statement and reviewed the Group's internal measures for preventing modern slavery.
- Reviewed the Gender Pay Gap Reporting and initiatives to support improving the Group's performance.
- Received regular updates from Committee Chairs on activity and material matters.
- Considered implications of decisions on supply chain and payment practices throughout the year.
- AGM and related matters.
- Reviewed, considered and updated potential conflicts of interest.
- Reviewed its Committees' structure and membership, concluding that the Technical Committee was no longer specifically required, instead being replaced by enhanced operational expertise in the Executive Leadership Team.

Read more on **p63**

CORPORATE GOVERNANCE REPORT CONTINUED

Board effectiveness

MEETINGS ATTENDED

During the year there were scheduled: six Group Board meetings; four Audit and Risk Committee meetings; five Nomination Committee meetings; and five Remuneration Committee meetings.

Arrangements are in place should a Board decision or approval be required at short notice with additional sub-committee meetings and calls being scheduled as necessary. A number of additional meetings were held during 2019 in respect of the Board changes.

Time is also scheduled when required for the Non-Executive Directors to meet without the Executive Directors present.

	Board	Audit and Risk Committee	Nomination Committee	Remuneration Committee
Meetings held	6	4	5	5
Iain Ferguson[1]	1/1	–	–	–
Peter Truscott[2]	1/1	–	–	–
Duncan Cooper[3]	2/2	–	–	–
Lucinda Bell	6/6	4/4	5/5	5/5
Sharon Flood	6/6	4/4	5/5	–
Louise Hardy	5/6	4/4	5/5	5/5
Octavia Morley	6/6	4/4	5/5	5/5
Leslie Van de Walle	6/6	4/4	5/5	5/5
Former Directors				
Stephen Stone[4]	6/6	–	–	–
Patrick Bergin[5]	2/2	–	–	–
Chris Tinker[6]	6/6	–	–	–

Louise Hardy sent her apologies for one Board meeting due to illness.

1 Iain Ferguson was appointed to the Board on 16 September 2019 and joined the Nomination and Remuneration Committees on 1 November 2019.

2 Peter Truscott was appointed to the Board on 9 September 2019.

3 Duncan Cooper was appointed to the Board on 17 June 2019.

4 Stephen Stone stepped down from the Board on 31 October 2019.

5 Patrick Bergin stepped down from the Board on 26 March 2019.

6 Chris Tinker stepped down from the Board on 31 December 2019.

Board meetings

Scheduled meetings of the Board follow an agreed format, with agendas being developed from the Board's annual plan of business and tailored to reflect the current status of projects, strategic workstreams and operational matters. Finalisation of meeting content is a collaborative process involving the Chairman, Chief Executive and General Counsel and Company Secretary, who ensure adequate time is allocated to support effective and constructive discussion.

Strategic review

In line with the Board's responsibility for the overall strategic direction of Crest Nicholson, strategy-related updates are discussed at every Board meeting. These sessions are supported annually by a dedicated strategy review process, which assesses Crest Nicholson's strategic position and its key strategic options. This structured approach is supported by continual discussion and review. An overview of Crest Nicholson's strategy is set out on pages 10 to 17.

BOARD EVALUATION

Board evaluation process

During the year the Board conducted an internal evaluation, following an external evaluation in the prior year conducted by Lintstock (who have no other connection with the Company). Following consultation with the Chairman and the General Counsel and Company Secretary, the review process took place from August to November 2019 including all the Board members in place at the time. The Directors each completed a questionnaire with the review being focused on the relationship between the Executive and Non-Executive Directors, the activities of the Board, the composition of Board membership and the overall Committee effectiveness. Progress against last year's agreed areas of focus was also considered. The Deputy Chairman and Senior Independent Director led a review of the former Chairman's Stephen Stone's performance. The outcome of the Chairman's evaluation, alongside the overall evaluation was shared with Iain Ferguson and the outcome of the evaluation was presented for discussion in November 2019. The review concluded that the Board continued to operate effectively. The Chairman alongside the General Counsel and Company Secretary will be implementing the agreed actions during 2020 and these are summarised on page 69.

Board Evaluation

The Board set specific areas of focus for 2019, and the performance against these is set out below:

2019 areas of focus	How the Board performed
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.	During the year Stephen Stone moved from Executive Chairman to Non-Executive Chairman as planned. Following a number of other Board changes, Iain Ferguson, an independent Non-Executive Chairman replaced Stephen. This strengthened the division of responsibilities between the Chief Executive and Chairman and returned our Board to compliance with the Code 2016 by the end of the year.
Board relationships The development of relationships between both new members of the Board, and with the Executive Leadership Team continue to strengthen. The Board recognises that high-quality working relationships are imperative to a well-run company and will further develop this in 2019.	The Board demonstrated strong working relationships particularly with the challenging discussions and decisions involved in changes to the Board, and a difficult year of trading. With a range of new Board members, particularly Executive Directors, developing and maintaining relationships will continue as a theme in 2020.
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.	Having appointed a new Executive Leadership Team including a new Group Finance Director, the Board considers that it has the right organisational structure for the future with appropriate industry and operational experience. Evaluating and developing senior talent will continue as a theme in 2020.
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.	Under the Chairmanship of Stephen Stone, the format and priorities at Board meetings was reviewed and amended. In a year where wider strategic changes did not take place until the end of the financial year, continuing to balance commercial and strategic items will remain a focus for the Company's new Chairman Iain Ferguson in 2020.
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.	2019 saw increased engagement between the Board and management below the Board, as well as with the wider workforce. After appointing Octavia Morley as the Non-Executive Director responsible for workforce engagement a number of engagement sessions were held within a series of Health & Well-being workshops. There was also a significant increase in written communication to employees generally, providing updates on trading, Board changes and the Group's performance and challenges.

An internal evaluation process took the form of a questionnaire tracking our performance last year and reflecting new and emerging areas for reflection. Having considered the findings of the process carefully, the Board has set out its areas of focus for 2020:

Evolving strategy and investor proposition	In the first year of the Group's updated strategy, it is more important than ever that we ensure our strategy is communicated internally and externally and we present our vision to our shareholders and stakeholders, so they support us to deliver the strategy over the medium term.
Board operations and meeting format	In the context of a new Chairman and Chief Executive, it is essential that the timetable and format for meetings and information flow support all Board members in carrying out their roles. This will be reviewed in the early part of 2020.
Risk	With an updated strategy it is even more important that our risk appetite and internal risk assessment and control processes are regularly reviewed, and this will take place during 2020.
Culture and Stakeholders	With an updated strategy set out and implemented, the Board will continue to focus on key areas of: – Culture – Safety, Health & Environment – Customers – Employees and workforce engagement – Diversity and inclusion – People focus and change management – Talent development. A range of presentations and initiatives will take place as the updated strategy is implemented.
Board relationships	With a range of new Board members, and particularly Executive Directors, developing and maintaining relationships will continue as a theme in 2020. The Chairman will be working closely with all members of the Board and Executive Leadership Team to develop relationships around the Boardroom and ensure that all Directors are bringing their particular skills to the Board's operation. The Chairman will facilitate regular individual and group feedback opportunities and provide support as required.
Maintaining the breadth of industry and Company knowledge throughout the Board	In a year where all the Executive Directors are new to the business, a special focus will be placed on industry and Company knowledge. At the same time as developing relationships around the Boardroom and ensuring that the Non-Executive Directors are supported and continue to develop their industry knowledge. Developing effective induction processes to enable new Executive Directors to become familiar with all core operations of the business.

CORPORATE GOVERNANCE REPORT CONTINUED

Shareholder and stakeholder relations

The Board is committed to engaging proactively and constructively with our stakeholders.

The Board devotes time and effort to consider the interests of shareholders, customers, employees and the communities impacted by our activities.

Approach to investor relations

The Board is committed to regular, open dialogue with shareholders and is kept informed about discussions with shareholders. The Board regularly receives analysts' reports and investor feedback.

Shortly after FY2019, the Company appointed a Head of Investor Relations. This role will be the principal contact for institutional shareholders, sell side analysts, media and other interested stakeholders, and will regularly update the Chief Executive and the Group Finance Director on investor relations matters. This will include updates from the Company's brokers to ensure the Board are aware of, and have a clear understanding of the views of major shareholders and the capital markets.

The Company engages with institutional investors through its investor relations programme which includes formal events throughout the year, along with a regular series of one-to-one and group meetings. These events provide an opportunity for shareholders to meet members of the senior management team.

The Chairman, Deputy Chairman and Committee Chairs are available to shareholders to discuss governance and strategy concerns where contact through the usual channels has failed to resolve, or is otherwise inappropriate.

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

- The approach being taken by the Company's divisions in a challenging trading environment
- Operational efficiency measures
- Board Director appointments and departures.

Annual General Meeting (AGM)

The AGM was held in March 2019. It provided an opportunity for shareholders to question all Directors and to vote on matters put to the meeting.

Shareholders who attended the AGM received an update on strategic progress from the Chairman. The results of voting at general meetings are published on the Company's website:

www.crestnicholson.com/investor-relations/agm

The 2020 AGM is scheduled to be held on 24 March 2020 at the Brooklands Hotel, Brooklands Drive, Weybridge KT13 0SL. Details of the meeting and the resolutions to be proposed are set out in the Notice of AGM, which will be available to download on our website from February 2020. The AGM gives shareholders, and in particular private shareholders, an opportunity to hear about the general development of the business and to ask questions of the Board.

Engagement with stakeholders

Open and constructive engagement with key stakeholder groups ensures the Group understand their views and priorities and takes them into account when considering strategic matters. Further details on Crest Nicholson's relationships with its stakeholders can be found on pages 30 to 31.

Employment policy

The Board values equality and diversity and considers that a diverse workforce strengthens the organisation.

The Equality and Diversity Policy ensures all employees and job applicants are accorded equal opportunities for recruitment, remuneration, access to benefits, and training and promotion.

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.

Where an employee has, or develops, long-term health issues or a disability, the Group works with them 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 via the Company's intranet and in writing, where required.

The Group seeks employees' opinions and views about the Group's operations and behaviours through internal feedback and staff surveys.

All employees participate in a Company's performance-based bonus scheme to incentivise and promote a common awareness of the financial factors affecting performance.
The Group operates an HMRC approved Save as You Earn Scheme ('Sharesave') and 50.6% of the Group's employees currently participate in one or more of the Company's Sharesave schemes (2018: 56.3%).

The Delivering Professional Excellence appraisal system ensures all employees have the opportunity to learn and grow within their roles. The Site Management Academy, Graduate and Apprenticeship Schemes provide opportunities for talent development in a number of disciplines – all critical to the house building industry in managing the current and future skills shortage. For further information, see Developing our People on pages 45 to 47.

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

Effectiveness

Iain Ferguson CBE
Chair of the Nomination Committee

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

In November 2019, Leslie Van de Walle, stepped down as Nomination Committee Chair. Leslie led the Nomination Committee in recommending to the Board the appointments of Peter Truscott, Chief Executive, Duncan Cooper, Group Finance Director and myself, as Chairman.

The Board was unanimous in agreeing that it would be in the best interests of the Company to appoint Peter as Chief Executive. Peter brings a wealth of housebuilding and leadership experience. He has already taken an instrumental role in the leadership and direction of the business and identified the areas that need to change to improve performance.

Similarly, Duncan brings a range of senior finance, investor and operational experience. As Group Finance Director, he will focus on ensuring financial discipline and operational efficiency, contributing to enhanced shareholder returns.

The Company welcomed Tom Nicholson's appointment as Chief Operating Officer in May. Tom was subsequently promoted to the Board in January 2020. David Marchant also joined the Executive Leadership Team as Group Production Director. The Committee provided oversight to these appointments and considers that these appointments enhance the skills and experience of the Board and provide a high calibre Executive Leadership Team to take the Company forward.

On behalf of the Board, I would also like to extend my thanks to Stephen Stone and Chris Tinker who left the Board this year after 24 and 31 years' dedicated, and greatly appreciated, service to the Company.

While the Committee considers that it has significantly strengthened the Board, it will continue to focus on both individual and collective performance. It is also committed to developing and maintaining robust succession plans to ensure contingencies are in place for future business needs, alongside enabling talented individuals to reach their full potential. Finally, building a diverse workforce across all parts of the Group will be a key focus for the Committee.

Iain Ferguson CBE
Nomination Committee Chair

COMMITTEE OVERVIEW
Committee members

Iain Ferguson CBE
Chair from 1 November 2019

Leslie Van de Walle
Chair until 1 November 2019

Lucinda Bell

Sharon Flood

Louise Hardy

Octavia Morley

Committee membership and meetings

The Committee is made up of Iain Ferguson (Chair) (joined 1 November 2019), Lucinda Bell, Sharon Flood, Louise Hardy, Octavia Morley, and Leslie Van de Walle.

The Committee met five times during the year (details of attendance are set out on page 68). There were also a number of informal meetings between Committee members regarding appointments and departures made during the year.

The Chief Executive and Group HR Director may attend Committee meetings by invitation.

The Committee is supported by Kevin Maguire, General Counsel and Company Secretary.

NOMINATION COMMITTEE REPORT CONTINUED

Activity during the year

Recruitment

- Oversaw the Chairman, Chief Executive, Group Finance Director and Chief Operating Officer recruitment processes
- Monitored Board consultation with shareholders in relation to the new appointments
- Considered the composition of the Board and recommended changes to the Board
- Recommended to shareholders the reappointment of all Directors standing for election/re-election at its 2019 AGM.

Succession planning

- Considered and made recommendations to strengthen succession-planning arrangements
- Reviewed current initiatives in respect of talent management across the Group.

Board evaluation

- Participated in, and reviewed the output of the 2019 internal Board evaluation process
- Reviewed and agreed new Board Committee composition
- Considered Board members' external appointments, in particular potential issues related to overboarding or risk of conflict.

Diversity

- Considered the Company's ongoing internal initiatives in respect of diversity and inclusion
- Considered and approved a new Board policy for gender diversity targets.

Looking ahead

- Consider the approach for improving gender diversity at Executive Leadership Team and the roles immediately below, and the workforce generally
- Review and further strengthen talent management and succession planning at Executive Leadership Team level and the layer below
- Oversee the Board performance evaluation for 2020.

BOARD APPOINTMENTS

A number of changes have been made to the composition of the Board during the year. These included the appointment of Iain Ferguson as Chairman, Peter Truscott as Chief Executive and Duncan Cooper as Group Finance Director. The Committee kept the balance of skills, experience, independence and knowledge under continuous review to ensure the Board is well-balanced, with the right mix of individuals. Tom Nicholson was promoted to the Board of the Company in January 2020. This process will be reported on in next year's Committee report.

The Committee has ensured a dialogue with major shareholders throughout the year with respect to Board changes.

APPOINTMENT/REAPPOINTMENT OF DIRECTORS

The Committee considered the output from the Board effectiveness evaluation report and concluded that each of the Directors continued to make an effective contribution to the Board. The Committee considered the tenure, independence, time commitments and any other significant appointments of each of the Non-Executive Directors, including the Chairman and concluded that each Director continues to contribute effectively and provides sufficient time to the Company. In accordance with the Code, each of the Directors will submit themselves for re-election at the 2020 AGM, other than Leslie Van de Walle who has indicated he will step down from the Board at the 2020 AGM. Further detail on the Board evaluation process is outlined on pages 68 to 69.

The Committee's terms of reference can be found online at: www.crestnicholson.com/investor-relations/corporate-governance/board-committees

Appointments

Iain Ferguson CBE

Date of Appointment
16 September 2019

Search Firm
Russell Reynolds Associates[1]

Process
Former Chief Executive, Stephen Stone, assumed the role of Executive Chairman at the 2018 AGM, prior to becoming Non-Executive Chairman in April 2019. As previously communicated to major shareholders, this appointment was part of a transitional process for a limited time period.

While the search process for the Executive Directors was underway, the Committee commenced the search process for a new and independent Chairman. A range of potential candidates were presented, from which a shortlist of three were subsequently interviewed. Following further meetings, and in consideration of the skills required, the Committee agreed to recommend Iain's appointment to the Board.

Stephen Stone was not involved in the appointment process of the new Chairman.

Skills and background
Iain is a highly experienced listed company Chairman, Non-Executive Director and former FTSE 100 Chief Executive. He brings a unique blend of board and business leadership experience across international and complex businesses and also has experience in the construction industry. Key relevant experience has been outlined overleaf.

1 Russell Reynolds Associates has no other connection with the Company.

While the Committee considers that it has significantly strengthened the Board, it will continue to focus on both individual and collective performance."

Executive experience
- Former CEO of Tate & Lyle plc (2003–2009)
- Senior Vice President, Corporate Development at Unilever plc (2001–2003), having started at Unilever in 1977 as a management trainee.

Non-Executive Director experience:
- Non-Executive Director, Personal Assets Trust plc (2017 onwards)
- Chairman, Hallmarq Veterinary Imaging Limited (2015 onwards)
- Council Chair and Deputy Chair, Cranfield University (2015 onwards)
- Chairman, Stobart Group Ltd (2013–2019)
- Senior Independent Director and Chair of Remuneration Committee, Balfour Beatty plc (2010–2019)
- Chairman, Berendsen plc (2012–2017) and Senior Independent Director (2010–2012)
- Non-Executive Director and Chair of Remuneration Committee from 2012 of Greggs plc (2009–2014)
- Member of the UK Advisory Board, PricewaterhouseCoopers LLP (2010–2012).

Peter Truscott
Date of Appointment
9 September 2019

Search Firm
Russell Reynolds Associates[1]

Process
The Chief Executive recruitment process commenced in early 2019. In conjunction with Patrick Bergin's departure, the Committee recommended to the Board the appointment of Chris Tinker (Executive Director and Chairman of Major Projects and Strategic Partnerships) to act as Interim Chief Executive to bring stability and continuity until a new Chief Executive joined the business.

After reviewing a range of strong candidates that were presented, Peter was selected to be taken forward to the final stage of the process. This included meeting all Executive and Non-Executive Directors. Following consideration of the feedback, the Committee went on to recommend the appointment of Peter to the Board.

Skills and background
Peter is a highly experienced senior executive with many years in the housebuilding sector. He spent most of his career with Taylor Wimpey plc before assuming the role of Chief Executive at the FTSE 250 company, Galliford Try plc, in October 2015. Peter is a proven Chief Executive who led the housebuilding and partnerships divisions of Galliford Try plc through a period of growth. He understands the house building sector well and is focused on placemaking, driving operational efficiency and improved customer service.

Duncan Cooper
Date of Appointment
17 June 2019

Search Firm
Russell Reynolds Associates[1]

Process
Following Robert Allen's departure in October 2018, the Board appointed an interim Finance Director while the Committee commenced the selection process for a new Group Finance Director.

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

Skills and background
Duncan was formerly Director of Group Finance at J. Sainsbury plc. Prior to that, he held senior roles at Sky plc and GlaxoSmithKline plc. Duncan has experience at both divisional and group level. At J Sainsbury plc, he managed the group finance function on a day-to-day basis, covering group reporting. He has also performed the role of Head of Investor Relations. Duncan has managed finance functions of businesses during challenging trading periods, periods of change and during corporate actions.

NOMINATION COMMITTEE REPORT CONTINUED

RESPONSIBILITIES AND TERMS OF REFERENCE

The Committee's key responsibilities are set out below:

Recruitment

- Reviewing structure, size and composition of the Board
- Preparing job specifications, appointing search agencies and overseeing the search process for potential candidates for new Board appointments
- Overseeing the induction of new Directors.

Succession planning

- Facilitating the performance evaluation of Directors
- Making recommendations with respect to the annual re-election, continuation in office and appointment of Directors
- Formulating succession plans for Executive and Non-Executive Directors
- Reviewing Directors' conflicts of interest and overboarding.

Diversity

- Reviewing the Board's approach to diversity and the Company's success in implementing its proposals.

COMMITTEE PERFORMANCE

The Committee's performance was considered as part of the Board's annual evaluation. The review concluded that the Committee had successfully identified the necessary skills and experience during the selection stages for new appointments. Increasing the level of house building experience at both Board and Executive Committee level was seen as a key objective when defining the search criteria. While the timing and sequencing of appointments had been challenging, the Committee is confident it has recruited a strong Executive Leadership Team.

INDUCTION

During the year, the Company completed the induction of Iain Ferguson, Peter Truscott and Duncan Cooper. Each Director received a tailored induction to familiarise them with the business and the way in which the Board operates.

As part of the induction process, Directors were provided with key materials such as previous minutes of Board and Committee meetings and key Group documents. Specific training requirements were also considered.

Each induction involved meeting with all the Directors, the Executive Leadership Team, senior management from relevant disciplines and external advisers. Site visits were also arranged. Peter has visited all developments and Duncan and Iain have visited a number of Crest Nicholson developments across the business.

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. This includes continually reviewing the balance of skills, experience, independence and knowledge to ensure the right individuals are in place to support the effective planning and implementation of the Group's strategy.

The Committee also considers the executive pipeline and the talent development initiatives to identify and grow future leaders for the business. In addition to long-term succession planning, the Committee reviews contingency plans that ensure the Group's resilience to sudden and unexpected non-availability of key positions. The Committee considered gaps in the process, recommended ways to strengthen succession and reviewed the processes in place so that identified individuals are in a position to quickly and effectively assume key roles.

BOARD DIVERSITY

The Board had previously set an objective that at least 25% of its members be female. The Committee keeps this target under review and, following a Committee review earlier in the year, this target was increased to 33%. Details of Board gender diversity and breadth of skills and experience can be found on page 65.

The Committee actively searches for candidates from the widest talent pool, against objective criteria and with regard to diversity during Board appointment processes. The Nomination Committee remains particularly focused on how its diversity objectives cascade to below Board level. Company initiatives such as unconscious bias training for Executive Leadership Team members, the launch of a Women's Forum and the introduction of flexible working practices across the organisation have been particularly welcomed. Further information on our approach to diversity at senior management levels and across the Group can be found on pages 46 to 47.

Accountability

Sharon Flood
Chair of the Audit and Risk Committee

Reflecting on the past year, the Company has been operating during a period of both significant change and challenging market conditions. The Committee supported the Board appointments of Duncan Cooper as Group Finance Director in June, and Peter Truscott as Chief Executive in September. They have been focused on updating the Company's strategy and identifying opportunities to increase returns for shareholders.

The Committee welcomes this change, remaining mindful for the need of a strong control environment during this transitional period. The Committee is supported by Deloitte LLP who provide an outsourced Internal Audit function and remain focused on both the Group and divisional control environment and assurance processes.

PricewaterhouseCoopers LLP (PwC) remain our external auditor. I have held regular meetings with Sonia Copeland, the audit partner, to discuss audit processes, findings from the audit, the impact of the implementation of new accounting standards and the impact of these on the Group's results.

Following the identification of certain significant build cost increases in the London division in 2018, additional controls were put in place across the business to mitigate this risk in the future. Unfortunately further cost overruns were experienced in the Midlands division this year, caused by a combination of management changes and inexperience in some oversight roles as the division has expanded. Further changes have been made to the control processes led by the new Executive Leadership Team and the Committee has been fully engaged in both the causes of the Midlands incident and also the steps management have taken to strengthen controls.

Duncan and his team have kept me fully apprised of financial reporting, key risks and internal control matters. I value the open and constructive relationship I have with Duncan. I consider the team capable of delivering a strong financial and control environment for the updated strategy.

We welcomed Louise Hardy to the Committee in November 2019. Louise's experience in complex infrastructure projects will broaden the skill set of the Committee.

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

Sharon Flood
Audit and Risk Committee Chair

COMMITTEE OVERVIEW
Committee members

Sharon Flood	Chair
Lucinda Bell	
Louise Hardy	Committee member from 1 November 2019
Octavia Morley	
Leslie Van de Walle	

Committee membership and meetings

The Committee comprises Sharon Flood (Chair), Lucinda Bell, Louise Hardy (joined 1 November 2019), Octavia Morley and Leslie Van de Walle.

The Board considers that each Committee member has the appropriate 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 Financial Officer of Sun European Partners LLP and Finance Director of John Lewis Department Stores. Sharon is also Non-Executive Director and Audit Chair at Pets at Home plc and Network Rail Ltd.

Sharon is supported by all the independent Non-Executive Directors who have a wide range of experience in strategic, finance, senior management and operational roles. Further information on the experience, skills and qualifications of all Committee members can be found on pages 60 to 61.

The Committee met four times during the year (for details of attendance see page 68. The Chairman, Chief Executive, Group Finance Director, Group Financial Controller and other senior personnel attend meetings by invitation. Representatives from the external auditor, PwC, and the internal auditor, Deloitte, have a standing invitation to attend Committee meetings.

The Committee is supported by Kevin Maguire, General Counsel and Company Secretary.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

Activity during the year

Internal control and risk management

- Monitored and reviewed the Group's risk management framework and key internal controls
- Approved the 2019 Internal Audit Plan and periodically considered the output of internal audit reviews and management's action plans
- Reviewed the effectiveness and scope of the Group's internal audit function and its relationship with the Group's overall risk management framework
- Carried out a robust assessment of the principal risks facing the Group, reviewing and advising on the Board's risk appetite and the addition of two new principal risks, 'Business strategy and change management' and 'Build cost management'
- Monitored progress of the Group's Data Protection and Privacy programme
- Considered compliance and training needs in respect of whistleblowing, anti-corruption and fraud prevention
- Oversaw the improvement actions taken by management in respect of build costs generally, and specifically in the context of issues experienced in the London division in 2018, and the Midlands division in 2019
- Received an update from management on a workshop they had undertaken reviewing fraud risk.

Financial reporting

- Reviewed full and half-year results and announcements including the use of adjusting items, the Company's prospects in light of the Viability Statement and Going Concern requirements, and supported the Board in relation to interim trading updates
- Considered changes to the accounting standards, in particular the implications of International Financial Reporting Standards (IFRS) 15 and 16
- Reviewed and considered the six-monthly Prompt Payment Reports and performance against peers.

External audit

- Approved external audit plans for the full audit and half-year review, and assessed the effectiveness of the external audit process, including auditor fees and independence.

"The Committee welcomes the shift in strategy remaining mindful for the need of a strong control environment in this transitionary period."

Committee

- Considered the effectiveness of the Committee and its work plan for the coming year
- Reviewed the terms of reference, independence, financial literacy, ensuring the Committee as a whole has competence relevant to the sector in which the Group operates.

Looking ahead

- Maintain oversight of IT strategy, Cyber Security and Data Protection and Privacy matters
- Oversee implementation of recommendations arising from internal audit reports and management's fraud workshop
- Rotate the external audit partner following completion of their five year tenure, and develop the new partner's relationship with the Committee
- Ensure Internal Audit includes reviews and reports in relation to divisional key controls with focus on costs of build, margins and completion
- Oversee the robustness of the internal control framework as the Company implements its updated strategy.

Key responsibilities

The Committee's key responsibilities are set out below:

Internal control and risk management

- 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, their fees and 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 facilitated internally. The Committee's operation is seen as robust with a strong membership and representation. The role and relations with assurance providers such as Deloitte LLP as internal auditor and PwC as external auditor are positive, increasing the level of rigour in the work of the Committee.

The Committee's terms of reference can be found online at: www.crestnicholson.com/investor-relations/corporate-governance/board-committees

Key financial and internal control matters

During 2019, the Committee considered the following key financial and internal control matters in relation to the Group's financial statements and disclosures with input from management and the external auditor.

