

**CREST NICHOLSON OPERATIONS LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 OCTOBER 2023**



## **CREST NICHOLSON OPERATIONS LIMITED STRATEGIC REPORT**

### **PRINCIPAL ACTIVITIES**

The principal activity of Crest Nicholson Operations Limited (Company) is the design and delivery of sustainable housing and mixed-use communities. The Company is the principal trading entity of the group headed by Crest Nicholson Holdings plc (Group). Reference to the Group throughout this Annual Report and financial statements is also applicable to Crest Nicholson Operations Limited. The Company's core operations are focused on the southern half of the UK with emphasis on creating high quality, well-designed homes and sustainable communities.

### **BUSINESS REVIEW AND FUTURE DEVELOPMENTS**

The past financial year proved to be one characterised by significant uncertainty in the housing sector. In contrast to the previous year, which experienced robust market conditions despite supply chain challenges affecting home delivery, FY23 saw a reversal of this trend. The sales market weakened and supply chain pressures gradually eased, leading to a reduction in inflationary impacts. While we have encountered challenging conditions, and performance was more disappointing than anticipated, the Company remained profitable, concluding the year with a strong balance sheet.

#### **The economy and housing market**

The housing market showed signs of weakening during late summer and early autumn of 2022. This downturn was triggered by the poorly received Mini-Budget from the Truss-Kwarteng Government in September 2022, leading to a significant and rapid increase in interest rates, causing a temporary collapse in housing sales. Confidence gradually returned with the establishment of a more stable Government and the subsequent easing of mortgage rates, resulting in more steady sales rates by late winter and early spring 2023.

Nevertheless, the market faced additional challenges, including a rise in interest rates due to persistently high inflation, renewing concerns of declining house prices. The Bank of England continued to raise interest rates to control these inflationary pressures.

While there was initially an expectation of significant price reductions, prices remained stable, followed by modest declines through autumn. Factors such as high mortgage rates, buyer concerns regarding potential future decreases in house prices, and the customary summer slowdown contributed to a period of very low sales rates. As overall economic conditions stabilised, sales rates slowly improved.

#### **Multi Channel Approach**

One of our strategic priorities is the Multi Channel Approach. This approach serves as a counter-cyclical element during volatile trading environments, offering increased visibility of revenue in the business. This provides the Company with resilience and a diversified income stream. Leveraging our highly experienced PSL division, over the past few years, we have cultivated strategic relationships with institutions and Registered Providers (RPs). Consequently, we have successfully negotiated and delivered 273 units for FY23, as well as for future developments.

#### **Build programme**

We diligently manage our build programme and work-in-progress. However, due to supply chain issues in the second half of FY22, we commenced the new financial year with a lower build position than originally planned. Despite the challenging sales environment, we seized the opportunity to maintain our planned production output during the first half of the financial year as more labour and materials became available. This enabled us to restore a normalised build activity by the end of FY23.

Build cost inflation remained elevated in the first half of our financial year. This was due to high energy costs and competitors finishing homes for their financial year-ends. A positive outlook for housebuilding in the spring created additional pressure on building supplies. The lagged effect of the dramatic increase in energy costs from the previous year continued to abate, and with labour costs moderating, build cost inflation in the second half of the financial year started to reduce to mid-single digit percentages. We anticipate this trend will continue into FY24.

#### **Farnham and other legacy sites**

As announced in Crest Nicholson Holdings Plc's November trading statement Brightwells Yard, Farnham recorded c.£11m incremental build costs in the year. The Company has subsequently conducted a comprehensive review of the costs to complete this project as well as our other legacy and low margin sites. Consequently, further additional costs of £5.5m have been identified, including £2.5m at Farnham, which have impacted FY23 adjusted profit before tax (APBT). The Company has commenced a thorough plan to improve commercial processes and controls to mitigate the risk of future cost overruns. Construction at the Farnham scheme is now in its final stages.

#### **Land and planning**

The supply of land continued to tighten due to the Government's decision to eliminate top-down housing targets, resulting in delays to new site allocations. This situation is compounded by broader issues within the planning system, including challenges related to nutrients, water neutrality, recreational impact zones and air quality constraints. Additionally, there is an under-resourced and inefficient development control function at the local authority level.

Against this challenging backdrop, and in the aftermath of a period of acute economic uncertainty, many of our housebuilding peers signalled their intention to reduce land activity and withdraw from some land deals. In contrast, we took the opportunity to acquire several highly desirable sites in attractive locations, thereby strengthening our land portfolio and securing favourable economic terms. Our decision to remain active in the land market positions us to mitigate planning delays, ensuring a higher number of outlets are in place when market conditions improve. Our land acquisition programme will remain at a reduced level during FY24.

## **CREST NICHOLSON OPERATIONS LIMITED STRATEGIC REPORT (continued)**

### **Streamlining of Company operations**

In response to the deterioration of trading conditions experienced in the second half of the year, we have conducted a thorough and diligent review of all activities within the Company to reduce overheads. It is never easy for employees during difficult trading conditions, and I would like to thank my colleagues for their dedication and hard work during these times.

### **Reduced pace of geographical expansion**

In October 2021 we outlined a growth plan for our business involving geographical expansion, with the aim of increasing the number of our housebuilding divisions. However, this plan was devised in a stable, normalised trading environment. Since then, the housebuilding industry has encountered acute economic challenges and a deteriorating trading environment. As responsible management, it is necessary to review our business plan to align with prevailing market conditions.

Yorkshire will remain unaffected given it is now a fully operational division, and will now be expected to grow at a reduced pace, targeting 300 to 350 units per annum by FY26, instead of 500 units. East Anglia is now covered by our existing Eastern division and the geographical boundaries have been revised. The Eastern division is based at Brentwood in Essex and we will retain East Anglia's satellite office in Bury St Edmunds. As previously announced, we have postponed the opening of the additional new division.

The revised footprint allows for wider overall coverage and enhanced volumes and reflects the difficult market conditions in the short term and the constrained land and planning environment in the medium term.

### **Costs and overheads**

The Company has taken proactive steps to reduce the cost base at the end of FY23 with the revised growth plan as outlined previously and will continue to seek ways to operate more productively. As announced in our November 2023 Trading Statement, we have reduced overheads to align with worsening market conditions and aim to reduce annualised administrative expenses by circa. £3m in FY24. Consequently, a restructuring charge of £0.5m has been included in our FY23 results.

### **Combustible materials**

On 13 March 2023 the Company entered into the UK Government's Developer Remediation Contract. This incorporated into contractual arrangements the commitments made by the Company under the Building Safety Pledge, signed in April 2022. This agreement regulates a method of building remediation going forward and sets out the basis of the timing and phasing of the recovery of funds expended by the Building Safety Fund. It also positively set out a more balanced and consistent method in assessing building remediations.

During the year we continued to focus on the remediation of affected buildings, building risk assessments, scoping and design. We have received some recoveries from subcontractors and suppliers which has mitigated the impact and our overall fire safety provision remains broadly unchanged despite the high build cost inflation we have experienced.

### **Customer experience**

In 2022 our customer service standards fell below the level to which we aspire and understandably, our customers reflected this in lower NHBC Customer Satisfaction Survey ratings. Following significant investment in FY23, in people, processes and systems, there are encouraging signs that quality and customer service standards are improving, and for legal completions from February 2023, in excess of 90% of customers have said they would recommend Crest Nicholson to a friend. Sustaining this level and building on the ongoing efforts to enhance customer experience, positions us well to regain our HBF five-star status in 2025.

### **Sustainability progress**

Our sustainability strategy is split into three priority areas – protect the environment, make a positive impact on our communities and operate the business responsibly. These three priority areas guide our commitment to drive positive action across our activities and value chain.

We made positive progress against our sustainability targets in FY23, including a reduction in our greenhouse gas emissions. We also became a Living Wage Employer and we continued to collaborate with our supply chain and industry peers on sustainability initiatives and to prepare for future regulatory changes.

### **Current trading**

We entered FY24 with a forward position at 19 January 2024 at 1,728 units at £433.1m GDV, reflecting the current challenging environment. We expect trading conditions will improve towards the second half of 2024 with a strong pipeline of private rented sector and registered providers.

### **Summary**

The last financial year has been amongst the most challenging for the Company since the Global Financial Crisis in 2008. Against a backdrop of a difficult market, with significantly reduced housing sales activity and modest low single digit price falls, our focus and priorities for the future are centred on supporting our growth strategy. This will preserve and maintain a robust balance sheet and continue to control our overheads and administrative costs effectively.

## CREST NICHOLSON OPERATIONS LIMITED STRATEGIC REPORT (continued)

During FY23 we increased investment in work-in-progress and strategically acquired high quality land to strengthen our land portfolio, supported by our balance sheet. This strategic move positions the Company to capitalise on growth when the market returns to a more normalised level. There continues to be a significant imbalance in the supply and demand of housing in the UK, and this undersupply is particularly acute in Southern England, where Crest Nicholson principally operates. With a highly attractive asset base, experienced management and a strong balance sheet we remain confident in our future growth prospects.

### Outlook

We expect the housing market will remain challenging in 2024 with elevated interest rates remaining in place until inflation falls to its target level. In addition, the absence of any Government support for first time buyers, coupled with higher borrowing costs continues to impact affordability.

However, there are reasons to be optimistic with year-on-year inflation now halved and real wage growth starting to be felt in households across the UK. We have acquired some excellent sites that are at advanced stages in the planning process, leaving us well positioned to trade in whatever market conditions emerge.

### OUR STRATEGY

Our strategy is embedded throughout our operations delivering efficiency and providing strong financial performance. Our goal is to deliver sustainable growth for our stakeholders.

#### The strategic priorities of the Group include:

- **Placemaking and quality** – We are renowned for our placemaking capabilities and we aim to create aspirational developments that have a positive impact on our customers, communities and the environment.

##### *Progress in FY23*

- Maintained our focus on investing in desirable locations, acquiring quality sites including in Windsor and Oxford
- Adapted our homes in response to the interim update to Part L of the Building Regulations.

##### *Future focus*

- Incorporate biodiversity net gain on new sites submitted for planning from FY24
- Continue to prepare for the full implementation of the Future Homes Standard.

- **Land Portfolio** – Our land portfolio is primarily located in Southern England where land supply is limited. It is in highly desirable locations where customer demands are high. Our short-term land portfolio is approximately five-years' worth of supply which is appropriate for our needs.

##### *Progress in FY23*

- Acquired several high quality sites which will support future outlet growth
- Acquired land at or above hurdle rate incorporating current sales and build costs.

##### *Future focus*

- Land acquisition will be reduced in FY24 as we have sufficient land in our portfolio
- Maintain discipline in retaining our land acquisition hurdle rate.

- **Operational efficiency** – Operational efficiency is of paramount importance to our success and competitiveness, especially in a challenging economic environment. We focus on all aspects of our operational process to utilise our resources in the most efficient way possible, minimise waste and reduce our environmental footprint.

##### *Progress in FY23*

- Implemented and integrated a new ERP system to improve plot efficiency and management oversight on build progress
- Streamlined operations to align with current market conditions.

##### *Future focus*

- Maintain strong oversight on incremental overheads
- Continue to remain agile and responsive to changing market conditions and regulatory requirements.

## CREST NICHOLSON OPERATIONS LIMITED STRATEGIC REPORT (continued)

- **Multi channel approach** – Our PSL division sources land, develops partnerships, and manages strategic land. Their Strategic Land team promotes and manages strategic land to incorporate it into our short-term land portfolio. Additionally, the division focuses on building strategic relationships within PRS and RPs.

### *Progress in FY23*

- 273 units were delivered in the year to PRS and RPs
- Secured good sales pipeline for future developments.

### *Future focus*

- Develop Co-Purchase and Rent to Own models with external institutions to enhance sales
- Commence sales under the Smart Own scheme.

- **Five-star customer service** – We have a 'right first time' culture. We are committed to delivering high quality homes and an excellent customer experience is at the heart of everything we do.

### *Progress in FY23*

- Processes have been aligned to the New Homes Quality Code and relevant training and controls implemented
- Introduced a customer service recovery plan to regain five-star customer service rating
- Customer Relations Manager in place in each housing division
- Strengthened handover and follow up processes enhancing our customer support
- Introduced standardised upgrade options.

### *Future focus*

- Develop an integrated approach from first enquiry to after sales
- Enhance customer portal, for example home demonstration videos on the layout of houses and self-serve information.

## **Strategy for growth – geographical expansion**

In October 2021 we outlined a growth plan for the Group involving geographical expansion, with the aim of increasing the number of our housebuilding divisions. This plan was devised in a stable, normalised trading environment. We opened Yorkshire division in FY22 and East Anglia in FY23.

During the second half of FY23 the Company streamlined its operations to align with current market conditions. East Anglia is now covered by the existing Eastern division and some of the geographical boundaries have been revised, with Kent moving to the South division. Yorkshire is fully operational and is expected to grow at a revised pace.

## **MARKET OVERVIEW**

Housing is a cyclical industry and sensitive to market sentiment and the macro-economic environment. With our experienced team the Company will navigate through these challenging trading conditions and position the Company to capture growth when the market improves.

### **Structural imbalance**

Demand outweighs the supply of housing. The medium to long-term fundamentals of the housing market remains strong. This is based on data on UK population growth which is projected to increase by 3.2% in the next 10 years to 67.1m in mid-2020 and to 69.2m in mid-2030. The undersupply is also evidenced by the high growth of property prices to income ratio as well as rising rental rates. New housing supply is currently lower than the Government's ambition of 300,000 new homes per year. Around 237,000 new homes were built in 2022/23, 21% less than the target. Housing supply and demand imbalances vary greatly across different regions of the UK. London and the South East have the most acute shortages and this results in people being concentrated in areas with high demand, which further intensifies the pressure on housing supply.

### *Our response*

- We are predominantly based in Southern England and have an attractive land portfolio of approximately five years in desirable locations to support future outlet growth and demand
- We build attractive communities in locations with good transport and infrastructure.

### **UK Economy**

The UK economy continues to be impacted by a variety of macro-economic and political factors. According to the National Institute of Economic and Social Research, GDP is projected to grow by 0.3% in 2024, with the outlook remaining highly uncertain. Latest GDP figures released in December 2023 by the ONS stated the economy contracted by 0.5%. Stubborn inflationary pressures are being exacerbated by limited labour availability and resulting labour cost inflation.

Consumer confidence plays a crucial role in the housing market and can significantly influence the dynamics of buying and selling homes, house prices and the overall health in the economy. While the housing market is cyclical by nature, the current surging mortgage and rental rates, a slowing jobs market and the uncertainties posed by conflict in the Middle East, have all contributed to a decline in consumer confidence.

## CREST NICHOLSON OPERATIONS LIMITED STRATEGIC REPORT (continued)

After improvements in the previous couple of months, the latest GfK Consumer Confidence Index released in October 2023 fell by nine points, which underlines the economy is still exerting acute pressure for many consumers and that confidence remains low.

### *Our response*

- Continue to preserve our financial position
- Operational review to align the Company with the current environment
- Adjust the pace of planned growth in our new and existing divisions.

### **Land and planning**

Land is the key component for a housebuilder so the availability of land suitable for development and the effectiveness of the planning system have a major effect on the medium to long-term development of the industry and the supply of homes.

The planning environment continues to be challenging with delays to new site allocations in 2023 and beyond with resource pressures impacting the supply of land for housing. Uncertainty on the application of nutrient neutrality guidelines has had further negative impacts on the housebuilding industry and poses significant challenges to planning applications for both local authorities and developers. This causes delays and tightens the supply of land for development.

In August 2023 the Government announced that it would amend the Habitats Regulations which underpin nutrient neutrality through the Levelling-up and Regeneration Act 2023. The proposed amendments were rejected by the House of Lords in September 2023. Overall the long-term backdrop is uncertain for planning and is likely to reduce land supply in the medium term.

### *Our response*

- We have a short-term land portfolio of approximately five years which is appropriate for our size
- We acquired several high quality sites in FY23 which will mitigate the planning delays and support future outlet growth
- Quality strategic land portfolio which we can utilise at a higher gross margin.

### **Mortgage market and housing affordability**

The biggest direct influence on the housing market are interest rates. A significant series of interest rate hikes since December 2021 have had a profound impact on the UK mortgage market and the affordability of borrowers. Mortgage approvals decreased by 35.1% in September 2023 compared to prior year. This has led to a slowdown in the housing market with transactions year-on-year decreased by 13.4%.

Based on Bank of England data, mortgage borrowing costs for new mortgages declined for more than 12 years to a low of 1.51% in November 2021. During the last two years there has been a sharp reversal, with the average cost of new mortgages tripling (September 2023: 5.01%). Mortgage rates have since stabilised and a five-year fixed rate with a 75% LTV is approximately 4.4%.

Housing affordability is challenging across the UK housing market. The UK new build house price to earnings ratio in 2022 was at eight times, below its peak in 2021 at above 10 times, when sales price inflation was high due to pent-up demand after the pandemic.

### *Our response*

- Adjusted the pace of our build programmes and land acquisitions to reflect tougher market conditions
- Launched the new Smart Own shared ownership scheme in conjunction with L&G
- Introduced new sales products such as Smart Own and Family Cashback.

### **Environmental regulations**

The housebuilding industry faces several forthcoming regulatory changes including the Future Homes Standard and biodiversity net gain.

The Future Homes Standard, set to be enforced from 2025 presents a substantial challenge, mandating a minimum 75% reduction in carbon emissions compared to the 2013 Building Regulations. We continue to actively collaborate with our energy assessors, supply chain and industry partners so that we are well prepared to meet the requirements.

Biodiversity net gain, which is expected to come into force in early 2024, will require all new developments submitted for planning to deliver a biodiversity net gain of at least 10% compared to a pre-development baseline.

### *Our response*

- Evolving our house types and collaborating with our energy assessors, suppliers and wider industry to prepare for the Future Homes Standard
- Reducing greenhouse gas emissions in line with our science-based targets
- Engaging with ecologists and landscape architects early in the planning process to deliver biodiversity net gain.

## CREST NICHOLSON OPERATIONS LIMITED STRATEGIC REPORT (continued)

### KEY PERFORMANCE INDICATORS

We monitor our business performance using a range of KPI. We use 12 key performance indicators to monitor our progress against our strategic objectives. These are the key metrics that we use to measure the performance and health of the business. Our KPI were revised during the year to improve alignment between the measures we use to run the Company on a daily basis with the interests of all stakeholders and our remuneration targets.

We strive to deliver sustainable growth in volumes while delivering shareholder returns within a framework of a robust balance sheet. It is essential that financial performance does not compromise the build quality, customer satisfaction or safety of those working on our sites. To align the focus of the Board and Executive Leadership Team with the interests of stakeholders, some KPI are reflected in our senior management incentive schemes.

		2023	2022	2021
<b>Non-financial</b>				
5 * (NHBC customer satisfaction score)	Stars	4	5	5
Annual injury incidence rate	Number	304	468	385
PRS/Affordable unit completions	%	26.0	35.1	37.6
Greenhouse gas emissions intensity (scope 1 and 2 emissions per 100 sq. m of completed homes)	Number	2.09	1.81	2.52
Waste intensity (tonnes of construction waste per 100 sq. m of completed homes)	Number	10.98	8.72	9.25
Voluntary employee turnover	%	19	27	35
		2023	2022	2021
<b>Financial</b>				
Unit completions <sup>1</sup>	Units	2,006	2,696	2,371
Return on capital employed <sup>2</sup>	%	4.1	19.9	14.4
Earnings before interest and tax margin <sup>2</sup>	%	4.4	14.7	12.4
Land creditors as a % of net assets <sup>2</sup>	%	18.9	23.7	22.7
Net cash <sup>2</sup>	£m	26.1	43.2	44.2
Land portfolio gross margin	%	23.3	25.0	23.2

<sup>1</sup> Sales of homes recognised in the year including 100% of those held in joint ventures and on an equivalent unit basis.

<sup>2</sup> Return on capital employed, land creditors as a % of net assets, net cash and earnings before interest and tax margin are alternative performance measures. See pages 54–55 for further details.

### FINANCIAL RESULTS

#### Trading and dividend

As in previous years, the Company continues to report alternative performance measures relating to sales, return on capital employed and 'adjusted' performance metrics because of the exceptional items as detailed in note 4 of the financial statements. Exceptional items are those which, in the opinion of the Directors, are material by size and/or non-recurring in nature and therefore require separate disclosure within the income statement in order to assist the users of the financial statements to better understand the performance of the Company, which is also how the Directors internally manage the business. Alternative performance measures are detailed on pages 54–55.

FY23 saw a weakening sales market compared to FY22 which has impacted levels of demand for new homes. Supply chain pressures, labour inflation and rising prices of raw materials experienced in FY22 eased during FY23 leading to a reduction in inflationary impacts during the year, albeit still higher than average historic rates. Sales prices remained stable, with modest declines through autumn.

FY23 has been impacted by domestic political uncertainty. At the end of FY22 the Mini-Budget led to rising interest rates resulting in a temporary collapse in housing sales. Confidence gradually returned to the housing market as increases in interest rates began to stabilise, with a steadier sales rate being achieved by spring 2023.

The weakening sales market, driven by domestic economic uncertainty, increases in interest rates, modest reductions in sales prices, build cost inflation and ongoing challenges at some of our sites have in combination impacted financial metrics compared to FY22.

Sales, including joint ventures is down 27.1% on prior year at £680.6m (2022: £934.2m). This comprised £646.0m of statutory revenue (2022: £892.0m) and £34.6m of the Company's share of revenue through joint ventures (2022: £42.2m). The Company entered into a new joint venture in the year that is expected to start contributing to Company profit in FY24.

The Company delivered 2,006 (2022: 2,696) home completions during the year, down 25.6% on prior year. 1,481 of these were open market completions (including bulk deals) (2022: 2,186), down 32.3% on prior year, with the balance derived from affordable completions at 525 (2022: 510), up 2.9% on prior year. Current and prior year comparative values both state joint ventures at full unit count and include an allocation for any land sale element that is present in any relevant completed transaction, referring to this as being on an equivalent unit basis.

Open market (including bulk) average selling prices increased £2,000 to £404,000 (FY22: £402,000).

Land and commercial sales for the year at £16.7m (2022: £30.4m) are down 45.1%.

## CREST NICHOLSON OPERATIONS LIMITED STRATEGIC REPORT (continued)

Adjusted gross profit was £92.2m (FY22: £184.2m), down 49.9% on prior year, reflecting the weaker sales environment and build cost challenges. Adjusted gross margin was down on prior year at 14.0% (FY22: 20.7%). As announced in the Crest Nicholson Holdings plc November trading statement Brightwells Yard, Farnham recorded c.£11m incremental build costs in the year. The Company has subsequently conducted a comprehensive review of the costs to complete this project as well as our other legacy and low margin sites. Consequently, further additional costs of £5.5m have been identified, including £2.5m at Farnham, which have impacted FY23 APBT. The Company has commenced a thorough plan to improve commercial processes and controls to mitigate the risk of future cost overruns. Construction at the Farnham scheme is now in its final stages. Gross profit was £77.9m (FY22: £81.7m), down 4.7% on prior year due to the impact of significantly higher level of exceptional items in FY22 offset by the impact of the challenging sales market in FY23.

Net administrative expenses for the year were £54.5m (FY22: £50.6m). With the expectation of tougher trading conditions, the Company undertook a rationalisation exercise in the second half including the merger of the East Anglia division with our Eastern division and the streamlining of operations which is expected to reduce annualised administrative expenses by circa £3.0m in FY24. Included within net administrative expenses is a restructuring charge of £0.5m which was substantially completed at the end of the year.

Net impairment losses on financial assets were £0.6m (2022: £2.3m). The FY22 charge related to the disposal of its 50% share in the joint venture containing the London Chest Hospital to its joint venture partner. In the year £8.6m impairment on investment of Crest Nicholson (Stotfold) Limited was charged to the income statement reflecting the reduction in recoverable value of the investment following a dividend distribution by that company.

Adjusted operating profit (or Earnings Before Interest and Tax – EBIT) decreased in the year to £28.5m (FY22: £131.3m) with EBIT margin decreasing from 14.7% to 4.4% due to lower revenue falling through to margin and investment impairment. Finally, APBT for the year was £54.2m (FY22: £130.7m), down 58.5% on prior year and profit before tax after exceptional items for the year was £35.9m (FY22: £25.7m), reflecting the impact of the weaker year-on-year operating profit contribution offset by the exceptional charge outlined below. Operating profit was £14.2m (FY22: £28.8m), down 20.8% on prior year due to the weaker trading environment and build cost challenges.

The Directors do not propose a dividend for the year (2022: nil).

### Control environment

Commercial controls in two divisions have not been effective during the year. Weaknesses were identified in the divisions' ability to manage and forecast build costs and margin of which the most material example was in Farnham. At the end of FY23, the Company completed its rollout of a new ERP system which going forward will strengthen the key financial and commercial controls that operate across the business. A new Group Commercial Assurance team has been established to monitor key commercial controls. In addition, the appointment of a new Chief Operating Officer from 1 January 2024 will provide additional group oversight.

### Exceptional items

As a consequence of signing the Developer Remediation Contract on 13 March 2023, the Company has entered into contractual commitments with the Government to identify and remediate those buildings it has developed with possible life-critical fire safety defects. The combustible materials charge in FY23 represents changes in forecast build costs and in the discount rate applied to the provision. See notes 4 and 17 of the financial statements for additional information. In FY23 the Company recorded an exceptional total combustible materials related charge of £5.3m (FY22: £105.0m) representing forecast changes in build costs and in the provision discount in the year. This total charge is after a £10.0m cash receipt from a third party relating to buildings included within the combustible materials provision.

The Company also recognised a charge of £13.0m as it is subject to a legal claim relating to a low rise apartment, three-storey scheme built by the Company which was damaged by fire in 2021. Due to the size and nature of the claim, and in line with the Company's accounting policy, this has been presented as an exceptional item.

The tax credit on exceptional items is £4.8m (FY22: £22.4m).

### Share capital

The Company has 360 Ordinary shares of £1 each in issue at 31 October 2023. There have been no changes to the Company's share capital during the year.

### Financial position

The Company had net cash of £26.1m at 31 October 2023 (FY22: £43.2m). Net assets at 31 October 2023 were £744.1m (FY22: £713.0m), an increase of 4.4% on prior year.

Inventories at 31 October 2023 were £1,049.0m (FY22: £959.8m), up 9.3% year-on-year. During FY23 the Company increased investment in inventories and strategically acquired high quality land to strengthen its land portfolio, supported by its strong balance sheet. This strategic move positions the Company to capitalise on growth when the market returns to a more normalised level. Included within this balance is an NRV provision of £20.2m (FY22: £12.6m) which principally relates to the Company's scheme at Brightwell's Yard, Farnham. Completed units at 31 October 2023 were £82.9m (FY22: £27.9m). Further detail on inventory can be found in note 15 of the financial statements.

Return on capital employed (ROCE) reduced in the year to 5.3% (2022: 19.9%), reflecting the decrease in earnings and investment in land.



## CREST NICHOLSON OPERATIONS LIMITED STRATEGIC REPORT (continued)

### Land portfolio

The contracted land pipeline is summarised in terms of units and gross development value (GDV) as follows:

	2023		2022	
	Units <sup>1</sup>	GDV <sup>2</sup> £m	Units <sup>1</sup>	GDV <sup>2</sup> £m
Short-term housing	14,858	5,017	14,193	4,627
Short-term commercial	-	58	-	37
Total short-term	14,858	5,075	14,193	4,664
Strategic land	17,612	6,414	21,232	6,773
Total land pipeline	32,470	11,489	35,425	11,437

<sup>1</sup> Units based on management estimates of site capacity. Includes joint venture units at full unit count and on an equivalent unit basis which allocates a proportion of the unit count for a deal to the land sale element where the deal contains a land sale.

<sup>2</sup> Gross development value (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 Company's portfolio. Units based on management estimates of site capacity.

The supply of land continued to tighten in the year due to the Government changing the top-down housing targets and planning issues around nutrients, water neutrality, recreation zones and air quality constraints. With the uncertain economic outlook during FY23 some developers did not complete planned acquisitions or temporarily withdrew from the market. The Company took the opportunity to acquire several highly desirable sites and strengthening its land portfolio and securing favourable terms. The Company's decision to remain active in the land market positions it to mitigate planning delays, ensuring a higher number of outlets are in place when market conditions improve. The land acquisition programme will remain at a reduced level during FY24. FY23 average outlets were 46 (FY22: 53) and it is expected that FY24 will be at a similar level, reflecting the backdrop outlined above. 3,864 plots have been approved in FY23 for purchase at a gross margin of 25.2% (after sales and marketing costs).

The Company's short-term land portfolio at 31 October 2023 comprised 14,858 (2022: 14,193) plots, representing approximately seven years of supply based approximately on FY23 completion volumes (2022: five years supply based on FY22 completion volumes). In addition, the Company's strategic land portfolio comprised 17,612 plots (2022: 21,232), resulting in a total land portfolio at 31 October 2023 of 32,470 (2022: 35,425) plots with a Gross Development Value (GDV) of £11.5bn (2022: £11.4bn). During the year, the Company added 3,501 units to the short-term land portfolio and delivered 2,006 home completions. The Company also added 298 units to the strategic land portfolio before options that were deleted.

### **RISK MANAGEMENT**

We face a wide variety of risks and uncertainties, some arising from within the Company and some caused by external factors. There are some risks we can plan for and others which may be unexpected – in which case we plan for the consequences.

### **RISK CULTURE**

Risk awareness exists through decision making processes and is embedded in systems, policies, leadership, governance and behaviours. Aligned to our values, we maintain a culture where our colleagues are empowered to make decisions within agreed parameters in the delivery of our objectives. We ensure we have the right accountabilities across the Company, maintaining effective risk-based decision making.

### **RISK APPETITE AND TOLERANCE**

Risk appetite at Crest Nicholson is the amount of risk that the Board is prepared to accept in return for achieving our purpose of building great places for our customers, communities and the environment. Our appetite for risk is based on our analysis of market context, our strategy and input from management and advisors, and is reviewed throughout the year. In order to achieve the Company's strategy, and objectives, the Board takes a prudent view on risk and has an overall risk appetite across its portfolio of risks that reflects this.

We seek to balance our risk position between:

- Maintaining a strong focus on health, safety and regulatory compliance matters
- Ensuring financial strength by generating profits and cash through our operations
- Having a balanced portfolio through our Multi Channel Approach and being selective in land acquisitions. This allows us to adapt to cyclical markets and be flexible in our investment decisions
- Being disciplined in our operational efficiency and Company growth
- Maintaining the right culture and shared values.

### **PRINCIPAL RISKS AND UNCERTAINTIES**

The Company's emerging and principal risks are outlined below.

The Company's financial, operational and strategic performance is subject to potential risks and uncertainties in the pursuit of its objectives.

These risks could, either separately or in combination, have a material impact on the Company's performance, customers, employees, communities, the environment and shareholder returns. To continue to be a successful housebuilder in the long term, our decision making must be informed by a clear understanding of our business risks and opportunities. These include potential likelihood, impact and outcomes that inform and define our risk appetite.

## **CREST NICHOLSON OPERATIONS LIMITED**

### **STRATEGIC REPORT (continued)**

Our Risk Management Framework supports us in providing assurance that we have identified and are addressing our principal and emerging risks. Risk management is embedded throughout our strategy and decision-making processes.

Our divisional boards consider their divisional risk registers on a half-yearly basis. The divisional risk reviews, alongside the Company's principal risks are carefully considered by the Executive Leadership Team. The Board and Audit and Risk Committee both have oversight of the Company's emerging and principal risks and regularly assess these against the Company's risk appetite and its capacity to handle risk.

#### Risk culture

Risk awareness exists through decision making processes and is embedded in systems, policies, leadership, governance and behaviours. Aligned to our values, we maintain a culture where our colleagues are empowered to make decisions within agreed parameters in the delivery of our objectives. We ensure we have the right accountabilities across the Company, maintaining effective risk-based decision making.

#### Emerging risks

Emerging risks have the potential to impact our Company strategy but currently are not fully defined, or are principal risks, which are particularly elevated or increasing in velocity. Our emerging risks are identified through horizon-scanning by the Board and Executive Leadership Team including in relation to industry and macroeconomic trends. This is supported by our divisional risk review process.