Key financial and internal control matters	How the Committee has addressed these matters
Carrying value of inventory	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 subject to certain assumptions. Due to the influence of the same external factors and the cyclical nature of the housing industry, there is a risk that the calculation of the developments' NRV may be subject to estimation error leading to inventory being held at the incorrect value and an unrecorded impairment charge. Management regularly review the selling prices and build costs of all of the Group's housing stock, including the impact on future forecasts for developments not yet under construction, taking into account latest market valuations. In the year a £7.0m NRV provision, mainly on a number of sites located in London has been made reflecting current trading in the capital. This provision reflects the results of a recoverability review of all sites within the short-term portfolio, taking into account recent sales experience, sales adviser views, local competitor experience, recent valuations and expected costs to complete the developments. The Committee reviewed the NRV provision and associated assumptions presented by Management, and following consideration, is satisfied that there are effective internal controls in place to ensure the effective assessment of inventory carrying values.
Margin forecasting and inventory	The Group's margin recognition framework is based on the margin forecast for each phase of development. These margins, which drive the recognition of costs as revenue is taken, 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 to each component of revenue. There is a risk that the margin forecast for the site and the margin subsequently recognised on revenue is not appropriate and reflective of the actual final profit that will be recognised on a development. 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 and availability of labour and materials. In the prior year a range of additional build costs associated with projects in the London division were highlighted to the Committee. Following review it was concluded that the controls in place were not operating as intended and costs on these projects were deliberately understated. Controls in this area were considered and enhanced. In the first half of the year project specific build cost challenges experienced in the Midlands division were highlighted to the Committee. A full review was undertaken which concluded that build cost controls were not operating effectively due to inexperienced staff. Following the appointment of David Marchant, Group Production Director, build cost processes and controls have been reviewed and improved. The Committee is satisfied that, following improvements to controls in this area, appropriate corrective action has been taken, and there is not a material impact on current year results. The Committee reviews the main areas of estimate, challenges management where appropriate and is satisfied that there is adequate oversight of control and that the margins are appropriately recognised in financial statements.
Combustible materials provision	Following the latest Government guidance notes in respect of combustible materials, fire risk and protection and regulatory compliance on completed developments, the Group has recorded an exceptional charge of £18.4m. The Group has conducted a detailed review of all current and legacy buildings to identify those that are impacted and has estimated remediation costs where a legal or constructive obligation to remediate the buildings exists. The Committee is satisfied that a legal or constructive obligation exists. The calculation of the provision is complex, considering many different inputs including the height and square footage of the impacted buildings, costs of interrogation, estimated costs of replacement materials and labour, the extent of the works to be complete and potential disruption to customers. In addition interpretation of these latest guidelines continues to evolve requiring contemporary reviews of the Group's estimates. The provision recognised represents Management's best estimate of these costs at 31 October 2019. Management will continue to assess the magnitude and utilisation of this provision in future financial reporting periods. The Committee reviewed and challenged the underlying combustible materials provision estimates, appropriateness and completeness, and are satisfied that the recognition of the provision is in line with required accounting standards. The Committee considered the disclosure of adjusting items in light of the FRC recommendations on this being fair, balanced and understandable. The Committee understands the importance to stakeholders of being able to assess the underlying performance of the business by adjusting for exceptional items. The Committee does not consider such measures to be a substitute for, or superior to, IFRS measures. Due to the size and nature of the provision the Committee has agreed with management's opinion to treat this as an exceptional item.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

Viability and going concern

The Committee reviewed management's consideration in relation to the prospects of the Group. It also satisfied itself that the going concern basis of preparation continues to be appropriate and made recommendations to the Board in this regard. The Company's Viability Statement can be found on page 50 within 'Our approach to risk management'. Further information on the Group's going concern assessment can be found on page 106.

Fair, balanced and understandable

At the request of the Board, the Committee has considered whether, in its opinion, the 2019 Annual Integrated Report 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 Fair, Balanced and Understandable process was led by the Group Finance Director supported by members of the Group Finance, Company Secretariat and Investor Relations functions (AIR Group). This AIR Group were responsible for regularly reviewing work and ensuring balanced reporting with appropriate links between key messages and sections of the Annual Integrated Report. A recommendation was then made from the AIR Group to the Committee confirming that they considered the Annual Integrated Report was fair, balanced and understandable.

In particular, the Committee considered, whether the report was:

Fair	Balanced	Understandable
– Provided a comprehensive review of the Group's activities and strategy that was consistent throughout – Highlighted key messages in the narrative report that were aligned with the financial results – Accurately described current market uncertainty and the principal risks faced by the Group, including the actions taken to mitigate these – Reflected appropriate events over the year and acknowledged the material issues faced by the Group.	– Provided a balanced view with emphasis on both the key positive and negative points – Clearly outlined the key accounting judgements in the Committee's report, consistent with those outlined in the accounts, and how these reflected the external auditor's key accounting risks.	– Provided an understandable framework to the Annual Integrated Report with key messages appropriately outlined throughout – Provided clear linkages and signposting throughout the report – Clearly and concisely presented the information through a combination of appropriate performance measures and KPIs.

Following review, the Committee is satisfied that, taken as a whole, the Annual Integrated Report is fair, balanced and understandable.

EXTERNAL AUDITOR

PwC was appointed as external auditor for the year ended 31 October 2015 following a tender process carried out in 2014. The lead audit partner, Sonia Copeland, has held the position for five years and the Committee is engaging with PwC on the rotation of the audit partner for next year's audit.

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 31 October 2019.

External auditor 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. This uses 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 provides insights and adds value. The review concluded that the audit process and the audit team continue to perform well.

Independence and non-audit services

The Committee keeps the independence of the external auditor under regular review. It considers PwC's independence at least once a year, receives reports from PwC on its internal quality controls and independence, and carefully considers the non-audit services provided by PwC.

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 regulatory framework for statutory audit.

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.

Non-audit services

	2019	2018
Audit fees (£'000)	453	344
Non-audit fees (£'000)	57	56
Ratio of non-audit fees to audit fees	**0.13:1**	**0.16:1**

The Audit Committee has pre-approved certain permitted non-audit services below a threshold as set out 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 £57,000 (2018: £56,000).

The current non-audit services provided to the Group, consisting of the interim review performed at the half-year, would not be impacted by the changes to the previous Ethical Standard. The Committee will review the non-audit policy of the Group in the coming year to ensure this reflects the new requirements.

PwC also provides audit services to the Group's defined benefit pension scheme and the associated fees are met by the assets of the scheme. For further information please see note 5 to the consolidated financial statements.

Reappointment of PwC

The Committee is of the view that PwC was objective and independent throughout 2019 and is proposing that PwC be re-appointed as external auditor to the Company at the 2020 AGM.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board oversees the Group's control framework, ensuring clearly defined processes are in place. It 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 Audit and Risk 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, new risks and internal control framework, including an overview of the principal risks and the Group's approach to their mitigation and management, please see our 'Our approach to risk management' on pages 49 to 55.

To support the Board, the Committee will oversee and review the effectiveness of the Group's internal controls and risk management systems at least annually. It 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. As such, it can only provide reasonable, and not absolute, assurance against material misstatement or loss. The Group's approach to internal controls and audit is outlined below.

Effectiveness of the Company's risk management and internal controls

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.

The Committee is satisfied that at year end the principal risks that could prevent the Group from achieving its 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.

The governance framework
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 Leadership Team, which is responsible for the day-to-day operation of the Group. Taking into account the additional build costs in the London and Midlands divisions, management have improved build cost control processes including its Build Cost control review meetings, and strengthened reporting requirements.

Use of key performance indicators (KPIs)
The Board, Executive Leadership Team and divisions use KPIs and targets to monitor their performance against the Group's strategic plans.

Risk assessment of the principal risks
A review of the principal risks facing the Group is carried out each year at both divisional and Group level.

Behaviours and values
Group policies and procedures are regularly reviewed by the Executive Leadership Team and the Board, and expected values and behaviours are set out and integrated into the Group's operations.

Assurance processes
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 Safety, Health & Environment (SHE) audits, and other corporate responsibility reporting, along with legal and regulatory compliance monitoring.

INTERNAL AUDIT

The Committee's role is to review the effectiveness of internal control, compliance and risk management systems. It carries out this role in support of the Board's formal review of significant risks and material controls, as summarised in the 'Our approach to risk management' on pages 49 and 55.

The Group's Internal Audit function has been outsourced to Deloitte since 2016, whose appointment and mandate was reviewed and approved by the Committee. 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.

Deloitte has access to the Committee where necessary, with clear and open communication with the Committee Chair, who holds meetings with Deloitte without management when required.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

Internal Audit plan

The Group's Internal Audit plan is approved by the Committee, including the scope of individual audits which are aligned to the principal risks faced by the Group. The Committee takes into account the internal control recommendations raised by the external auditor, identified during the course of the external audit, and will incorporate these recommendations into the Internal Audit plan as appropriate.

The Committee receives regular reports from the Internal Audit function. Internal Audit identifies key risks and assesses the relevant internal controls to ensure they are appropriately designed and operating as intended together with, where necessary, any recommendations for improvement.

The Executive Leadership Team and management responsible for the area reviewed will consider the reports on a regular basis. They are responsible for ensuring recommendations are implemented as agreed. Follow up and escalation processes are in place to ensure recommendations are implemented and fully embedded in a timely manner.

Internal Audit effectiveness

The Committee is responsible for monitoring the effectiveness of the Internal Audit function. Following the financial year end, the Committee undertakes a formal review of Internal Audit's effectiveness. To support the Committee in evaluating the effectiveness of the internal auditors, feedback is received by key stakeholders involved in the Internal Audit programme, including divisional and head office management and the Executive Leadership team. Following an evaluation of the services provided by Deloitte in respect of the Internal Audit, the Committee confirms that both the process for determining the Internal Audit programme, and the programme itself, are appropriate and effective.

UK FINANCIAL REPORTING COUNCIL (FRC) AUDIT QUALITY REVIEW

The FRC's Audit Quality Review team selected to review the audit of the 2018 Company financial statements as part of their annual inspection of audit firms.

The focus of the review was on identifying areas where improvements are required rather than highlighting areas performed to, or above, the expected level. All members of the Committee received a full copy of the findings of the Audit Quality Review, and has discussed these with PwC. The Committee confirms that there were no significant areas for improvement identified within the report. The Committee is also satisfied that there is nothing within the report which might have a bearing on the auditor appointment.

ETHICAL BEHAVIOURS AND SAFEGUARDING

The Committee is committed to the highest standards of ethical behaviour, honesty and integrity in its business practices, and has a zero tolerance of bribery, corruption, fraud or criminality.

The Group operates and maintains a number of policies and procedures which set out what is expected of employees and supply chain partners to ensure they protect themselves as well as the Group's reputation and assets. These policies and procedures are supported by online training which employees are required to complete on a regular basis and supply-chain partners sign up to the Group's Supply Chain Code of Conduct.

The Committee oversees the implementation of these policies and reviews the related procedures and training annually.

Safeguarding

The Committee is responsible for the Group's arrangements with regards to whistleblowing. This includes ensuring clear procedures are in place to allow 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, SHE, bullying, harassment, discrimination and modern slavery.

The Company encourages employees and supply chain partners to report any concerns of malpractice in an open and honest way. They promote access to a free and independent helpline that can be used to report concerns, with clear communication lines and escalation processes to ensure the proportionate investigation of such matters and appropriate follow up actions.

Further detail on our approach to ethical behaviours can be found in:
Strategic Report: p47

Copies of related policies can be found online at: www.crestnicholson.com/investor-relations/corporate-governance/values-and-behaviours

Letter from the Chair

Octavia Morley
Chair of the Remuneration Committee

KEY THEMES

- Strategic alignment of pay to KPIs
- Management changes
- FY2019 remuneration outcomes
- Policy review:
  – Shareholder engagement
- FY2020 Directors' remuneration
- UK Corporate Governance Code 2018

DEAR SHAREHOLDER

I am pleased to introduce this Directors' Remuneration Report for the year ended 31 October 2019. It sets out the new Remuneration Policy being proposed at our AGM on 24 March 2020 to apply for the three years from the date it is approved by shareholders, how Executive and Non-Executive Directors were paid in FY2019, decisions the Remuneration Committee took during the year and how pay links to Company strategy.

Significant management changes during the year necessitated very careful consideration of individual remuneration arrangements.

In addition, we reviewed the current Remuneration Policy as it reached the end of its three-year life.

I would like to thank the members of the Committee, Company management who supported the Committee, and major shareholders with whom we have consulted extensively, for their time and support during a very busy period.

Remuneration philosophy

- Promote the long-term success of the Company
- Reward performance
- Simplicity and transparency.

The Remuneration Committee continues to ensure the Remuneration Policy and its implementation support the business strategy and long-term value creation and are aligned to the objectives of shareholders and other stakeholders.

COMMITTEE OVERVIEW
Committee members

Octavia Morley
Chair

Lucinda Bell

Iain Ferguson
Committee member from 1 November 2019

Sharon Flood
Committee member from 1 November 2019

Louise Hardy

Leslie Van de Walle

Committee membership and meetings

The Committee is made up of Octavia Morley (Chair), Lucinda Bell, Iain Ferguson (joined 1 November 2019), Sharon Flood (joined 1 November 2019), Louise Hardy and Leslie Van de Walle.

The Committee met five times during the year (details of attendance are set out on page 68). There were also a number of informal meetings between Committee members regarding appointments and departures made during the year.

The Chief Executive and Group HR Director may attend Committee meetings by invitation.

The Committee is supported by Kevin Maguire, General Counsel and Company Secretary.

DIRECTORS' REMUNERATION REPORT CONTINUED

LETTER FROM THE CHAIR CONTINUED

Strategic alignment of pay

In setting the metrics and structure of short and long-term Executive and senior management incentives, the Committee closely considers strategic business priorities. In 2019 the business had a strategy focused on delivering shareholder returns, prioritising cash and dividends, maximising value in the land portfolio and improving operational efficiency.

We responded to this by introducing cash management (free cash flow) to the bonus measures. We also introduced Health and Safety as a bonus measure reflecting the continued emphasis on this throughout the business.

As such, the annual bonus for FY2019 was structured with profit before tax (PBT) being retained for 40% of the bonus and the introduction of cash management for 40%. The continued importance of customer service and quality was reflected through 10% of the bonus, with the remaining 10% focussed on health and safety performance.

Within our 2019 Long Term Incentive Plan (LTIP), we introduced a third measure based on earnings before interest and taxes (EBIT) margin to accompany return on capital employed (ROCE) and earnings per share (EPS) used in the prior year.

With a new Executive Leadership Team and updated strategy for 2020, the Committee has considered this carefully in setting schemes for 2020 and beyond ensuring that each measure contributes towards our strategy.

Building on measures used in FY2019, FY2020 bonus and LTIP schemes retain a mix of measures which underpin this strategy and provide a balance between profit, operational efficiency and sustainability through ROCE, cash management and forward sales, with safety and people reflected through customer service and health and safety elements.

Incentive changes this year include changing the safety measure to focus on Safety, Health and Environment (SHE) leadership, maintaining but reducing a cash management measure and increasing targets for customer service. As the updated strategy is implemented the Committee will continue to review measures and targets.

ACTIVITY DURING THE YEAR

- Considered the LTIP measures and targets for FY2019–2022
- Reviewed AGM outcomes and considered appropriate actions
- Reviewed the Remuneration Policy for shareholder approval at the 2020 AGM
- Engaged with shareholders on 2019 remuneration matters and in relation to the new Policy
- Undertook a review of wider employee pay structures and considered these in the context of Executive Director structures
- Determined the interim remuneration arrangements for the Interim Chief Executive, Chris Tinker, and the revised fee for the Chairman to cover the period where the Company was without a permanent Chief Executive
- Confirmed leaving arrangements for the former Chairman, Chief Executive and the Chairman of Major Projects and Strategic Partnerships
- Determined joining packages and contractual arrangements for the new Chairman, Chief Executive, Group Finance Director and Chief Operating Officer.

LOOKING AHEAD

The Committee's key aims for the next year are to:

- Ensure remuneration arrangements complement the onboarding of the new Executive Leadership Team
- Set senior management incentive plan measures and targets for 2020 with changes reflecting the operating environment and strategic emphasis
- Consider and implement evolving governance requirements including a review of wider employee remuneration and related policies
- Continue to develop our approach to engaging employees on remuneration matters.

New Remuneration Policy

Our 2017 Remuneration Policy is due for its triennial review and has accommodated significant changes to the business, strategy and leadership during that time.

The Committee undertook a thorough review of the Policy taking into account a new Executive Leadership Team, updated strategy and wider remuneration developments.

The Committee specifically considered whether any alternative incentive structures (not previously included) could work better. At the end of this process, the Committee concluded that the current structure remains appropriate for the next policy period albeit with a number of changes to specific elements.

We are satisfied that we have the necessary flexibility within the Policy to ensure the remuneration structure aligns to, and rewards achievement of, delivery of the business strategy and shareholder returns.

The key changes to the Policy are as follows:

- Increasing the level of bonus payable for target performance from 50% of salary, to 50% of the maximum (i.e. 62.5% of salary for a 125% of salary maximum)
- Reducing the pension policy maximum from 15% to the rate applying to the majority of the workforce (currently 6% of salary) other than for the current Chief Executive, whose pension maximum will remain 10% of salary
- Introducing a post cessation of employment shareholding requirement of 200% of salary (or the actual shareholding on cessation, if lower) for two years post-employment
- For the LTIP, reducing the 'exceptional' grant limit from 300% to 200% of base salary, as this level of headroom has not been found to be necessary
- Introducing a formal discretionary override to both incentive plans and extending the recovery period from two to three years.

The change to target bonus level creates a more market-normal target bonus structure, particularly where (in our case) the bonus maximum is 25% lower than sector market practice. In addition, this change allows us to align the target proportion within the Executive Director's scheme with the wider employee schemes. Setting stretching targets will continue to be a major focus of the Committee's work.

We have also made significant progress over the last three years reducing Executive Director pension benefits. With the exception of our Chief Executive whose arrangements were negotiated in early 2019, all current and new Executive Directors have pensions aligned with the workforce (currently 6%).

FY2019 remuneration outcomes

Bonus scheme

The accompanying Strategic Report sets out the challenging market and trading experience during FY2019. As a result, threshold performance against the stretching targets set was not achieved other than for customer service and quality.

	Performance	Bonus
PBT (40%)	£102.7m	Nil
Free cash flow (40%)	£157.9m	Nil
H&S (10%)	372 AIIR	Nil
Customers (10%)	90.2%	3.5%

Whilst we are pleased with the improved customer service and quality performance, we are disappointed that we were unable to achieve the targeted reduction in the Annual Injury Incidence Rate and the overall financial performance of the business.

Long Term Incentive Plan (LTIP)

The 2017 LTIP award measured performance over the three years to 31 October 2019 performing as follows:

	Target	FY2017–FY2019	Vesting
PBT (50%)	6%	-9.4%	Nil
ROCE (50%)	27%	22.1%	Nil

As such, the 2017 LTIP award will lapse in full. The Committee is satisfied that incentive outcomes represent the overall performance; there has been no use of discretion.

Management changes and consequent remuneration

Leaving arrangements determined during the year:

- Patrick Bergin, Chief Executive
- Chris Tinker, Chairman of Major Projects and Strategic Partnerships
- Stephen Stone, Chairman (former Chief Executive).

Joining arrangements determined during the year:

- Peter Truscott, Chief Executive
- Duncan Cooper, Group Finance Director
- Tom Nicholson, Chief Operating Officer
- Iain Ferguson, Chairman.

Contractual payments and remuneration approach for interim roles and leavers

Leaving arrangements for Patrick Bergin and Chris Tinker included only salary and benefits, and treatment of outstanding incentive plan entitlements in accordance with the plan rules and Policy (see pages 96 to 97).

For the period between the departure of the previous Chief Executive, Patrick Bergin, on 26 March 2019, and Peter Truscott taking up of the role on 9 September 2019, Chris Tinker was appointed as Interim Chief Executive, supported by the Chairman, Stephen Stone.

The Committee determined that, for the duration of this interim role, Chris Tinker's salary should increase from £311,212 to £430,000 and receive a pro rata higher bonus opportunity of 125% over the interim period instead his normal 100% of salary.

Chris' salary reverted to the original rate when Peter Truscott joined the business on 9 September 2019, and Chris moved to a four-day week on 1 October 2019 with a pro rated salary accordingly.

Previously we reported that Stephen Stone's fee would reduce from £300,000 to £225,000 upon moving to Non-Executive Chairman on 1 April 2019. However, in light of the additional time commitment in supporting the Interim Chief Executive, Stephen Stone's fee reduced to £260,000 and then stepped down to £225,000 from 9 September 2019, on Peter Truscott joining as Chief Executive.

Stephen Stone stepped down as Non-Executive Chairman on 31 October 2019. In line with the rules of the bonus plan and Policy, he was permitted to retain legacy deferred bonus shares awarded in relation to the 2016 and 2017 bonuses earned for the time he was Chief Executive. His 2017 LTIP was also retained, but lapsed due to financial performance (see page 92).

Remuneration approach for new joiners

Peter Truscott

We announced on 26 March 2019 that Peter Truscott would join the business as Chief Executive. He started on 9 September 2019. Peter's remuneration comprises:

- Salary of £650,000
- Pension contribution of 10% of base salary
- Bonus of up to 125% of base salary
- LTIP award of 150% of base salary (200% year one)
- Buy out of most but not all existing awards at his former employer
- Benefits in line with our normal approach.

The talent pool for house builder Chief Executive candidates is small and competitive. This package was necessary to attract the right calibre of candidate to lead the turnaround of Crest Nicholson. The Board and Committee considers that we have been very fortunate to secure a proven housebuilding executive such as Peter, who has successfully led a similar competitor. The Board and Committee believes his appointment will be key to the success of the business going forward.

The package is higher compared to that of our former Chief Executive, who was a less experienced Chief Executive and had less specialist housebuilding experience. Peter's pension contribution of 10% of salary is lower than his predecessor and lower than the 20% salary pension contribution he received from his previous employer.

Full details of the buy out arrangements are found on page 93. We have sought like for like treatment with the awards being replaced. We are pleased that Peter chose to purchase 60,000 shares (at a price of £3.96) on 17 April 2019 before formally starting with the Company.

Duncan Cooper

We announced on 26 February 2019 that Duncan Cooper would join the business as Group Finance Director on 17 June 2019, with a salary of £335,000 (the same as his predecessor) and a pension of 10% of salary (lower than his predecessor). Duncan also received an LTIP award in respect of the FY2019 financial year of 150% of salary after joining and was eligible for a bonus of 125% of salary in respect of FY2019 on a pro rata basis.

Peter Truscott has, since joining the business, carried out a review of the business strategy and the responsibilities of the Executive Leadership Team. Following the departure of our Chairman of Major Projects & Strategic Partnerships a number of his responsibilities and duties will now transfer to our Group Finance Director. Rigorous governance and oversight of our significant land portfolio including the economic appraisal of new opportunities, potential divestments and partnership arrangements will be an essential part of realising the potential of our new business model.

To ensure that Duncan is fairly paid for this additional responsibility, the Committee has agreed a salary increase of 9% to £365,000 from 1 January 2020. However, given the stakeholder focus of alignment of pension to the workforce, the Committee is taking the opportunity to reduce Duncan's pension contribution from 10% to 6% of salary from the same date.

DIRECTORS' REMUNERATION POLICY

The Committee would rather not be reviewing and adjusting Duncan's remuneration so soon after his joining, but sees it as a necessary and final part of organisation of the Executive Leadership Team and its responsibilities.

Iain Ferguson
The new Chairman was appointed on an inclusive annual fee of £200,000 and receives no benefits or other remuneration.

Tom Nicholson
As announced on 19 December 2019, Tom Nicholson was promoted to the Board as Chief Operating Officer from 1 January 2020. Tom's appointment completes the formation of the new Executive Leadership Team to lead the business turnaround and implement an updated strategy. Tom will receive a salary of £374,000 and a pension contribution of 6% of salary. He will receive a bonus opportunity of 125% of salary and be eligible for an LTIP award of 150% of salary.

Details of arrangements for joiners and leavers can be found on pages 100 to 101 and pages 96 to 97 respectively.

Application of the Remuneration Policy for FY2020

There will be no change to Executive Directors' base salaries for FY2020 from the position outlined above.

Performance measures for the annual bonus plan will be 50% Profit before tax, 25% Cash management (based on net cash), 12.5% Customer service and quality and 12.5% Forward sales, with the Health and safety leadership adjuster enabling a downward adjustment of 10% of the bonus. There will be a discretionary override of the formula-driven outturn if the bonus payment level is inappropriate in the circumstances.

LTIP awards will be granted over shares of 200% of salary for the Chief Executive (as explained above) and 150% of base salary for the Group Finance Director and Chief Operating Officer, in all cases subject to EPS and ROCE (40% each) and EBIT margin (20%). Performance targets are set out later in the report on page 101.

Concluding remarks

Once again, I would like to thank my colleagues on the Committee, management and major shareholders for their time and support during what has been a very busy year.

I believe that we have the right leadership and Remuneration Policy in place to enable the Group to deliver its strategy and create sustainable value for shareholders.

We look forward to receiving your support at the 2020 AGM in respect of the binding vote on the new Remuneration Policy and the advisory vote on the Annual Report on Remuneration.

Octavia Morley
Chair of the Remuneration Committee

This policy report sets out the Directors' Remuneration Policy that guides the Remuneration Committee's decision-making process in the area of Executive remuneration.

The current Remuneration Policy was approved at the Company's AGM on 23 March 2017 and has reached the end of its three year life. Subject to receiving shareholder approval at the Company's AGM in March 2020, the new policy will replace the current policy – effective from the date of the AGM for a period of up to three years.

OVERVIEW OF REMUNERATION POLICY INCLUDING CHANGES TO THE PREVIOUS POLICY

The objective of the Remuneration Policy is to provide Executive Director remuneration packages that:

- Support the business strategy, are aligned to Company purpose and values, and promote long-term business success
- Have a significant proportion of remuneration linked to performance, thereby providing alignment of interest between executives, shareholders and wider stakeholders
- Attract and retain executives with appropriate skills and experience.

Following a detailed review of the existing policy for Executive Directors, we propose to make the following changes which are reflected in the new policy table set out overleaf:

Pension

- Company contribution in respect of pension for new appointments will be in line with the rate applying to the majority of the workforce (currently 6% of salary)
- Maximum Company contribution in respect of pension for existing Directors will be reduced from 15% to the rate applying to the majority of the workforce (currently 6% of salary), other than for the current Chief Executive where the policy will remain for a maximum contribution of 10% of salary.

Annual bonus

- Target level of bonus may be up to 50% of the maximum opportunity (e.g. 62.5% of a 125% maximum), rather than the current 50% of base salary
- The deferral period for part of bonus payments will be changed to a fixed three years. The previous policy permitted a period 'up to' three years (although our practice has been three years)
- Clarification that, for a 'good leaver' during a bonus deferral period, the deferred amount would normally vest after the three year deferral period rather than on cessation of employment (other than in exceptional circumstances) and that, as bonus has already been 'earned', the deferred amount would not normally be pro rated or scaled back.

LTIP

- The limit provided for awards in exceptional circumstances (such as recruitment) will be reduced from 300% to 200% of base salary
- A two-year post-vest holding period applying to LTIP awards will be formally incorporated into shareholder-approved policy (as has been our practice since 2018). This holding period would normally continue if the Executive Director ceases employment.

Shareholding guidelines

- Executive Directors are required to hold shares to 200% of base salary. The reference to the guideline level for the Executive Chairman (500% of salary) will be removed as this no longer applies following the departure of Stephen Stone
- Until the guideline level is achieved, Executive Directors will be required to retain no less than 50% of the after-tax value of deferred bonus or LTIP award shares
- Executive Directors will be required to retain a shareholding at the lower of the actual level of holding, and 200% of base salary for two years after ceasing employment (other than in exceptional circumstances).

Directors' service contracts

- The length of notice periods will be up to nine months from the Company or the Executive Directors (previously up to 12 months from the Company and no less than six months from the Executive).