Examples of emerging risks which were considered during the year are:

#### **Economic outlook**

We continue to monitor the developing uncertainties surrounding the political and economic outlook, rising interest rates and mortgage availability, which could lead to lower sales volumes. As a result we have taken actions to adjust our strategy and reduce overhead costs.

#### **Regulatory change**

This risk has continued to evolve during the year and impacts us in several ways. We have continuously reviewed the speed of progress on in-scope remedial fire safety work in addressing our pledge to the Government Safety requirements. There can often be challenges with a shortage in available fire safety professionals, getting access to sites, including legal consent, all of which can affect our ability to progress work as quickly as possible.

#### **Build costs**

We have continued to review and discuss risks surrounding our build costs forecasting. Additional oversight controls are being implemented and we are strengthening our reporting through the ERP system.

#### Changes to our principal risks

As part of the Group's risk review processes, some of the Group's principal risks have evolved during the year:

- Market conditions – increasing trend
- Customer service and quality – reducing trend
- Build cost management – increasing trend
- Attracting and retaining our skilled people – reducing trend
- Solvency and liquidity – increasing trend
- Laws, policies and regulations – increasing trend
- Land availability and planning – increasing trend

#### Board assessment

The Board confirms that they have performed a robust assessment of the Group's principal and emerging risks, with consideration of the long term. Overall, the Group has operated within its risk tolerance. Actions are in place over the long term to address specific risks where necessary, reducing the level of residual risk.

Please see further details in Our Principal Risks, overleaf.

**CREST NICHOLSON OPERATIONS LIMITED**  
**STRATEGIC REPORT (continued)**

**Principal risks**

<b>1. Market conditions</b> Residual: High. Appetite: Medium. Movement in year: Increasing		
<b>Risk description</b> A decline in macro-economic conditions in the UK, which negatively impacts the UK residential property market and reduces the ability for people to buy homes, either through unemployment or low employment, constraints on mortgage availability.  Decreased sales volumes occurring from a drop in housing demand, could see an increasing number of units held as unreserved and part exchange stock with a potential loss realised on final sales.  Changes to regulations and taxes, for example Stamp Duty Land Tax and the impact of Government schemes such as Help to Buy and Equity Loan.	<b>Actions/mitigations</b> We continually evaluate our strategy which we can flex and adjust as demand profiles change.  Regular sales forecasts and cost reviews to manage potential impact on sales volumes.  Forward sales, land expenditure and work-in-progress are all carefully monitored to ensure they are aligned to levels of demand.  Our Multi Channel Approach gives us access to a range of tenure options and earning resilience in changing market conditions.  We focus on strategic purchase of sites, continued development of shared ownership models and engagement with a variety of incentive schemes.  We actively develop our sales offering by introducing new and innovative products to reflect the nature of market conditions.	<b>Development in the year</b> Demand for housing has deteriorated during the year, with significant economic headwinds. Mortgage borrowing has become significantly more expensive with no Government support for first-time buyers.  We have significantly reduced land activity during the year and have reduced the Group's overhead position. We have incorporated the newly created East Anglia division into its existing Eastern division with revised boundaries.  We continued to build our pipeline of trusted partners and have negotiated several bulk deals on appropriate commercial terms with partners which will provide volume delivery in future years.  We have introduced a series of new sales products and sales schemes that reflect current market conditions such as Smart Own and Family Cashback.  The Group has adequate liquidity to deal with all plausible downside market scenarios and continues to focus and monitor its cash position, ensuring build costs and capital outlay match sales demand.
<b>2. Safety, Health &amp; Environment (SHE)</b> Residual: Medium. Appetite: Low. Movement in year: No change.		
<b>Risk description</b> A significant health and safety event could result in a fatality, serious injury or a dangerous situation to an individual.  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 wellbeing of employees.  These incidents or situations could have an adverse effect on people affected by our actions, our reputation and ability to secure public contracts and/or, if illegal, prosecution or significant financial losses.	<b>Actions/mitigations</b> We have effective SHE management systems in place with increased authority for divisional build managers and Group SHE advisors to undertake incident investigations and implement follow up actions.  We use external independent safety auditors to conduct regular site safety reviews as appropriate and without warning.  We have a network of mental health first aiders and a dedicated Employee Assistance Programme.  SHE performance is a bonus metric target used across the Group. Where appropriate, interim risk mitigation solutions have been deployed in buildings where fire safety concerns have been identified.	<b>Development in the year</b> We have increased focus to ensure compliance with subcontractor Risk Assessment and Method Statements.  We have expanded reporting of safety performance to help assess root causes.  We have continued to expand our training and communications across our build teams and provide regular safety bulletins and guidance updates.  We have expanded our network of mental health first aiders across our divisions.  Delivering on our commitments contained in the Building Safety Pledge, the Group has continued to identify and risk assess any buildings impacted by possible safety issues.

**CREST NICHOLSON OPERATIONS LIMITED**  
**STRATEGIC REPORT (continued)**

<b>3. Supply Chain</b> Residual: Medium. Appetite: Medium/Low. Movement in year: Reducing		
<b>Risk description</b> Changing production levels across the industry put pressure on our materials supply chain.  The industry struggles to attract the next generation of talent into skilled trade professions. The labour market may not have the knowledge and skills required to deliver modern methods of construction projects.  Materials availability can be impacted by changes in demand, rising energy prices and dislocation in supply chains due to external events.  There may be a risk of suppliers and subcontractors facing insolvency due to adverse economic conditions.	<b>Actions/mitigations</b> Established long-term relationships with our supply chain partners through Group trading agreements and multi-year subcontractor framework agreements.  We engage in dialogue with major suppliers to understand critical supply chain risks and respond effectively.  We have developed effective procurement schedules to mitigate supply challenges.  Different construction methods are considered such as timber frame or using alternative materials such as concrete bricks.	<b>Development in the year</b> Access to site labour and materials through the supply chain has improved throughout the year due to reducing inflation and lower production levels. We continued to focus on price competitiveness through re-tendering, quality and improved product selection.  Where possible and appropriate we forward order materials to secure supply and also utilise alternative products if they are available and it is appropriate to do so.
<b>4. Customer service and quality</b> Residual: Medium/High. Appetite: Low. Movement in year: Reducing		
<b>Risk description</b> Customer service and build quality falls below our required standards, resulting in reduction of reputation and trust, which could impact sales and volumes.  Unforeseen product safety or quality issues or latent defects emerge due to new construction methods.  Failure to effectively implement or comply with new regulations on build quality or customer service requirements and respond to emerging technologies	<b>Actions/mitigations</b> We continue to focus on enhancing build quality, achieving high customer satisfaction ratings and a retained commitment to excellent placemaking.  Enhanced quality and build stage inspections to monitor adherence to our quality standards.  Our Legacy Collection house type range established that reduces complexity and drives improvements in quality.  There is a central team of quality assurance and customer relationship managers to cover all divisions.  Customer service and quality performance is a bonus metric target used across the Group.	<b>Development in the year</b> We have continued to enhance our quality processes and have recruited additional resources to support the quality improvements.  We have developed processes and introduced new technology to support new regulatory requirements for the Future Homes Standard – Part L.  We implemented the requirements of the New Homes Quality Code in February 2023 and made significant changes to our customer service processes and systems which are subject to further ongoing review and monitoring.  We have introduced a wider range of options and extras for customers and deployed a 24-hour web chat service along with online home demonstrations.
<b>5. Build cost management</b> Residual: High. Appetite: Medium/Low. Movement in year: Increasing		
<b>Risk description</b> Build cost inflation and unforeseen cost increases driven by demands in the supply chain or failure to implement adequate 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.  A lack of quality in the build process could expose the Group to increased costs, reduced selling price and volume, and impact our reputation.	<b>Actions/mitigations</b> We benchmark our costs against existing sites to ensure rates remain competitive.  A fair and competitive tender process is in place and we are committed to paying our suppliers and subcontractors promptly.  There are regular divisional build cost review processes and site-based quality reviews.  We continue to investigate alternative sources of supply where possible and utilise alternative production methods or materials where it is appropriate to do so.	<b>Development in the year</b> We have continued to monitor our build costs closely, ensuring effective management of inventory levels and competitive re-tendering through the supply chain.  We completed the implementation of COINS, our new ERP platform. This has enhanced the reporting and visibility of build costs across the Group. We are enhancing the independent assurance of build costs reporting through a centralised second line commercial team providing periodic review and advisory support to the divisions.

**CREST NICHOLSON OPERATIONS LIMITED**  
**STRATEGIC REPORT (continued)**

<b>6. Information security and business continuity</b> Residual: Medium. Appetite: Low. Movement in year: No change		
<b>Risk description</b> Cyber security risks such as data breaches, ransomware or phishing attacks leading to the loss of operational systems, market-sensitive information or other critical data which risks non-compliance with data privacy requirements.  This in turn could result in a higher risk of fraud and, as a result, financial penalties and an impact to reputation.	<b>Actions/mitigations</b> We employ network security measures and intrusion detection monitoring, including virus protection on all computers and systems, and carry out annual security-breach tests. We utilise customer relationship management systems for storing sensitive data to prevent negligent misuse by employees. We operate in a cloud environment with resilient IT providers, reducing centralised and physical risk exposure.  This is complemented by employee training on data protection and internet security, data classification, retention policies and toolsets with appropriate and responsive procedures embedded to respond to data privacy matters; and IT disaster recovery and business continuity plans. The IT Cyber Security and Data Sub-Board Committee, chaired by the Group Finance Director meets throughout the year to address cyber security matters, assess threat levels and develop appropriate policies and procedures. We are Cyber Essentials Plus certified and are subject to regular external and internal audit review.	<b>Development in the year</b> We continued to utilise a Security Operations Centre to monitor our networks and have enhanced our security policies and procedures with further training for employees.  We have also provided executive level training to the Board on Cyber security.  We continued to review emerging risks, such as Artificial Intelligence and have developed policies to ensure appropriate use in the organisation.
<b>7. Attracting and retaining our skilled people</b> Residual: Medium. Appetite: Medium/Low. Movement in year: Reducing		
<b>Risk description</b> An increasing skills gap in the industry at all levels resulting in difficulty with recruiting the right and diverse mix of people for vacant positions.  Employee turnover and requirement to induct and embed new employees, alongside the cost of wages increasing as a result of inflation.  Loss of knowledge within the Group which could result in inefficiencies, productivity loss, delays to business operations, increasing costs, and an overuse or reliance on consultants and the supply chain.  Ensuring we have the right culture and environment to attract and retain talent.	<b>Actions/mitigations</b> Employee engagement surveys to enable the Board and ELT to understand employee feedback.  Continual focus on improving flexible and agile working arrangements to support employees.  Programmes of work to develop robust succession plans and improve diversity and inclusion across the Group.  We monitor pay structures and market trends to ensure we remain competitive against our competitors.  We monitor employee turnover, absence statistics and feedback from exit interviews.	<b>Development in the year</b> Continued to evolve our people strategy and have expanded the range of leadership and personal skills training across the Group.  We became Gold Accredited through The 5% Club in respect to our recruitment and development of trainees.  Developed our diversity and inclusion policies and initiatives and have held a number of executive sponsored Affinity Group meetings.  Established the Women in the Workplace forum.  We have implemented a new enterprise wide talent management, recruitment, HR and payroll system this year
<b>8. Solvency and liquidity</b> Residual: High. Appetite: Low. Movement in year: Increasing		
<b>Risk description</b> Cash generation for the Group is a key part of our strategy and our cash headroom could be affected by economic pressures that result in delayed receipts and potentially lower sales in the short to medium term.  Commitments to significant land and build obligations that are made ahead of revenue certainty.  Reduction in margins as average selling prices fall, inability to restructure appropriately and unsustainable levels of work-in-progress.	<b>Actions/mitigations</b> Cash performance is measured against forecast with a variance analysis issued weekly. Cash performance is also considered in detail at a divisional board level.  We scrutinise the cash terms of land transactions. Private Rented Sector and bulk sales offer us the potential for early cash inflow.  The Group has available the use of a £250m Sustainability Linked Revolving Credit Facility (RCF).  We generally control strategic land rather than own it and have limited capital tied up on the balance sheet. These sites are subject to regular review and diligent appraisal before being drawn down.	<b>Development in the year</b> While net cash has reduced in the year, the Group continued to benefit from a strong balance sheet with diverse sources of funding.  We continued to stress test the Group's financial resilience for various scenarios and are satisfied that adequate funding is in place. We have maintained a disciplined focus on cash performance and capital allocation throughout the year.

**CREST NICHOLSON OPERATIONS LIMITED**  
**STRATEGIC REPORT (continued)**

<b>9. Laws, policies and regulations</b> Residual: High. Appetite: Medium. Movement in year: Increasing		
<b>Risk description</b> The housebuilding industry is subject to complex regulation, policy changes and Government intervention.  Future regulatory changes could impact our ability to make medium and longer-term decisions.  Failure to effectively implement new regulations including the Future Homes Standard, the Environment Act 2021, New Homes Quality Code and the Building Safety Act 2022 could impact the Group.	<b>Actions/mitigations</b> We engage with the Government directly and through the HBF, various memberships of Industry groups and build relationships in key local authority areas.  We continue to assess and plan for emerging regulation and developments in readiness for potential regulatory change.	<b>Development in the year</b> The pace of regulatory reform has continued to increase in the housebuilding industry. We are developing our operating framework to support various regulatory requirements.  Implemented the New Homes Quality Code and relaunched the standard housing range in the spring to comply with Phase 1 of the Future Homes standard.
<b>10. Climate change</b> Residual: Medium. Appetite: Low. Movement in year: No change		
<b>Risk description</b> The Group will need to further enhance its sustainable practices and processes as we transition to a net-zero carbon business by 2045 and continue to meet evolving Government regulations and growing investor expectations.  Climate change could impact our business through transition and physical risks.  Transition risks include increasing regulatory change, increased carbon pricing and shifts in stakeholder preferences.  Physical risks are direct impacts from a changing climate including rising temperatures and changing weather patterns.  Failure to manage climate-related risks could lead to additional costs, build programme delays and damage to our reputation.	<b>Actions/mitigations</b> Our Sustainability Committee oversees our sustainability strategy, including our approach to climate change. The Committee monitors performance against our climate targets and assesses climate-related risks and opportunities.  We are members of the Future Homes Hub, an industry-wide initiative to support the implementation of the Future Homes Delivery Plan to meet climate and environmental targets. We also have internal workstreams to plan for new regulations, including the Future Homes Standard.  Near and long-term science-based targets are in place, driving action to reduce GHG emissions.  Executive Directors have GHG emission reduction targets within their Long-Term Incentive Plan.	<b>Development in the year</b> Implemented the interim update to Part L of the Building Regulations, which requires a 31% reduction in carbon emissions compared to the prior regulations.  Continued to collaborate with our energy assessors, supply chain and wider industry to prepare for the Future Homes Standard.  Our Sustainability Linked RCF incorporated targets to reduce GHG emissions associated with our operations and the use of our homes. We achieved both RCF climate-related targets.
<b>11. Land availability and planning</b> Residual: High. Appetite: Medium/Low. Movement in year: Increasing		
<b>Risk description</b> Maintaining a supply of suitable strategic and consented land at the right economic terms to support our growth ambitions.  Acquired land is delayed in the planning process where local authorities and public sector resources are constrained.  The regulatory planning and environmental requirements continue to evolve with the national policy framework developments. Environmental requirements such as nutrients, water neutrality and biodiversity obligations are increasing. This increases the challenge of providing quality and affordable homes in the locations required.	<b>Actions/mitigations</b> Expertise within our Land teams to ensure we acquire sites in the best locations and that allow us to demonstrate our placemaking credentials.  Formal relationships with key land suppliers, landowners and agents and local authorities.  Land acquisitions are subject to formal appraisal and viability assessment prior to bid submission and exchange of contracts.  The planning status of all our sites are regularly reviewed.  We undertake close consultation with the Government on planning reform.	<b>Development in the year</b> Our strategy has increased focus on achieving planning consent on land under our control as we have reduced land acquisitions and acquiring new sites.  The planning process continues to be highly complex and time consuming with ongoing demands relating to affordable housing, Section 106 obligations and the community infrastructure levy. There has been a particular challenge in some of our divisions regarding nutrients and water neutrality which has impacted the speed of planning approvals. These complexities increase the cost of development and the time taken to move land through the planning process, which is also impacted by resource constraints in local authority planning departments.