Policy table

Element/Link to strategy	**Operation** (including maximum opportunity)
Base salary for Executive Directors **Recognises individual experience, responsibility and performance.** **Provides an appropriate level of fixed pay without over-reliance on variable pay.** **Essential to recruit, motivate and retain the best people in the market place to execute the Company's strategy.**	Salaries are normally reviewed annually taking into account: – Personal and Company performance – Salary increase received by the general workforce – Inflation and earnings forecasts – External market place comparisons. Base salary is set with reference to similar roles in a group of UK house builders and other listed companies more widely. The exact positioning of salary depends on a variety of factors including: the specific nature of the role and responsibility (particularly where this is not directly comparable to roles outside the Group); individual experience and performance; cost of living increases; inflation; Company performance; relativities to other Group employees; and market practice among other UK house builders. A new Director may be appointed at a salary less than the prevailing market rate but which may increase 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. This may occur, for example, should there 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 Director salary levels annually having regard to the factors noted in this element of the policy. Salary is not linked to specific financial or non-financial performance measures.
Fees for Non-Executive Directors **Remunerates appropriately based on individual experience, time commitment and responsibilities.**	Non-Executive Directors' fees are paid in cash and are not performance related. Fees are reviewed annually and set taking into consideration the time commitment and responsibilities of the role, the sector, and market practice. Fees are determined and approved by the Board upon a recommendation from the Executive Directors. The Chairman's fee is set by the Committee. No Director is involved in setting his or her own fee. Additional fees may be payable in relation to extra responsibilities or time commitments undertaken, for example chairing a Board Committee and/or holding the position of Senior Independent Director. Reasonable travelling and other expenses for costs incurred in the course of the Chairman and Non-Executive Directors undertaking their duties are reimbursed (including personal tax that may be due on those expenses).
Benefits **Provides a competitive level of benefits and encourage the well-being and engagement of employees which are one of the four foundations of our strategy.**	A range of benefits are provided, including but not limited to: – Family private medical insurance – Company car or car allowance – Income protection – Personal accident insurance – Life assurance – Annual health check – Holiday and sick pay. The cost of these benefits varies over time depending on their cost in the market and individual circumstances. Directors who are required to move for a business reason may, where appropriate, be provided with relocation assistance. Where the Company offers a flexible benefits approach to employees generally (where the value of one benefit may be exchanged for another) 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 (SAYE), Share Incentive Plan (SIP) and other HMRC tax-approved all-employee schemes. Directors may participate in these on the same terms as other employees. As a general principle, benefits are not provided to Non-Executive Directors. However, there may be exceptional circumstances under which the Company provides a benefit, for example private medical cover, either with or without their meeting the cost (at the Group's negotiated rate).
Pension **Provides retirement planning and protection to employees and their family during their working life.**	Executive 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 current Directors, a contribution in line with the rate applying to the majority of the workforce (currently 6% of salary) may be paid as pension contribution, cash or part cash, other than for the current Chief Executive who's pension contribution may be up to 10% of base salary. For new Executive Directors, the pension contribution level will be in line with the rate applying to the majority of the workforce (currently 6% of salary).

DIRECTORS' REMUNERATION POLICY CONTINUED

Policy table continued

Element/Link to strategy	**Operation** (including maximum opportunity)
Annual bonus Motivates and rewards individuals for executing the business strategy and achieving Committee-approved corporate objectives linked to the strategy foundations and strategic priorities. Compulsory deferral provides alignment with shareholders.	The maximum bonus opportunity is capped at 125% of salary for Executive Directors with on-target performance receiving 50% of maximum and up to 25% of the maximum payable for threshold performance. Two-thirds of the bonus is paid in cash (non-pensionable), with the remaining one-third deferred under the Deferred Bonus Plan for three years. **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. Non-financial metrics will be based on relevant operational, business or personal objectives. The specific performance targets are set with the aim of setting stretching targets which incentivise and reward improved performance. The Committee may, in exceptional circumstances, use its discretion to amend the bonus outcome if it believes that it does not properly reflect overall underlying business performance, an individual's contribution or some other factor. The bonus (cash and deferred element) is subject to recovery provisions for three years from the date of payment in the event of serious misconduct, corporate failure, material misstatement of accounts, material failure of risk management, material breach of health and safety or environmental regulations, serious reputation damage arising from misconduct, error in calculation, or events that are similar in nature or outcome to those above. Repayments may be made through a reduction in future bonus or share awards on vesting, or by direct repayment.
Deferred Bonus Plan (DBP) 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 three years from grant and is normally subject to continued employment. 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 (LTIP) Incentivises long-term shareholder value creation and execution of the strategy over the longer term. Drives and rewards achievement of key long-term Company objectives aligned with the strategy and with shareholder interests. Contributes to building a meaningful shareholding by aligning interests with wider shareholders.	LTIP awards will take the form of nil-cost options or conditional share awards. LTIP awards vest on the third anniversary of grant subject to achievement of performance measures and (other than in good leaver situations) provided the Director remains in office with the Company. In normal circumstances, award levels will be at a maximum of 150% of salary. However, the Committee retains the flexibility to make awards up to 200% 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, normally in the form of shares. A two-year post-vest holding period will apply to all vested LTIP awards. **Performance framework** Awards will be subject to challenging performance conditions in line with the business KPIs and will be measured over a three-year period. A maximum of 25% of each element vests for achieving the threshold performance target with 100% of the awards being earned for maximum performance. The Committee currently uses earnings per share (EPS) for 40% of the measure, return on capital employed (ROCE) for 40% of the measure and EBIT Margin for the remaining 20%. The Committee reviews the measures, their relative weightings and targets prior to each award and makes changes as is deemed appropriate (which may include the introduction of new measures in conjunction with or in replacement of EPS, ROCE and EBIT Margin). The use and split of EPS, ROCE and EBIT Margin are considered to be appropriate measures to incentivise operating discipline and returns for shareholders. The specific performance targets are set with the aim of setting stretching targets which incentivise and reward improved performance. The Committee may, in exceptional circumstances, use its discretion to adjust downwards the level of vesting of LTIP awards if it believes it does not properly reflect overall underlying business performance, shareholders' experience, an individual's contribution or any combination thereof. 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, corporate failure, material breach of health and safety or environmental regulations, serious reputational damage arising from misconduct, serious misconduct, error in calculation, or events that are similar in nature or outcome to those set out above. Recovery (clawback) applies if such an event occurs within three years of an award vesting or, in the case of an option, when it first becomes exercisable. Repayments may be made through a reduction in future bonus or share awards on vesting, or by direct repayment.
Minimum shareholding requirement Encourages long-term commitment and alignment with shareholder interests.	Executive Directors are expected to build up and retain a significant shareholding equivalent to at least 200% of their base salary. Executive Directors are required to retain 50% of vested deferred bonus and LTIP awards after sale of shares for tax, national insurance or other statutory deductions until requirement met. **Post service requirement** An Executive Director shall continue to hold shares equivalent to the 200% of their base salary for a period of two years following termination of their employment. If an Executive Director holds less than 200% of their base salary at the date of cessation, they must continue to hold that lower level for the same period of two years. Shares purchased by an Executive Director from their own funds will not be required to be held. The Committee may, in exceptional circumstances, exercise its discretion to adjust the holding requirement.

HOW THE COMMITTEE WILL USE ITS DISCRETION

Incentive plans will be operated in line with the rules of each plan, together with relevant laws and regulations. However, it is important that the Committee retains appropriate discretion (as is customary) over the administration and operation of incentive plans.

Discretion includes, but is not limited to, the following in relation to incentive schemes:

- Changes or adjustments required in certain circumstances (e.g. change of control, rights issues, special corporate or dividend events, or change in business strategy)
- Determination of vesting (or payment) and the treatment of leavers and vesting for leavers
- As permitted by HMRC and other regulations, in respect of SAYE, SIP or any other all-employee schemes.

In relation to incentive schemes including annual bonus and LTIP, the Committee may adjust performance targets and/or measures where these have ceased to be appropriate. Such adjusted targets or measures will not be materially less difficult to satisfy. Any use of this discretion would, where relevant, be explained in future Directors' Remuneration Reports and may be subject to consultation with major shareholders where appropriate.

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 that the reward of the Group's senior management be linked to Company performance and aligned with the growth of shareholder value.

The Company operates the same remuneration and benefits framework across the Group:

Salary	The policy applied to Executive Directors is applied in the same way to the overall workforce.
Benefits	The policy applied to Executive Directors is applied in the same way to wider employees. Certain benefits apply at higher levels based on seniority, relate to specific roles or have shorter or no waiting-periods.
Annual bonus	Annual bonus schemes operate throughout the business at all levels of seniority. Performance targets and the amount which can be earned are based on seniority and the nature of the role and responsibilities.
Long-Term Incentive Plan	The LTIP for Executive Directors also applies to Crest Nicholson's senior management at a reduced opportunity level commensurate with the seniority and level of responsibility of participants.
SAYE	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	For an external appointment, the Committee will take account of an individual's remuneration package in their prior role, the market positioning of the package and their skills and experience. The Committee will not pay more than necessary to facilitate the recruitment of an individual. For an internal appointment, the Committee may initially position remuneration below 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	Salary level will be set taking into account the skills and experience of the individual, responsibilities of the role and 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.
Annual bonus	Directors will be eligible to participate in the discretionary annual bonus scheme as set out in the Remuneration 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	An Executive Director will be eligible to participate in the LTIP set out in the Remuneration Policy table. The opportunity levels will be consistent with what is disclosed in the Remuneration Policy table and, in exceptional circumstances, the Committee is able to make an award of up to 200% of salary. An LTIP award can be made shortly following an appointment.
Replacement awards	The Committee may grant an Executive Director replacement awards to compensate for forfeited remuneration (including bonus and long-term incentive awards) from previous employment. Should replacement awards be made, the 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.

DIRECTORS' REMUNERATION POLICY CONTINUED

SERVICE CONTRACTS AND POLICY ON PAYMENT FOR LOSS OF OFFICE

For Executive Directors, nine months notice of termination is required from either party and this will be the approach for all new appointments.

The table below sets out the Committee's policy on termination arrangements for Executive Directors. References to good or bad leavers below are examples of how the policy would work and are not definitive:

Area	Policy and operation
Overall	Because terminations do not always fit neatly into defined categories, when considering the suitable treatment of a termination, the Committee will have regard to all relevant facts and circumstances available at the time including the reason, contractual obligations and incentive plan rules. The Committee is firmly against rewarding 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 or potential 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 Director normally has 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 or gross misconduct for 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 their employment terminates. Payment would be reduced on a pro rata basis to reflect the portion of the bonus year worked, be paid at the usual time and be subject to an assessment of performance over the period. In relation to Deferred Bonus awards, individuals would be defined as good or bad leavers, with good leavers being those leaving under pre-determined circumstances such as retirement (proved to the satisfaction of the Board), redundancy, 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, other than in exceptional circumstances, they will continue to hold the deferred share award, which will vest on the normal vesting date. If an individual is considered by the Committee to be a bad leaver, their awards will lapse in full.
Long-term incentives	Individuals would be defined as good or bad leavers, with good leavers being those leaving under pre-determined circumstances such as retirement (proved to the satisfaction of the Board), redundancy, 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, other than in exceptional circumstances the award will vest on the normal vesting date reflecting the extent to which performance targets have been met and the number of shares would normally be pro rated to reflect the reduced service period. The post vest holding period would also apply, other than in exceptional circumstances. If an individual is determined to be a bad leaver, their awards will lapse in full.
Shareholding requirements	The Committee would enforce the post cessation of employment shareholding requirements, as described in the policy.
Other	The Committee may provide for outplacement services where it considers that this is reasonable.

STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

During the year, the Committee reviewed the remuneration framework applicable to employees generally. The Directors' Remuneration Policy framework applies in a very similar way across the Group in terms of types of benefits and variable pay relative to role grades and disciplines. This ensures alignment across the Group and encourages shared goals and objectives.

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 remuneration. The Committee considered carefully the pay changes in the year in the context of those being applied to the wider workforce. The Committee believes that having a stable, focused Executive Leadership Team in place to implement the updated strategy and turn around the financial performance of the Group is in the longer term interests of employees and stakeholders.

During Health & Well-being workshops held in 2019 (which included benefits and remuneration), the Chair of the Committee presented the proposed Remuneration Policy and received questions and comments. These were taken into account in the drafting of the 2020 Remuneration Policy.

STATEMENT OF CONSIDERATION OF SHAREHOLDER VIEWS

In considering the operation of the Remuneration Policy, the Committee takes into account the published remuneration guidelines and specific views of shareholders and proxy voting agencies. The Committee consults with the Company's larger shareholders, where considered appropriate, regarding changes to the operation of the Policy and when the Policy is being reviewed and brought to shareholders for approval. The Committee considers specific concerns or matters raised at any time by shareholders.

The new Policy was the subject of a consultation process with major shareholders in autumn 2019. Contributions were broadly supportive and the Committee carefully considered the comments received. The Committee thanks shareholders for their time and contributions during this process.

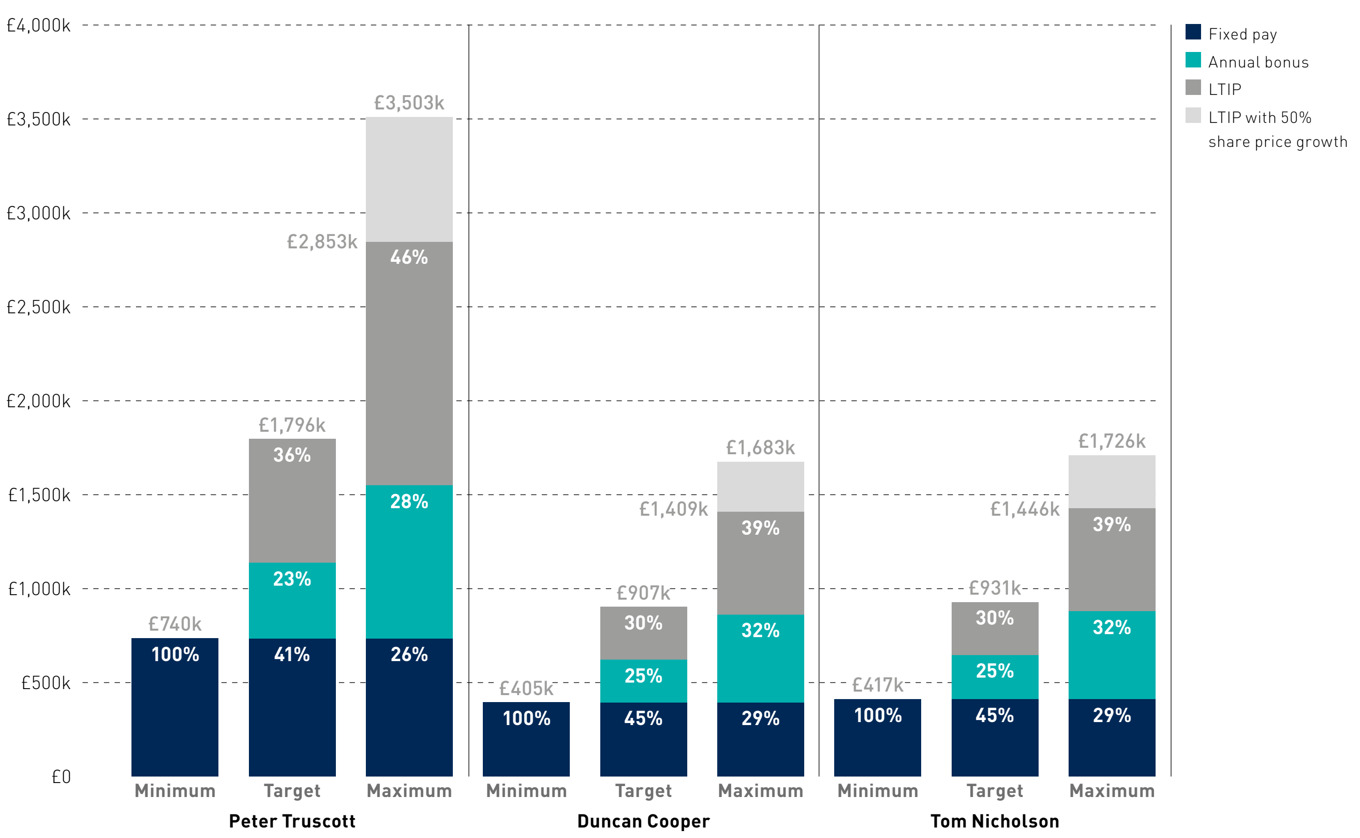
Further information about shareholder views is set out in our section:

Statement of voting at Annual General Meeting: p101

ILLUSTRATION OF APPLICATION OF REMUNERATION POLICY IN 2020

The composition and structure of the remuneration package for Executive Directors in three performance scenarios is set out in the charts below.

Illustration of application of Remuneration Policy in 2020



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 maximum 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% and vesting of 100% of LTIP award representing 150% of salary (200% Peter Truscott for FY2020 only). 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.

REMUNERATION AT A GLANCE

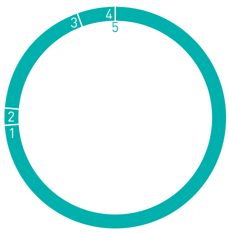
The table below provides a high-level summary of Crest Nicholson's remuneration framework for Executive Directors.

	Remuneration Policy To be approved at 2020 AGM	**2019 outcomes** In line with approved Policy	**Application in 2020** How we intend to implement the Policy in the coming year
Base salary	– Base salary set by reference to range of responsibilities and similar roles in a group of other UK house builders. Inflation related increases to reflect wider workforce.	– Peter Truscott: £650,000 – Duncan Cooper: £335,000.	– Peter Truscott: £650,000 – Duncan Cooper: £365,000 – Tom Nicholson: £374,000.
Pension	– 10% for Peter Truscott and 6% for Duncan Cooper and Tom Nicholson.	– 10% for Peter Truscott and Duncan Cooper.	– 10% for Peter Truscott and 6% for Duncan Cooper and Tom Nicholson.
Annual bonus	– Maximum bonus opportunity of 125% of salary – At least half of measures based on one or more financial metrics – One third of bonus deferred into shares for three years – Recovery and withholding provisions will apply.	– 2019 bonus scheme based on PBT targets (40%), Customer service and quality (10%), Cash management (40%), Health and safety (10%) – Following the lower than expected results this year, no bonus is payable other than in respect of Customer service and quality (3.5%) – 2019 targets disclosed in this report – Recovery and withholding provisions will apply.	– 2020 bonus scheme to be based on PBT (50%), Cash management (25%), Customer service and quality (12.5%) and Forward sales (12.5%). A downwards adjustment of up to 10% of the bonus achieved may be applied in respect of SHE leadership – Maximum opportunity: 125% of salary – 2020 targets are commercially sensitive but will be disclosed retrospectively – Recovery and withholding provisions will apply.
Long-Term Incentive Plan	– Maximum opportunity of 150% of salary based on set performance measures. 200% in exceptional circumstances – Recovery and withholding provisions will apply.	**Vesting of 2017 awards** – No awards were capable of vesting to current Executive Directors as they joined in 2019 – Cumulative PBT growth and average ROCE performance were both below the threshold target resulting in no shares awards vesting – Recovery and withholding provisions will apply.	– Awards to be granted at 150% of salary (200% for Peter Truscott for FY2020 only) – Performance conditions EPS (40%), ROCE (40%) and EBIT Margin (20%) with a two-year post vesting holding period – Recovery and withholding provisions will apply.
Shareholding requirement	– Minimum shareholding levels of 200% for all Executive Directors.	– Peter Truscott purchased shares before his appointment (worth 36% of salary at year-end) – Duncan Cooper and Tom Nicholson's shareholding is currently nil, having only recently joined then Company – Full details of Directors' shareholdings are set out on page 95.	– No change to the minimum shareholding requirement for each current Executive Director – Addition of a post cessation of employment shareholding requirement.

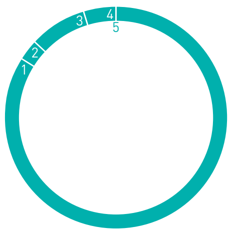
2019 single figure (change from prior year)
See page 91

1 Base salary
2 Annual bonus
3 Retirement benefits
4 Benefits
5 Performance shares and options
6 Other

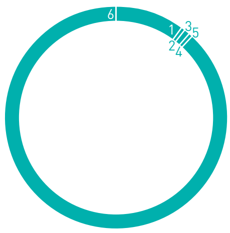
Chris Tinker: £493,000 (5.8%)



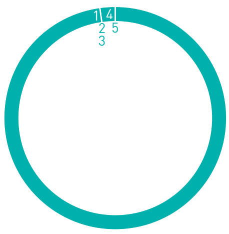
Duncan Cooper: £150,000 (N/A)



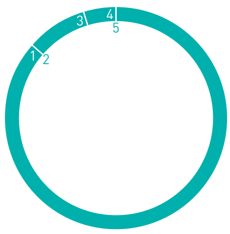
Peter Truscott: £1,022,000 (N/A)



Stephen Stone: £126,000 (-79%)*



Patrick Bergin: £220,000 (-62.7%)



As set out on pages 83 and 93, as part of the recruitment of Peter Truscott buy out awards were made representing the value of awards foregone as a result of leaving his previous employer. The buy out awards of £909,719 are included in this single figure.

* Remuneration associated with role as Executive Chairman, for details of remuneration as Non-Executive Chairman see page 91.

ANNUAL REPORT ON REMUNERATION

The table below sets out 2019 remuneration for Executive and Non-Executive Directors. Notes that assist the understanding of the matters in the following table are set out thereafter.

2019 REMUNERATION PAYABLE TO DIRECTORS (AUDITED)

£'000s	Base salary[1]		Benefits[2]		Annual bonus		Performance shares[3]		Retirement benefits[4]		Other[5]		Total	
Executive	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018[3]	**2019**	2018	**2019**	2018	**2019**	2018
Chris Tinker[6]	365	310	26	28	13	–	–	52	89	76	–	–	493	466
Duncan Cooper[7]	126	–	7	–	4	–	–	–	13	–	–	–	150	–
Peter Truscott[8]	95	–	4	–	3	–	–	–	10	–	910	–	1,022	–
Stephen Stone[9]	125	394	1	17	0	–	–	145	–	52	–	–	126	608
Patrick Bergin[10]	190	435	10	24	0	–	–	81	20	51	–	–	220	591
Non-Executive														
Iain Ferguson[11]	25	–	–	–	–	–	–	–	–	–	–	–	25	–
Stephen Stone[12]	147	–	1	–	–	–	–	–	–	–	–	–	148	–
Leslie Van De Walle	85	66	–	–	–	–	–	–	–	–	–	–	85	66
Lucinda Bell	52	22	–	–	–	–	–	–	–	–	–	–	52	22
Louise Hardy	52	40	–	–	–	–	–	–	–	–	–	–	52	40
Sharon Flood	60	60	–	–	–	–	–	–	–	–	–	–	60	60
Octavia Morley	60	59	–	–	–	–	–	–	–	–	–	–	60	59

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 comprised private medical insurance and an annual health check. In light of the additional time commitment undertaken by Stephen Stone during the period between permanent Chief Executives, the Committee agreed to continue to provide private medical insurance cover at the Company's cost between April 2019 and October 2019.
3 **2016 LTIP:** This figure has been restated to reflect the actual value of award and share price at the time of vesting (being 391.4 pence on 26 February 2019).
4 **Pension:** Salary supplement of 24.5% in respect of Chris Tinker; 15% in respect of Patrick Bergin and 10% in respect of Duncan Cooper and Peter Truscott.
5 **Other:** Relate to the buy out awards for Peter Truscott. Full details can be found on page 93.
6 **Chris Tinker:** The figures for 2019 include time pro rated additional salary and bonus opportunity to reflect Chris Tinker's time as Interim Chief Executive from 26 March 2019 to 8 September 2019.
7 **Duncan Cooper:** Joined as Group Finance Director on 17 June 2019.
8 **Peter Truscott:** Joined as Chief Executive Officer on 9 September 2019.
9 **Stephen Stone:** The above figures have been time pro rated to reflect Stephen Stone's time as Executive Chairman (1 November 2018 to 31 March 2019).
10 **Patrick Bergin:** The figures stated in columns 1–5 above are to the date of Patrick's leaving on 26 March 2019. Further details regarding Patrick's leaving arrangements can be found on page 96.
11 **Iain Ferguson:** Joined the Board as Non-Executive Chairman designate on 16 September 2019 becoming Chairman on 1 November 2019.
12 **Stephen Stone:** The above figures have been time pro rated to reflect Stephen Stone's time as Non-Executive Chairman (from £260,000 from 1 April 2019 and £225,000 from 9 September 2019).

PAY FOR PERFORMANCE IN 2019 (AUDITED)

Annual bonus targets and outcomes

Peter Truscott and Duncan Cooper were eligible for a bonus opportunity of 125% of salary, pro rated for service during the year.

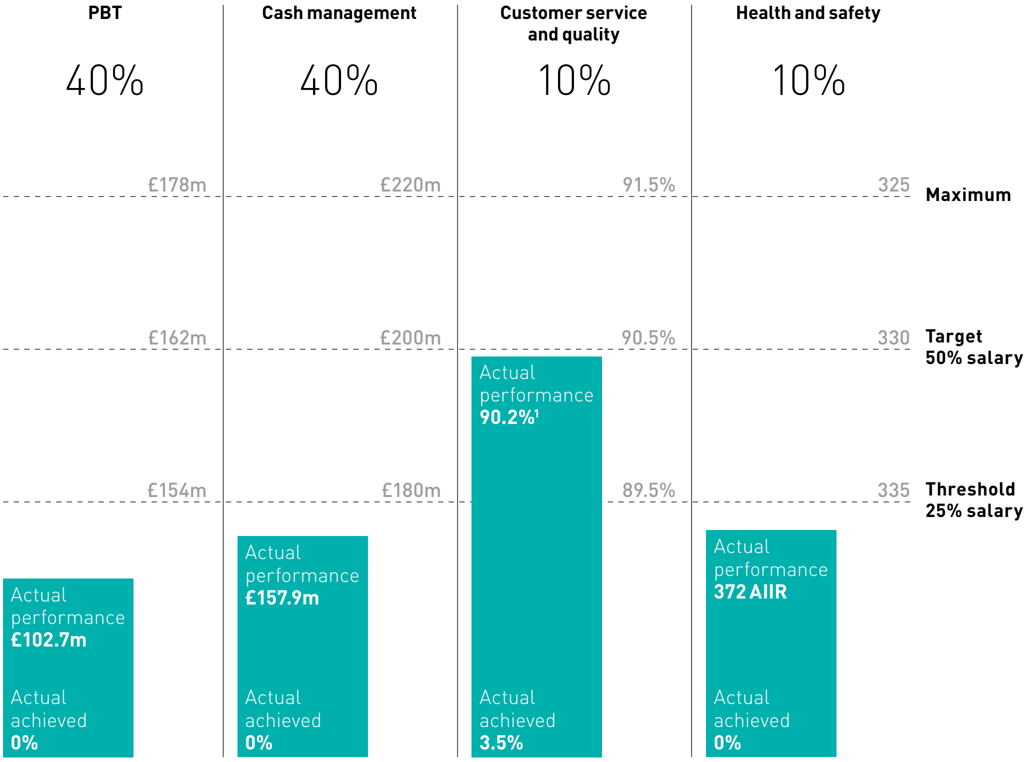
For his period of service as Chairman of Major Projects and Strategic Partnerships, Chris Tinker was eligible for a maximum bonus opportunity of 100% of salary. For his period of service as interim Chief Executive his bonus opportunity increased from 100% to 125% of salary, with payments over the year pro rated according to the period of the interim role. Targets and outcomes are set out overleaf.

No bonus is payable other than in respect of the customer service and quality element based on our customer satisfaction score.

ANNUAL REPORT ON REMUNERATION CONTINUED

PAY FOR PERFORMANCE IN 2019 (AUDITED) CONTINUED

Annual bonus outcome



Peter Truscott
Total bonus achieved (% of salary)
3.5%

Chris Tinker
Total bonus achieved (% of salary)
3.5%

Duncan Cooper
Total bonus achieved (% of salary)
3.5%

Maximum potential of salary

PBT	Cash management	Customer service and quality	Health and safety
Chris Tinker: 44.58% of salary	**Chris Tinker:** 44.58% of salary	**Chris Tinker:** 11.14% of salary	**Chris Tinker:** 11.14% of salary
Duncan Cooper: 50% of salary	**Duncan Cooper:** 50% of salary	**Duncan Cooper:** 12.5% of salary	**Duncan Cooper:** 12.5% of salary
Peter Truscott: 50% of salary	**Peter Truscott:** 50% of salary	**Peter Truscott:** 12.5% of salary	**Peter Truscott:** 12.5% of salary

1 Due to the timing of the NHBC/HBF survey year relative to the Company's financial year, an annual period one quarter behind the NHBC/HBF survey year is used for the bonus scheme.

Cash management is defined as free cash flow which is obtained using the figure of cash generated from operations £160.5m, adjusted for the contribution to retirement benefit obligations +£9.0m, disposal of financial assets at fair value through profit and loss +£3.5m, and less net funding to joint ventures £(15.1m).

One-third of the annual bonus is deferred into a share award, which will become exercisable after three years from the date of grant. A full breakdown of the bonus payments and shares award deferral is set out below:

	Bonus total	Paid in cash		Deferred as shares	
	£	£	% of bonus	£	% of bonus
Peter Truscott	3,303	2,213	67	1,090	33
Chris Tinker	12,610	8,449	67	4,161	33
Duncan Cooper	4,401	2,949	67	1,452	33

Long-Term Incentive Plan targets and outcomes

The 2017 LTIP award, granted on 28 February 2017, was based on performance over the three years ended 31 October 2019 and would have become exercisable from 28 February 2020 (subject to the Director still being in employment) had the performance targets been reached. 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 award achieved
PBT	50%	3 years ending 31/10/19	cumulative growth 5% nominal p.a.	cumulative growth 6% nominal p.a.	cumulative growth 8% nominal p.a.	-9.4%	0
ROCE	50%	3 years ending 31/10/19	25%	27%	29%	22.1%	0

The Committee considers that this level of vesting is appropriate reflecting the overall performance over the last three years.

PAY FOR PERFORMANCE IN 2019 (AUDITED) CONTINUED

Buy out arrangement – Peter Truscott, Chief Executive

As set out in the Chair's letter at the start of this report, the talent pool for house builder Chief Executive candidates is small and competitive. This recruitment package including buy out awards was necessary to attract the right calibre of candidate to lead the turnaround of Crest Nicholson. During the recruitment process the Company committed to certain buy out awards to replace those lost by virtue of leaving his previous employer, Galliford Try plc (GT), to join Crest Nicholson. The structure of the awards are matched like-for-like in relation to cash, shares, deferral, dividend equivalents and corporate activity at the times that such remuneration or incentive awards would have otherwise vested.

On leaving GT, Peter forfeited the right to be granted a 2019 LTIP award relating to their financial year to June 2019. We have not granted Peter an equivalent Crest Nicholson 2019 LTIP award but agreed he will receive a higher 2020 LTIP award, of 200% of salary, rather than the usual award level of 150% of salary. The increased award level of 50% of salary is much less than the LTIP award he would have received at GT in 2019. There is no other buy out or compensation for the forfeited 2019 GT LTIP award.

A bonus of £466,088 was forfeited in respect of 2019 when Peter left GT; the split between cash and deferral into shares applied at GT was followed and is set out in the table below. Dividend equivalent shares were also awarded in respect of the GT dividend paid on 4 December 2019 of £6,761.

On 19 December 2019, as part of the sale of Linden Homes by GT, GT brought forward vesting of all outstanding deferred bonus awards (being the 2017, 2018 and 2019 Deferred Bonus Awards). At the same time, the 2017 LTIP award was deemed not to meet the performance conditions and lapsed. In line with the buy out agreement, the Crest Nicholson equivalent awards have been treated in the same way with vesting accelerated on 19 December 2019 and will be delivered to Peter in February 2020. On 16 November 2019, the 2016 LTIP vested at 16.5% in accordance with GT performance conditions and will also be delivered to Peter in February 2020. All shares (after tax) will be retained towards Peter's minimum shareholding requirement with no shares being given in respect of the lapsed 2017 LTIP.

GT paid a dividend of 35 pence per share on 4 December 2019 – dividends would have been due of £2,287 in respect of Galliford Try plc 2017 Deferred Bonus Award, £8,989 in respect of Galliford Try plc 2018 Deferred Bonus Award and £6,761 in respect of Galliford Try plc 2019 Deferred Bonus Award. Using the Crest Nicholson share price on 4 December 2019, the equivalent dividends were converted to Crest Nicholson shares and will be delivered accordingly.

We are pleased that Peter chose to purchase 60,000 shares on 17 April 2019 before formally starting with the Company.

Details of the buy out are as follows:

Galliford Try plc award	Buy out Arrangement	Date of Grant/date of conversion	Number of shares awarded by Crest Nicholson	Dividend equivalent shares	Face value	End of vesting period	Operation
Galliford Try plc 2019 Bonus Scheme	Cash	20.09.2019	N/A	–	£337,042[1]	N/A	Paid in cash November 2019
Galliford Try plc 2019 Deferred Bonus Award	Shares	19.09.2019[2]	34,690	1,739[6]	£135,805	N/A	To be delivered in Crest Nicholson shares February 2020
Galliford Try plc 2018 Deferred Bonus Award	Shares	19.12.2019[3]	50,593	2,313[6]	£224,211	N/A	To be delivered in Crest Nicholson shares February 2020
Galliford Try plc 2017 Deferred Bonus Award	Shares	19.12.2019[3]	12,871	588[6]	£57,038	N/A	To be delivered in Crest Nicholson shares February 2020
Galliford Try plc 2016 Deferred Bonus Award	Shares	23.09.2019[4]	26,959	–	£104,116	N/A	To be delivered in Crest Nicholson shares February 2020
Galliford Try plc 2017 Long Term Incentive Plan	Shares	N/A	N/A	–	N/A	N/A	Award lapsed December 2019
Galliford Try plc 2016 Long Term Incentive Plan	Shares	15.11.2019[5]	13,966	–	£51,507	N/A	To be delivered in Crest Nicholson shares February 2020
Total					£909,719		

1 Representing a bonus of 85.5% salary of £545,037 with two-thirds of the excess over 50% deferred in to shares for three-years; cash £337,041.80 and shares of £129,047.
2 Face value calculated based on the closing middle market share price of 372.0 pence on 19 September 2019, the day the GT deferred award vested.
3 Face value calculated based on the closing middle market share price of 356.8 pence on 19 December 2019, the day the GT deferred award vested.
4 Face value calculated based on the closing middle market share price of 386.2 pence on 23 September 2019, the day the GT deferred award vested.
5 Face value calculated based on the closing middle market share price of 368.8 pence on 15 November 2019, the last dealing day before the GT deferred award vested.
6 Representing dividend of 35 pence per share paid by Galliford Try on 4 December 2019 – dividends would have been due of £2,286.90 in respect of Galliford Try plc 2017 Deferred Bonus Award, £8,989.05 in respect of Galliford Try plc 2018 Deferred Bonus Award and £6,761.30 in respect of Galliford Try plc 2019 Deferred Bonus Award Using the Crest Nicholson share price on 4 December 2019, the equivalent dividends were converted to Crest Nicholson shares and will be delivered accordingly.

Shares delivered to Peter Truscott pursuant to the buy out awards will be retained in accordance with the Minimum Shareholding Policy until Peter reaches his minimum shareholding requirement of 200%. We estimate that following delivery of the shares in February 2020 together with shares acquired in the open market, Peter will have a shareholding equivalent to approximately 90% of salary.

ANNUAL REPORT ON REMUNERATION CONTINUED

SCHEME INTERESTS AWARDED DURING THE FINANCIAL YEAR (AUDITED)

On 16 April 2019, in accordance with the Remuneration Policy, an award of 100% of salary was made to Chris Tinker. This award was delayed while the Committee considered the market environment and appropriate targets. Duncan Cooper received an award of 150% of salary on joining in June 2019, in line with our policy on recruitment (please see page 87 for details).

The following table sets out the 2019 awards granted to Executive Directors under the Company's LTIP:

	Award	Type	Date of Grant	Number of shares	Face value of award[1,2]	% of salary	% of award receivable at threshold	Performance condition	Performance period
Chris Tinker	Performance	Nil-cost options	21.04.19	77,919	£311,208.49	100	25	40% EPS 40% average ROCE 20% EBIT Margin	Three years 01.11.18 – 31.10.21
Duncan Cooper	Performance	Nil-cost options	21.06.19	141,389	£502,496.51	150	25	40% EPS 40% average ROCE 20% EBIT Margin	Three years 01.11.18 – 31.10.21

1 Face value calculated based on the closing middle market share price of 399.40 pence on 15 April 2019, the day before the grant.

2 Face value calculated based on the closing middle market share price of 355.40 pence on 20 June 2019, the day before the grant.

Vesting schedule for achieving performance conditions set for 2019 LTIP award

	Threshold vesting (25% of relevant part of award)	Maximum vesting (100% of relevant part of award)
EPS (40%) – FY2021	58 pence	70.7 pence
ROCE (40%) – average 3 years	21%	26%
EBIT margin (20%) – FY2021	17%	20%

The targets for the FY2019 LTIP were set after publication of the 2018 Directors' Remuneration Report.

The Remuneration Committee used EPS and ROCE (as in the previous year) and also chose to introduce a third performance condition relating to EBIT margin. Improving operational efficiency is a key part of the business strategy and the introduction of an EBIT margin performance condition complements existing performance conditions in respect of EPS and ROCE.

The performance measures (set out in the above table) were selected to support the financial metrics in the business strategy and the Committee carefully set what they believed to be stretching target ranges for each measure taking into account the business plans and market outlook to provide a strong link between reward and performance. There will be straight-line vesting between threshold and maximum performance thresholds.

DIRECTORS' SHAREHOLDINGS AND SHARE INTERESTS (AUDITED)

Share ownership plays a key role in aligning Executive Directors' interests with the interests of shareholders and helps to maintain commitment over the long term. The Remuneration Policy requires Executive Directors to build up and maintain a significant shareholding in Crest Nicholson of 200% salary. Duncan Cooper and Peter Truscott, having joined the Group in June 2019 and September 2019 respectively, and Tom Nicholson who joined the Board on 1 January 2020, will build up their shareholding over time. During the year, all other Directors met the minimum shareholding requirements applied 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 31 October 2019 (26 March 2019 in the case of Patrick Bergin). Between the end of the financial year and 28 January 2020, the outstanding share awards with performance conditions for Chris Tinker and Stephen Stone reduced due to the lapsing of the 2017 LTIP awards.

	Shares held, including connected persons at 31 October 2019	Outstanding[1] share awards at 31 October 2019 with performance conditions	Outstanding share awards at 31 October 2019 without performance conditions	Total share interests at 31 October 2019	Shareholding[2] as a percentage of salary and share price of 388.4 pence at 31 October 2019
Chris Tinker	536,323	197,076	39,775	773,174	870
Duncan Cooper	–	141,389	–	141,389	–
Peter Truscott	60,000	–	–	60,000	36
Stephen Stone	4,210,153	149,216	77,919	4,437,288	7,339
Leslie Van de Walle	32,000	–	–	32,000	–
Lucinda Bell	11,650	–	–	11,650	–
Sharon Flood	11,445	–	–	11,445	–
Octavia Morley	5,600	–	–	5,600	–
Iain Ferguson	–	–	–	–	–
Louise Hardy	–	–	–	–	–
Patrick Bergin[3]	1,237,188	–	45,182	1,282,370	1,042

1 As set out on page 92 of the report, the resulting vesting level for the 2017 LTIP award will be 0%. This will result in the following total share interests as at 28 January 2020: Chris Tinker 480,782 (55,541 lapsing) and Stephen Stone 4,060,937 (149,216 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, 26 March 2019.

EXECUTIVE DIRECTORS' SCHEME INTERESTS AT THE END OF THE FINANCIAL YEAR (AUDITED)

The tables below set out the Executive Directors' outstanding share awards under the LTIP, Deferred Bonus Plan (DBP) and Save as you Earn (SAYE) as at 31 October 2019 including any dividend equivalents awarded in the year. 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. Peter Truscott had not been granted any awards at 31 October 2019.

	Outstanding share options/ awards at 31 October 2018	Date of grant	Granted	Exercised	Lapsed	Vested but not exercised	Outstanding share options/ awards at 31 October 2019	Market price on award £	Exercise price £	Market price at exercise/ vesting £	Gain receivable £	Date exercisable or capable of vesting	Expiry date
Stephen Stone													
LTIP													
2016	148,397	26.02.16	–	37,099	111,298	–	–	5.47	Nil	3.85	142,831	26.02.19	25.02.26
2017	149,216	28.02.17	–	–	–	–	149,216	5.44	Nil	–	–	28.02.20	27.02.27
DBP													
2016	32,488	26.02.16	6,263	38,751	–	–	–	5.47	Nil	3.85	149,191	26.02.19	25.02.26
2017	34,484	28.02.17	–	–	–	–	34,484	5.44	Nil	–	–	28.02.20	27.02.27
2018	–	28.02.18	38,147	–	–	–	38,147	4.89	Nil	–	–	28.02.21	27.02.28
SAYE													
2016	3,146	01.08.16	–	–	–	3,146	3,146	3.56	2.86	–	–	01.09.19	29.02.20
2017	2,142	03.08.17	–	–	–	–	2,142	5.25	4.20	–	–	01.09.20	28.02.21
Patrick Bergin													
LTIP													
2016	83,089	26.02.16	–	20,772	62,317	–	–	5.47	Nil	3.85	79,972	26.02.19	25.02.26
2017	103,400	28.02.17	–	–	103,400	–	–	5.44	Nil	–	–	28.02.20	27.02.27
2018	150,898	22.03.18	–	–	150,898	–	–	4.67	Nil	–	–	22.03.21	21.03.28
DBP													
2016	18,190	26.02.16	3,504	21,694	–	–	–	5.47	Nil	3.85	83,522	26.02.19	25.02.26
2017	18,748	28.02.17	–	–	–	–	18,748	5.44	Nil	–	–	28.02.20	27.02.27
2018	26,434	28.02.18	–	–	–	–	26,434	4.89	Nil	–	–	28.02.21	27.02.28
SAYE													
2016	3,146	01.08.16	–	–	3,146		–	3.56	2.86	–	–	01.09.19	29.02.20
2017	2,142	03.08.17	–	–	2,142		–	5.25	4.20	–	–	01.09.20	28.02.21

ANNUAL REPORT ON REMUNERATION CONTINUED

EXECUTIVE DIRECTORS' SCHEME INTERESTS AT THE END OF THE FINANCIAL YEAR (AUDITED) CONTINUED

	Outstanding share options/ awards at 31 October 2018	Date of grant	Granted	Exercised	Lapsed	Vested but not exercised	Outstanding share options/ awards at 31 October 2019	Market price on award £	Exercise price £	Market price at exercise/ vesting £	Gain receivable £	Date exercisable or capable of vesting	Expiry date
Chris Tinker													
LTIP													
2016	53,628	26.02.16	–	13,407	40,221	–	–	5.47	Nil	3.85	51,617	26.02.19	25.02.26
2017	55,541	28.02.17	–	–	–	–	55,541	5.44	Nil	–	–	28.02.20	27.02.27
2018	63,616	28.02.18	–	–	–	–	63,616	4.89	Nil	–	–	28.02.21	27.02.28
2019	–	16.04.19	77,919	–	–	–	77,919	3.99	Nil	–	–	16.04.22	15.04.29
DBP													
2016	14,675	26.02.16	2,829	17,504	–	–	–	5.47	Nil	3.85	67,390	26.02.19	25.02.26
2017	15,125	28.02.17	–	–	–	–	15,125	5.44	Nil	–	–	28.02.20	27.02.27
2018	19,362	28.02.18	–	–	–	–	19,362	4.89	Nil	–	–	28.02.21	27.02.28
SAYE													
2016	3,146	01.08.16	–	3,146	–	–	–	3.56	2.86	–	–	01.09.19	29.02.20
2017	2,142	03.08.17	–	–	–	–	2,142	5.25	4.20	–	–	01.09.20	28.02.21
2019	–	30.07.19	3,146	–	–	–	3,146	3.57	2.86	–	–	01.09.22	28.02.23
Duncan Cooper													
LTIP													
2019	–	21.06.19	141,389	–	–	–	141,389	3.55	Nil	–	–	21.06.22	20.06.29
Robert Allen													
DBP													
2018	16,382	28.02.18	–	–	–	–	16,382	4.89	Nil	–	–	28.02.21	27.02.28

LOSS OF OFFICE PAYMENTS (AUDITED)

Robert Allen (former Group Finance Director)

In the 2017 Remuneration Report, we disclosed that payments totalling £321,410 would be made. However, these payments ceased when Robert Allen found alternative employment and we can report that payments of £202,245 were made.

Patrick Bergin

Patrick Bergin was given nine months' notice by the Company and left the business on 26 March 2019. Patrick received a Payment In Lieu Of Notice (PILON) from the Company equivalent to nine months' base salary paid monthly from the date of leaving until 25 December 2019. In addition the Committee used discretion to pay an amount of £45,466 in lieu of pension and benefits that would have been received in line with his contractual entitlement over the original nine month notice period. The Committee considered that this was appropriate recognising the fact that, despite being treated as a 'good leaver', outstanding 2017, 2018 and 2019 LTIP awards were to lapse and there would be no entitlement to an FY2019 bonus.

The Company agreed that the value of benefits which would otherwise have been received, representing pension and insurances would be paid as a lump sum payment of £45,466 together with use of his company car for up to nine months. Following early return of the company car, a payment of £6,871 was made for the remainder of the period in respect of outstanding car benefit. The final salary payment to Patrick was reduced by £1,735 representing other employment income disclosed to the Company and deductible in accordance with the agreement.

Payments made in FY19	£
PILON payment for period 27 March to 31 October 2019	280,484
Benefits	45,466
FY2019 Annual Bonus	0.00
Total	**325,950**

Payments made in FY20	£
PILON monthly payments for period 1 November to 25 December 2019	72,016
Outstanding car benefit	6,871
Other employment income	(1,735)
Total	**77,153**

The Committee determined that LTIP awards granted in 2017, 2018 and 2019 would lapse in full.

With respect to the deferred element of the bonuses earned in the 2017 and 2018 financial years, the Committee used its discretion to allow the unvested 2017 and 2018 DBP awards to vest in full (to the extent permitted by the relevant scheme rules) at the normal time (being February 2020 and February 2021 respectively) together with any dividend equivalent payments.

Stephen Stone

Stephen Stone ceased to be a Director and to hold office or employment with the Company on 31 October 2019 with no further salary or benefits being paid after this date and there was no pay in lieu of notice. Stephen Stone was not eligible for any annual bonus for the years ended October 2018, 2019 or 2020.

Certain share awards granted to Stephen Stone in his role as Chief Executive up to March 2018 remain outstanding. The Committee used its discretion to treat Stephen Stone as a good leaver with unvested 2017 and 2018 DBP awards (34,484 and 38,147 shares respectively) vesting at the normal time (being February 2020 and February 2021) to the extent permitted by the relevant rules together with any dividend equivalent payments. In addition, outstanding 2017 LTIP award (149,216 shares) were pro rated to the end of March 2019 when Stephen became Non-Executive Chairman in accordance with the rules to the degree that performance conditions are met. However, the 2017 LTIP lapsed in full after not meeting its performance conditions (see page 92).

Having retired, Stephen Stone can exercise the awards under the Company's 2016 and 2017 Sharesave scheme (3,146 and 2,142 shares respectively) pro rated for the period of saving under the scheme.

Chris Tinker

As announced on 12 November 2019, Chris Tinker stepped down from the Board on 31 December 2019 and is on gardening leave until 28 February 2020, after which time his employment with the Group will cease.

Chris will receive remuneration as follows:

Salary	£248,969 per annum paid monthly until 31 July 2020.
Pension	24.5% per annum cash in lieu paid monthly until 31 July 2020.
Benefits	Private medical, Group income protection and Life Assurance cover to be continued until 31 July 2020. Company car allowance to be paid in cash monthly until 31 July 2020.

The Committee agreed a shorter notice period of 8 1/2 months to include salary and benefits instead of 12 months salary only.

The Committee exercised its discretion to determine that Chris Tinker is a good leaver for outstanding current share awards which will become exercisable as follows:

	Share award	Pro ration treatment	Pro rated amount	Leaver treatment
2017 DBP – first exercisable February 2020	15,125	Provided employment continues to the Termination Date, no time pro ration. Vests February 2020.	N/A	Good leaver
2018 DBP – first exercisable February 2021	19,362	No time pro ration. Vests February 2021.	N/A	Good leaver
2017 LTIP – vests in line with performance and timescales in award	55,541	Time pro rated to Termination Date. However, this award will lapse in full due to no performance conditions being met.	N/A	Good leaver
2018 LTIP – vests in line with performance and timescales in award	63,616	Time pro rated to Termination Date.	42,371	Good leaver
2019 LTIP – vests in line with performance and timescales in award	77,919	Time pro rated to Termination Date.	22,607	Good leaver

Having retired, Chris Tinker can exercise the awards under the Company's 2017 and 2018 Sharesave scheme (2,142 and 3,146 shares respectively) pro rated for the period of saving under the scheme.

We confirm that all payments have been made within the parameters of our approved Remuneration Policy.

PAYMENTS TO PAST DIRECTORS (AUDITED)

Other than as set out on page 96–97, there were no payments made to past Directors in the 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.

During the year, Stephen Stone served as a Non-Executive Director of the NHBC (appointed October 2017), for which he received and retained an annual fee of £43,314.

ANNUAL REPORT ON REMUNERATION CONTINUED

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Details of Directors' service contracts and letters of appointment are set out below. In accordance with Code 2016, notice periods are set at one year or less. Where appropriate and in line with the Remuneration Policy, the Committee is able to exercise discretion in respect of what is included as Payment In Lieu Of Notice:

	Date of current contract	Date elected or re-elected at AGM	Payment in lieu of notice	Notice (Executive/Company)
Stephen Stone	16 May 2018	26 March 2019	Salary	6 months/6 months
Peter Truscott	25 March 2019	N/A	Salary	9 months/9 months
Chris Tinker	10 January 2017	26 March 2019	Salary	6 months/12 months
Duncan Cooper	26 February 2019	N/A	Salary	9 months/9 months
Tom Nicholson	16 May 2019	N/A	Salary	9 months/9 months

	First appointment to Board	Date of current letter of appointment	Date elected or re-elected at AGM	Unexpired term of appointment
Iain Ferguson	16 September 2019	10 September 2019	N/A	2 years 11 months
Stephen Stone	1 April 2019	16 May 2018	26 March 2019	1 year 7 months[1]
Leslie Van de Walle	24 January 2018	24 January 2018	26 March 2019	2 years 3 months
Octavia Morley	1 May 2017	25 April 2017	26 March 2019	6 months
Sharon Flood	1 April 2015	1 April 2018	26 March 2019	1 years 5 months[2]
Louise Hardy	24 January 2018	24 January 2018	26 March 2019	1 years 3 months
Lucinda Bell	25 May 2018	25 May 2018	26 March 2019	1 years 7 months

1 Unexpired term of three year appointment as Chairman. Stephen Stone stepped down as Chairman on 31 October 2019.

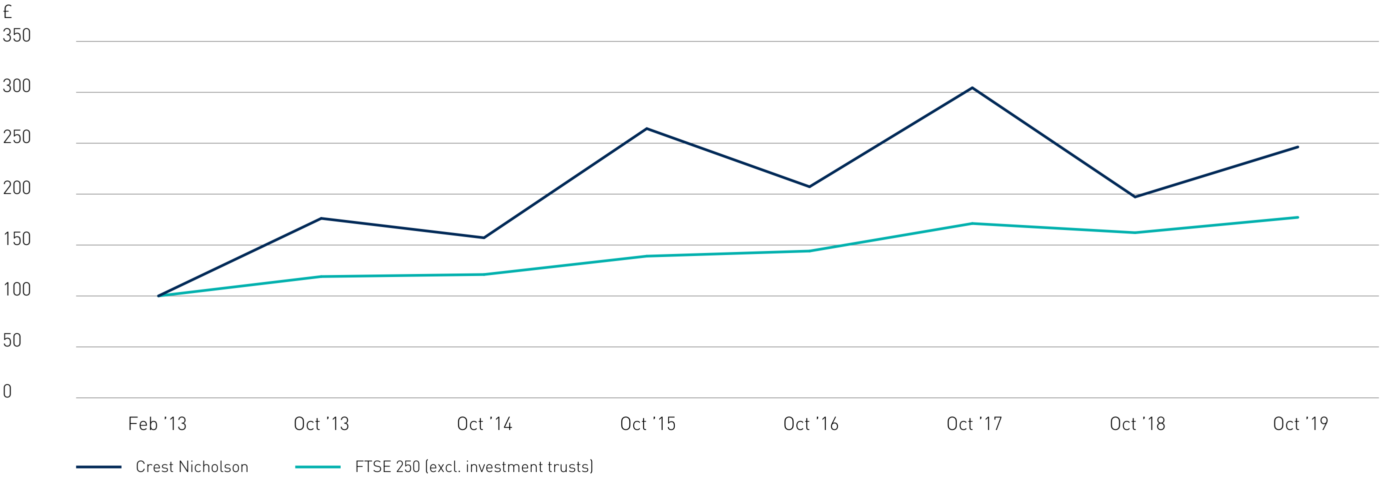
2 Unexpired term of second three year appointment.

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 24 June 2013.

The graph shows the performance of a hypothetical £100 invested over that period.

Total shareholder return



HISTORICAL CEO REMUNERATION

The table below sets out total CEO remuneration for 2019 and prior years, together with the percentage of maximum annual bonus awarded in that year and the percentage of maximum LTIP vested in that year. Past year total remuneration figures have been updated to reflect where LTIPs have been restated. Please see page 91 for more details.

£'000s	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
CEO total remuneration	1,495[1]	714[2]	2,150	2,345	4,127	1,313	14,110[3]	1,043	979	809	528
Annual bonus – % of maximum	3.5%	0%	84%	82%	82%	100%	100%	80%	76%	0%[4]	0%
Incentive plan award – % of maximum	0%	25.0%	100%	100%	100%	N/A[5]	100%	N/A	N/A	N/A	N/A

1 Based on the pro rated salaries and total remuneration of Patrick Bergin to 26 March 2019, Chris Tinker from 26 March 2019 to 8 September 2019 and Peter Truscott from 9 September 2019. It also includes the cost of buy out arrangements for Peter Truscott.

2 Based on the pro rated salaries and total remuneration of Stephen Stone to 22 March 2018 and Patrick Bergin from 22 March 2018 to 31 October 2019.

3 The total Chief Executive 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.

4 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.

5 No incentive plans vested or had a performance period ending in 2014.

PERCENTAGE CHANGE IN CEO REMUNERATION

The table below sets out the percentage change between 2018 and 2019 for salary, benefits and annual bonus of the role of Chief Executive compared with employees generally. To ensure comparability of 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 due to employee changes and is the methodology applied in previous Remuneration Reports.

In turn, the figures used for the Chief Executive role are the blended salaries for Patrick Bergin, Chris Tinker (who acted as Interim) and Peter Truscott, in respect of their time serving as Chief Executive during 2018/2019.

While the cost of providing the Chief Executive's benefits decreased in comparison with the general workforce, this was due to underwriting conditions for Life Assurance value being calculated on an individual rather than a blended basis. However, the overall value of other Chief Executives benefits increased in line with that of employees. The figures below do not include buy out awards in respect of Peter Truscott.

Change in CEO remuneration 2018/2019

Base salary	Benefits	Annual bonus
-3.18%	-18.56% ↓	+3.5%

Change in employee remuneration 2018/2019

Base salary	Benefits	Annual bonus
+4.25%	+0.85% ↑	-63.09%

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows how staff remuneration costs compare to distributions made to shareholders in 2018 and 2019. The table holds data for all employees, including those who were promoted, had salary changes, were new starters or received incentive-based remuneration, as well as pay in respect of individuals who left during the year but had some service. Distributions to shareholders for 2018 and 2019 are made up of cash paid shareholders in each respective year.

The decrease in headcount during FY2019 together with a significant reduction in annual bonus payments (given financial performance) led to a reduction in pay generally over the course of the year. The level of distributions to shareholders remained the same and will continue in line with our stated dividend policy.

The measures shown below are those specified by the applicable disclosure requirements.

Total spend on pay

2019	2018	£ Change	% Change
£61.4m	£66.3m	↓ £4.9m	↓ 7.4%

Distributions to shareholders by way of dividend and share buyback

2019	2018	£ Change	% Change
£84.7m	£84.7m	→ £0m	→ 0%

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN THE FOLLOWING FINANCIAL YEAR

In 2020, the Committee intends to implement the Executive and Non-Executive Director remuneration policies as follows:

BASE SALARY

Executive Directors

		Fee (annual)	Change
Peter Truscott	There will be no change to annual salary in respect of FY2020	2020 £650,000	0.00%
		2019 £650,000	
Duncan Cooper		2020 £365,000	8.96%
		2019 £335,000	
Tom Nicholson		2020 £374,000	N/A

The changes to Duncan Cooper's salary are described in more detail in the Chair's letter on page 83. The Committee would rather not be reviewing and adjusting Duncan's remuneration so soon after his joining, but sees it as a necessary and final part of organisation of the Executive Leadership Team and its responsibilities.