**CREST NICHOLSON OPERATIONS LIMITED**  
**STRATEGIC REPORT (continued)**

<b>12. Combustible materials</b> Residual: Medium. Appetite: Low. Movement in year: No change		
<p><b>Risk description</b>  Failure to plan and implement the changes required by the Government in respect of combustible materials and fire safety in a timely manner, which could significantly impact our reputation.</p> <p>This is a complex area where it is often difficult to identify and implement remedies quickly. The rapidly changing landscape of regulatory guidance and the need to engage with multiple stakeholders contribute to this complexity, as does the limited availability of qualified resource to oversee work performed. Given this, costs can be difficult to estimate and could be subject to considerable variability and Government legislation, or regulation could further change increasing the scope of legacy buildings and required remedial works.</p>	<p><b>Actions/mitigations</b>  A dedicated specialist team is in place with controls and processes in respect of combustible materials. There is a regular review process in place which is overseen by the Chief Executive, Group Finance Director and the internal project team responsible for this area.</p> <p>There is a detailed risk register of all schemes under review including any safety considerations, recent customer or stakeholder correspondence and considers how the Group may choose to respond. In addition, the central team assesses whether faulty workmanship or design was a factor in the potential remedial works, and, if appropriate, seeks to recover these costs directly from the subcontractor or consultant involved, or through engagement of external legal counsel.</p>	<p><b>Development in the year</b>  The Group continued to review the risk register of legacy buildings in scope, assessing the latest guidelines against each affected building, advice from technical or legal advisors along with relevant notifications from a variety of stakeholders. We monitor and report progress of remedial work to DLUHC on a periodic basis. Management has considered the progress of any remedial works and adjusted the financial provision to reflect the Group's best estimate of any future costs. We continue to review the appropriateness of our combustible materials provision.</p> <p>The Board signed the Developers Remediation contract and we are now contractually obligated to the pledge.</p>

**FINANCIAL RISK MANAGEMENT**

The main risks associated with the Company's financial instruments are credit risk, liquidity risk, market risk and interest rate risk. The Board is responsible for managing these risks and have policies in place to manage these risks.

**THE SECTION 172 STATEMENT**

Considering all our stakeholders in key business decisions enables us to make balanced decisions which deliver value over the long term.

Our Board of Directors promote the success of the Company for the benefit of our members as a whole, in accordance with the Companies Act 2006. The Board is responsible for ensuring that it fulfils its obligations to those impacted by our business, in its stakeholder consideration and engagement.

By direct engagement, and via the Executive Leadership Team, our Board is fully apprised of the matters of importance to our stakeholders. The Board, Executive Leadership Team and senior management actively engage in communication and involvement initiatives.

To the extent necessary for an understanding of the development, performance and position of the entity, an explanation of how the Group board has considered the matters set out in s.172 of the Companies Act 2006 (for the Group and for the entity) is set out on pages 16-19 of the Group's Annual Report and financial statements, which does not form part of this report.

**THE ROLE OF INTERNAL AUDIT**

The business has an internal audit function, its work programme is designed (and flexed) to take account of the key risks identified by the business, as an extension of the general remit of the function to support the achievement of the Company's financial and operational objectives.

Approved by the Board and signed on its behalf by:



**W Floydd**  
Director

500 Dashwood Lang Road  
Bourne Business Park  
Addlestone  
Surrey KT15 2HJ

21 February 2024

## **CREST NICHOLSON OPERATIONS LIMITED DIRECTORS' REPORT**

The Directors present their report and the audited financial statements for the year ended 31 October 2023. Crest Nicholson Operations Limited (the 'Company') is a private company limited by shares and incorporated and domiciled in the UK. The address of the registered office is 500 Dashwood Lang Road, Bourne Business Park, Addlestone, Surrey KT15 2HJ. The immediate parent Company is Crest Nicholson plc, which is incorporated in Great Britain and registered in England and Wales. The largest group of undertakings for which group financial statements are drawn up, and ultimate parent Company is that headed by Crest Nicholson Holdings plc, which is incorporated in Great Britain and registered in the UK. The smallest group in which they are consolidated is that headed by Crest Nicholson plc. Copies of Crest Nicholson Holdings plc and Crest Nicholson plc financial statements can be obtained from the Company's registered office.

### **DIRECTORS WHO HELD OFFICE**

The Directors during the year, and up to the date of signing the financial statements were:

Peter Truscott	Duncan Cooper (Resigned: 13 December 2023)
David Marchant	William Floyd (Appointed: 13 November 2023)

It is the Company's practice to indemnify its Directors and Officers to the extent permitted by law and the Articles of Association against all costs, charges, losses, expenses and liabilities incurred in connection with any negligence, default, breach of duty or trust and any other liability incurred in the execution of their duties. In addition, the Company maintains qualifying third party Directors' and Officers' liability insurance for the Directors and Company Secretary.

### **STRATEGIC REPORT**

Certain disclosures required under the Companies Act 2006 to be included within the Directors' Report have been presented within the Strategic Report to avoid duplication.

### **GOING CONCERN**

The Company is the principal trading entity of the group ultimately headed by Crest Nicholson Holdings plc (the 'Group'). The Company and certain of its subsidiaries are cross-guarantors to the debt facilities of the Group. Accordingly, the Directors have considered the Group's position for the purposes of assessing the use of the going concern basis.

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future. The Directors reviewed detailed financial forecasts, and covenant compliance covering the period to 30 April 2025 and the ultimate parent undertaking intends to provide such funds and financial support to enable the Company for at least twelve months from the date the board approved these financial statements to trade and meet its liabilities as they fall due. For these reasons, the Directors consider it appropriate to prepare the financial statements of the Company on a going concern basis.

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the Annual 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 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, 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 Company and of the profit or loss of the 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 United Kingdom Accounting Standards, comprising FRS 101 have been followed, 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 Company will continue in business.

The Directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

### **DIRECTORS' CONFIRMATIONS**

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 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 Company's auditors are aware of that information.



**CREST NICHOLSON OPERATIONS LIMITED**  
**DIRECTORS' REPORT (continued)**

**DONATIONS**

There were no political donations made (2022: £nil).

**EMPLOYMENT POLICY**

Crest Nicholson Operations Limited values equality and diversity in employment and we select and promote employees based on their aptitudes and abilities, not their sex, sexual orientation, marital status, race, nationality, ethnic or national origin, age or disability. Everyone is different and has something unique to offer. Our Equality and Diversity Policy ensures that all employees and job applicants are accorded equal opportunities for recruitment, remuneration, access to benefits, training and promotion, together with an ongoing emphasis on monitoring and developing the diversity of our workforce. Where employees have or develop particular long-term health issues or disabilities, the Group works with those employees to ensure their role, skills and development opportunities remain suitable and appropriate for their circumstances so that they can continue and progress in their employment with the Group. The Group provides employees with relevant business updates and other information, and consults with employees to understand their views.

We also encourage employees' involvement in the Group's performance through share schemes or other means and promote common awareness of the financial and economic factors affecting performance. The Group interacts with its employees through the appropriate levels of management and seeks employees' opinions about the Group's operations and behaviour through internal feedback and staff surveys.

**STAKEHOLDER ENGAGEMENT WITH EMPLOYEES**

From the perspective of the board, as a result of the Group governance structure (whereby the entity board is embedded within the Group board), the Group board has taken the lead in carrying out the duties of a board in respect of the company's employees, including engaging with them, having regard to their interests and the effect of that regard (including on the principal decisions taken by the company during the financial year). The board of the company has also considered relevant matters where appropriate. An explanation of how the Group board has carried out these responsibilities (for the Group and for the entity) is set out on pages 28-29 of the Group's Annual Report and financial statements, which does not form part of this report.

**STAKEHOLDER ENGAGEMENT WITH OTHERS**

Similarly, from the perspective of the board, as a result of the Group governance structure (whereby the entity board is embedded within the Group board), the Group board has taken the lead in carrying out the duties of a board in respect of the company's other stakeholders. The board of the company has also considered relevant matters where appropriate. An explanation of how the Directors on the Group board have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year, is set out (for the Group and for the entity) on pages 16-19 of the Group's Annual Report and financial statements, which does not form part of this report.

**INDEPENDENT AUDITORS**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Group's Annual General Meeting.

Approved by the Board and signed on its behalf by:



**W Floyd**  
 Director

500 Dashwood Lang Road  
 Bourne Business Park  
 Addlestone  
 Surrey KT15 2HJ

21 February 2024

**CREST NICHOLSON OPERATIONS LIMITED**  
**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CREST NICHOLSON OPERATIONS LIMITED**

**Report on the audit of the financial statements**

**Opinion**

In our opinion, Crest Nicholson Operations Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 October 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 October 2023; the Income Statement, the Statement of Comprehensive Income and Statement 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.

**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 company 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

**Conclusions relating to going concern**

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this 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 the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

**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 the Directors' report for the year ended 31 October 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and the Directors' report.

**CREST NICHOLSON OPERATIONS LIMITED**  
**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CREST NICHOLSON OPERATIONS LIMITED (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, 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 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 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to government guidelines on fire safety and other health and safety requirements, employment law, including legislation relating to pensions, 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 financial statements such as 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 management bias, in particular in areas of significant estimation uncertainty as set out in note 1 to the financial statements, or where management has the ability to post inappropriate journals. Audit procedures performed by the engagement team included:

- Discussions with management, review of internal audit reports and consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Challenging the assumptions and judgements made by management in determining their significant accounting estimates, in particular in relation to cost and margin forecasting and provisions;
- 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, including performing alternative audit procedures where controls were not deemed to be effective in the period; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

**Use of this report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**CREST NICHOLSON OPERATIONS LIMITED**  
**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CREST NICHOLSON OPERATIONS LIMITED (continued)**

**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 obtained 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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Darryl Phillips (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
21 February 2024

**CREST NICHOLSON OPERATIONS LIMITED**  
**INCOME STATEMENT**  
*For the year ended 31 October 2023*

		2023 Pre- exceptional items £m	2023 Exceptional items (note 4) £m	2023 Total £m	2022 Pre- exceptional items £m	2022 Exceptional items (note 4) £m	2022 Total £m
Note							
	<b>Revenue</b>	<b>646.0</b>	<b>-</b>	<b>646.0</b>	<b>892.0</b>	<b>-</b>	<b>892.0</b>
	Cost of sales	(553.8)	(14.3)	(568.1)	(707.8)	(102.5)	(810.3)
	<b>Gross profit/(loss)</b>	<b>92.2</b>	<b>(14.3)</b>	<b>77.9</b>	<b>184.2</b>	<b>(102.5)</b>	<b>81.7</b>
	Net Administrative expenses	(54.5)	-	(54.5)	(50.6)	-	(50.6)
	Net impairment losses on financial assets	(0.6)	-	(0.6)	(2.3)	-	(2.3)
	Impairment on investments	(8.6)	-	(8.6)	-	-	-
	<b>Operating profit/(loss)</b>	<b>28.5</b>	<b>(14.3)</b>	<b>14.2</b>	<b>131.3</b>	<b>(102.5)</b>	<b>28.8</b>
	Finance income	1.3	-	1.3	2.2	-	2.2
	Finance expense	(5.9)	(4.6)	(10.5)	(6.8)	(1.0)	(7.8)
	Net finance expense	(4.6)	(4.6)	(9.2)	(4.6)	(1.0)	(5.6)
	Share of post-tax profit/(loss) of joint ventures using the equity method	2.7	0.6	3.3	4.0	(1.5)	2.5
	Dividends received from subsidiaries	27.6	-	27.6	-	-	-
	<b>Profit/(loss) before tax</b>	<b>54.2</b>	<b>(18.3)</b>	<b>35.9</b>	<b>130.7</b>	<b>(105.0)</b>	<b>25.7</b>
	Income tax (expense)/credit	(9.0)	4.8	(4.2)	(26.1)	22.4	(3.7)
	<b>Profit/(loss) for the financial year</b>	<b>45.2</b>	<b>(13.5)</b>	<b>31.7</b>	<b>104.6</b>	<b>(82.6)</b>	<b>22.0</b>

The notes on pages 23 to 53 form part of these financial statements.

**CREST NICHOLSON OPERATIONS LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
*For the year ended 31 October 2023*

	Note	2023 £m	2022 £m
<b>Profit for the financial year</b>		<b>31.7</b>	<b>22.0</b>
<b>Other comprehensive (expense)/income:</b>			
Items that will not be reclassified to the income statement:			
Actuarial (losses)/gains of defined benefit schemes	13	(2.5)	(8.4)
Change in deferred tax on actuarial (losses)/gains of defined benefit schemes	12	1.1	1.6
<b>Other comprehensive expense for the year net of income tax</b>		<b>(1.4)</b>	<b>(6.8)</b>
<b>Total comprehensive income</b>		<b>30.3</b>	<b>15.2</b>

The notes on pages 23 to 53 form part of these financial statements.

**CREST NICHOLSON OPERATIONS LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
*For the year ended 31 October 2023*

	Note	Share capital £m	Share premium account £m	Capital contribution reserve £m	Retained earnings £m	Total equity £m
<b>Full year ended 31 October 2022</b>						
<b>Balance at 1 November 2021</b>		-	0.8	15.0	681.0	696.8
Profit for the financial year attributable to equity shareholders		-	-	-	22.0	22.0
Actuarial gains of defined benefit schemes	13	-	-	-	(8.4)	(8.4)
Change in deferred tax on actuarial gains of defined benefit schemes	12	-	-	-	1.6	1.6
Total comprehensive income for the year		-	-	-	15.2	15.2
<b>Transactions with shareholders:</b>						
Equity-settled share-based payments		-	-	-	1.2	1.2
Change in deferred tax on actuarial losses of defined benefit schemes		-	-	-	(0.2)	(0.2)
<b>Balance at 31 October 2022</b>		-	0.8	15.0	697.2	713.0
<b>Full year ended 31 October 2023</b>						
<b>Balance at 1 November 2022</b>		-	0.8	15.0	697.2	713.0
Profit for the financial year attributable to equity shareholders		-	-	-	31.7	31.7
Actuarial losses of defined benefit schemes	13	-	-	-	(2.5)	(2.5)
Change in deferred tax on actuarial losses of defined benefit schemes	12	-	-	-	1.1	1.1
Total comprehensive income for the year		-	-	-	30.3	30.3
<b>Transactions with shareholders:</b>						
Equity-settled share-based payments		-	-	-	0.9	0.9
Change in deferred tax on actuarial losses of defined benefit schemes		-	-	-	(0.1)	(0.1)
<b>Balance at 31 October 2023</b>		-	0.8	15.0	728.3	744.1

The notes on pages 23 to 53 form part of these financial statements.

**CREST NICHOLSON OPERATIONS LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**As at 31 October 2023**

		2023 £m	2022 £m
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>Note</b>		
Right-of-use assets	10	6.1	3.5
Investments	11	32.3	39.2
Financial assets at fair value through profit and loss		2.6	3.3
Deferred tax assets	12	0.1	0.3
Retirement benefit surplus	13	10.0	11.1
Trade and other receivables	14	6.0	25.8
		<u>57.1</u>	<u>83.2</u>
<b>Current assets</b>			
Inventories	15	1,049.0	959.8
Financial assets at fair value through profit and loss		1.1	1.3
Trade and other receivables	14	126.9	223.2
Current income tax receivable		12.9	3.7
Cash and cash equivalents		26.1	43.2
		<u>1,216.0</u>	<u>1,231.2</u>
<b>Total assets</b>		<u>1,273.1</u>	<u>1,314.4</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Trade and other payables	16	(31.6)	(35.6)
Lease liabilities	10	(4.4)	(2.3)
Deferred tax liabilities	12	(2.5)	(3.2)
Provisions	17	(73.8)	(70.8)
		<u>(112.3)</u>	<u>(111.9)</u>
<b>Current liabilities</b>			
Trade and other payables	16	(329.2)	(416.5)
Lease liabilities	10	(2.0)	(1.4)
Provisions	17	(85.5)	(71.6)
		<u>(416.7)</u>	<u>(489.5)</u>
<b>Total liabilities</b>		<u>(529.0)</u>	<u>(601.4)</u>
<b>Net assets</b>		<u>744.1</u>	<u>713.0</u>
<b>EQUITY</b>			
Called up share capital	18	-	-
Share premium account		0.8	0.8
Capital contribution reserve		15.0	15.0
Retained earnings		728.3	697.2
<b>Total equity</b>		<u>744.1</u>	<u>713.0</u>

The financial statements on pages 20 to 53 were approved by the Board of Directors on 21 February 2024 and signed on its behalf by:



**W Floydd**  
 Director

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**1 ACCOUNTING POLICIES**

**Basis of preparation**

Crest Nicholson Operations Limited (Company) is a private company limited by shares and incorporated and domiciled in the UK. The address of the registered office is 500 Dashwood Lang Road, Bourne Business Park, Addlestone, Surrey KT15 2HJ. 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, and have been prepared on the historical cost basis except for other financial assets, which are stated at their fair value.

The preparation of financial statements in conformity with FRS 101 requires the Directors 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 the Directors 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), unless otherwise stated. The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which it operates.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

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 Crest Nicholson Holdings plc and its subsidiary undertakings on the grounds that it is a wholly owned subsidiary undertaking of Crest Nicholson Holdings plc. This exemption has been taken in the preparation of these financial statements.

The Company is the principal trading entity of the group headed by Crest Nicholson Holdings plc (Group). The Company and certain of its subsidiaries are cross-guarantors to the debt facilities of the Group. Accordingly, the Directors have considered the Group's position for the purposes of assessing the use of the going concern basis.

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future. The Directors reviewed detailed financial forecasts, and covenant compliance covering the period to 30 April 2025 and the ultimate parent undertaking intends to provide such funds and financial support to enable the Company for at least twelve months from the date the board approved these financial statements to trade and meet its liabilities as they fall due. For these reasons, the Directors consider it appropriate to prepare the financial statements of the Company on a going concern basis.

Judgements made by the Directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

**Critical accounting estimates and judgements**

The preparation of the financial statements under UK-adopted international accounting standards requires the Directors 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 key judgements that have a significant impact on the financial statements, include those involving estimates which are described below, the judgement to present certain items as exceptional (see note 4), certain revenue policies relating to part exchange sales, the identification of performance obligations where a revenue transaction involves the sale of both land and residential units and revenue on the units is then subsequently recognised over time where the land sale element takes place at the start of the contract (see note 3 for the split of revenue recognised at a point in time and recognised over time), the recognition of the defined benefit pension scheme surplus (see note 13) and the current and non-current presentation of the combustible materials provision.

The Company has made a judgement to 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 Company. As part exchange sales are deemed incidental, the income and expenses associated with part exchange properties are recognised in other operating income and other operating expenses which are presented within net administrative expenses in the income statement. Income is recognised when legal title is passed to the customer. Previously the income and associated costs arising on these sales was presented net within cost of sales. Prior year has not been restated since the net result is immaterial to the Company and there is no change to the operating profit/(loss) realised in each year.



**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**1 ACCOUNTING POLICIES (continued)**

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. The Directors have made estimates and assumptions in reviewing the going concern assumption as detailed above. The Directors consider the key sources of estimation uncertainty that have 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 statement of financial position at the lower of cost and NRV. On a regular basis the Directors 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 if there are adverse changes. Where forecast revenues are lower than forecast total costs 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 2023, the impact on profit before tax would have been £13.8m lower (2022: £6.7m).

*Estimation of development profitability*

Due to the nature of development activity and, in particular, the length of the development cycle, the Company has made estimates of the costs to complete developments, in particular those which are multi-phase and/or may have significant infrastructure costs. These estimates are reflected in the margin recognised on developments in relation to sales recognised in the current and future years. There is a degree of inherent uncertainty in making such estimates. The Company has established internal controls that are designed to ensure an effective assessment of estimates is made of the costs to complete developments. The Company 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 2024 and which are forecast to still be in production beyond the year ending 31 October 2025 (2022: beyond the year ending 31 October 2023), profit before tax in the current year would have been £32.3m lower (2022: £25.3m).

*Valuation of the pension scheme assets and liabilities*

In determining the valuation of the pension scheme assets and liabilities, the Directors utilise the services of an actuary. The actuary uses key assumptions being inflation rate, life expectancy, discount rate, pension growth rates and Guaranteed Minimum Pensions, which are dependent on factors outside the control of the Company. To the extent that such assumptions differ to that expected, the pension liability would change. See note 13 for additional details.

The Company has considered the potential financial impacts associated with transitional and physical climate-related risks and opportunities. The primary known impact is the FHS, due to be implemented from 2025, which is expected to increase build cost for individual units. The anticipated additional build cost has been included in new project acquisition appraisals since the FHS was announced. Projects already underway will be substantially built out before the new regulations commence. It is not expected that the additional build cost will have a material impact on the carrying value of inventories or their associated project margins or the value of goodwill. The longer term costs associated with climate-related risks are considered to be beyond the timescale of the projects the Group is currently contracted to and as such do not impact the carrying value of inventories or their associated project margins.

*Combustible materials*

The combustible materials provision requires a number of key estimates and assumptions in its calculation. If it is deemed that the costs are probable and can be reliably measured then, as per IAS 37, a provision is recorded. If costs are considered possible or cannot be reliably estimated, then they are recorded as contingent liabilities (see note 19). During the year, the combustible materials provision has been increased to reflect the most contemporaneous assessment of these costs. The Group signed the Developer Remediation Contract on 13 March 2023, which did not materially alter the provision required from that recorded as at 31 October 2022. In the previous financial year, the Group signed the Government's Building Safety Pledge (the Pledge), a consequence of which the Group has committed to funding the remediation of life-critical fire safety issues on buildings over 11 metres in which the Group was involved from 1992.

The key assumptions used to determine the provision include but are not limited to identification of the properties impacted through the period of construction considered. The key estimates then applied to these properties include the potential costs of investigation, replacement materials and works to complete, along with the timing of forecast expenditure. The Directors have used BSF cost information, other external information, and internal assessments as a basis for the estimated remedial costs. These estimates are inherently uncertain due to the highly complex and bespoke nature of the buildings, actual costs may differ to the amounts notified by the BSF costed projects, and fire safety reports in progress may require different levels of remediation and associated costs than those currently estimated. If forecast remediation costs on buildings currently provided for are 20.0% higher than provided, the pre-tax exceptional items charge in the income statement would be £29.0m higher. If further buildings are identified this could also increase the required provision, but the potential quantity of this change cannot be readily determined without further claims or investigative work. See notes 4 and 17 for additional details.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**1 ACCOUNTING POLICIES (continued)**

The Company has considered the potential financial impacts associated with transitional and physical climate-related risks and opportunities. The primary known impact is the Future Homes Standard (FHS), due to be implemented from 2025, which is expected to increase build cost for individual units. The anticipated additional build cost has been included in new project acquisition appraisals since the FHS was announced. Projects already underway will be substantially built out before the new regulations commence. It is not expected that the additional build cost will have a material impact on the carrying value of inventories or their associated project margins or the value of goodwill. The longer term costs associated with climate-related risks are considered to be beyond the time scale of the projects the Company is currently contracted to and as such do not impact the carrying value of inventories or their associated project margins. Climate-related risks and opportunities represents an area of estimation rather than a critical accounting estimate.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Company financial statements except in respect of the revenue policy relating to recognised over time housing units as detailed below.

The Company reviewed the application of its revenue policy relating to recognised over time housing units. From 1 November 2022 revenue is now recognised on over time units by reference to the stage of completion, via surveys of work performed on contract activity. The Company considers this policy more closely aligns with the benefits transferred to the customer. Previously revenue was recognised on housing units as the build of the related units progressed, using the input method based on costs incurred. This is considered a change in accounting estimate and so has been implemented prospectively.

**Adoption of new and revised standards**

There are no new standards, amendments to standards and interpretations that are applicable to the Company and are mandatory for the first time for the financial year beginning 1 November 2022 which have a material impact on the Company.

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

There are a number of standards, amendments and interpretations that have been published that are not mandatory for the 31 October 2023 reporting period and have not been adopted early by the Company. The Company does not expect that the adoption of these standards, amendments and interpretations will have a material impact on the financial statements of the Company in future years.

**Other accounting policies**

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements except in respect of the presentation of the proceeds generated from the disposal of part exchange properties as detailed within critical accounting estimates and judgements.

**Alternative performance measures**

The Company has adopted various APM as presented on pages 54-55. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APM, and should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

**Investments**

The financial statements include the financial statements of the Company and the Company's share of the results of joint ventures and joint operations. Shares in subsidiary undertakings are stated at cost, and subject to impairment provision.

**(a) Subsidiaries**

Subsidiaries are entities in which the Company has control. The Company controls an entity when the Company 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.

**(b) Joint ventures**

A joint venture is a contractual arrangement in which the Company 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 Company 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 Company's share of the post-acquisition profits or losses and movements in other comprehensive income.

The Company's share of results of the joint venture after tax is included in a single line in the income statement and its share of net assets is shown in the statement of financial position as an investment. Where the share of losses exceeds the Company'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 Company and its joint ventures are eliminated. Accounting policies of joint ventures have been changed where necessary, to ensure consistency with policies adopted by the Company.

**(c) Joint operations**

A joint operation is a joint arrangement that the Company undertakes with other parties, in which those parties have rights to the assets and obligations of the arrangement. The Company 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 statement of financial position and income statement.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**1 ACCOUNTING POLICIES (continued)**

**Revenue and profit recognition**

Revenue comprises the fair value of the consideration received or receivable, net of value added tax and discounts. The Company has made a judgement to 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 Company. As part exchange sales are deemed incidental, the income and expenses associated with part exchange properties are recognised in other operating income and other operating expenses which are presented within net administrative expenses in the income statement. Income is recognised when legal title is passed to the customer. Previously the income and associated costs arising on these sales was presented net within cost of sales. The prior year balance has not been restated since the net result is immaterial to the Company and there is no change to the operating profit realised in each year.

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 customer as it is considered that upon transfer of freehold title that the customer controls the work-in-progress. Where freehold legal title and control is passed to the customer, revenue is recognised on any upfront sale of land (where applicable) and then on the housing units as the build of the related units progresses, via surveys of work performed on contract activity. Where freehold legal title is not passed to the customer, 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 customer. The transaction price for all housing units is derived from contractual negotiations and does not include any material variable consideration.

Revenue is predominantly recognised on land sales when legal title passes to the customer. If the Company has remaining performance obligations such as the provision of services to the land an element of revenue is allocated to these performance obligations and recognised as the obligations are performed, which can be when the works are finished if the work-in-progress is controlled by the Company or over the performance of the works if they are controlled by the customer.

Revenue recognition on commercial property sales is dependent on freehold legal title being passed to the customer, as it is considered that upon transfer of freehold title that the customer controls the work-in-progress. Where freehold legal title is passed to the customer, revenue is recognised on any upfront sale of land (where applicable) and then on the development revenue over time as the build of the related commercial units progress. Where freehold legal title is not passed to the customer 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 customer.

The transaction price for commercial property revenue may include an element of variable consideration based on the commercial occupancy of the units when they are completed, though this is not expected to be material. If this is the case, the Directors take the view that unless the lettings not yet contracted are highly probable they should not be included in the calculation of the transaction price. The transaction price is regularly updated to reflect any changes in the accounting period.

Revenue is recognised on freehold reversion sales when the customer is contractually entitled to the ground rent revenue stream associated with the units purchased. Revenue on specification upgrades paid for by the customer or on the cost of specification upgrades offered to the customer as part of the purchase price is recognised as revenue when legal title passes to the customer.

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.

**Exceptional items**

Exceptional items are those which, in the opinion of the Directors, are material by size and/or non-recurring in nature such as significant costs and settlements associated with combustible materials, significant costs associated with acquiring another business, significant legal matters and significant inventory impairments. Where appropriate, the Directors consider that items should be considered as categories or classes of items, such as any credits/costs impacting the income statement which relate to combustible materials, notwithstanding where an item may be individually immaterial. The Directors believe that these items require separate disclosure within the income statement in order to assist the users of the financial statements to better understand the performance of the Company, which is also how the Directors internally manage the business. Where appropriate, the material reversal of any of these amounts will also be reflected through exceptional items. Additional charges/credits to items classified as exceptional items in prior years will be classified as exceptional in the current year, unless immaterial to the financial statements. As these exceptional items can vary significantly year on year, they may introduce volatility into the reported earnings. The income tax impacts of exceptional items are reflected at the actual tax rate related to these items.

**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 income statement on an accruals basis in the period in which they are incurred. Imputed interest expense on deferred land creditors and combustible materials discounting is recognised over the life of associated cashflows.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**1 ACCOUNTING POLICIES (continued)**

**Income and deferred tax**

Income tax comprises current tax and deferred tax. Income tax is recognised in the 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 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. Current tax assets are recognised to the extent that it is probable the asset is recoverable.

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 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 earlier of the period in which they are approved by the Company's shareholders, or paid.

**Employee benefits**

**(a) Pensions**

The Company participates in the retirement schemes of Crest Nicholson plc. Crest Nicholson plc operates a defined benefit pension scheme (closed to new employees since October 2001 and to future service accrual since April 2010), which is reflected within the Company's financial statements and also makes payments into a defined contribution scheme for employees.

In respect of the defined benefit scheme, the net retirement benefit deficit or surplus is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years, 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 statement of financial position date on AA credit rated bonds that have maturity dates approximating to the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit method. The operating and financing costs of such plans are recognised separately in the income statement; past service costs and financing costs are recognised in the years in which they arise. The Company recognises expected scheme gains and losses via the income statement and actuarial gains and losses are recognised in the year they occur directly in other comprehensive income, with associated deferred tax.

The retirement benefit surplus recognised in the statement of financial position represents the excess of the fair value of the scheme's assets over the present value of scheme liabilities, with any 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 scheme are accounted for on an accruals basis.

**(b) Share-based payments**

The fair value of equity-settled, share-based compensation plans is recognised as an employee expense with a corresponding increase in equity. The fair value is measured as at the date the options are granted and the charge amended if vesting does not take place due to non-market conditions not being met. The fair value is spread over the period during which the employees become unconditionally entitled to the shares and is adjusted to reflect the actual number of options that vest. At the 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. There are no cash-settled share-based compensation plans.

**Right-of-use assets and lease liabilities**

The Company assesses at lease inception whether a contract is, or contains, a lease. The Company recognises a right-of-use asset and a lease liability at lease commencement.

The right-of-use asset is initially recorded at the present value of future lease payments and subsequently measured net of depreciation, which is charged to the income statement as an administrative expense over the shorter of its useful economic life or its lease term on a straight-line basis.

The Company recognises lease liabilities at the present value of future lease payments, lease payments being discounted at the rate implicit in the lease or the Company's incremental borrowing rate as determined with reference to the most recently issued financial liabilities carrying interest. The discount is subsequently unwound and recorded in the income statement over the lease term as a financing expense. The lease term comprises the non-cancellable period of the contract, together with periods covered by an option to extend the lease where the Company is reasonably certain to exercise that option.

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less and leases of low value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**1 ACCOUNTING POLICIES (continued)**

**Inventories**

Inventories are stated at the lower of cost and NRV.

Work-in-progress and completed buildings including show homes comprise land under development, undeveloped land, land option payments, direct materials, sub-contract work, labour costs, site overheads, associated professional fees and other attributable overheads, but excludes interest costs.

Part exchange inventories are held at the lower of cost and NRV, 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 income statement.

Land inventories and the associated land payables are recognised in the statement of financial position from the date of unconditional exchange of contracts. Land payables are recognised as part of trade and other payables.

Options purchased in respect of land are recognised initially as a prepayment within inventories and written down on a straight-line basis over the life of the option. If planning permission is granted and the option exercised, the option is not written down during that year and its carrying value is included within the cost of land purchased.

Provisions are established to write down inventories where the estimated net sales proceeds less costs to complete exceed the current carrying value. Adjustments to the provisions will be required where selling prices or costs to complete change. NRV for inventories is assessed by estimating selling prices and costs, taking into account current market conditions.