The average salary increase across the workforce from 1 January 2020 was 2.5% of salary.

Non-Executive Directors

Leslie Van de Walle will not be standing for re-election at our AGM on 24 March 2020. Octavia Morley if re-elected at the AGM will become Senior Independent Director from that date and will receive an additional fee of £8,500 for this role.

Non-Executive Director fees for 2020 will be as follows:

	Role	2020 fee (annual)	2019 fee (annual)	Change
Iain Ferguson	Executive Chairman	£200,000	£200,000	0.00%
Leslie Van de Walle	Deputy Chairman and Senior Independent Director	£85,000	£85,000	0.00%
Sharon Flood	Non-Executive Director	£60,000	£60,000	0.00%
	£51,500 base fee and £8,500 for Chairing the Audit and Risk Committee			
Octavia Morley	Non-Executive Director	£68,500	£60,000	14.20%
	£51,500 base fee and £8,500 for Chairing the Remuneration Committee £8,500 for role as Senior Independent Director from 24 March 2020			
Louise Hardy	Non-Executive Director	£51,500	£51,500	0.00%
Lucinda Bell	Non-Executive Director	£51,500	£51,500	0.00%

PENSION AND BENEFITS

As set out earlier in this report, the Committee has significantly reduced pension benefit over the recent period. Under the Company's pension plan for all employees, the maximum pension contribution after five years' service is 10% and the average employee rate is 6%. Peter Truscott's pension arrangements were negotiated in early 2019 of 10% cash in lieu being the maximum rate available to employees. Duncan Cooper and Tom Nicholson's pension benefit reduced from 10% to 6% in line with the employee average from 1 January 2020. All Directors can elect whether to contribute some of the benefit directly in to our pension plan and receive any balance (or all the benefit) as cash.

ANNUAL BONUS

A 125% of salary maximum bonus opportunity will apply.

The Committee has reviewed the mix of measures in line with the business strategy and, accordingly, the following measures and weightings have been agreed for the FY2020 annual bonus:

Performance measure	Strategic Foundation & Priority	Weighting (% of total bonus opportunity)
Financial		
Profit before tax	Financial targets	50%
Net cash	Financial targets and operating efficiently	25%
Forward sales	Financial targets and operating efficiently	12.5%
Non-financial		
Customer service and quality	People and five-star customer service	12.5%
Health and safety leadership	Safety, Health and Environment	less up to 10% downward adjuster

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.

One third of any bonus earned will be deferred in shares for three years.

LONG-TERM INCENTIVE PLAN

Peter Truscott, Duncan Cooper and Tom Nicholson will be granted an LTIP award with a face value of 200%, 150% and 150% of base salary respectively. Given the recovery phase of the business and the longer term nature of the LTIP, ROCE will be measured in the final year only where previously a three year average was applied. While target ranges are lower than the ranges set for the prior year's awards, they are stretching in light of the updated strategy, three-year business plan and market outlook.

LTIP performance conditions will be as follows:

Performance in FY22	Threshold vesting (25% of relevant part of award)	Maximum vesting (100% of relevant part of award)	Strategic Foundation and Priority
EPS (40%)	48.9 pence	52.3 pence	Financial targets
ROCE (40%)	19.3%	23.3%	Operating efficiently
EBIT margin (20%)	14.2%	15.2%	Financial targets

Vested awards will be subject to a two year holding period.

DECISION MAKING PROCESS FOR DETERMINATION, REVIEW AND IMPLEMENTATION OF DIRECTORS' REMUNERATION POLICY

The Committee reviews the policy and operation of policy to ensure it continues to support and reward the Executive Directors to achieve the business strategy both operationally and over the longer term. It reviews the structure and quantum and takes into account the UK Corporate Governance Code 2016, market practice, institutional investor and investor representative body views generally and those of its own shareholders. The Committee also has regard to the remuneration arrangements, policies and practices of the workforce as a whole which it reviews as part of its annual agenda.

The Policy is reviewed annually by the Committee to ensure that changes are not required prior to the triennial shareholder vote. When the Committee determines that changes are required it will formulate proposals to consult with its shareholders. Shareholder feedback is then taken into consideration in finalising the Policy changes.

Operation of Policy is considered annually for the year ahead, including metrics for incentives, weightings and targets. The Committee review operation for the prior year and consider whether in light of the strategy changes are required for the year ahead. Targets for the annual bonus and LTIP awards are also reviewed and consideration is given to whether these remain appropriate or need to be recalibrated. Shareholders' views will be sought depending on the changes proposed.

The Chief Executive and Group HR Director provide input to the Committee on matters concerning remuneration and the General Counsel and Company Secretary acts as Secretary to the Committee. None are present when their own remuneration is determined.

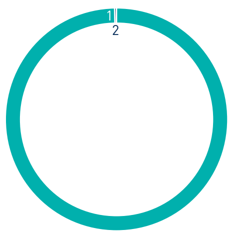
The Committee manages conflicts of interest by ensuring that the relevant member of management or the Committee are not present when their own remuneration is determined or discussed. In addition, the Committee is satisfied that the advice received by Korn Ferry in relation to executive remuneration matters was objective and independent.

The Committee received external advice in the year from Korn Ferry (total fees £82,018). Korn Ferry was appointed following a competitive selection process in 2018. Korn Ferry is a founder member of the Remuneration Consultants' Group, which operates a code of conduct. No other services are provided by Korn Ferry. 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 2018 Directors' Remuneration Report at the 2019 AGM and Remuneration Policy at the 2017 AGM.

Directors' Remuneration Report



1	Shares voted in favour	202,734,104	99.75%
2	Shares voted against	513,053	0.25%

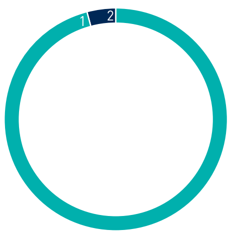
203,247,157

Total votes cast (79.1% of issued share capital)

15,604

Votes withheld (abstentions)

Directors' Remuneration Policy



1	Shares voted in favour	182,831,307	96%
2	Shares voted against	7,357,089	4%

190,188,396

Total votes cast (74.5% of issued share capital)

6,662

Votes withheld (abstentions)

We have maintained 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 new Remuneration Policy and its application for FY2020, specifically performance measures for the annual bonus and target setting for the LTIP. We welcome feedback and encourage shareholders to contact the Chair of the Remuneration Committee via the General Counsel and Company Secretary to provide their views and feedback.

APPROVAL

This report and policy were approved by the Board of Directors on 28 January 2020 and signed on its behalf by

Octavia Morley
Chair of the Remuneration Committee

DIRECTORS' REPORT

Compliance and other disclosures

The Directors' Report for the year ended 31 October 2019 comprises pages 56 to 104 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 1 to 55
- The Group's exposure to credit risk, liquidity risk, market risk and interest rate risk is commented on in note 24 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 within the Annual Integrated Report, where applicable, is set out in the Directors' Report.

ARTICLES OF ASSOCIATION (ARTICLES)

The Articles 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 are available on our website, from Companies House, and on request from the Company. The Articles can be amended by special resolution of the shareholders.

SHARE CAPITAL

At 31 October 2019, the Company had issued share capital of 256,920,539 ordinary shares of 5 pence. No ordinary shares have been issued during the financial year.

Rights attaching to shares and restrictions on transfers

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 law 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 in March 2019, 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 £4,282,008. This standard authority will expire on 30 April 2020 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 25,692,054. This standard authority will expire on 30 April 2020 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 24 March 2020. At 31 October 2019, the Group's Employee Benefit Trust (EBT) held 144,410 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.

Substantial shareholders

Below sets out the percentage interests in ordinary share capital of the Company, disclosable under the Disclosure and Transparency Rules, that were notified to the Directors as at 31 October 2019 and 28 January 2020.

	As at 31 October 2019		As at 28 January 2020	
Shareholder	Number of voting rights held	% of voting rights held	Number of voting rights held	% of voting rights held
Standard Life Aberdeen	22,199,232	8.64	22,199,232	8.64
Link Fund Solutions Ltd[1]	19,291,227	7.51	<5%	<5%
BlackRock, Inc.	16,667,163	6.47	16,667,163	6.47

1 Link Fund Solutions Ltd are the administrator of the former Woodford Equity Income fund.

PROFITS AND DIVIDENDS

The Group's consolidated profit after taxation for the financial year ended 31 October 2019 was £82.5m (2018: £136.6m). The Directors' propose to pay a dividend of 21.8 pence for the year ended 31 October 2019, which, together with the interim dividend of 11.2 pence per share paid in October 2019, brings the total dividends for the year to 33.0 pence (2018: 33.0 pence). Further information on the dividend policy can be found on page 36.

POWERS OF DIRECTORS

The Directors' powers are conferred on them by UK legislation and by the Company's Articles.

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). Any such Director shall hold office until the next AGM and shall then be eligible for election.

All the current Directors will submit themselves for election or re-election at the 2020 AGM other than other than Leslie Van de Walle who has indicated that he will step down from the Board at the 2020 AGM.

The Board confirms that it has the 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 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 the General Counsel 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; 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 whereby employees and supply chain partners can report any concerns 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 and Risk Committee and the policies are available on the Company's website.

Central functions

Strong central functions support the Board, Executive Committee 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 from a sole supplier where this is deemed 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.

POLITICAL DONATIONS

The Group made no political donations during the year (2018: nil).

EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance sheet date.

BRANCHES

The Group has no branches outside the United Kingdom.

GREENHOUSE GAS EMISSIONS REPORT

Global greenhouse gas (GHG) emissions data	2019 1 November 2018 to 31 October 2019 Market-based	2019 1 November 2018 to 31 October 2019 Location-based	2018[2] 1 November 2017 to 31 October 2018 Market-based	2018[2] 1 November 2017 to 31 October 2018 Location-based
Scope 1 emissions (tCO_2e)	6,720.64	6,720.64	7,251.58	7,251.58
Scope 2 emissions (tCO_2e)	1,170.93	1,737.22	2,407.97	2,402.61
Scope 3 emissions (tCO_2e)	3,664.78	3,664.78	3,747.90	3,747.90
Scope 1, 2 and 3 combined emissions intensity[1] (tCO_2e/1,000 sq ft)	4.27	4.48	4.17	4.17
Group-wide energy use (MWh)[3]		35,761		38,804

1 Normalised by 2,708,287 sq ft – which comprises the sum of both full and, in proportion, partial build complete delivery during the financial year 2019 (1 November 2018 to 31 October 2019). In 2018 we delivered 3,216,695 sq ft.

2 The total Scope 1 and intensity figures have been re-stated due to additional 2018 diesel consumption information provided to Crest Nicholson after the publication of its 2018 Annual Integrated Report and GHG emissions report. It also takes into account the updated business travel carbon conversion, which now uses the vehicle manufacturers' gCO_2/km data where it is available.

3 Group-wide energy use includes site and office electricity, gas, diesel and LPG and business travel associated with company-owned vehicles.

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.

All electricity, gas and water data from sites and offices under our control were supplied by our utilities management partner. For non-plot supplies, they visit sites on a quarterly basis to obtain meter readings. Plot data is obtained at the point of handover to the customer. Shared office data is obtained from the relevant management company responsible for the utilities for that office. Diesel, LPG and waste data is obtained directly from suppliers. 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 2019.

Verco Assured 2019 - Carbon Footprint verco

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 1 November 2018 to 31 October 2019, 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 the 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 2019 Annual General Meeting and is willing to seek re-appointment this year. Resolutions to re-appoint PricewaterhouseCoopers LLP will be proposed at the 2020 AGM. There have been no important events affecting the entity since year end.

Approval

The Directors' Report was approved by the Board of Directors on 28 January 2020 and signed on its behalf.

Kevin Maguire
Company Secretary

FINANCIAL STATEMENTS

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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 regulation.

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 (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 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 IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising 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 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 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 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.

Directors' confirmations

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 position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 60 to 61 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 IFRSs 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.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

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

Peter Truscott
Director

28 January 2020

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 31 October 2019 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 31 October 2019; 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

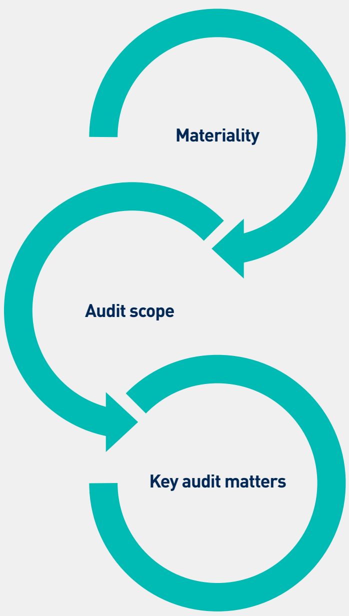
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities 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 1 November 2018 to 31 October 2019.

Our audit approach

Overview



- Overall Group materiality: £6.1 million (2018: £8.8 million), based on 5% of profit before tax, adjusted for the exceptional item. For 2018, materiality was based on 5% of profit before tax as there were no exceptional items.
- Overall Company materiality: £2.4 million (2018: £2.2 million), based on 1% of total assets.

- We conducted an audit of the complete financial information of three of the five geographical housebuilding operating Divisions, together with the Crest Nicholson Regeneration Division. Specific balances and financial statement line items were audited at additional reporting units based on their size. Additionally, revenue and the carrying value of inventory were tested at the Group level.
- The reporting units where we performed an audit of complete financial information (including audit of consolidation journals) accounted for 74% of Group profit before tax.

- Margin forecasting and recognition.
- Valuation of inventory at the lower of cost and net realisable value ("NRV").
- Accounting for the combustible materials provision.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CREST NICHOLSON HOLDINGS PLC CONTINUED

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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to but not limited to, the Listing Rules, pensions legislation and UK tax legislation and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to revenue and profit. Audit procedures performed by the Group engagement team included:

- Discussions with the Executive Leadership Team and Divisional management teams, review of internal audit and consideration of known or suspected instances of non-compliance with laws and regulation (including health and safety) and fraud;
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities, in particular their controls around cost and margin forecasting;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to cost forecasting and margin estimation and the combustible materials provision (see related key audit matters below);
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations including unusual or unexpected journal postings to the income statement or journals posted by senior management.

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. Also, 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.

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 page 77 (Key financial and internal control matters) 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.	We evaluated and tested management's forecasting and monitoring controls for the developments (including attendance at a selection of Project Committees, Operational Commencement meetings, QSPR meetings and monthly Build Cost meetings). Additionally, we attended the October Build Cost meetings at all Divisions. Through our control testing procedures, we noted that management's forecasts are prepared, monitored and updated in accordance with the stated controls. We assessed the appropriateness of certain underlying assumptions within the forecasts, including sales prices, land costs and build costs. For a sample of sites where we noted material variances in forecast build costs compared to the prior year, we substantively tested a sample of the inputs to the Stack. 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 audited material trading adjustments to ensure these were supportable. Based on the procedures performed, we did not identify any sites where we considered the actual margin recognised or forecast margin to be materially inappropriate.

Key audit matter	How our audit addressed the key audit matter
Valuation of inventory at the lower of cost and net realisable value ("NRV") Refer to Note 1 (Accounting policies) and page 77 (Key financial and internal control matters) 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 focused on those developments with low margins, which included certain sites in the London area. In total management recognised a provision of £7.8m due to the impact of market conditions on underlying sales rates and build cost inflation.	We confirmed and updated our 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, 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, including attendance at a sample of key meetings during the year and attendance at all October 2019 Build Cost meetings. 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 or purchase orders. As part of our audit procedures, where relevant, we also had discussions with site surveyors. 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 actual sales prices achieved or to external market data to determine if there are any valuation issues at the period end. We evaluated the margins on sites where we identified potential valuation issues, being those sites with low margins or high levels of completed and unreserved units. We evaluated the carrying value of part exchange stock by verifying sales values in the area to external evidence and testing to post-year end reservations. We audited and assessed the adequacy of the Group's provisions against the carrying value of inventory as at 31 October 2019. Based upon the procedures performed we did not identify any sites where we determined that further material impairments were required in the year. We are satisfied that the Group's provisions were not materially misstated.
Accounting for the combustible materials provision Refer to Note 1 (Accounting policies) and page 77 (Key financial and internal control matters) As described in Note 4, following the issuance of the latest Government guidance notes in respect of combustible materials, fire risk and protection, and regulatory compliance management has performed a detailed review to identify those sites where it believes that a legal or constructive obligation exists for the Group to remediate the buildings or to reimburse the freeholders to ensure compliance with the latest guidance. Accordingly, the Group has recorded an 'exceptional' charge of £18.4m, of which £3.8m has been incurred in the year. The provision is inherently judgemental and involves significant management estimate. The amount is material and there is a risk around the completeness, accuracy and existence of the exceptional item and the related provision.	We considered and assessed the process by which management had determined which buildings the Group had an obligation to remediate as at 31 October 2019. We performed procedures, which included corroboration of the Group's ownership of freehold properties to appropriate supporting evidence, including discussions with the Executive Leadership Team, to obtain comfort over the completeness and existence of the sites identified by management. We reviewed relevant correspondence that the Group had with relevant stakeholders to establish whether a legal or constructive obligation existed. We assessed how the quantum of the provision had been determined for each building. This included obtaining and verifying the quotes the Group had received for the remediation works. We have also reviewed the disclosure made in Note 4 and in the Strategic report and considered whether this reflects the current facts and circumstances associated with the combustible materials provision. We have considered the presentation of the charge to the Consolidated income statement as 'exceptional' and concluded that this is appropriate due to both the size and nature of the cost, both highly material and one-off in nature. We agree with management's assessment that presenting this item as 'exceptional' allows readers of the accounts to better understand the underlying trading results of the Group.

We determined that there were no key audit matters applicable to the Company to communicate in our report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CREST NICHOLSON HOLDINGS PLC CONTINUED

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 financial statements are ultimately a consolidation of 15 reporting units (each of which were deemed to be components) 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 five 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 (including audit of consolidation journals) accounted for 74% of the Group's profit before tax. 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 receivables, payables and costs including the Strategic Projects Division (as this is where the strategic sites are held), both of the remaining geographically-based Divisions and two of the Group's overhead companies. Our audit work at these reporting units, together with the additional procedures performed at Group level on revenue, the carrying value of inventory, the consolidation, tax, pensions, payroll, interest, loans and borrowings, share based payments, provisions, exceptional item 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	£6.1 million (2018: £8.8 million).	£2.4 million (2018: £2.2 million).
How we determined it	5% of profit before tax, adjusted for the exceptional item. In 2018 materiality was based on 5% of profit before tax as there were no exceptional items.	1% of total assets.
Rationale for benchmark applied	We believe that profit before tax, adjusted for the impact of the exceptional item, is the primary measure used by the shareholders in assessing the performance of the Group.	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 component 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 components was between £1.5 million and £5.5 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £300,000 (Group audit) (2018: £441,000) and £122,000 (Company audit) (2018: £111,950) 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. For example, the terms on which the United Kingdom is likely to withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 October 2019 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 79 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 50 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 106, 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 75 to 80 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)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CREST NICHOLSON HOLDINGS PLC CONTINUED

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 106, 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 23 March 2015 to audit the financial statements for the year ended 31 October 2015 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 October 2015 to 31 October 2019.

Sonia Copeland
Senior Statutory Auditor

For and on behalf of
PricewaterhouseCoopers LLP

Chartered Accountants and
Statutory Auditors
London

28 January 2020

CONSOLIDATED INCOME STATEMENT

For the year ended 31 October 2019

	Note	2019 Pre-exceptional item £m	2019 Exceptional item (note 4) £m	2019 Total £m	2018 (Restated[1]) £m
Revenue	3	**1,086.4**	–	**1,086.4**	**1,121.0**
Cost of sales		(884.5)	(18.4)	(902.9)	(874.1)
Gross profit		**201.9**	**(18.4)**	**183.5**	**246.9**
Administrative expenses		(65.5)	–	(65.5)	(64.9)
Net impairment losses on financial assets	17	(3.4)	–	(3.4)	–
Operating profit	5	**133.0**	**(18.4)**	**114.6**	**182.0**
Finance income	7	3.6	–	3.6	3.0
Finance expense	7	(14.6)	–	(14.6)	(15.0)
Net finance expense		(11.0)	–	(11.0)	(12.0)
Share of post-tax losses of joint ventures using the equity method	13	(0.9)	–	(0.9)	(1.3)
Profit before tax		**121.1**	**(18.4)**	**102.7**	**168.7**
Income tax expense	8	(23.7)	3.5	(20.2)	(32.1)
Profit for the year attributable to equity shareholders		**97.4**	**(14.9)**	**82.5**	**136.6**
Earnings per ordinary share					
Basic	10	38.0p		32.1p	53.3p
Diluted	10	37.9p		32.1p	53.0p

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 October 2019

	Note	2019 £m	2018 (Restated[1]) £m
Profit for the year attributable to equity shareholders		**82.5**	**136.6**
Other comprehensive (expense)/income:			
Items that will not be reclassified to the consolidated income statement:			
Actuarial (losses)/gains of defined benefit schemes	16	(17.3)	1.3
Change in deferred tax on actuarial (losses)/gains of defined benefit schemes	15	3.3	(0.2)
Other comprehensive (expense)/income for the year net of income tax		**(14.0)**	**1.1**
Total comprehensive income attributable to equity shareholders		**68.5**	**137.7**

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

The notes on pages 117 to 155 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October 2019

	Note	Share capital £m	Share premium account £m	Retained earnings £m	Total equity £m
Balance at 31 October 2017 – Originally reported		**12.8**	**74.1**	**730.9**	**817.8**
Change in accounting policy	29	–	–	0.3	0.3
Balance at 31 October 2017 – Restated[1]		**12.8**	**74.1**	**731.2**	**818.1**
Profit for the year attributable to equity shareholders		–	–	136.6	136.6
Actuarial gains of defined benefit schemes	16	–	–	1.3	1.3
Change in deferred tax on actuarial gains of defined benefit schemes	15	–	–	(0.2)	(0.2)
Total comprehensive income for the year		–	–	137.7	137.7
Transactions with shareholders:					
Equity-settled share-based payments	16	–	–	2.5	2.5
Deferred tax on equity-settled share-based payments	15	–	–	(1.0)	(1.0)
Share capital issued	23	–	0.1	–	0.1
Dividends paid	9	–	–	(84.7)	(84.7)
Balance at 31 October 2018		**12.8**	**74.2**	**785.7**	**872.7**
Balance at 31 October 2018 – Originally reported		**12.8**	**74.2**	**791.6**	**878.6**
Change in accounting policy	29	–	–	(5.9)	(5.9)
Balance at 31 October 2018 – Restated[1]		**12.8**	**74.2**	**785.7**	**872.7**
Profit for the year attributable to equity shareholders		–	–	82.5	82.5
Actuarial losses of defined benefit schemes	16	–	–	(17.3)	(17.3)
Change in deferred tax on actuarial losses of defined benefit schemes	15	–	–	3.3	3.3
Total comprehensive income for the year		–	–	68.5	68.5
Transactions with shareholders:					
Equity-settled share-based payments	16	–	–	(0.4)	(0.4)
Deferred tax on equity-settled share-based payments	15	–	–	0.2	0.2
Purchase of own shares	23	–	–	(3.8)	(3.8)
Transfers in respect of share options		–	–	1.9	1.9
Dividends paid	9	–	–	(84.7)	(84.7)
Balance at 31 October 2019		**12.8**	**74.2**	**767.4**	**854.4**

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

The notes on pages 117 to 155 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 October 2019

	Note	2019 £m	2018 (Restated[1]) £m
ASSETS			
Non-current assets			
Intangible assets	11	29.0	29.0
Property, plant and equipment	12	6.1	4.8
Investments in joint ventures	13	2.0	1.3
Other financial assets[2]	14	–	7.2
Financial assets at fair value through profit and loss	14	6.2	–
Deferred tax assets	15	6.4	6.0
Retirement benefit surplus	16	–	2.5
Trade and other receivables	17	58.5	59.0
		108.2	**109.8**
Current assets			
Inventories	18	1,151.1	1,213.2
Other financial assets[2]	14	–	3.3
Financial assets at fair value through profit and loss	14	1.0	–
Trade and other receivables	17	145.3	109.9
Cash and cash equivalents	19	170.6	184.3
		1,468.0	**1,510.7**
Total assets		**1,576.2**	**1,620.5**
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	20	(131.5)	(168.3)
Trade and other payables	21	(149.4)	(143.3)
Deferred tax liabilities	15	–	(0.5)
Retirement benefit obligations	16	(6.2)	–
Provisions	22	(11.8)	(0.9)
		(298.9)	**(313.0)**
Current liabilities			
Interest-bearing loans and borrowings	20	(1.9)	(1.9)
Trade and other payables	21	(412.9)	(421.4)
Current income tax liabilities		(3.2)	(9.8)
Provisions	22	(4.9)	(1.7)
		(422.9)	**(434.8)**
Total liabilities		**(721.8)**	**(747.8)**
Net assets		**854.4**	**872.7**
EQUITY			
Share capital	23	12.8	12.8
Share premium account	23	74.2	74.2
Retained earnings		767.4	785.7
Total equity		**854.4**	**872.7**

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

2 IFRS 9 changed other financial assets to financial assets at fair value through profit and loss.

The notes on pages 117 to 155 form part of these financial statements.

These financial statements were approved by the Board of Directors on 28 January 2020.

On behalf of the Board

Peter Truscott
Director

Duncan Cooper
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 October 2019

	Note	2019 £m	2018 (Restated[1]) £m
Cash flows from operating activities			
Profit for the year attributable to equity shareholders		82.5	136.6
Adjustments for:			
Depreciation	12	2.5	1.9
Net finance expense	7	11.0	12.0
Share-based payment (credit)/expense	16	(0.4)	2.5
Share of post-tax loss of joint ventures using the equity method	13	0.9	1.3
Income tax expense	8	20.2	32.1
Operating profit before changes in working capital and provisions		**116.7**	**186.4**
Increase in trade and other receivables		(11.5)	–
Decrease/(increase) in inventories		62.1	(125.9)
Increase in trade and other payables		2.2	57.1
Contribution to retirement benefit obligations		(9.0)	(9.0)
Cash generated from operations		**160.5**	**108.6**
Interest paid		(11.1)	(10.3)
Taxation paid		(24.2)	(36.0)
Net cash generated from operating activities		**125.2**	**62.3**
Cash flows from investing activities			
Purchases of property, plant and equipment		(3.8)	(2.5)
Disposal of other financial assets[2]		–	5.2
Disposal of financial assets at fair value through profit and loss		3.5	–
Dividends received from joint ventures		–	0.8
Net funding to joint ventures		(15.1)	–
Interest received		0.6	0.4
Net cash (outflow)/inflow from investing activities		**(14.8)**	**3.9**
Cash flows from financing activities			
Repayment of bank and other borrowings		(36.9)	(1.9)
Proceeds from new loans		–	30.0
Debt arrangement and facility fees		(0.6)	(0.6)
Dividends paid	9	(84.7)	(84.7)
Purchase of own shares		(3.8)	–
Transfers in respect of share options		1.9	–
Net proceeds from the issue of shares		–	0.1
Net cash outflow from financing activities		**(124.1)**	**(57.1)**
Net (decrease)/increase in cash and cash equivalents		**(13.7)**	**9.1**
Cash and cash equivalents at the beginning of the year		184.3	175.2
Cash and cash equivalents at end of the year	19	**170.6**	**184.3**

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.
2 IFRS 9 changed other financial assets to financial assets at fair value through profit and loss.

The notes on pages 117 to 155 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 the UK. 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 financial assets at fair value through profit and loss, which are as otherwise stated. The parent company financial statements are presented on pages 156 to 160.

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 31 October 2019 the Group held cash and cash equivalents of £170.6m (2018: £184.3m) and cash resources net of borrowings of £37.2m (2018: £14.1m).