**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 FVTPL
- measured subsequently at 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 administrative expenses. The Company 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 held to collect and initially recognised at fair value. Changes in fair value relating to the expected recoverable amount are recognised in the income statement as a finance income or expense. These assets are held as current or non-current based on their contractual repayment dates.

**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 and other receivables is established based on an expected credit loss model applying the simplified approach, which uses a lifetime expected loss allowance for all trade and other receivables. The amount of the loss is recognised separately in the 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 income statement as interest income over the duration of the deferred payment.

**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.

**Cash and cash equivalents**

Cash and cash equivalents are cash balances in hand and in the bank and are carried in the statement of financial position at nominal value.

**Interest-bearing loans and borrowings**

Interest-bearing loans and borrowings are recognised initially at fair value, net of direct transaction costs, and subsequently measured at amortised cost. Finance charges are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise or included within interest accruals.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**1 ACCOUNTING POLICIES (continued)**

**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 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.

**Land payables**

Land payables are recognised in the 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 an interest expense through the 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 income statement as an interest expense over the duration of the deferred period.

**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.

**Provisions**

A provision is recognised in the statement of financial position when the Company 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. Provisions are discounted to present value on a discounted cashflow basis using an interest rate appropriate to the class of the provision, where the effect is material.

**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 Company's trading results and working capital.

**2 SEGMENTAL ANALYSIS**

The ELT (comprising Peter Truscott (Chief Executive), Duncan Cooper (Group Finance Director until 13 December 2023), William Floyd (Group Finance Director from 13 November 2023) David Marchant (Group Operations Director), Kieran Daya (Managing Director, Crest Nicholson Partnerships and Strategic Land until 31 December 2023 and Chief Operating Officer from 01 January 2024), Jane Cookson (Group HR Director), Kevin Maguire (General Counsel and Company Secretary until 18 August 2023), Heather O'Sullivan (General Council from 25 September 2023), Penny Thomas (Group Company Secretary from 1 January 2024), Alex Stark (Executive Managing Director until 8 August 2023) and David Brown (Executive Managing Director until 15 December 2023)), 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 ELT approves investment decisions, allocates group resources and performs divisional performance reviews. The Company operating segments are considered to be its 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 with consideration of relevant economic indicators such as the nature of the products sold and customer base, and, having regard to the aggregation criteria in IFRS 8, the Company identifies that it has one reportable operating segment.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**3 . REVENUE**

	2023	2022
Revenue type	£m	£m
Open market housing including specification upgrades	541.4	786.6
Affordable housing	87.9	74.0
Total housing	629.3	860.6
Land and commercial sales	16.7	30.4
Freehold reversions	-	1.0
Total	646.0	892.0

  

	2023	2022
Timing of revenue recognition	£m	£m
Revenue recognised at a point in time	541.0	821.0
Revenue recognised over time	105.0	71.0
Total revenue	646.0	892.0

  

	2023	2022
Assets and liabilities related to contracts with customers	£m	£m
Contract assets (note 14)	6.9	24.2
Contract liabilities (note 16)	(4.2)	(14.6)

Contract assets have reduced to £6.9m from £24.2m in 2022, reflecting less unbilled work-in-progress on affordable and other sales in bulk at the year end. This reduction is not significant and is in line with the trading of the Company.

Contract liabilities have reduced to £4.2m from £14.6m in 2022, 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 on which revenue is recognised over time. This fall was driven primarily by a reduction in a number of sites where revenue was recognised at a point in time in the current year but the Company had received progress payments from the customer in the prior year.

Based on historical trends, the Directors expect a significant proportion of the contract liabilities total to be recognised as revenue in the next reporting period.

Included in revenue during the year was £13.4m (2022: £18.0m) that was included in contract liabilities at the beginning of the year.

During the year £nil (2022: £nil) of revenue was recognised from performance obligations satisfied or partially satisfied in previous years.

At 31 October 2023 there was £229.1m (2022: £322.4m) of transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied on contracts exchanged with customers. We are forecasting to recognise £114.3m (2022: £257.4m) of transaction prices allocated to performance obligations that are unsatisfied on contracts exchanged with customers within one year, £112.0m (2022: £65.0m) within two to five years, and £nil (2022: £nil) over five years.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**4 EXCEPTIONAL ITEMS**

Exceptional items are those which, in the opinion of the Directors, are material by size and/or non-recurring in nature and therefore require separate disclosure within the income statement in order to assist the users of the financial statements to better understand the performance of the Company, which is also how the Directors internally manage the business. Where appropriate, the Directors consider that items should be considered as categories or classes of items, such as any credits/costs impacting the income statement which relate to combustible materials, notwithstanding where an item may be individually immaterial. Where appropriate, a material reversal of these amounts will be reflected through exceptional items.

	2023 £m	2022 £m
<b>Cost of sales</b>		
Combustible materials charge	(11.3)	(102.5)
Combustible materials credit	10.0	-
<b>Net combustible materials charge</b>	<b>(1.3)</b>	<b>(102.5)</b>
Legal provision	(13.0)	-
<b>Total cost of sales charge</b>	<b>(14.3)</b>	<b>(102.5)</b>
<b>Net finance expense</b>		
Combustible materials imputed interest	(4.6)	(1.0)
<b>Share of post-tax profit/(loss) of joint ventures</b>		
Combustible materials credit/(charge) of joint ventures	0.6	(1.5)
<b>Total exceptional charge</b>	<b>(18.3)</b>	<b>(105.0)</b>
Tax credit on exceptional charge	4.8	22.4
<b>Total exceptional charge after tax credit</b>	<b>(13.5)</b>	<b>(82.6)</b>

**Net combustible materials charge**

As a consequence of signing the Developer Remediation Contract on 13 March 2023, the Company has entered into contractual commitments with the UK Government to identify and remediate those buildings it has developed with possible life-critical fire safety defects. The Company is currently working on circa 90 buildings in various stages of design, procurement and works. The combustible materials charge represents forecast changes in build costs and in the provision discount. The Company has recovered £10.0m cash from third parties in the year in respect of defective design and workmanship. See note 17 for additional information.

**Legal provision**

The Company is subject to a legal claim relating to a low-rise bespoke apartment block built by the Company which was damaged by fire in 2021. Due to the size and nature of the claim, and in line with the Company's accounting policy, this has been presented as an exceptional item. See note 18 for additional information.

**Net finance expense**

The combustible materials imputed interest reflects the unwind of the imputed interest on the provision to reflect the time value of the liability.

**Share of post-tax loss of joint ventures**

The combustible materials credit/(charge) of joint ventures represents the Company's share of exceptional combustibles materials credit/(charge) in its joint venture Crest Nicholson Bioregional Quintain LLP. The joint venture recognised a provision in the prior year and the current year credit represents a recovery from third parties, net of changes in build costs.

**Taxation**

An exceptional income tax credit of £4.8m (2022: £22.4m) has been recognised in relation to the above exceptional items using the actual tax rate applicable to these items.



**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**5 NET ADMINISTRATIVE EXPENSES AND OPERATING PROFIT**

Operating profit of £14.2m (2022: £28.8m) from continuing activities is stated after (charging)/crediting:

	Note	2023 £m	2022 £m
Inventories expensed in the year		(513.0)	(690.3)
Inventories impairment movement in the year	15	(7.6)	8.1
Staff costs	6	(58.2)	(54.2)
Depreciation on right-of-use assets	10	(2.2)	(1.4)
Joint venture project management fees recognised in administrative expenses	20	1.9	2.0
<b>Net administrative expenses</b>		<b>£m</b>	<b>£m</b>
Administrative expenses		(53.8)	(51.1)
Other operating income		39.5	-
Other operating expenses		(40.2)	-
Net administrative expenses		<u>(54.5)</u>	<u>(51.1)</u>

Other operating income and other operating expenses shown above relate to the income and associated costs arising on the sale of part exchange properties. For the year ended 31 October 2023, both the income and associated costs of these sales has been presented within net administrative expenses in the income statement. Previously the income and associated costs arising on these sales was included within cost of sales. Prior year has not been restated since the net result is immaterial to the Company and there is no change to the operating profit/(loss) realised in the year. Part exchange income and expenses for the year ended 31 October 2022 are £47.9m and £47.4m respectively.

	2023 £000	2022 £000
Auditors' remuneration:		
Audit of these financial statements	700	730

Audit fees are borne by Crest Nicholson plc, the immediate parent Company. The Group audit fees are disclosed within the financial statements of Crest Nicholson Holdings plc.

The audit fees payable in 2022 included £30,000 in relation to additional costs for the 2021 audit.

In addition to the above, PricewaterhouseCoopers LLP provide audit services to the Crest Nicholson Group Pension and Life Assurance Scheme and company joint ventures. The fees associated with the services to the Crest Nicholson Group Pension and Life Assurance Scheme are £35,565 (2022: £25,400) and are met by the assets of the scheme, and the fees associated with services to Company joint ventures are £20,000 (2022: £22,000).

**6 STAFF NUMBERS AND COSTS**

	2023 Number	2022 Number
<b>(a) Average monthly number of persons employed by the Company</b>		
Development	771	719

The Directors consider all employees of the Company to be employed within the same category of Development:

	2023 £m	2022 £m
<b>(b) Staff costs (including Directors and key Management)</b>		
Wages and salaries	48.8	44.9
Social security costs	5.5	5.6
Other pension costs	3.0	2.5
Share-based payments	0.9	1.2
	<u>58.2</u>	<u>54.2</u>

	2023 £m	2022 £m
<b>(c) Key management remuneration</b>		
Salaries and short-term employee benefits	3.5	4.0
Directors remuneration for loss of office	-	0.5
Share-based payments	0.6	1.0
	<u>4.1</u>	<u>5.5</u>

Key Management comprises the Executive Leadership Team (which includes the Executive Directors of the Board) and other key management as they are considered to have the authority and responsibility for planning, directing and controlling the activities of the Company.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**6 STAFF NUMBERS AND COSTS (continued)**

	2023	2022
	£m	£m
(d) Directors' remuneration		
Salaries and short-term employee benefits	1.6	2.6
Directors remuneration for loss of office	-	0.5
Share-based payments	0.5	0.8
	<u>2.1</u>	<u>3.9</u>

Directors' remuneration above gives information for the Directors entire Group remuneration. The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid Director was £1.0m (2022: £1.5m).

**7 FINANCE INCOME/(EXPENSE)**

	2023	2022
	£m	£m
<b>Finance income</b>		
Interest income	0.1	0.6
Interest on amounts due from associates	0.7	1.2
Interest on deferred receivables	-	0.1
Net interest on defined benefit pension scheme (note 13)	0.5	0.3
	<u>1.3</u>	<u>2.2</u>
<b>Finance expense</b>		
Interest payable to Group undertakings	(2.7)	(3.7)
Other interest payable	-	(0.2)
Imputed interest on deferred land payables	(3.1)	(2.8)
Interest on lease liabilities	(0.1)	(0.1)
Imputed interest on combustible materials provision – exceptional (note 17)	(4.6)	(1.0)
	<u>(10.5)</u>	<u>(7.8)</u>
Net finance expense	<u>(9.2)</u>	<u>(5.6)</u>

**8 INCOME TAX EXPENSE**

	2023	2022
	£m	£m
<b>Current tax</b>		
UK Corporation tax expense on profit for the year	(3.2)	(3.3)
Adjustments in respect of prior years	(0.5)	0.1
Total current tax expense	<u>(3.7)</u>	<u>(3.2)</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences in the current year	(0.5)	(0.5)
Total deferred tax charge (note 12)	<u>(0.5)</u>	<u>(0.5)</u>
Total tax charge in income statement	<u>(4.2)</u>	<u>(3.7)</u>

Corporation tax is calculated at 22.5%, based on a tax rate of 19% up until 1 April 2023, and a tax rate of 25% from 1 April 2023 (2022: 19.0%), of the profit chargeable to tax for the year. From 1 April 2022 the Company is subject to the RPDT at an additional rate of 4.0%. This results in a weighted statutory rate of corporation tax of 26.5% (2022: 21.3%) for the year. The effective tax rate for the year is 11.7% (2022: 14.4%) which is lower than (2022: lower than) the weighted standard rate of UK corporation tax of 26.5% (2022: 21.3%). The effective tax rate is lower due to group relief claimed, expenses not deductible for tax purposes and the prior year adjustment are greater than the benefits from the effect of enhanced tax deductions. The Company expects this profile to continue in future years, adjusted for the impact of changes in the corporation tax rate and prior year adjustments. The differences are explained overleaf:

	2023	2022
	£m	£m
<b>Reconciliation of tax charge in the year</b>		
Profit before tax	35.9	25.7
Tax on profit before tax at 26.5% (2022: 21.3%)	(9.5)	(5.5)
Effects of:		
Expenses not deductible for tax purposes	(0.2)	(0.1)
Enhanced tax deductions	0.3	0.2
Group relief claimed	-	1.3
Dividends received not subject to corporation tax	5.0	-
Adjustments in respect of prior years	(0.5)	0.1
Impact of RPDT annual allowance and adjustments	0.7	0.3
Total tax charge in income statement	<u>(4.2)</u>	<u>(3.7)</u>

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**8 INCOME TAX EXPENSE (continued)**

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 income statement, examples are share schemes and defined benefit pension payments. Adjustments in respect of prior years' reflect the difference between the estimated income statement tax charge in the prior year and that of the actual tax outcome. Group relief claimed is taxable losses from Group undertakings.

RPDT came into force in April 2022 and is therefore applicable to relevant profits for the full financial year. RPDT is an additional tax on profits generated from residential property development activity, in excess of an annual threshold and adjusting for amounts disallowable under RPDT, such as interest expense. The impact of RPDT annual allowance and adjustments reflects the net tax benefit of the annual threshold and interest adjustment.

Adjustment in respect of prior periods reflect the difference between the estimated income statement tax charge in the prior year and that of the actual tax outcome.

**9 DIVIDENDS**

There were no distributions to equity shareholders in the year (2022: nil). No dividend has been proposed by the Directors after the statement of financial position date.

**10 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES**

	Office buildings £m	Motor vehicles £m	Total £m
<b>Cost</b>			
At 1 November 2021	5.8	4.2	10.0
Additions	-	1.2	1.2
Disposals	-	(1.0)	(1.0)
At 31 October 2022	5.8	4.4	10.2
Additions	2.8	1.9	4.7
Disposals	-	(1.5)	(1.5)
At 31 October 2023	8.6	4.8	13.4
<b>Accumulated depreciation</b>			
At 1 November 2021	3.3	3.3	6.6
Charge for the year	1.0	0.4	1.4
Released on disposal	-	(1.0)	(1.0)
Reclassification	(0.3)	-	(0.3)
At 31 October 2022	4.0	2.7	6.7
Charge for the year	1.1	1.1	2.2
Released on disposal	-	(1.6)	(1.6)
At 31 October 2023	5.1	2.2	7.3
<b>Net book value</b>			
At 31 October 2023	3.5	2.6	6.1
At 31 October 2022	1.8	1.7	3.5
At 1 November 2021	2.5	0.9	3.4
<b>Lease liabilities included in the Statement of Financial Position</b>	2023 £m	2022 £m	
Non-current	4.4	2.3	
Current	2.0	1.4	
Total lease liabilities	6.4	3.7	
<b>Amounts recognised in the Income Statement</b>	2023 £m	2022 £m	
Depreciation on right-of-use assets	2.2	1.4	
Interest on lease liabilities	0.1	0.1	
<b>Amounts recognised in the Cash Flow Statement</b>	2023 £m	2022 £m	
Lease liabilities paid	2.2	1.6	
<b>Maturity of undiscounted contracted lease cash flows</b>	2023 £m	2022 £m	
Less than one year	2.2	1.5	
One to five years	3.2	2.4	
More than five years	1.6	-	
Total	7.0	3.9	

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**11 INVESTMENTS**

	Equity accounted joint ventures	Shares in subsidiary undertakings	Total
	£m	£m	£m
Cost less amounts written off			
At 1 November 2022	9.0	30.2	39.2
Movements	1.7	(8.6)	(6.9)
At 31 October 2023	10.7	21.6	32.3

Subsidiary undertakings

During the year the Company recognised a dividend from Crest Nicholson (Stotfold) Limited of £25.0m and Crest Nicholson (Nominees No. 2) Limited of £2.6m.