The Group has operated within its banking covenants throughout the year, has bank facilities of £250.0m expiring in June 2024, with £215.0m remaining available for drawdown under such facilities at 31 October 2019. The Directors reviewed detailed cashflows and financial forecasts for the next year and summary cashflows and financial forecasts for the following two years. Throughout this review period the Group is forecast to operate within its banking covenants and is able to meet its liabilities as they fall due. 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.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

Adoption of new and revised standards

During the financial year ended 31 October 2019, the Group has adopted and applied the following standards and amendments issued by the International Accounting Standards Board ('IASB') that are relevant to its operations for the first time in the year commencing 1 November 2018:

- IFRS 9 'Financial instruments'
- IFRS 15 'Revenue from Contracts with Customers'
- IFRS 2 'Share-based Payment' (amendments) – classification and measurement of share-based payment transactions
- IAS 28 'Investments in Associates and Joint Ventures' (amendments) – long-term interests in associates and joint ventures
- Annual improvements to IFRSs 2014 – 2016 Cycle.

In the current year the Group adopted IFRS 9. The impact on Group profit of adopting IFRS 9 is immaterial with no prior year restatement made in respect of this change. IFRS 9 changed the presentation in the consolidated statement of financial position, reclassifying other financial assets to financial assets at fair value through profit and loss.

Information on the initial application of IFRS 15, including the impact on the financial position and performance of the Group, can be found in note 29.

The adoption of the other amendments in the year did not have a material impact on the financial statements.

Standards and interpretations in issue but not yet effective, or yet to be endorsed by the European Union

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. The Group has carried out a detailed exercise to determine the impact of IFRS 16 on the Group's financial position and performance based on the lease commitments of the Group as at 31 October 2019. The Group will adopt the modified retrospective approach to transition, applying the practical expedients available under this approach. A right of use asset of around £8.7m will be recognised on the consolidated statement of financial position, being a £9.5m asset reduced by the existing £0.8m onerous lease provision transferred from provisions, with a corresponding lease liability of around £9.6m. The impact on net assets on transition to IFRS 16 will therefore be a reduction of around £0.1m. The right of use asset has been calculated with reference to the practical expedient available under IFRS 16. The approximate impact on operating profit for the financial year ending 31 October 2020 is an extra charge of around £0.2m.

The following amendments to standards and interpretations have also been issued but are not yet effective:

- IFRIC 23 'Uncertainty over Income Tax Treatments'
- Amendments to IAS 19 'Employee Benefits' (amendments) – plan amendment, curtailment or settlement
- Annual improvements to IFRSs 2015 – 2017 Cycle
- Amendment to IFRS 9 'Financial Instruments', on prepayment features with negative compensation and modification of financial liabilities
- Amendments to IFRS 3 'Business Combinations', definition of a business
- Amendments to IAS 1 'Presentation of Financial Statements', and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', on the definition of material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Standards and interpretations in issue but not yet effective, or yet to be endorsed by the European Union continued

The Directors do not expect that the adoption of the standards, amendments and interpretations listed above will have a material impact on the financial statements of the Group in future periods.

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 24 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

In the current year, the Group adopted IFRS 15 'Revenue from Contracts with Customers'. The new standard establishes a comprehensive five-step model to determine the amount and timing of revenue recognised from contracts with customers. Further information on the adoption of IFRS 15 and the impact on the financial position and performance of the Group for the prior year can be found in note 29.

Revenue comprises the fair value of the consideration received or receivable, net of value added tax, rebates and discounts. The Group does not 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 £58.0m (2018: £46.6m). Profit/loss on the disposal of part exchange properties is not material to the results of the Group.

Under IFRS 15 revenue is recognised on house and apartment sales at legal completion. For affordable and other sales in bulk, revenue recognition 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 and control is passed to the investor, revenue is recognised on any upfront sale of land (where applicable) and then on the housing units as the build of the related units progress. 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 previously recognised 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 is recognised on land sales when legal title passes to the buyer. The Group previously recognised revenue on land sales at the point of unconditional exchange of contracts.

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 (where applicable) and then on the development revenue as the build of the related commercial units progress. 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 the completed commercial unit to the purchaser.
The Group previously recognised revenue on commercial property sales at the point of unconditional exchange of contracts.

Under IFRS15 revenue is recognised on freehold reversion sales when the purchaser is contractually entitled to the ground rent revenue stream associated with the units purchased. The Group previously did not recognise revenue on the disposal of freehold reversions instead being treated as a reduction in land cost.

Under IFRS15 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 is recognised as revenue when legal title passes to the buyer. The Group previously did 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.

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.

Where the Group performs the role of project manager on joint venture projects and receives a fee for this service, this fee is recognised within cost of sales in the period it is receivable. The Group defers recognition of project management fees in accordance with the Group's interest in the joint venture where the joint venture capitalises the cost of this fee within its work in progress. Deferred project management fee income is recognised by the Group in accordance with the revenue recognised on sales made by the joint venture entity.

Exceptional items
Exceptional items are items of income or expenditure which, in the opinion of the Directors, are material or unusual in nature or of such significance that they require separate disclosure on the face of the consolidated income statement in accordance with IAS 1 'Presentation of Financial Statements'. Should these items be reversed, disclosure of this would also be as exceptional items.

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.

Net finance expense
Interest income is recognised on a time apportioned basis by reference to the principal outstanding and the effective interest rate. Interest costs are recognised in the consolidated income statement on an accruals basis in the period in which they are incurred.

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 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 distributions to the Company's shareholders are 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 deficit 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 (deficit)/surplus recognised in the consolidated statement of financial position represents the (deficit)/surplus 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Employee benefits continued

(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 if new shares are issued. If treasury shares are used the proceeds are credited to retained reserves.

Own shares held by Employee Share Ownership Plan trust ('ESOP')

Transactions of the Company-sponsored ESOP trust are included in both the Group financial statements and the Company's own financial statements. The purchase of shares in the Company by the trust are charged directly to equity.

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 consolidated 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 comprises 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 inventories are held at the lower of cost and net realisable value, which includes an assessment of costs of management and resale. Any profit or loss on the disposal of part exchange properties is recognised within cost of sales in the consolidated income statement.

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.

Provision is made for any losses foreseen in completing a site as soon as they become apparent.

Financial assets

Financial assets are initially recognised at fair value and subsequently classified into one of the following measurement categories:

- measured at amortised cost
- measured subsequently at fair value through profit and loss ('FVTPL')
- measured subsequently at fair value through other comprehensive income ('FVOCI').

The classification of financial assets depends on the Group's business model for managing the asset and the contractual terms of the cash flows. Assets that are held for the collection of contractual cash flows that represent solely payments of principal and interest are measured at amortised cost, with any interest income recognised in the consolidated income statement using the effective interest rate method.

Financial assets that do not meet the criteria to be measured at amortised cost are classified by the Group as measured at FVTPL. Fair value gains and losses on financial assets measured at FVTPL are recognised in the consolidated income statement and presented within net operating expenses. The Group currently has no financial assets measured at FVOCI.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss (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. In the prior year financial assets at fair value through profit and loss were presented as other financial assets with changes in fair value relating to the expected recoverable amount being recognised in the consolidated income statement, and changes in fair value arising from a change of discount factor being recognised in other comprehensive income and accumulated in equity, until the asset is divested.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established based on an expected credit loss model applying the simplified approach, which uses a lifetime expected loss allowance for all trade receivables and other receivables. The amount of the loss is recognised in the consolidated income statement. Current trade and other receivables do not carry any interest and are stated at their amortised cost, as reduced by appropriate allowances for estimated irrecoverable amounts. Non-current trade and other 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. In the prior year, before the implementation of IFRS 9, trade and other receivables were impaired when there was evidence that the Group would not be able to collect the amounts due.

Contract assets
Contract assets represent unbilled work in progress on affordable and other sales in bulk on contracts in which revenue is recognised over time. Contract assets are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment. Contract assets do not carry any interest and are stated at their amortised cost, as reduced by appropriate allowances for estimated irrecoverable amounts. In the prior year contract assets were presented as amounts recoverable on contracts.

Cash and cash equivalents
Cash and cash equivalents are cash balances in hand and in the bank and are carried in the consolidated 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.

Financial liabilities
Financial liabilities are initially recognised at fair value and subsequently classified into one of the following measurement categories:

– measured at amortised cost

– measured subsequently at fair value through profit and loss ('FVTPL').

Non-derivative financial liabilities are measured at FVTPL when they are considered held for trading or designated as such on initial recognition. The Group has no non-derivative financial liabilities measured at FVTPL.

Land payables
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 using the effective interest method in accordance with IFRS 9. The difference between the fair value and the nominal value is amortised over the deferment period, with the financing element being charged as interest expense through the consolidated income statement.

Trade and other payables
Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method. 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 period. Before the implementation of IFRS 9 trade and other payables were stated at their nominal amount which was considered to be their fair value.

Contract liabilities
Contract liabilities represent payments on account received from customers in excess of billable work in progress on affordable and other sales in bulk on contracts in which revenue is recognised over time. Contract liabilities are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method. In the prior year contract liabilities were presented as payments on account.

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.

Seasonality
In common with the rest of the UK housebuilding industry, activity occurs throughout the year, with peaks in sales completions in spring and autumn. This creates seasonality in the Group's trading results and working capital.

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 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 considers the key sources of estimation uncertainty that has a risk of causing a material adjustment to the carrying value of assets and liabilities as 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 the short term portfolio as at 31 October 2019, the impact on profit before tax and inventories would have been £7.5m lower (2018: £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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Critical accounting estimates and judgements continued

Estimation of development profitability continued

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 31 October 2019 and which are forecast to still be in production beyond the year ending 31 October 2021 (2018: beyond the year ending 31 October 2020), profit before tax in the current year would have been £21.5m (2018: £14.9m) lower.

Combustible materials

The combustible materials provision requires assumptions to be made in the calculation of the costs of interrogation, replacement materials, works to complete and disruption to customers, along with the timing of forecast expenditure. See note 4 for additional details.

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. See note 11 for additional details.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss 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 year end. See note 14 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 and Guaranteed Minimum Pensions, 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 16 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. See note 16 for additional details.

2 SEGMENTAL ANALYSIS

The Executive Leadership Team (per the Strategic Report), 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 Leadership 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 REVENUE

Revenue type	2019 £m	2018 (Restated[1]) £m
Open market housing including specification upgrades	848.3	947.7
Affordable housing	134.2	111.6
Total housing	**982.5**	**1,059.3**
Land and commercial sales	99.4	55.7
Freehold reversions	4.5	6.0
Total	**1,086.4**	**1,121.0**

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

Timing of revenue recognition	2019 £m	2018 (Restated[1]) £m
Revenue recognised at a point in time	875.3	1,028.5
Revenue recognised over time	211.1	92.5
Total revenue	**1,086.4**	**1,121.0**

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

Proceeds received on the disposal of part exchange properties, which is not included in revenue, were £58.0m (2018: £46.6m). These have been included within cost of sales.

Assets and liabilities related to contracts with customers	2019 £m	2018 (Restated[1]) £m
Contract assets (note 17)	70.0	38.1
Contract liabilities (note 21)	(33.6)	(69.7)

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

Contract assets have increased to £70.0m from £38.1m in 2018, reflecting more unbilled work in progress on affordable and other sales in bulk at the year end. This increase is in line with the increased proportion of revenue recognised over time, which has increased to £211.1m from £92.5m in 2018.

Contract liabilities have reduced to £33.6m from £69.7m in 2018, reflecting a lower amount of payments on account received from customers in excess of billable work in progress on affordable and other sales in bulk on contracts in which revenue is recognised over time. The reduction is caused by the timing in 2018 of receipts on certain land and commercial sales.

Based on historical trends, management expects a significant proportion of the contract liabilities total to be recognised as revenue in the next reporting period.

4 EXCEPTIONAL ITEM

Following the latest Government guidance notes in respect of combustible materials, fire risk and protection and regulatory compliance on completed developments, the Group has recorded an exceptional charge of £18.4m (2018: £nil). The Group has conducted a detailed review of all current and legacy buildings to identify those that are impacted and has estimated remediation costs where a legal or constructive obligation to remediate the buildings exists. At the year end remediation is under way on several buildings.

This is a complex calculation considering many different inputs including the height and square footage of the impacted buildings, costs of interrogation, estimated costs of replacement materials and labour, the extent of the works to be complete and potential disruption to customers. In addition interpretation of these latest guidelines continues to evolve requiring contemporary reviews of the Group's estimates.

As such this provision represents Management's best estimate of these costs at 31 October 2019. Management will continue to assess the magnitude and utilisation of this provision in future financial reporting periods and expects to have completed any remedies within a five-year period.

The combustible materials provision has been included as an exceptional item due to the size of the provision and the high level of estimation required to determine the liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5 OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS

Operating profit from continuing activities is stated after charging:

	2019 £m	2018 £m
Inventories expensed in the year (Restated[1])	843.5	855.4
Inventories net realisable value provided in the year	7.0	0.4
Staff costs (note 6)	68.8	71.3
Depreciation (note 12)	2.5	1.9
Operating lease rentals		
Land and buildings	2.5	2.5
Other operating lease rentals	1.7	1.7
Joint venture project management fees	0.8	0.9

1 2018 restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

Auditors' remuneration	2019 £000	2018 £000
Audit of these consolidated financial statements	57	61
Audit of financial statements of subsidiaries pursuant to legislation	396	283
Other non-audit services	57	56

Fees payable to the Group's auditors for non-audit services included £57,000 (2018: £56,000) in respect of an independent review of the half-year results.

In addition to the above, PricewaterhouseCoopers LLP provide 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 £20,000 (2018: £23,000) and are met by the assets of the scheme, and the fees associated with services to Group joint ventures are £30,500 (2018: £30,750).

6 STAFF NUMBERS AND COSTS

(a) Average monthly number of persons employed by the Group

	2019 Number	2018 Number
Development	1,005	1,016

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)

	2019 £m	2018 £m
Wages and salaries	58.6	58.2
Social security costs	7.2	7.6
Other pension costs	3.4	3.0
Share-based payments (note 16)	(0.4)	2.5
	68.8	**71.3**

(c) Key management remuneration

	2019 £m	2018 £m
Salaries and short-term employee benefits	3.4	2.8
Other pension costs	–	0.1
Share-based payments	0.1	1.1
	3.5	**4.0**

Key management comprises the Executive Leadership 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

	2019 £m	2018 £m
Salaries and short-term employee benefits	1.9	2.0
Payments to Directors for loss of office	0.5	0.3
Other pension costs	–	0.1
Share-based payments	0.2	0.7
	2.6	3.1

During the year £0.1m (2018: nil) of accrued payments to Directors for loss of office were written back as the amount was no longer required.

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 81 to 101.

7 FINANCE INCOME AND EXPENSE

	2019 £m	2018 £m
Finance income		
Interest income	1.3	1.8
Interest on amounts due from joint ventures	2.1	0.4
Interest on financial assets at fair value through profit and loss (note 14)	0.2	0.8
	3.6	**3.0**
Finance expense		
Interest on bank loans	10.0	10.7
Revolving credit facility issue costs	0.7	0.7
Interest on deferred land payables	3.5	3.0
Net interest on defined benefit pension plan obligations (note 16)	0.4	0.6
	14.6	**15.0**
Net finance expense	**11.0**	**12.0**

8 INCOME TAX EXPENSE

	2019 £m	2018 (Restated[1]) £m
Current tax		
UK corporation tax on profits for the year	17.8	28.3
Adjustments in respect of prior periods	(0.2)	(0.6)
Total current tax	17.6	27.7
Deferred tax		
Origination and reversal of temporary differences in the current year	2.6	4.4
Total deferred tax (note 15)	**2.6**	**4.4**
Total tax in consolidated income statement	**20.2**	**32.1**

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

The effective tax rate for the year is 19.7% (2018: 19.0%), which is higher than (2018: the same as) the standard rate of UK corporation tax of 19.0% (2018: 19.0%). The Group expects this profile to continue in future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

8 INCOME TAX EXPENSE CONTINUED

	2019 £m	2018 (Restated[1]) £m
Reconciliation of tax charge in the year		
Profit before tax	102.7	168.7
Tax on profit at 19.0% (2018: 19.0%)	19.5	32.1
Effects of:		
Expenses not deductible for tax purposes	1.4	1.2
Enhanced tax deductions	(0.5)	(0.6)
Adjustments in respect of prior periods	(0.2)	(0.6)
Total tax in consolidated income statement	**20.2**	**32.1**

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

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.

9 DIVIDENDS

	2019 £m	2018 £m
Dividends recognised as distributions to equity shareholders in the year:		
Prior year final dividend per share of 21.8p (2018: 21.8p)	56.0	56.0
Current year interim dividend per share of 11.2p (2018: 11.2p)	28.7	28.7
	84.7	**84.7**

	2019 £m	2018 £m
Dividends declared as distributions to equity shareholders in the year:		
Final dividend for the year ended 31 October 2019 of 21.8p (2018: 21.8p)	56.0	56.0

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 24 March 2020, 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.

10 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 31 October 2019 – Total			
Basic earnings per share	82.5	256,630,910	32.1
Dilutive effect of share options	–	456,142	
Diluted earnings per share	**82.5**	**257,087,052**	**32.1**
Year ended 31 October 2019 – Pre-exceptional items			
Basic earnings per share	97.4	256,630,910	38.0
Dilutive effect of share options	–	456,142	
Diluted earnings per share	**97.4**	**257,087,052**	**37.9**
Year ended 31 October 2018 (Restated[1])			
Basic earnings per share	136.6	256,199,678	53.3
Dilutive effect of share options	–	1,508,898	
Diluted earnings per share	**136.6**	**257,708,576**	**53.0**

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

11 INTANGIBLE ASSETS

	2019 £m	2018 £m
Goodwill		
Cost at beginning and end of the year	47.7	47.7
Accumulated impairment	(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 24 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 8.50% (2018: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12 PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings £m	Computer equipment and software £m	Total £m
Cost			
At 1 November 2017	2.1	7.1	9.2
Additions	0.1	2.4	2.5
Disposals	–	(0.2)	(0.2)
At 31 October 2018	2.2	9.3	11.5
Additions	–	3.8	3.8
At 31 October 2019	**2.2**	**13.1**	**15.3**
Accumulated depreciation			
At 1 November 2017	0.4	4.6	5.0
Charge for the year	0.2	1.7	1.9
Disposals	–	(0.2)	(0.2)
At 31 October 2018	0.6	6.1	6.7
Charge for the year	0.4	2.1	2.5
At 31 October 2019	**1.0**	**8.2**	**9.2**
Net book value			
At 31 October 2019	**1.2**	**4.9**	**6.1**
At 31 October 2018	1.6	3.2	4.8
At 1 November 2017	1.7	2.5	4.2

The Group has contractual commitments for the acquisition of property, plant and equipment of £nil (2018: £nil).

13 INVESTMENTS

Investments in joint ventures

Below are the joint ventures that the Directors consider to be material to the Group.

- Crest Sovereign (Brooklands) LLP: In April 2019 the Group entered into a partnership agreement with Sovereign Housing Association Limited to develop a site in Bristol. The LLP commenced construction in 2019, with sales completion forecast for 2026. 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.
- 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. The LLP is forecast to start construction in 2020, with sales completion forecast for 2024. 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 commenced construction in 2019, with sales completion forecast for 2025. 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.
- Elmsbrook (Crest A2D) LLP: In July 2017 the Group entered into a partnership agreement with A2 Dominion Limited to procure and develop a site in Oxfordshire. The LLP commenced construction in 2018, with sales completion forecast for 2023. 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	2019 £m	2018 (Restated[1]) £m
Crest Sovereign (Brooklands) LLP	–	–
Bonner Road LLP	–	–
Crest A2D (Walton Court) LLP	0.8	0.8
Elmsbrook (Crest A2D) LLP	1.1	0.2
Other non-material joint ventures	0.1	0.3
Total investments in joint ventures	**2.0**	**1.3**

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

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. See note 30 for further details.

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.

2019	Crest Sovereign (Brooklands) LLP £m	Bonner Road LLP £m	Crest A2D (Walton Court) LLP £m	Elmsbrook (Crest A2D) LLP £m	Other non-material joint ventures £m	Total £m
Summarised statement of financial position						
Current assets						
Cash and cash equivalents	1.5	–	0.3	2.5	1.5	5.8
Inventories	37.0	59.0	30.2	11.4	–	137.6
Other current assets	0.3	–	6.0	0.8	0.3	7.4
Current liabilities						
Financial liabilities	(2.8)	–	(1.5)	(9.6)	(0.7)	(14.6)
Other current liabilities	(0.8)	(0.1)	(3.5)	(3.0)	(0.9)	(8.3)
Non-current liabilities						
Financial liabilities	(36.2)	(68.0)	(29.9)	–	–	(134.1)
Net (liabilities)/assets	**(1.0)**	**(9.1)**	**1.6**	**2.1**	**0.2**	**(6.2)**
Reconciliation to carrying amounts						
Opening net (liabilities)/assets at 1 November 2018	–	(6.5)	1.6	0.3	0.6	(4.0)
(Loss)/profit for the year	(1.0)	(2.6)	0.5	1.8	(0.4)	(1.7)
Capital contribution reserve	–	–	(0.5)	–	–	(0.5)
Closing net (liabilities)/assets at 31 October 2019	**(1.0)**	**(9.1)**	**1.6**	**2.1**	**0.2**	**(6.2)**
Group's share in closing net (liabilities)/assets at 31 October 2019	(0.5)	(4.6)	0.8	1.1	0.1	(3.1)
Losses recognised against receivable from joint venture	0.5	4.6	–	–	–	5.1
Group's share in joint venture	**–**	**–**	**0.8**	**1.1**	**0.1**	**2.0**
Amount due to Crest Nicholson Group (note 17)	19.7	26.4[1]	9.7	4.8	0.7	61.3
Amount due from Crest Nicholson Group (note 21)	–	–	4.8	–	0.1	4.9
Summarised income statement						
Revenue	–	–	5.7	11.2	–	16.9
Expenditure	–	(0.1)	(4.5)	(9.4)	(0.4)	(14.4)
Operating (loss)/profit before financing expense	–	(0.1)	1.2	1.8	(0.4)	2.5
Finance expense	(1.0)	(2.5)	(0.7)	–	–	(4.2)
Pre-tax and post-tax (Loss)/profit for the year	**(1.0)**	**(2.6)**	**0.5**	**1.8**	**(0.4)**	**(1.7)**
Group's share in joint venture (loss)/profit for the year	**(0.5)**	**(1.3)**	**0.2**	**0.9**	**(0.2)**	**(0.9)**

1 Stated after expected credit loss of £3.2m. See note 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

13 INVESTMENTS CONTINUED

2018	Bonner Road LLP £m	Crest A2D (Walton Court) LLP £m	Elmsbrook (Crest A2D) LLP (Restated[1]) £m	Other non-material joint ventures £m	Total (Restated[1]) £m
Summarised statement of financial position					
Current assets					
Cash and cash equivalents	0.9	0.3	1.3	2.2	4.7
Inventories	58.2	23.9	7.2	–	89.3
Other current assets	0.1	–	0.8	0.6	1.5
Non-current assets	–	–	–	0.1	0.1
Current liabilities					
Financial liabilities	–	(2.3)	–	(0.2)	(2.5)
Other current liabilities	(0.2)	(0.4)	(2.2)	(2.1)	(4.9)
Non-current liabilities					
Financial liabilities	(65.5)	(19.9)	(6.8)	–	(92.2)
Net (liabilities)/assets	**(6.5)**	**1.6**	**0.3**	**0.6**	**(4.0)**
Reconciliation to carrying amounts					
Opening net (liabilities)/assets at 1 November 2017	(4.2)	1.4	–	2.1	(0.7)
(Loss)/profit for the year	(2.3)	(0.7)	0.3	0.1	(2.6)
Dividends paid	–	–	–	(1.6)	(1.6)
Capital contribution reserve	–	0.9	–	–	0.9
Closing net (liabilities)/assets at 31 October 2018	**(6.5)**	**1.6**	**0.3**	**0.6**	**(4.0)**
Group's share in closing net (liabilities)/assets at 31 October 2018	(3.3)	0.8	0.2	0.3	(2.0)
Losses recognised against receivable from joint venture	3.3	–	–	–	3.3
Group's share in joint venture	**–**	**0.8**	**0.2**	**0.3**	**1.3**
Amount due to Crest Nicholson Group (note 17)	29.6	11.1	3.6	0.2	44.5
Summarised income statement					
Revenue	–	–	1.9	–	1.9
Expenditure	–	–	(1.5)	0.1	(1.4)
Operating profit before financing expense	–	–	0.4	0.1	0.5
Finance expense	(2.3)	(0.7)	–	–	(3.0)
Pre-tax and post-tax (loss)/profit for the year	**(2.3)**	**(0.7)**	**0.4**	**0.1**	**(2.5)**
Group's share in joint venture (loss)/profit for the year	**(1.2)**	**(0.4)**	**0.2**	**0.1**	**(1.3)**

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

Group commitments to joint ventures at 31 October 2019 and 31 October 2018 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 30.

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS[1]

	2019 £m	2018 £m
At beginning of the year	10.5	14.9
Disposals	(3.5)	(5.2)
Imputed interest	0.2	0.8
At end of the year	**7.2**	**10.5**
Of which:		
Non-current assets	6.2	7.2
Current assets	1.0	3.3
	7.2	**10.5**

1 IFRS 9 changed the presentation in the consolidated statement of financial position, reclassifying other financial assets to financial assets at fair value through profit and loss.

Financial assets at fair value through profit and loss (FVTPL) 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.

FVTPL 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.

	2019	2018
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

	2019 Increase assumptions by 1 %/year £m	2019 Decrease assumptions by 1 %/year £m
Sensitivity – effect on value of FVTPL (less)/more		
Discount rate, incorporating default rate	(0.2)	0.2
House price inflation for the next three years	–	(0.1)
Timing of receipt	(0.3)	0.4

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 31 October 2019 was £0.2m (2018: £0.8m).

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 income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

15 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 1 November 2017	7.4	1.9	1.3	0.5	11.1
Consolidated income statement movements	(2.2)	(0.4)	(1.1)	(0.2)	(3.9)
Equity movement	–	(1.0)	(0.2)	–	(1.2)
At 31 October 2018	5.2	0.5	–	0.3	6.0
Consolidated income statement movements	(1.6)	(0.5)	(1.7)	1.2	(2.6)
Equity movements	–	0.2	2.8	–	3.0
At 31 October 2019	**3.6**	**0.2**	**1.1**	**1.5**	**6.4**

Deferred tax liabilities	Pension surplus £m	Total £m
At 1 November 2017	–	–
Consolidated income statement movements	(0.5)	(0.5)
At 31 October 2018	(0.5)	(0.5)
Equity movements	0.5	0.5
At 31 October 2019	**–**	**–**

Deferred tax expected to be recovered or settled in less than 12 months is £1.7m (2018: £1.1m), and in more than 12 months is £4.7m (2018: £4.4m).

At the consolidated statement of financial position date the substantively enacted future corporation tax rate for FY20 and beyond is 17.0%. The deferred tax assets have been evaluated at the rates at which they are expected to reverse based on current forecasts (accounting period ends: 31 October 2020: 17.83% and 31 October 2021 and subsequent: 17.0%). 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.

16 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 £3.1m (2018: £2.6m). At the consolidated statement of financial position date there were no outstanding or prepaid contributions (2018: £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 30 April 2010. Accrued pensions in relation to deferred members are revalued at statutory revaluation in the period before retirement. Benefits also increase either at a fixed rate or in line with inflation while in payment. 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 31 January 2018. The actuarial valuation was 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 results of the actuarial valuation as at 31 January 2018 have been projected to 31 October 2019 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 31 October 2019, the allocation of the Scheme's invested assets was 59% in return seeking investments, 18% in corporate bonds, 22% in index linked gilts and 1% 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 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.

	2019 £m	2018 £m	2017 £m
The amounts recognised in the consolidated statement of financial position are as follows:			
Present value of scheme liabilities	(216.5)	(195.4)	(202.5)
Fair value of scheme assets	210.3	197.9	195.3
Net amount recognised at year end (deficit)/surplus	**(6.2)**	**2.5**	**(7.2)**

The retirement benefit (obligation)/surplus recognised in the consolidated statement of financial position represents the (deficit)/surplus 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 asset of £1.1m (2018: deferred tax liability £0.5m) 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 (liability)/asset are included in other comprehensive income.

	2019 £m	2018 £m
Administration expenses	(0.6)	(0.5)
Net interest income/(expense)	0.2	(0.1)
Expense recognised in the consolidated income statement	**(0.4)**	**(0.6)**

	2019 £m	2018 £m
Remeasurements of the net (liability)/asset		
Return on Scheme assets	4.4	(5.9)
(Loss)/gain arising from changes in financial assumptions	(24.5)	1.7
Gain arising from changes in demographic assumptions	2.4	1.1
Experience gain	0.4	4.4
(Loss)/gain recorded in the consolidated statement of comprehensive income	**(17.3)**	**1.3**
Total defined benefit scheme (loss)/gain	**(17.7)**	**0.7**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16 EMPLOYEE BENEFITS CONTINUED

(a) Retirement benefit surplus continued

	2019 %	2018 %
The principal actuarial assumptions used were:		
Liability discount rate	1.95	2.80
Inflation assumption – RPI	3.15	3.40
Inflation assumption – CPI	2.35	2.60
Revaluation of deferred pensions	2.35	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	3.05	3.25
Proportion of employees commuting pension for cash	100.0	100.0
Mortality assumption – pre-retirement	AC00	AC00
Mortality assumption – male post-retirement	SAPS S2 PMA _LCMI_2017 with smoothing parameter of 8.0 ltr 1.25%	SAPS S2 PMA _LCMI_2017 with smoothing parameter of 8.0 ltr 1.5%
Mortality assumption – female post-retirement	SAPS S2 PFA_LCMI_2017 with smoothing parameter of 8.0 ltr 1.25%	SAPS S2 PFA_LCMI_2017 with smoothing parameter of 8.0 ltr 1.5%

	2019 Years	2018 Years
Future expected lifetime of current pensioner at age 65		
Male aged 65 at year end	23.5	23.6
Female aged 65 at year end	24.5	24.6
Future expected lifetime of future pensioner at age 65		
Male aged 45 at year end	24.8	25.2
Female aged 45 at year end	26.0	26.4

Changes in the present value of assets over the year

	2019 £m	2018 £m
Fair value of assets at beginning of the year	197.9	195.3
Interest income	5.6	5.4
Return on assets (excluding amount included in net interest expense)	4.4	(5.9)
Contributions from the employer	9.0	9.0
Benefits paid	(6.0)	(5.4)
Administration expenses	(0.6)	(0.5)
Fair value of assets at end of the year	**210.3**	**197.9**

Changes in the present value of liabilities over the year

	2019 £m	2018 £m
Liabilities at beginning of the year	(195.4)	(202.5)
Interest cost	(5.4)	(5.5)
Remeasurement (losses)/gains		
(Loss)/gain arising from changes in financial assumptions	(24.5)	1.7
Gain arising from changes in demographic assumptions	2.4	1.1
Experience gains	0.4	4.4
Benefits paid	6.0	5.4
Liabilities at end of the year	**(216.5)**	**(195.4)**

The split of the Scheme's liabilities by category of membership is as follows:

	2019 £m	2018 £m
Deferred pensioners	(123.4)	(107.1)
Pensions in payment	(93.1)	(88.3)
	(216.5)	**(195.4)**

	2019 Years	2018 Years
Average duration of the Scheme's liabilities at the end of the year	17.0	17.0
This can be subdivided as follows:		
Deferred pensioners	21.0	21.0
Pensions in payment	12.0	12.0

The major categories of scheme assets are as follows:

	2019 £m	2018 £m
Return seeking		
Overseas equities	14.0	13.1
Other (hedge funds, multi-strategy and absolute return funds)	105.9	91.7
	119.9	**104.8**
Debt instruments		
Corporates	36.1	30.4
Index linked	44.9	40.9
	81.0	**71.3**
Other		
Cash	1.7	14.2
Insured annuities	7.7	7.6
	9.4	**21.8**
Total market value of assets	**210.3**	**197.9**

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 31 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, 30 June 2022 or the Scheme meeting its funding objective on a self-sufficiency basis. The Group expects to contribute £9.0m (2019: £9.0m) to scheme funding in the year ending 31 October 2020.

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 £8.9m (increase by £9.5m) if all the other assumptions remained unchanged.

If the inflation assumption was 0.25% higher/(lower), the Scheme liabilities would increase by £5.2m (decrease by £4.9m) if all the other assumptions remained unchanged.

If life expectancies were to increase by one year, the scheme liabilities would increase by £10.6m if all the other assumptions remained unchanged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16 EMPLOYEE BENEFITS CONTINUED

(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

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	27 Feb 2015	26 Feb 2016	28 Feb 2017	28 Feb 2018	22 Mar 2018	16 April 2019	21 June 2019
Options granted	1,270,176	1,075,943	1,266,364	1,112,762	150,898	1,140,962	278,558
Fair value at measurement date	£4.02	£5.07	£4.67	£3.89	£3.67	£3.15	£3.15
Share price on date of grant	£4.45	£5.62	£5.41	£4.76	£4.54	£4.00	£3.55
Exercise price	£0.00	£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	3 years
Expected dividend yield	3.20%	3.50%	5.09%	6.93%	7.27%	8.20%	8.20%
Expected volatility	30.00%	30.00%	45.00%	35.00%	35.00%	35.00%	35.00%
Risk free interest rate	0.86%	0.43%	0.14%	0.84%	0.92%	0.81%	0.81%
Valuation model	Binomial	Binomial	Binomial	Binomial	Binomial	Binomial	Binomial
Contractual life from	27 Feb 2015	26 Feb 2016	28 Feb 2017	28 Feb 2018	22 Mar 2018	16 April 2019	21 June 2019
Contractual life to	26 Feb 2025	25 Feb 2026	27 Feb 2027	27 Feb 2028	21 Mar 2028	15 April 2029	20 June 2029

	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
Movements in the year								
Outstanding at 1 November 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 31 October 2018	**5,358**	**852,689**	**938,290**	**890,900**	**150,898**	**–**	**–**	**2,838,135**
Granted during the year	–	–	–	–	–	1,140,962	278,558	1,419,520
Exercised during the year	(5,358)	(198,170)	–	–	–	–	–	(203,528)
Lapsed during the year	–	(653,001)	(218,443)	(133,935)	(150,898)	(79,713)	–	(1,235,990)
Outstanding at 31 October 2019	**–**	**1,518**	**719,847**	**756,965**	**–**	**1,061,249**	**278,558**	**2,818,137**
Exercisable at 31 October 2019	**–**	**1,518**	**–**	**–**	**–**	**–**	**–**	**1,518**
Exercisable at 31 October 2018	5,358	–	–	–	–	–	–	5,358

	£m	£m	£m	£m	£m	£m	£m	Total £m
Credit to income for the current year	**–**	**–**	**(1.0)**	**(0.2)**	**–**	**–**	**–**	**(1.2)**
Charge to income for the prior year	0.4	0.6	0.2	0.2	–	–	–	1.4

The weighted average exercise price of LTIP options was £nil (2018: £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	1 Jun 2018
Options granted	10,000
Fair value at measurement date	£0.00
Share price on date of grant	£4.40
Exercise price	£0.00
Vesting period	2 years
Expected dividend yield	N/A
Expected volatility	N/A
Risk free interest rate	N/A
Valuation model	N/A
Contractual life from	1 June 2018
Contractual life to	31 May 2028

Movements in the year	Number of options	Total number of options
Outstanding at 1 November 2017	**–**	**–**
Granted during the year	10,000	10,000
Outstanding at 31 October 2018	**10,000**	**10,000**
Lapsed during the year	(10,000)	(10,000)
Outstanding at 31 October 2019	**–**	**–**
Exercisable at 31 October 2019	**–**	**–**
Exercisable at 31 October 2018	–	–

	£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 (2018: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16 EMPLOYEE BENEFITS CONTINUED

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	15 Jul 2014	16 Jul 2015	1 Aug 2016	3 Aug 2017	26 Jul 2018	30 Jul 2019
Options granted	569,998	257,264	1,208,742	453,663	712,944	935,208
Fair value at measurement date	£0.70	£1.03	£1.11	£1.06	£0.52	£0.54
Share price on date of grant	£3.44	£5.63	£3.56	£5.41	£3.77	£3.68
Exercise price	£2.76	£4.51	£2.86	£4.20	£3.15	£2.86
Vesting period	3 years	3 years	3 years	3 years	3 years	3 years
Expected dividend yield	2.50%	3.00%	4.80%	5.10%	8.76%	8.96%
Expected volatility	28.90%	29.00%	45.00%	35.00%	35.00%	35.00%
Risk free interest rate	1.61%	1.16%	0.19%	0.30%	0.85%	0.38%
Valuation model	Binomial	Binomial	Binomial	Binomial	Binomial	Binomial
Contractual life from	1 Aug 2014	1 Aug 2015	1 Sep 2016	1 Sep 2017	1 Sep 2018	1 Sep 2019
Contractual life to	1 Feb 2018	1 Feb 2019	1 Mar 2020	1 Mar 2021	1 Mar 2022	1 Mar 2023

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 1 November 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 31 October 2018	**–**	**70,821**	**874,001**	**223,732**	**681,751**	**–**	**1,850,305**	**£3.19**
Granted during the year	–	–	–	–	–	935,208	935,208	£2.86
Exercised during the year	–	–	(667,791)	–	–	–	(667,791)	£2.86
Lapsed during the year	–	(70,821)	(95,277)	(76,150)	(230,370)	(29,888)	(502,506)	£3.43
Outstanding at 31 October 2019	**–**	**–**	**110,933**	**147,582**	**451,381**	**905,320**	**1,615,216**	**£3.06**
Exercisable at 31 October 2019	**–**	**–**	**110,933**	**–**	**–**	**–**	**110,933**	**–**
Exercisable at 31 October 2018	–	70,821	–	–	–	–	70,821	–

	£m	£m	£m	£m	£m	£m	Total £m
(Credit)/charge to income for the current year	**–**	**(0.1)**	**0.2**	**(0.1)**	**0.1**	**–**	**0.1**
Charge to income for the prior year	–	–	0.3	–	0.1	–	0.4

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	27 Feb 2015	26 Feb 2016	28 Feb 2017	28 Feb 2018	28 Feb 2018	28 Feb 2018	26 Feb 2019	28 Feb 2019	28 Feb 2019
Options granted	257,219	140,185	133,761	17,720	2,457	188,122	16,040	4,012	50,676
Fair value at measurement date	£4.45	£5.62	£5.41	£5.04	£5.04	£4.89	£3.91	£3.91	£3.95
Share price on date of grant	£4.45	£5.62	£5.41	£5.04	£5.04	£4.89	£3.91	£3.91	£3.95
Exercise price	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
Vesting period	1/3 years	1/3 years	1/3 years	3 year	1 year	1/3 years	3 year	1 year	1 year
Expected dividend yield and volatility	N/A	N/A	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	N/A	N/A
Valuation model	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contractual life from	27 Feb 2015	26 Feb 2016	28 Feb 2017	28 Feb 2018	28 Feb 2018	28 Feb 2018	26 Feb 2019	28 Feb 2019	28 Feb 2019
Contractual life to	26 Feb 2025	25 Feb 2026	27 Feb 2027	26 Feb 2025	27 Feb 2027	27 Feb 2028	25 Feb 2029	27 Feb 2029	27 Feb 2029

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	Number of options	Number of options	Total number of options
Outstanding at 1 November 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 31 October 2018	**–**	**83,252**	**89,897**	**–**	**–**	**186,773**	**–**	**–**	**–**	**359,922**
Granted during the year	–	–	–	–	–	–	16,040	4,012	50,676	70,728
Exercised during the year	–	(83,252)	–	–	–	(50,951)	(16,040)	(4,012)	–	(154,255)
Lapsed during the year	–	–	(5,793)	–	–	–	–	–	(18,816)	(24,609)
Outstanding at 31 October 2019	**–**	**–**	**84,104**	**–**	**–**	**135,822**	**–**	**–**	**31,860**	**251,786**
Exercisable at 31 October 2019	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Exercisable at 31 October 2018	–	–	–	–	–	–	–	–	–	–

	£m	£m	£m	£m	£m	£m	£m	£m	£m	Total £m
Charge to income for the current year	**–**	**–**	**0.1**	**–**	**–**	**0.3**	**–**	**–**	**0.1**	**0.5**
Charge to income for the prior year	–	0.1	0.2	0.1	–	0.3	–	–	–	0.7

The weighted average exercise price of deferred bonus plan share options was £nil (2018: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16 EMPLOYEE BENEFITS CONTINUED

Total share incentive schemes

	2019 Number of options	2018 Number of options
Movements in the year		
Outstanding at beginning of the year	5,058,362	5,027,450
Granted during the year	2,425,456	2,194,903
Exercised during the year	(1,025,574)	(1,160,902)
Lapsed during the year	(1,773,105)	(1,003,089)
Outstanding at end of the year	**4,685,139**	**5,058,362**
Exercisable at end of the year	**112,451**	**76,179**

	£m	£m
(Credit)/charge to income for the year	(0.4)	2.5

The weighted average share price at the date of exercise of share options exercised during the year was £3.69 (2018: £4.77). The options outstanding had a range of exercise prices of £nil to £4.20 (2018: £nil to £4.51) and a weighted average remaining contractual life of 6.6 years (2018: 6.0 years). The gain on shares exercised during the year was £1.9m (2018: £5.4m). Included within the credit to income for the year is a charge of £0.2m relating to options to be issued to Peter Truscott.

17 TRADE AND OTHER RECEIVABLES

	2019 £m	2018 (Restated[1]) £m
Non–current		
Trade receivables	5.2	18.3
Loss allowance on trade receivables	(0.2)	–
Due from joint ventures	56.7	40.7
Loss allowance on amounts due from joint ventures	(3.2)	–
	58.5	**59.0**
Current		
Trade receivables	56.4	54.9
Contract assets[2]	70.0	38.1
Due from joint ventures	7.8	3.8
Other receivables	7.6	8.9
Prepayments and accrued income	3.5	4.2
	145.3	109.9

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

2 Contract assets in the prior year were presented as amounts recoverable on contracts, in accordance with IFRS 15.

Current trade receivables of £17.2m have been collected as of 3 January 2020 (2018: £16.7m collected as of 4 January 2019). The remaining balance is due according to contractual terms. 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 £8.1m (2018: £4.1m).

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 four (2018: three) joint venture developments which are being project managed by the Group and are repayable according to contractual arrangements. Amounts due from joint ventures are stated net of losses of £5.1m (2018: £3.3m). See note 13 for additional details on the Group's interests in joint ventures.

Non-current amounts due from joint ventures are stated after an allowance of £3.2m has been made (2018: £nil) in respect of expected credit losses. £3.2m (2018: £nil) provision was made during the year, £nil (2018: £nil) was utilised, and, £nil (2018: £nil) provision was released during the year.

Current trade and other receivables are stated after an allowance of £0.2m (2018: £nil) has been made in respect of expected credit losses. £0.2m (2018: £nil) provision was made during the year, £nil (2018: £nil) was utilised, and, £nil (2018: £nil) provision was released during the year.

Contract assets are recoverable according to contractual terms and the expected credit loss is considered immaterial. See note 3 for further details.

The maturity of non-current receivables is as follows:

	2019 £m	2018 £m
Due between one and two years	9.3	24.0
Due between two and five years	49.2	34.8
Due after five years	–	0.2
	58.5	**59.0**

18 INVENTORIES

	2019 £m	2018 (Restated[1]) £m
Work in progress	917.2	1,011.2
Completed buildings including show homes	207.1	168.1
Part exchange inventories	26.8	33.9
	1,151.1	**1,213.2**

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

Included within inventories is a fair value adjustment of £16.5m (2018: £24.6m) 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 £8.1m (2018: £10.7m). Total inventories of £843.5m (2018: £857.6m) were recognised as cost of sales in the year. Total inventories are stated net of a net realisable value provision of £7.8m (2018: £0.8m), mainly relating to legacy London sites where the market conditions have been more challenging.

19 MOVEMENT IN NET CASH/(DEBT)

	2019 £m	Movement £m	2018 £m
Cash and cash equivalents	170.6	(13.7)	184.3
Bank loans, senior loan notes and other loans	(133.4)	36.8	(170.2)
Net cash	**37.2**	**23.1**	**14.1**

20 INTEREST-BEARING LOANS AND BORROWINGS

	2019 £m	2018 £m
Non-current		
Revolving credit facility	35.0	70.0
Senior loan notes	100.0	100.0
Revolving credit and senior loan notes issue costs	(3.5)	(3.6)
Other loans	–	1.9
	131.5	**168.3**
Current		
Other loans	**1.9**	**1.9**

There were undrawn amounts of £215.0m (2018: £180.0m) under the revolving credit facility at the consolidated statement of financial position date. During the year the Group repaid £35.0m under the revolving credit facility on the same terms and conditions. See note 24 for additional disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21 TRADE AND OTHER PAYABLES

	2019 £m	2018 (Restated[1]) £m
Non-current		
Land payables on contractual terms	125.3	123.3
Contract liabilities	1.6	–
Other payables	4.9	6.5
Accruals	17.6	13.5
	149.4	**143.3**
Current		
Land payables on contractual terms	91.2	86.4
Other trade payables	38.7	38.0
Contract liabilities[2]	32.0	69.7
Due to joint ventures	4.9	–
Taxes and social security costs	5.5	2.9
Other payables	6.2	11.0
Accruals	234.4	213.4
	412.9	**421.4**

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

2 Contract liabilities in the prior year were presented as payments on account, in accordance with IFRS 15.

Land payables are recognised from the date of unconditional exchange of contracts, and represents amounts due to land vendors for development sites acquired. All land payables are due according to contractual terms. Where land is purchased on deferred settlement terms then the land and the land payable are discounted to their fair value using the effective interest method in accordance with IFRS 9. The difference between the fair value and the nominal value is amortised over the deferment period, with the financing element being charged as interest expense through the consolidated income statement. At 31 October 2019 the difference between the fair value and nominal value of non-current land payables is £6.0m (2018: £7.5m).

Contract liabilities represent payments on account received from customers in excess of billable work in progress on affordable and other sales in bulk on contracts in which revenue is recognised over time. Based on historical trends, management expects a significant proportion of the contract liabilities total to be recognised as revenue in the next reporting period. Amounts due to joint ventures is interest free and repayable on demand. See note 13 for additional details on the Group's interests in joint ventures.

Other trade payables mainly comprise amounts due to suppliers and subcontractors retentions. Suppliers are settled according to agreed payment terms and subcontractor retentions are released once the retention condition has been satisfied.

Accruals are mainly work in progress related where work has been performed but not yet invoiced.

22 PROVISIONS

	Combustible materials 2019 £m	Commercial properties 2019 £m	Other provisions 2019 £m	Total 2019 £m	Commercial properties 2018 £m	Other provisions 2018 £m	Total 2018 £m
At beginning of the year	–	2.2	0.4	2.6	3.5	–	3.5
Provided in the year	18.4	–	1.5	19.9	–	0.4	0.4
Utilised in the year	(3.8)	(0.9)	(0.5)	(5.2)	(1.3)	–	(1.3)
Released in the year	–	(0.5)	(0.1)	(0.6)	–	–	–
At end of the year	**14.6**	**0.8**	**1.3**	**16.7**	**2.2**	**0.4**	**2.6**
Of which:							
Non-current	11.0	–	0.8	11.8	0.9	–	0.9
Current	3.6	0.8	0.5	4.9	1.3	0.4	1.7
	14.6	**0.8**	**1.3**	**16.7**	**2.2**	**0.4**	**2.6**

The Group has recorded a combustible materials exceptional charge in the year of £18.4m (2018: £nil), of which £14.6m (2018: £nil) is remaining as a provision at year end. The Group expects to utilise £3.6m of the remaining provision within one year, and the balance within two to five years. See note 4 for additional details.

Commercial properties reflect 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 dilapidations on Group offices and loss of office provisions for former Executives. In the prior year the provisions mainly relates to a loss of office provision for the former Group Finance Director.

23 SHARE CAPITAL

	Shares issued Number	Nominal value Pence	Share capital £	Share premium account £
Ordinary shares as at 31 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 31 October 2018 and 31 October 2019	**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 342,560,719 (2018: 341,049,337).

During the prior 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**

For details of outstanding share options at 31 October 2019 see note 16.

Own shares held

The Group and Company holds shares within the Crest Nicholson Employee Share Ownership Trust (the 'Trust') for participants of certain share-based payment schemes. These are held within retained earnings. During the year 1,031,671 shares were purchased by the Trust for £3.8m (2018: nil shares, £nil cost) and the Trust transferred 1,025,574 (2018: nil) shares to employees and Directors to satisfy options as detailed in note 16. The number of shares held within the Trust (Treasury shares) and on which dividends have been waived, at 31 October 2019 was 144,410 (2018: 138,313). These shares are held within the financial statements at a cost of £0.5m (2018: £nil). The market value of these shares at 31 October 2019 was £0.6m (2018: £0.5m).

24 FINANCIAL RISK MANAGEMENT

The Group's financial instruments comprise cash, bank loans, senior loan notes, trade and other receivables, contract assets, financial assets at fair value through profit and loss 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 page 161, 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 £215.0m (2018: £180.0m) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

24 FINANCIAL RISK MANAGEMENT CONTINUED

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 £170.6m (2018: £184.3m) 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 2024, with £215.0m remaining available for drawdown under such facilities at 31 October 2019.

Financial assets at fair value through profit and loss, as described in note 14, of £7.2m (2018: £10.5m) 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 and contract assets 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 17. Amounts due from joint ventures of £61.3m (2018: £44.5m) is funding provided on four (2018: three) 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 £14.9m (2018: £11.2m) 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 17.

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 (2018: 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 31 October 2019:

2019	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	35.0	35.1	0.1	–	–	35.0
Senior loan notes	100.0	126.6	3.5	3.5	3.5	116.1
Other loans	1.9	1.9	1.9	–	–	–
Financial liabilities carrying interest	91.3	93.5	20.6	37.5	35.4	–
Financial liabilities carrying no interest	431.9	437.9	359.2	37.0	19.7	22.0
At 31 October 2019	**660.1**	**695.0**	**385.3**	**78.0**	**58.6**	**173.1**

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	–	–
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 31 October 2018	**665.9**	**706.5**	**359.3**	**75.3**	**63.5**	**208.4**

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 31 October 2019 it is estimated that an increase of 1% in interest rates applying for the full year would decrease the Group's PBT by £1.0m (2018: £1.4m).

At 31 October 2019, the interest rate profile of the financial liabilities of the Group was:

	2019 £m	2018 £m
Sterling bank borrowings, loan notes and long-term creditors		
Floating rate financial liabilities	36.9	73.8
Financial liabilities carrying interest	191.3	165.6
Financial liabilities carrying no interest	431.9	426.5
	660.1	**665.9**

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 38 months (2018: 40 months).

	2019 £m	2018 £m
The maturity of the financial liabilities is:		
Repayable within one year	377.3	350.7
Repayable between one and two years	72.1	68.4
Repayable between two and five years	144.5	145.5
Repayable after five years	66.2	101.3
	660.1	**665.9**

Fair Values

Financial assets

The Group's financial assets comprise cash equivalents, financial assets at fair value through profit and loss, trade and other receivables and contract assets. The carrying amounts of financial assets equate to their fair value. At 31 October 2019 cash equivalents consisted of sterling cash deposits of £170.6m (2018: £184.3m), with solicitors and on current account, £7.2m (2018: £10.5m) of financial assets at fair value through profit and loss, £139.0m (2018: £120.2m restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29) of trade, other receivables and contract assets, and £61.3m (2018: £44.5m) of amounts due from joint ventures. Financial assets at fair value through profit and loss 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, 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:

2019	Nominal interest rate	Face value £m	Carrying value £m	Fair value £m	Maturity
Revolving credit facility	3 mth LIBOR + 2.15%	35.0	35.0	35.0	2024
Senior loan notes	3.15% – 3.87%	100.0	100.0	100.0	2024–2029
Total non-current interest-bearing loans		**135.0**	**135.0**	**135.0**	
LIFF loans	EU reference rate + 2.2%	1.9	1.9	1.9	2020
Total current interest-bearing loans		**1.9**	**1.9**	**1.9**	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

24 FINANCIAL RISK MANAGEMENT CONTINUED

Fair Values continued

Financial liabilities continued

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**	

Financial assets and liabilities by category

	2019 £m	2018 (Restated[1]) £m
Financial assets		
Sterling cash deposits	170.6	184.3
Trade receivables	61.4	73.2
Amounts due from joint ventures	61.3	44.5
Contract assets[2]	70.0	38.1
Other receivables	7.6	8.9
Total cash equivalents and trade and other receivables	**370.9**	**349.0**
Financial assets at fair value through profit and loss	7.2	10.5
Total financial assets	**378.1**	**359.5**

1 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.

2 Contract assets in the prior year were presented as amounts recoverable on contracts.

	2019 £m	2018 £m
Financial liabilities		
Revolving credit facility	35.0	70.0
Senior loan notes	100.0	100.0
Other loans	1.9	3.8
Land payments on contractual terms carrying interest	91.3	65.6
Land payments on contractual terms carrying no interest	125.2	144.1
Amounts due to joint ventures	4.9	–
Other trade payables	38.7	38.0
Other payables	11.1	17.5
Accruals	252.0	226.9
Financial liabilities at amortised cost	**660.1**	**665.9**

25 CONTINGENCIES 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.

The Group has made a combustible materials provision in the year following the latest Government guidance notes. This provision is subject to Management estimates on costs and timing. The Group recognises that guidance in this area is evolving over time and that assumptions may require revising, resulting in a further cash outflow. The Group is reviewing the recoverability of costs incurred from third parties where we have a contractual right to recourse. No contingent assets have been recognised.

26 OPERATING LEASES

Outstanding commitments for future minimum lease payments under non-cancellable operating leases were:

	2019 £m	2018 £m
Land and buildings		
Within one year	1.8	2.5
Less: minimum sub-lease income	(0.2)	(0.4)
Between one and five years	4.1	4.8
Less: minimum sub-lease income	–	(0.1)
After five years	0.4	0.9
	6.1	**7.7**
Other		
Within one year	1.3	1.7
Between one and five years	0.9	2.1
	2.2	**3.8**

27 NET DEBT AND LAND CREDITORS

	2019 £m	2018 £m
Cash and cash equivalents	170.6	184.3
Non-current interest-bearing loans and borrowings	(131.5)	(168.3)
Current interest-bearing loans and borrowings	(1.9)	(1.9)
Land payments on contractual terms carrying interest	(91.3)	(65.6)
Land payments on contractual terms carrying no interest	(125.2)	(144.1)
Total net debt and land creditors	**(179.3)**	**(195.6)**

28 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 6. Detailed disclosure for Board members is given within the Directors' Remuneration Report. There were no other transactions between the Group and key management personnel in the year.

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 £nil (2018: £9.3m) and satisfied promissory notes of £nil (2018: £23.9m).

Stephen Stone, former Non-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 £0.1m (2018: £0.1m) and paid fees (mainly relating to warranty insurance costs on new homes built) to the NHBC of £2.9m (2018: £3.9m).

The Group had the following transactions with its joint ventures: (i) the Group received £2.1m (2018: £0.4m) interest on joint venture funding, (ii) the Group received £0.8m (2018: £0.9m) in project management fees, (iii) the amount of outstanding loans due to the Group from joint ventures was £61.3m (2018: £44.5m), (iv) the amount of outstanding loans due from the Group to joint ventures was £4.9m (2018: £nil), and, (v) the Group received a dividend in the prior year of £0.7m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

29 IMPACT OF CHANGES IN ACCOUNTING POLICIES

IFRS 15: Revenue from Contracts with Customers

IFRS 15: Revenue from Contracts with Customers sets out requirements for revenue recognition from contracts with customers, using a five-step model to apportion revenue to individual performance obligations within a contract. The Group has applied IFRS 15 from 1 November 2018 with comparative results being restated using the full retrospective transition method.

Adjustments in respect of purchasers' extras and freehold reversions

The Group previously did not recognise revenue on the disposal of freehold reversions being treated as a reduction in land cost. Under IFRS 15 freehold reversion disposals are treated as part of revenue when the purchaser is contractually entitled to the ground rent revenue stream associated with the units purchased. The Group previously did 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. Under IFRS 15 specification upgrades are treated as part of revenue.

Adjustments in respect of Land sales

The Group previously recognised revenue on land sales at unconditional exchange of contracts. Under IFRS 15 revenue is recognised when title passes to the buyer, which is the point at which the performance obligation is satisfied. The adjustments below relate to land transactions that were unconditionally exchanged at period end, but title had not been passed to the buyer, thus the sale would not be recognised as revenue in the reporting period under IFRS 15.