Shares in subsidiary undertakings are stated net of provisions for impairment in value of £8,642,000 (2022: £32,000). In the year £8.6m impairment on investment of Crest Nicholson (Stotfold) Limited was charged to the income statement. Impairment in investments is assessed based on the recoverable value of the investment.

A full list of subsidiary undertakings is included in note 22 to these financial statements.

Equity accounted joint ventures

Below are the joint ventures that the Directors consider are material to the Company.

- Crest A2D (Walton Court) LLP: In January 2016 the Company entered into a partnership agreement with A2 Dominion Developments 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 Company performs the role of project manager, for which it receives a project management fee.
- Elmsbrook (Crest A2D) LLP: In July 2017 the Company entered into a partnership agreement with A2 Dominion Developments Limited to procure and develop a site in Oxfordshire. The LLP commenced construction in 2018, with sales completion forecast for 2024. The development will be equally funded by both parties by way of interest free loans. The Company performs the role of project manager, for which it receives a project management fee.
- Crest Sovereign (Brooklands) LLP: In April 2019 the Company 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 2027. The LLP will be equally funded by both parties, who will receive interest on loaned sums. The Company performs the role of project manager, for which it receives a project management fee.
- Crest Peabody (Turweston) LLP: In September 2023 the Company entered into a partnership agreement with the Peabody Trust to develop a site in Buckinghamshire. The LLP is expecting to commence construction in 2024, with sales completion forecast for 2029. The development will be equally funded by both parties by way of interest free loans. The Company performs the role of project manager, for which it will receive a project management fee and a sales and marketing fee.

	2023	2022
	£m	£m
<b>Total investments in joint ventures</b>		
Crest A2D (Walton Court) LLP	2.3	3.4
Elmsbrook (Crest A2D) LLP	3.5	3.3
Crest Sovereign (Brooklands) LLP	4.9	2.3
Crest Peabody (Turweston) LLP	-	-
Other non-material joint ventures	-	-
<b>Total investments in joint ventures</b>	<b>10.7</b>	<b>9.0</b>

All material 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 22 for further details.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**11 INVESTMENTS (continued)**

**Summarised financial information for joint ventures**

The tables below provide financial information for joint ventures that are material to the Company. The information disclosed reflects the amounts presented in the financial statements of the relevant joint ventures, where the Company retains an interest, and not the Company's share of those amounts.

**2023**

	<b>Crest A2D (Walton Court) LLP</b>	<b>Elmsbrook (Crest A2D) LLP</b>	<b>Crest Sovereign (Brooklands) LLP</b>	<b>Crest Peabody (Turweston) LLP</b>	<b>Other non- material joint ventures</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Summarised statement of financial position</b>						
Current assets						
Cash and cash equivalents	0.2	6.0	0.4	-	0.2	6.8
Inventories	64.8	4.6	16.7	-	-	86.1
Other current assets	0.2	1.0	1.9	5.3	2.0	10.4
Current liabilities						
Financial liabilities	(52.0)	(1.4)	(1.1)	(0.3)	-	(54.8)
Other current liabilities	(5.7)	(3.3)	(8.1)	(5.0)	(3.9)	(26.0)
Non-current liabilities						
Financial liabilities	(3.0)	-	-	-	-	(3.0)
<b>Net assets/(liabilities)</b>	<b>4.5</b>	<b>6.9</b>	<b>9.8</b>	<b>-</b>	<b>(1.7)</b>	<b>19.5</b>
<b>Reconciliation to carrying amounts</b>						
Opening net assets/(liabilities) at 1 November 2022	6.7	6.5	4.6	-	(2.9)	14.9
(Loss)/profit for the year	(3.2)	3.4	5.2	-	1.2	6.6
Capital contribution reserve	1.0	-	-	-	-	1.0
Dividends paid	-	(3.0)	-	-	-	(3.0)
<b>Closing net assets/(liabilities) at 31 October 2023</b>	<b>4.5</b>	<b>6.9</b>	<b>9.8</b>	<b>-</b>	<b>(1.7)</b>	<b>19.5</b>
Company's share of closing net assets/(liabilities) at 31 October 2023	2.3	3.5	4.9	-	(0.9)	9.8
Fully provided in the Company financial statements (note 17)	-	-	-	-	0.9	0.9
<b>Company's share in joint venture</b>	<b>2.3</b>	<b>3.5</b>	<b>4.9</b>	<b>-</b>	<b>-</b>	<b>10.7</b>
Amount due to the Company (note 14)	27.4*	1.4	0.1	0.3	-	29.2
Amount due from the Company (note 16)	-	-	-	-	0.7	0.7
<b>Summarised income statement for the year ending 31 October 2023</b>						
Revenue	0.9	21.1	47.2	-	-	69.2
Expenditure	(2.6)	(17.7)	(41.1)	-	-	(61.4)
Expenditure – exceptional item (note 4)	-	-	-	-	1.2	1.2
<b>Operating (loss)/profit before finance expense</b>	<b>(1.7)</b>	<b>3.4</b>	<b>6.1</b>	<b>-</b>	<b>1.2</b>	<b>9.0</b>
Finance expense	(1.5)	-	(0.9)	-	-	(2.4)
<b>Pre-tax and post-tax (loss)/profit for the year</b>	<b>(3.2)</b>	<b>3.4</b>	<b>5.2</b>	<b>-</b>	<b>1.2</b>	<b>6.6</b>
<b>Company's share in joint venture (loss)/profit for the year</b>	<b>(1.6)</b>	<b>1.7</b>	<b>2.6</b>	<b>-</b>	<b>0.6</b>	<b>3.3</b>

\* £27.4m stated after expected credit loss of £0.1m.

The Company 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. Funding of this nature is currently expected to be £5.9m (2022: £1.2m). The Company has recognised its share of the accumulated losses of its joint ventures against the carrying value of investments or loans in the joint venture where appropriate, in line with IAS 28.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**11 INVESTMENTS (continued)**

**2022**

	Bonner Road LLP	Crest A2D (Walton Court) LLP	Elmsbrook (Crest A2D) LLP	Crest Sovereign (Brooklands) LLP	Other non- material joint ventures	Total
	£m	£m	£m	£m	£m	£m
<b>Summarised statement of financial position</b>						
Current assets						
Cash and cash equivalents	-	0.1	1.6	0.3	0.2	2.2
Inventories	-	40.4	7.8	28.8	-	77.0
Other current assets	-	0.1	0.1	2.3	0.2	2.7
Current liabilities						
Financial liabilities	-	(0.6)	-	(1.0)	-	(1.6)
Other current liabilities	-	(1.4)	(3.0)	(6.9)	(3.3)	(14.6)
Non-current liabilities						
Financial liabilities	-	(31.9)	-	(18.9)	-	(50.8)
Net assets/(liabilities)	-	6.7	6.5	4.6	(2.9)	14.9
<b>Reconciliation to carrying amounts</b>						
Opening net (liabilities)/assets at 1 November 2021	(13.7)	4.3	8.9	(1.0)	0.2	(1.3)
(Loss)/profit for the year	(1.2)	1.2	2.4	5.6	(3.1)	4.9
Capital contribution reserve	-	1.2	-	-	-	1.2
Dividends paid	-	-	(4.8)	-	-	(4.8)
Disposal in the year	14.9*	-	-	-	-	14.9
Closing net assets/(liabilities) at 31 October 2022	-	6.7	6.5	4.6	(2.9)	14.9
Company's share of closing net assets/(liabilities) at 31 October 2022	-	3.4	3.3	2.3	(1.4)	7.6
Losses recognised against receivable from joint venture (note 14)	-	-	-	-	0.2	0.2
Fully provided in the Company financial statements (note 17)	-	-	-	-	1.2	1.2
Company's share in joint venture	-	3.4	3.3	2.3	-	9.0
Amount due to the Company (note 14)	-	15.9**	0.8	0.2	-	16.9
Amount due from the Company (note 16)	-	-	-	-	0.1	0.1
<b>Summarised income statement for the year ending 31 October 2022</b>						
Revenue	-	26.0	11.0	47.4	-	84.4
Expenditure	-	(23.6)	(8.6)	(39.9)	(0.1)	(72.2)
Expenditure – exceptional item (note 4)	-	-	-	-	(3.0)	(3.0)
Operating profit/(loss) before finance expense	-	2.4	2.4	7.5	(3.1)	9.2
Finance expense	(1.2)	(1.2)	-	(1.9)	-	(4.3)
Pre-tax and post-tax (loss)/profit for the year	(1.2)	1.2	2.4	5.6	(3.1)	4.9
Company's share in joint venture (loss)/profit for the year	(0.6)	0.6	1.2	2.8	(1.5)	2.5

\* Company's share of the net liabilities comprises £7.5m made up of brought forward net liabilities of £6.9m and current year loss of £0.6m.

\*\* £15.9m stated after expected credit loss of £0.1m.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**12 DEFERRED TAX ASSETS AND LIABILITIES**

Deferred tax assets	Share-based payment	Total
	£m	£m
At 1 November 2021	0.3	0.3
Income statement movements	0.2	0.2
Equity movements	(0.2)	(0.2)
At 31 October 2022	0.3	0.3
Income statement movements	(0.1)	(0.1)
Equity movements	(0.1)	(0.1)
At 31 October 2023	0.1	0.1

  

Deferred tax liabilities	Pension surplus	Total
	£m	£m
At 1 November 2021	(4.1)	(4.1)
Income statement movements	(0.7)	(0.7)
Equity movements	1.6	1.6
At 31 October 2022	(3.2)	(3.2)
Income statement movements	(0.4)	(0.4)
Equity movements	1.1	1.1
At 31 October 2023	(2.5)	(2.5)

Total deferred tax credited to equity in the year is £1.0m (2022: £1.4m).

Deferred tax assets expected to be recovered in less than 12 months is £nil (2022: £0.2m), and in more than 12 months is £0.1m (2022: £0.1m). Deferred tax liabilities are due to be settled in more than one year.

At the statement of financial position date the substantively enacted future corporation tax rate is 25.0% (as from 1 April 2023). A new RPDT became effective from 1 April 2022 which is an additional tax at 4.0% of profits generated from residential property development activity, in excess of an annual threshold. Deferred tax assets and liabilities have been evaluated using the applicable tax rates when the asset is forecast to be realised and the liability is forecast to be settled. The Company has no material unrecognised deferred tax assets.

**13 EMPLOYEE BENEFITS**

**(a) Retirement benefit obligations**

Crest Nicholson Operations Limited participates in the retirement schemes of Crest Nicholson plc (the immediate parent Company). The scheme is recognised in these financial statements as the scheme members are employed by the Company.

Defined contribution scheme

The Group operates a defined contribution scheme for new employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. The contributions to this scheme for the year were £2.8m (2022: £2.3m). At the statement of financial position date there were no outstanding or prepaid contributions (2022: £nil).

Defined benefit scheme

The Company sponsors the Crest Nicholson Group Pension and Life Assurance Scheme (Scheme), a funded defined benefit pension scheme in the UK. The Scheme is administered within a trust that is legally separate from the Company. A Trustee company (Trustee) is appointed by the Company and the Company and the Scheme's members appoint Trustee Directors. The Trustee is appointed to act in the interest of the Scheme and all relevant stakeholders, including the members and the Company. The Trustee is 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 Trustee is required to use prudent assumptions to value the liabilities and costs of the Scheme whereas the accounting assumptions must be best estimates.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**13 EMPLOYEE BENEFITS (continued)**

Responsibility for meeting 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 Trustee 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 2021. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures, which are determined using best estimate assumptions.

The results of the actuarial valuation as at 31 January 2021 have been projected to 31 October 2023 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. As at 31 October 2023, the allocation of the Scheme's invested assets was 18% in return seeking investments, 40% in liability-driven investing, 40% in cash and 2% in insured annuities. Details of the investment strategy can be found in the Scheme's Statement of Investment Principles, which the Trustee updates 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 Banking Group Pensions Trustees Limited v Lloyds Bank plc and others (2018) case, overall pension benefits now need to be equalised to eliminate inequalities between males and females in Guaranteed Minimum Pensions (GMP). The Company has allowed for this in its accounts by adding a 1.3% (2022: 1.3%) reserve reflecting an approximate estimate of the additional liability.

	2023 £m	2022 £m	2021 £m
<b>The amounts recognised in the statement of financial position are as follows:</b>			
Fair value of scheme assets	141.3	160.0	241.9
Present value of scheme liabilities	(131.3)	(148.9)	(225.2)
<b>Net surplus amount recognised at year end</b>	<b>10.0</b>	<b>11.1</b>	<b>16.7</b>
Deferred tax liability recognised at year end within non-current liabilities	(2.5)	(3.2)	(4.1)

The retirement benefit surplus recognised in the statement of financial position represents the surplus of the fair value of the Scheme's assets over the present value of the Scheme's liabilities.

The rules of the Scheme provide the Company 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, the Company has made the judgement that the net surplus in the Scheme is recognised in full.

At the statement of financial position date the corporation tax rate is 25.0%. The deferred tax liability on the retirement benefit surplus has been evaluated applying this rate. RPDT of 4.0% is applicable to residential property development trading income only.

**Amounts recognised in comprehensive income:**

The current and past service costs, settlements and curtailments, together with the interest income for the year are included in the statement of comprehensive income. Remeasurements of the net defined benefit asset are included in the statement of comprehensive income.

	2023 £m	2022 £m
<b>Service cost</b>		
Administrative expenses	(0.6)	(0.9)
Interest income	0.5	0.3
<b>Recognised in the income statement</b>	<b>(0.1)</b>	<b>(0.6)</b>
<b>Remeasurements of the net liability</b>		
Return on Scheme assets	(18.5)	(82.6)
Gains arising from changes in financial assumptions	12.5	79.8
Gain/(loss) arising from changes in demographic assumptions	6.1	(0.1)
Experience losses	(2.6)	(5.5)
<b>Actuarial losses recorded in the statement of comprehensive income</b>	<b>(2.5)</b>	<b>(8.4)</b>
<b>Total defined benefit scheme losses</b>	<b>(2.6)</b>	<b>(9.0)</b>



**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**13 EMPLOYEE BENEFITS (continued)**

	2023 %	2022 %
<b>The principal actuarial assumptions used were:</b>		
Liability discount rate	5.6	4.8
Inflation assumption – RPI	3.3	3.2
Inflation assumption – CPI	2.7	2.6
Revaluation of deferred pensions	2.7	2.6
<b>Increases for pensions in payment</b>		
Benefits accrued in excess of GMP pre-1997	3.0	3.0
Benefits accrued post-1997	3.1	3.0
Proportion of employees opting for early retirement	0.0	0.0
Proportion of employees commuting pension for cash	100.0	100.0
Mortality assumption – pre-retirement	AC00	AC00
Mortality assumption – male and female post-retirement	S3PA light base tables (males and females) projected in line with CMI_2022 core model with core parameters (Sk = 7.0, an initial addition of 0.25%, w2020 and w2021 set to zero and 2022 set to 25%) and with a long-term rate of improvement of 1.25% p.a	S3PA light base tables projected in line with CMI_2021 core model with core parameters (Sk = 7.0, an initial addition of 0.25%, w2020 and w2021 set to zero) and with a long-term rate of improvement of 1.25% p.a
	2023 Years	2022 Years
<b>Future expected lifetime of current pensioner at age 65</b>		
Male aged 65 at year end	22.9	23.4
Female aged 65 at year end	24.6	25.0
<b>Future expected lifetime of future pensioner at age 65</b>		
Male aged 45 at year end	24.1	24.6
Female aged 45 at year end	25.9	26.3
	2023 £m	2022 £m
<b>Changes in the present value of assets over the year</b>		
Fair value of assets at beginning of the year	160.0	241.9
Interest income	7.5	4.1
Return on assets (excluding amount included in net interest income)	(18.5)	(82.6)
Contributions from the employer	1.5	3.4
Benefits paid	(8.6)	(5.9)
Administrative expenses	(0.6)	(0.9)
<b>Fair value of assets at end of the year</b>	<b>141.3</b>	<b>160.0</b>
Actual return on assets over the year	(11.0)	(78.5)
	2023 £m	2022 £m
<b>Changes in the present value of liabilities over the year</b>		
Liabilities at beginning of the year	(148.9)	(225.2)
Interest cost	(7.0)	(3.8)
<b>Remeasurement gains/(losses)</b>		
Gains arising from changes in financial assumptions	12.5	79.8
Gains/(losses) arising from changes in demographic assumptions	6.1	(0.1)
Experience losses	(2.6)	(5.5)
Benefits paid	8.6	5.9
<b>Liabilities at end of the year</b>	<b>(131.3)</b>	<b>(148.9)</b>
	2023 £m	2022 £m
<b>Split of the Scheme's liabilities by category of membership</b>		
Deferred pensioners	(57.8)	(71.5)
Pensions in payment	(73.5)	(77.4)
	<b>(131.3)</b>	<b>(148.9)</b>