Adjustments in respect of revenue recognition on affordable and other sales in bulk

The Group previously recognised 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, which is the point at which the performance obligation is satisfied. Where freehold legal title and control 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.

Year ended 31 October 2018

Impact on Consolidated Income Statement	Year ended 31 October 2018 as previously reported £m	Adjustments in respect of purchasers' extras and freehold reversions £m	Adjustments in respect of land sales £m	Adjustments in respect of revenue recognition on affordable and other sales in bulk £m	Year ended 31 October 2018 as reported £m
Revenue	**1,136.1**	**15.4**	**(25.6)**	**(4.9)**	**1,121.0**
Cost of sales	(881.4)	(15.4)	18.8	3.9	(874.1)
Gross profit	**254.7**	**–**	**(6.8)**	**(1.0)**	**246.9**
Administrative expenses	(64.9)	–	–	–	(64.9)
Operating profit	**189.8**	**–**	**(6.8)**	**(1.0)**	**182.0**
Finance income	3.0	–	–	–	3.0
Finance expense	(15.0)	–	–	–	(15.0)
Net finance expense	(12.0)	–	–	–	(12.0)
Share of post-tax results of joint ventures	(1.4)	–	–	0.1	(1.3)
Profit before tax	176.4	–	(6.8)	(0.9)	168.7
Income tax expense	(33.6)	–	1.3	0.2	(32.1)
Profit for the year	**142.8**	**–**	**(5.5)**	**(0.7)**	**136.6**
Earnings per ordinary share					
Basic	55.7p	–	(2.1)	(0.3)	53.3
Diluted	55.4p	–	(2.1)	(0.3)	53.0

Impact on Consolidated Statement of Changes in Equity	Year ended 31 October 2018 as previously reported £m	Adjustments in respect of purchasers' extras and freehold reversions £m	Adjustments in respect of land sales £m	Adjustments in respect of revenue recognition on affordable and other sales in bulk £m	Year ended 31 October 2018 as reported £m
Balance at 1 November 2017	**817.8**	**–**	**(0.3)**	**0.6**	**818.1**
Profit for the year	142.8	–	(5.5)	(0.7)	136.6
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	–	(5.5)	(0.7)	137.7
Transactions with shareholders:					
Equity-settled share-based payments	2.5	–	–	–	2.5
Deferred tax on equity-settled share–based payments	(1.0)	–	–	–	(1.0)
Share capital issued	0.1	–	–	–	0.1
Dividends paid	(84.7)	–	–	–	(84.7)
Balance at 31 October 2018	**878.6**	**–**	**(5.8)**	**(0.1)**	**872.7**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

29 IMPACT OF CHANGES IN ACCOUNTING POLICIES CONTINUED

Impact on Consolidated Statement of Financial Position	Year ended 31 October 2018 as previously reported £m	Adjustments in respect of land sales £m	Adjustments in respect of revenue recognition on affordable and other sales in bulk £m	Year ended 31 October 2018 as reported £m
ASSETS				
Non-current assets				
Intangible assets	29.0	–	–	29.0
Property, plant and equipment	4.8	–	–	4.8
Investments in joint ventures	1.2	–	0.1	1.3
Other financial assets	7.2	–	–	7.2
Deferred tax assets	6.0	–	–	6.0
Retirement benefit surplus	2.5	–	–	2.5
Trade and other receivables	59.0	–	–	59.0
	109.7	**–**	**0.1**	**109.8**
Current assets				
Inventories	1,186.2	19.3	7.7	1,213.2
Other financial assets	3.3	–	–	3.3
Trade and other receivables	93.9	(0.4)	16.4	109.9
Cash and cash equivalents	184.3	–	–	184.3
	1,467.7	**18.9**	**24.1**	**1,510.7**
Total assets	**1,577.4**	**18.9**	**24.2**	**1,620.5**
LIABILITIES				
Non-current liabilities				
Interest-bearing loans and borrowings	(168.3)	–	–	(168.3)
Trade and other payables	(143.3)	–	–	(143.3)
Deferred tax liabilities	(0.5)	–	–	(0.5)
Retirement benefit obligations	–	–	–	–
Provisions	(0.9)	–	–	(0.9)
	(313.0)	**–**	**–**	**(313.0)**
Current liabilities				
Interest-bearing loans and borrowings	(1.9)	–	–	(1.9)
Trade and other payables	(371.0)	(26.0)	(24.4)	(421.4)
Current income tax liabilities	(11.2)	1.3	0.1	(9.8)
Provisions	(1.7)	–	–	(1.7)
	(385.8)	(24.7)	(24.3)	(434.8)
Total liabilities	**(698.8)**	**(24.7)**	**(24.3)**	**(747.8)**
Net assets	**878.6**	**(5.8)**	**(0.1)**	**872.7**
EQUITY				
Share capital	12.8	–	–	12.8
Share premium account	74.2	–	–	74.2
Retained earnings	791.6	(5.8)	(0.1)	785.7
Total equity	**878.6**	**(5.8)**	**(0.1)**	**872.7**
Included within trade and other receivables:				
Current contract assets	22.1	(0.4)	16.4	38.1
Included within trade and other payables:				
Current contract liabilities	(19.3)	(26.0)	(24.4)	(69.7)

Impact on Consolidated Cash Flow Statement	Year ended 31 October 2018 as previously reported £m	Adjustments in respect of land sales £m	Adjustments in respect of revenue recognition on affordable and other sales in bulk £m	Year ended 31 October 2018 as reported £m
Cash flows from operating activities				
Profit for the year attributable to equity shareholders	**142.8**	**(5.5)**	**(0.7)**	**136.6**
Adjustments for:				
Depreciation	1.9	–	–	1.9
Net finance expense	12.0	–	–	12.0
Share-based payment expense	2.5	–	–	2.5
Share of post-tax loss of joint ventures	1.4	–	(0.1)	1.3
Income tax expense	33.6	(1.3)	(0.2)	32.1
Operating profit before changes in working capital and provisions	**194.2**	**(6.8)**	**(1.0)**	**186.4**
Decrease/(increase) in trade and other receivables	2.5	0.4	(2.9)	–
Increase in inventories	(99.7)	(18.8)	(7.4)	(125.9)
Increase in trade and other payables	20.6	25.2	11.3	57.1
Contribution to retirement benefit obligations	(9.0)	–	–	(9.0)
Cash generated from operations	**108.6**	**–**	**–**	**108.6**
Interest paid	(10.3)	–	–	(10.3)
Taxation paid	(36.0)	–	–	(36.0)
Net cash generated from operating activities	**62.3**	**–**	**–**	**62.3**
Cash flows from investing activities				
Purchases of property, plant and equipment	(2.5)	–	–	(2.5)
Decrease in other financial assets	5.2	–	–	5.2
Dividends received from joint ventures	0.8	–	–	0.8
Interest received	0.4	–	–	0.4
Net cash inflow from investing activities	**3.9**	**–**	**–**	**3.9**
Cash flows from financing activities				
Repayment of bank and other borrowings	(1.9)	–	–	(1.9)
Proceeds from new loans	30.0	–	–	30.0
Debt arrangement and facility fees	(0.6)	–	–	(0.6)
Dividends paid	(84.7)	–	–	(84.7)
Net proceeds from the issue of shares	0.1	–	–	0.1
Net cash outflow from financing activities	**(57.1)**	**–**	**–**	**(57.1)**
Net increase in cash and cash equivalents	**9.1**	**–**	**–**	**9.1**
Cash and cash equivalents at the beginning of the period	175.2	–	–	175.2
Cash and cash equivalents at end of the period	**184.3**	**–**	**–**	**184.3**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30 GROUP UNDERTAKINGS

In accordance with s409 Companies Act 2006, the following is a list of all the Group's undertakings at 31 October 2019.

Subsidiary undertakings

At 31 October 2019 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	Voting rights and shareholding (direct or indirect)
Bartley Wood Management Services No.2 Limited	1	8	9	31 March	100%
Bath Riverside Estate Management Company Limited	2	8	10	31 October	100%
Bath Riverside Liberty Management Company Limited	2	8	10	31 October	100%
Block F3 Whitelands Park Limited	1	8	10	31 October	100%
Block L1-L3 Whitelands Park Limited	1	8	10	31 October	100%
Brenville Limited	1	8	10	31 October	100%
Brightwells Residential 1 Company Limited	1	8	10	31 October	100%
Brightwells Residential 2 Company Limited	1	8	10	31 October	100%
Bristol Parkway North Limited	1	8	10	31 October	100%
C N Nominees Limited	1	8	10	31 October	100%
Camberley Res No.1 Limited	1	8	10	31 October	100%
Camberley Res No.2 Limited	1	8	10	31 October	100%
Camberley Res No.3 Limited	1	8	10	31 October	100%
Camberley Res No.4 Limited	1	8	10	31 October	100%
Camberley Res No.5 Limited	1	8	10	31 October	100%
Cardiff Freeport Limited	1	8	10	31 October	100%
Castle Bidco plc[1]	1	8	9	31 October	100%
Clevedon Developments Limited	1	8	10	31 October	100%
Clevedon Investment Limited	1	8	9	31 October	100%
CN Properties Limited	1	8	10	31 October	100%
Crest (Claybury) Limited	1	8	10	31 October	100%
Crest (Napsbury) Limited	1	8	10	31 October	100%
Crest Construction Limited	1	8	10	31 October	100%
Crest Developments Limited	1	8	10	31 October	100%
Crest Estates Limited	1	8	10	31 October	100%
Crest Homes (Chiltern) Limited	1	8	10	31 October	100%
Crest Homes (Eastern) Limited	1	8	10	31 October	100%
Crest Homes (Midlands) Limited	1	8	10	31 October	100%
Crest Homes (Nominees) Limited	1	8	10	31 October	100%
Crest Homes (Nominees No. 2) Limited	1	8	9	31 October	100%
Crest Homes (Northern) Limited	1	8	10	31 October	100%
Crest Homes (South East) Limited	1	8	10	31 October	100%
Crest Homes (South West) Limited	1	8	10	31 October	100%
Crest Homes (South) Limited	1	8	10	31 October	100%
Crest Homes (Wessex) Limited	1	8	10	31 October	100%
Crest Homes (Westerham) Limited	1	8	10	31 October	100%
Crest Homes Limited	1	8	10	31 October	100%
Crest Homes Management Limited	1	8	10	31 October	100%
Crest Manhattan Limited	1	8	10	31 October	100%
Crest Nicholson (Bath Western) Limited	1	8	10	31 October	100%
Crest Nicholson (Bath) Holdings Limited	1	8	10	31 October	100%

1 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	Voting rights and shareholding (direct or indirect)
Crest Nicholson (Chiltern) Limited	1	8	10	31 October	100%
Crest Nicholson (Eastern) Limited	1	8	10	31 October	100%
Crest Nicholson (Epsom) Limited	1	8	10	31 October	100%
Crest Nicholson (Henley-on-Thames) Limited	1	8	9	31 October	100%
Crest Nicholson (Highlands Farm) Limited	1	8	10	31 October	100%
Crest Nicholson (Londinium) Limited	1	8	10	31 October	100%
Crest Nicholson (London) Limited	1	8	10	31 October	100%
Crest Nicholson (Midlands) Limited	1	8	10	31 October	100%
Crest Nicholson (Rainsford Road) Limited	1	8	10	31 October	100%
Crest Nicholson (South East) Limited	1	8	10	31 October	100%
Crest Nicholson (South West) Limited	1	8	10	31 October	100%
Crest Nicholson (South) Limited	1	8	10	31 October	100%
Crest Nicholson (Stotfold) Limited	1	8	9	31 October	100%
Crest Nicholson (Wainscott)	1	8	10	31 October	100%
Crest Nicholson (Wessex) Limited	1	8	10	31 October	100%
Crest Nicholson Developments (Chertsey) Limited	1	8	9	31 October	100%
Crest Nicholson Greenwich Limited	1	8	10	31 October	100%
Crest Nicholson Operations Limited	1	8	9	31 October	100%
Crest Nicholson Overseas Limited	1	8	10	31 October	100%
Crest Nicholson Pension Trustee Ltd	1	8	10	31 January	100%
Crest Nicholson plc	1	8	9	31 October	100%
Crest Nicholson Projects Limited	1	8	10	31 October	100%
Crest Nicholson Properties Limited	1	8	10	31 October	100%
Crest Nicholson Quest Trustee Limited	1	8	10	31 October	100%
Crest Nicholson Regeneration Limited	1	8	10	31 October	100%
Crest Nicholson Residential (London) Limited	1	8	10	31 October	100%
Crest Nicholson Residential (Midlands) Limited	1	8	10	31 October	100%
Crest Nicholson Residential (South East) Limited	1	8	10	31 October	100%
Crest Nicholson Residential (South) Limited	1	8	10	31 October	100%
Crest Nicholson Residential Limited	1	8	10	31 October	100%
Crest Nominees Limited	1	8	10	31 October	100%
Crest Partnership Homes Limited	1	8	10	31 October	100%
Crest Strategic Projects Limited	1	8	10	31 October	100%
Dialled Despatches Limited	1	8	10	31 October	100%
Eastern Perspective Management Company Limited	1	8	10	31 October	100%
Essex Brewery (Walthamstow) LLP	1	8	10	31 October	100%
Grassphalte-Gaze Limited	1	8	10	31 October	100%
Landscape Estates Limited	1	8	10	31 October	100%
Mertonplace Limited	1	8	10	31 October	100%
Nicholson Estates (Century House) Limited	1	8	10	31 October	100%
Nicholson Homes Limited	1	8	10	31 October	100%
Park Central Management (Central Plaza) Limited	1	8	10	31 October	100%
Ellis Mews (Park Central) Management Limited	1	8	9	31 October	100%
Park Central Management (Zone 11) Limited	1	8	10	31 October	100%
Park Central Management (Zone 12) Limited	1	8	10	31 October	100%
Park Central Management (Zone 1A North) Limited	1	8	10	31 October	100%
Park Central Management (Zone 1A South) Limited	1	8	10	31 October	100%
Park Central Management (Zone 1B) Limited	1	8	10	31 October	100%
Park Central Management (Zone 3/1) Limited	1	8	10	31 October	100%
Park Central Management (Zone 3/2) Limited	1	8	10	31 October	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Entity name	Registered office	Place of incorporation	Active/ dormant	Year end date	Voting rights and shareholding (direct or indirect)
Park Central Management (Zone 3/3) Limited	1	8	10	31 October	100%
Park Central Management (Zone 3/4) Limited	1	8	10	31 October	100%
Park Central Management (Zone 4/41 & 42) Limited	1	8	10	31 October	100%
Park Central Management (Zone 4/43/44) Limited	1	8	10	31 October	100%
Park Central Management (Zone 5/53) Limited	1	8	10	31 October	100%
Park Central Management (Zone 5/54) Limited	1	8	10	31 October	100%
Park Central Management (Zone 5/55) Limited	1	8	10	31 October	100%
Park Central Management (Zone 6/61-64) Limited	1	8	10	31 October	100%
Park Central Management (Zone 7/9) Limited	1	8	10	31 October	100%
Park Central Management (Zone 8) Limited	1	8	9	31 October	100%
Park Central Management (Zone 9/91) Limited	1	8	10	31 January	100%
The Gloucester Docks Trading Company Limited	1	8	10	31 October	100%
Timberform Building Systems Limited	1	8	10	31 October	100%
Toptool Products Limited	1	8	10	31 October	100%
Yawbrook Limited	1	8	10	31 October	100%
Building 7 Harbourside Management Company Limited	2	8	9	29 October	58.33%
Buildings 3A, 3B & 4 Harbourside Management Company Limited	2	8	10	31 December	83.33%
Harbourside Leisure Management Company Limited	1	8	9	30 December	71.43%
Park West Management Services Limited	1	8	9	31 March	62.00%

Joint venture undertakings

At 31 October 2019 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	Voting rights and shareholding (direct or indirect)
Material joint ventures					
Bonner Road LLP	6	8	9	31 March	50%
Crest A2D (Walton Court) LLP	1	8	9	31 March	50%
Crest Sovereign (Brooklands) LLP	5	8	9	30 April	50%
Elmsbrook (Crest A2D) LLP	7	8	9	31 March	50%
Other joint ventures not material to the Group					
Brentford Lock Limited	3	8	9	31 December	50%
Crest/Galliford Try (Epsom) LLP	1	8	9	31 October	50%
Crest Nicholson Bioregional Quintain LLP	1	8	9	31 October	50%
Crest Nicholson Bioregional Quintain (Gallions) LLP	1	8	10	31 October	50%
English Land Banking Company Limited	1	8	9	31 October	50%
Haydon Development Company Limited	4	8	9	30 April	21.36%
Kitewood (Cossall) Limited	1	8	9	31 October	50%
North Swindon Development Company Limited	4	8	9	31 October	32.64%
The Century House Property Company Limited	1	8	10	31 October	50%

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 Woodlands, 90 Bartholomew Street, Newbury RG14 5EE
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

Active/dormant
9 active
10 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 31 October 2019. 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 Group's 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 31 October 2019

	Note	2019 £m	2018 £m
ASSETS			
Non-current assets			
Investments	4	0.6	1.0
Current assets			
Trade and other receivables	5	243.9	222.9
TOTAL ASSETS		**244.5**	**223.9**
LIABILITIES			
Current liabilities			
Current income tax liabilities		(1.6)	(2.1)
TOTAL LIABILITIES		**(1.6)**	**(2.1)**
NET ASSETS		**242.9**	**221.8**
SHAREHOLDERS' EQUITY			
Share capital	6	12.8	12.8
Share premium account	6	74.2	74.2
Retained earnings:			
At 1 November		134.8	209.5
Profit for the year		107.1	10.0
Other changes in retained earnings		(86.0)	(84.7)
At 31 October		155.9	134.8
TOTAL SHAREHOLDERS' EQUITY		**242.9**	**221.8**

The Company recorded a profit for the financial year of £107.1m (2018: £10.0m).

The notes on pages 158 to 160 form part of these financial statements.

The financial statements on pages 156 to 160 were approved by the Board of Directors on 28 January 2020.

On behalf of the Board

Peter Truscott
Director

Duncan Cooper
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October 2019

	Note	Share capital £m	Share premium account £m	Retained earnings £m	Total equity £m
Balance at 1 November 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 31 October 2018		**12.8**	**74.2**	**134.8**	**221.8**
Profit for the financial year and total comprehensive income		–	–	107.1	107.1
Transactions with shareholders					
Dividends paid	3	–	–	(84.7)	(84.7)
Exercise of share options through employee benefit trust		–	–	(3.2)	(3.2)
Net proceeds from the issue of shares and exercise share options		–	–	1.9	1.9
Balance at 31 October 2019		**12.8**	**74.2**	**155.9**	**242.9**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 October 2019

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 IFRSs 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 Directors reviewed detailed cashflows and financial forecasts for the next year and summary cashflows and financial forecasts for the following two years. Throughout this review period the Company is forecast to be able to meet its liabilities as they fall due. 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 Company.

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 1 November 2018 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 are 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.

Financial assets
Financial assets are initially recognised at fair value and subsequently classified into one of the following measurement categories:

- measured at amortised cost
- measured subsequently at fair value through profit or loss ('FVTPL')
- measured subsequently at fair value through other comprehensive income ('FVOCI').

The classification of financial assets depends on the Company's business model for managing the asset and the contractual terms of the cash flows. Assets that are held for the collection of contractual cash flows that represent solely payments of principal and interest are measured at amortised cost, with any interest income recognised in the income statement using the effective interest rate method. Financial assets that do not meet the criteria to be measured at amortised cost are classified by the Company as measured at FVTPL. Fair value gains and losses on financial assets measured at FVTPL are recognised in the income statement and presented within net operating expenses. The Company currently has no financial assets measured at FVOCI.

Trade and other receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established based on an expected credit loss model applying the simplified approach, which uses a lifetime expected loss allowance for all trade receivables. The amount of the loss is recognised in the income statement.

Financial liabilities
Financial liabilities are initially recognised at fair value and subsequently classified into one of the following measurement categories:

- measured at amortised cost
- measured subsequently at fair value through profit or loss ('FVTPL').

Non-derivative financial liabilities are measured at FVTPL when they are considered held for trading or designated as such on initial recognition. The Company has no non-derivative financial liabilities measured at FVTPL.

Own shares held by ESOP trust
Transactions of the Company-sponsored ESOP trust are included in both the Group financial statements and the Company's own financial statements. The purchase of shares in the Company by the trust are charged directly to equity.

Audit fee
Auditor's remuneration for audit of these financial statements of £13,125 (2018: £11,500) was met by Crest Nicholson plc. No disclosure of other non-audit services has been made as this is included within note 5 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 October 2019

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 81 to 101.

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 9 of the consolidated financial statements.

4 INVESTMENTS

	2019 £m	2018 £m
Investments in shares of subsidiary undertaking at cost at 1 November	1.0	–
Additions	2.8	1.0
Disposals	(3.2)	–
Investments in shares of subsidiary undertaking at cost at 31 October	**0.6**	**1.0**

Additions and disposals in the year relate to Company contributions/utilisation to/from 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

	2019 £m	2018 £m
Amounts due from Group undertakings	243.9	222.9

Amounts due from Group undertakings are unsecured, repayable on demand and carry an interest rate of 5.0% (2018: 5.0%).

6 SHARE CAPITAL

The Company share capital is disclosed in note 23 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 31 October 2019 is given in note 30 of the consolidated financial statements.

HISTORICAL SUMMARY (UNAUDITED)

For the year ended 31 October 2019

	Note		2019[1]	2018[2]	2017[3]	2016[3]	2015[3]
Consolidated income statement							
Revenue		£m	1,086.4	1,121.0	1,043.2	997.0	804.8
Gross profit		£m	201.9	246.9	274.9	265.8	221.3
Gross profit margin		%	18.6	22.0	26.4	26.7	27.5
Operating profit before joint ventures		£m	133.0	182.0	211.6	203.8	163.3
Operating profit before joint ventures		%	12.2	16.2	20.3	20.4	20.3
Share of post-tax (loss)/profit of joint ventures		£m	(0.9)	(1.3)	3.7	(0.7)	0.2
Operating profit after joint ventures		£m	132.1	180.7	215.3	203.1	163.5
Net finance expense		£m	11.0	12.0	8.3	8.1	9.5
Profit before taxation		£m	121.1	168.7	207.0	195.0	154.0
Income tax expense		£m	(23.7)	(32.1)	(38.4)	(38.2)	(29.9)
Profit after taxation attributable to equity shareholders		£m	97.4	136.6	168.6	156.8	124.1
Basic earnings per share		Pence	38.0	53.3	66.1	62.0	49.3
Consolidated statement of financial position							
Equity shareholders' funds	1	£m	854.4	872.7	817.8	719.2	630.7
Net (cash)/borrowings	2	£m	(37.2)	(14.1)	(33.2)	(77.0)	30.6
Capital employed closing		£m	817.2	858.6	784.6	642.2	661.3
Gearing	3	%	(4.6)	(1.6)	(4.1)	(10.7)	4.9
Land creditors		£m	216.5	209.7	215.6	185.0	160.4
Net debt and land creditors	4	£m	179.3	195.6	182.4	108.0	191.0
Return on average capital employed	5	%	15.9	22.2	29.7	31.3	26.8
Return on average equity	6	%	11.3	16.6	21.9	23.2	21.3
Housing							
Home completions	7	Units	2,912	3,048	2,935	2,870	2,725
Average selling price – open market	8	£000	388	396	388	369	311
Short-term land	9	Units	16,960	19,507	16,260	15,901	16,064
Strategic land	10	Units	20,169	16,837	18,174	17,026	17,712
Total short-term and strategic land		Units	37,129	36,344	34,434	32,927	33,776
Land pipeline gross development value	11	£m	12,137	12,166	11,736	10,646	10,466

1 Before £18.4m exceptional item relating to combustible materials provision. See note 4.
2 Restated to reflect the adoption of IFRS 15 with effect from 1 November 2018. See note 29.
3 Historic figures, not restated to reflect the adoption of IFRS 15.

1. Equity shareholders' funds = Group total equity (share capital plus share premium plus retained earnings).
2. Net (cash)/borrowings = Cash and cash equivalents plus non-current and current interest-bearing loans and borrowings.
3. Gearing = Net (cash)/borrowings divided by capital employed closing.
4. Net debt and land creditors = land creditors less net cash or add net borrowings.
5. 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).
6. Return on average equity = profit after taxation attributable to equity shareholders divided by average equity shareholders' funds.
7. Home completions = Open market and housing association homes recognised in the year including the Group share of homes recognised in the year by joint ventures.
8. Average selling price – open market = Revenue recognised in the year on open market homes including the Group share of revenue recognised in the year on open market homes by joint ventures divided by open market home completions.
9. Short-term land = Land controlled by the Group with a minimum resolution to grant planning permission.
10. Strategic land = Longer term land controlled by the Group without planning permission.
11. Land pipeline gross development value = Forecast development revenue of the land pipeline.

GROUP DIRECTORY | USEFUL CONTACTS

Crest Nicholson
Crest House
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Chertsey
Surrey
KT16 9GN

Email: info@crestnicholson.com
Telephone: 01932 580 555

Investor Relations
For Investor Relations queries please email:
investor.relations@crestnicholson.com

www.crestnicholson.com/investor-relations

Company Secretariat
For shareholding notifications required under the FCA Disclosure Guidance and Transparency Rules please email:
dtr-notifications@crestnicholson.com

Group Directory
For our Group directory please visit our website:
www.crestnicholson.com/contact-us

Registrars
Enquiries concerning shares or shareholdings, such as the loss of a share certificate, consolidation of share certificates, amalgamation of holdings or dividend payments, should be made to the Company's registrars:

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

Lines are open 8.30 a.m. to 5.30 p.m., Monday to Friday (excluding public holidays in England and Wales).

In any correspondence with the registrars, please refer to Crest Nicholson Holdings plc and state clearly the registered name and address of the shareholder. Please notify the registrars promptly of any change of address.

Public relations
Financial enquiries
Finsbury
Telephone: 020 7251 3801

crestnicholson@finsbury.com

Corporate enquiries
Red Consultancy
Telephone: 020 7025 6607

CrestNicholsonTeam@redconsultancy.com

CORPORATE INFORMATION

Payment of dividends
Shareholders who wish dividends to be paid directly into bank or building society account should contact Equiniti for a dividend mandate form. This method of payment removes the risk of delay or loss of dividend cheques in the post.

Electronic communications
Shareholders can elect to receive shareholder documents electronically by registering with Shareview at www.shareview.co.uk. This will save on printing and distribution costs, creating environmental benefits. When you register, you will be sent an email notification to say when shareholder documents are available on our website and you will be provided with a link to that information. When registering, you will need your shareholder reference number which can be found on your share certificate or proxy form. Please contact Equiniti if you require any assistance or further information.

Share dealing services
Equiniti provides a share dealing service that enables shares to be bought or sold by UK shareholders by telephone or over the internet. For telephone share dealing please call 0345 603 7037 between 8.30 a.m. and 4.30 p.m. (lines are open until 6.00 p.m. for enquiries) and for internet share dealing please visit: www.shareview.co.uk/dealing

General Counsel and Company Secretary
Kevin Maguire

Registered office
Crest House
Pyrcroft Road
Chertsey
Surrey
KT16 9GN

Registered number
06800600

Auditors
PricewaterhouseCoopers LLP

Annual General Meeting
The Annual General Meeting of Crest Nicholson Holdings plc will be held on 24 March 2020 at 10.30 a.m. at:

Brooklands Hotel
Brooklands Drive
Weybridge
Surrey
KT13 0SL

The Notice of Meeting is included in a separate document.

Cautionary statement
The Annual Integrated Report for the financial year ended 31 October 2019, as contained in this document (Annual Integrated Report), contains information which readers might consider to be forward looking statements relating to or in respect of the financial condition, results, operations or businesses of Crest Nicholson Holdings plc (the Company). Any such statements involve risk and uncertainty because they relate to future events and circumstances. There are many factors that could cause actual results or developments to differ materially from those expressed or implied by any such forward looking statements. Nothing in this Annual Integrated Report should be construed as a profit forecast.

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Crest Nicholson Holdings plc
Registered number 6800600

ABOUT THIS ANNUAL INTEGRATED REPORT

This is our sixth annual integrated report describing 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**