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**13 EMPLOYEE BENEFITS (continued)**

	2023 Years	2022 Years
Average duration of the Scheme's liabilities at end of the year	12.0	14.0
This can be subdivided as follows:		
Deferred pensioners	16.0	18.0
Pensions in payment	9.0	10.0
	2023 £m	2022 £m
<b>Major categories of scheme assets</b>		
<b>Return seeking</b>		
Overseas equities	2.4	2.3
Other (hedge funds, multi asset strategy and absolute return funds)	23.6	55.9
	<b>26.0</b>	<b>58.2</b>
<b>Debt instruments</b>		
Corporates	11.8	-
Liability-driven investing	44.1	71.6
	<b>55.9</b>	<b>71.6</b>
<b>Other</b>		
Cash	55.9	25.9
Insured annuities	3.5	4.3
	<b>59.4</b>	<b>30.2</b>
<b>Total market value of assets</b>	<b>141.3</b>	<b>160.0</b>

The Scheme has implemented a liability driven investment (LDI) strategy designed to closely align investment returns with movements in the Scheme's liabilities on a low-risk basis, thereby reducing the volatility of the Scheme's funding level. The use of LDI brings liquidity risk as the demand for additional collateral to maintain the Scheme's hedging can change over short periods when interest rates change. In consultation with the Company, during the 2022 gilts crisis the Scheme continued to follow their LDI strategy, maintaining their interest rate and inflation hedging during the period of significant market volatility. Following the 2022 gilts crisis, the Trustee of the Scheme worked with its investment adviser (and in consultation with the Company) to review the investment strategy in April 2023. As a result, LCP (the Trustee's investment adviser) estimate that as at 30 September 2023 the Scheme has sufficient liquidity in the LDI portfolio (and Liquidity Plus Fund alongside) to withstand a greater than 4% p.a. increase in yields (from already historic highs) across the curve (assuming no accompanying fall in the value of collateral) before other assets would need to be sold to maintain the Scheme's hedge.

£nil (2022: £nil) of Scheme assets have a quoted market price in active markets, £90.9m (2022: £106.2m) of Scheme assets have valuation inputs other than quoted market prices, including quoted market prices for similar assets in active markets, £21.4m (2022: £42.4m) of Scheme assets are instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect the differences between the instruments, and £29.0m (2022: £11.4m) of Scheme assets are cash and insured pension annuities.

The Scheme has no investments in the Company or in property occupied by the Company.

The Scheme had a deficit as at the latest valuation date of 31 January 2021, with a recovery plan agreed between the Group and the Trustee. The Scheme was in surplus on the Technical Provisions basis, and so no further contributions were payable in respect of the shortfall in funding in accordance with the Recovery Plan dated 8 February 2022. In order to continue to move the Scheme towards the Trustee's secondary funding objective, the Trustee and the Group have agreed that the Company will fund the Scheme with contributions of £1.5m per annum, payable monthly until 30 April 2025. When the Scheme is at least 95% funded on the Secondary Funding Basis for a period of three consecutive months then the Group has the option to pay any remaining contributions to an escrow account. The Company expects to contribute £1.5m to scheme funding in the year ending 31 October 2024.

**Sensitivity of the liability value to changes in the principal assumptions**

The sensitivities included are consistent with those shown in prior years and show the change in the statement of financial position as at 31 October 2023 as a result of a change to the key assumptions.

If the discount rate was 0.25% higher/(lower), the Scheme liabilities would decrease by £3.8m/(increase by £3.9m) if all the other assumptions remained unchanged.

If the inflation assumption was 0.25% higher/(lower), the Scheme liabilities would increase by £2.3m/(decrease by £2.4m) if all the other assumptions remained unchanged.

If life expectancies were to increase by one year, the scheme liabilities would increase by £4.7m if all the other assumptions remained unchanged.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**13 EMPLOYEE BENEFITS (continued)**

(b) Share-based payments

**Long-term incentive plan (LTIP)**

The Group's LTIP is open to the Executive Directors and senior management with awards being made at the discretion of the Remuneration Committee. Options granted under the plan are exercisable between three and 10 years after the date of grant. Awards may be satisfied by shares held in the ESOT, the issue of new shares (directly or to the ESOT) or the acquisition of shares in the market. Awards made prior to 31 October 2020 vest over three years and are subject to three years' service, and return on capital and profit performance conditions.

Awards issued between 2021 and 2023 are subject to three years' service and assessed against return on capital, profit performance conditions and relative total shareholder returns (TSR). The non-market based return on capital and profit performance conditions applies to 60% of the award and value the options using a binomial option valuation model. The market-based TSR performance conditions apply to 40% of the award and values the options using the Monte Carlo valuation model. The TSR-based performance conditions are split one-third FTSE 250 excluding investment funds and two-thirds sector peer group. 1,320,566 of the options awarded in 2023 (961,765 of the 2022 award) are subject to an additional post-vesting holding period, where shares cannot be sold for two years after vesting date.

The 2021 fair value at measurement date of the different valuation elements are £2.25 TSR (FTSE 250), £1.85 TSR (peer group), and £2.84 for the non-market-based return on capital and profit performance conditions. The correlation of FTSE 250 and peer group calculated for each individual comparator company relative to the Group is 30% and 67% respectively. The average fair value at measurement date is £2.50 per option.

The 28 January 2022 grant fair value at measurement date of the different valuation elements of the unrestricted options are £1.68 TSR (FTSE 250), £1.55 TSR (peer group), and £2.62 for the non-market-based return on capital and profit performance conditions. The 2022 fair value at measurement date of the different valuation elements of the restricted options are £1.51 TSR (FTSE 250), £1.40 TSR (peer group), and £2.36 for the non-market-based return on capital and profit performance conditions. The correlation of FTSE 250 and peer group calculated for each individual comparator company relative to the Group is 31% and 68% respectively. The average fair value at measurement date is £2.10 per option. The average fair value at measurement date of the 25 August 2022 grant is £1.59 per option.

The 27 January 2023 grant fair value at measurement date of the different valuation elements of the unrestricted options are £1.84 TSR (FTSE 250), £1.68 TSR (peer group), and £2.45 for the non-market-based return on capital and tCO2 elements. The 2023 fair value at measurement date of the different valuation elements of the restricted options are £1.58 TSR (FTSE 250), £1.44 TSR (peer group), and £2.10 for the non-market-based return on capital and profit performance conditions. The correlation of FTSE 250 and peer group calculated for each individual comparator company relative to the Group is 33% and 65% respectively. The average fair value at measurement date is £1.88 per option.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**13 EMPLOYEE BENEFITS (continued)**

Date of grant	26 Feb 2016	21 Jun 2019	20 Feb 2020	04 Aug 2020	08 Feb 2021	28 Jan 2022	25 Aug 2022	06 Mar 2023	27 Jan 2023	07 Aug 2023	Total number of options
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	Number of options	
Outstanding at 1 November 2021	1,518	615,015	485,371	7,298	640,993	-	-	-	-	-	1,750,195
Granted during the year	-	-	-	-	-	656,470	23,955	-	-	-	680,425
Exercised during the year	(1,518)	-	-	-	-	-	-	-	-	-	(1,518)
Lapsed during the year	-	(615,015)	(62,161)	-	(78,761)	(29,443)	-	-	-	-	(785,380)
Outstanding at 31 October 2022	-	-	423,210	7,298	562,232	627,027	23,955	-	-	-	1,643,722
Granted during the year	-	-	-	-	-	-	-	11,549	1,096,246	508	1,108,303
Exercised during the year	-	-	(163,708)	(3,948)	-	-	-	(11,549)	-	(508)	(179,713)
Lapsed during the year	-	-	(259,502)	(3,350)	(167,438)	(181,150)	-	-	(201,028)	-	(812,468)
Outstanding at 31 October 2023	-	-	-	-	394,794	445,877	23,955	-	895,218	-	1,759,844
Exercisable at 31 October 2023	-	-	-	-	-	-	-	-	-	-	-
Exercisable at 31 October 2022	-	-	-	-	-	-	-	-	-	-	-
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	Total £m
Charge to income for the current year	-	-	-	-	-	0.1	-	-	0.3	-	0.4
Charge to income for the prior year	-	-	0.6	-	-	0.1	-	-	-	-	0.7

The weighted average exercise price of LTIP options was £nil (2022: £nil)

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**13 EMPLOYEE BENEFITS (continued)**

**Save as you earn**

Executive Directors and eligible employees are invited to make regular monthly contributions to a Sharesave scheme administered by Equiniti. On completion of the three-year contract period employees are able to purchase ordinary shares in the ultimate parent Company based on the market price at the date of invitation less a 20% discount. There are no performance conditions.

Date of grant	26 Jul 2018	30 Jul 2019	7 Aug 2020	3 Aug 2021	2 Aug 2022	28 Jul 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 2021	40,842	147,357	1,113,500	244,294	-	-	1,545,993	2.12
Granted during the year	-	-	-	-	975,549	-	975,549	1.94
Exercised during the year	(8,854)	-	(5,764)	-	-	-	(14,618)	2.58
Lapsed during the year	(31,988)	(50,525)	(210,555)	(160,163)	(62,992)	-	(516,223)	2.47
Outstanding at 31 October 2022	-	96,832	897,181	84,131	912,557	-	1,990,701	1.94
Granted during the year	-	-	-	-	-	1,938,156	1,938,156	1.51
Exercised during the year	-	-	(522,976)	-	-	-	(522,976)	1.70
Lapsed during the year	-	(96,832)	(61,983)	(41,201)	(486,485)	(158,774)	(845,275)	2.02
Outstanding at 31 October 2023	-	-	312,222	42,930	426,072	1,779,382	2,560,606	1.64
Exercisable at 31 October 2023	-	-	312,222	-	-	-	312,222	
Exercisable at 31 October 2022	-	96,832	-	-	-	-	96,832	
	£m	£m	£m	£m	£m	£m	Total £m	
Credit 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	-	-	0.3	

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**13 EMPLOYEE BENEFITS (continued)**

**Deferred bonus plan**

Under the terms of certain bonus schemes, some parts of bonus payments must be deferred in to share options. The options carry no performance criteria and vest over one or three years. Options granted under the plan are exercisable between one and ten years after the date of grant. Deferred bonus plan option numbers are based on the share price on date of grant.

Date of grant	28 Feb 2020	26 Feb 2021	1 Mar 2022	28 Jan 2022	06 Mar 2023	06 Mar 2023	27 Jan 2023	Total number of options
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	
Outstanding at 1 November 2021	426	34,800	-	-	-	-	-	35,226
Granted during the year	-	-	251	132,181	-	-	-	132,432
Exercised during the year	-	(24,985)	(251)	-	-	-	-	(25,236)
Lapsed during the year	-	(9,815)	-	-	-	-	-	(9,815)
Outstanding at 31 October 2022	426	-	-	132,181	-	-	-	132,607
Granted during the year	-	-	-	-	92	2,897	155,078	158,067
Exercised during the year	(426)	-	-	(48,374)	(92)	(2,897)	-	(51,789)
Lapsed during the year	-	-	-	(10,474)	-	-	(21,108)	(31,582)
Outstanding at 31 October 2023	-	-	-	73,333	-	-	133,970	207,303
Exercisable at 31 October 2023	-	-	-	-	-	-	-	-
Exercisable at 31 October 2022	-	-	-	-	-	-	-	-
	£m	£m	£m	£m	£m	£m	£m	Total £m
Charge to income for the current year	-	-	-	-	-	-	-	-
Credit to income for the prior year	-	-	-	0.2	-	-	-	0.2

The weighted average exercise price of deferred bonus plan share options was £nil (2022: £nil)

**Total Share Incentive Schemes**

Movements in the year	2023 Number of options	2022 Number of options
Options at beginning of the year	3,767,030	3,331,414
Granted during the year	3,204,526	1,788,406
Exercised during the year	(754,478)	(41,372)
Lapsed during the year	(1,689,325)	(1,311,418)
Options at end of the year	4,527,753	3,767,030
Exercisable at end of the year	312,222	96,832
	2023 £m	2022 £m
Charge to income for the year	0.9	1.2

The weighted average share price at the date of exercise of share options exercised during the year was £1.96 (2022: £2.77). The options outstanding had a range of exercise prices of £nil to £3.42 (2022: £nil to £3.42) and a weighted average remaining contractual life of 4.8 years (2022: 5.1 years).

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**14 TRADE AND OTHER RECEIVABLES**

	2023 £m	2022 £m
<b>Non-current</b>		
Trade receivables	4.6	9.9
Loss allowance on trade receivables	(0.1)	-
Due from joint ventures	1.5	16.0
Loss allowance on joint ventures	-	(0.1)
	<u>6.0</u>	<u>25.8</u>
<b>Current</b>		
Trade receivables	56.9	48.8
Loss allowance on trade receivables	(0.7)	(0.3)
Contract assets	6.9	24.3
Loss allowance on contract assets	-	(0.1)
Due from Group undertakings	9.9	112.7
Due from joint ventures	27.8	1.0
Loss allowance on joint ventures	(0.1)	-
Other receivables	25.7	36.2
Loss allowance on other receivables	(0.2)	-
Prepayments and accrued income	0.7	0.6
	<u>126.9</u>	<u>223.2</u>

Trade receivables and contract assets mainly comprise contractual amounts due from housing associations, bulk sale purchasers and land sales to other housebuilders. Other receivables mainly comprises development agreements where the Company is entitled to recovery of costs incurred under the agreement. Current trade receivables of £20.2m have been collected as of 1 January 2024 (2022: £20.7m have been collected as of 1 January 2023). The remaining balance is due according to contractual terms and no material amounts are past due. At the statement of financial position date, the difference between the fair value of non-current amounts due from joint ventures and nominal value is £nil (2022: £0.1m).

The Company 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 (2022: three) joint venture developments which are being project managed by the Company and are repayable according to contractual arrangements. Amounts due from joint ventures are stated net of losses of £nil (2022: £0.2m). See note 11 for additional details on the Company's interests in joint ventures.

Amounts due from joint ventures are stated after a loss allowance of £0.1m (2022: £0.1m) in respect of expected credit losses. This estimate is based on a discounted cash flow analysis of the relevant joint ventures using available cash flow projections for the remainder of the project. £nil (2022: £2.3m) provision was made during the year, £nil (2022: £14.1m) was utilised and £nil (2022: £nil) provision was released during the year.

Trade receivables, contract assets and other receivables are stated after a loss allowance of £1.0m (2022: £0.4m) has been made in respect of expected credit losses, assessed on an estimate of default rates. £0.7m (2022: £nil) provision was made during the year, £nil (2022: £nil) was utilised, and, £0.1m (2022: £nil) provision was released during the year.

**Movements in total loss allowance for expected credit losses**

	2023 £m	2022 £m
At beginning of the year	0.5	12.3
Charge to income in the year	0.7	2.3
Released in the year	(0.1)	(14.1)
At end of the year	<u>1.1</u>	<u>0.5</u>

**The maturity of non-current receivables is as follows:**

	2023 £m	2022 £m
Due between one and two years	5.8	24.9
Due between two and five years	0.2	0.9
Due after five years	-	-
	<u>6.0</u>	<u>25.8</u>

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**15 INVENTORIES**

	2023 £m	2022 £m
Work-in-progress	933.9	915.0
Completed buildings including show houses	82.9	27.9
Part exchange inventories	32.2	16.9
	<u>1,049.0</u>	<u>959.8</u>

During the year £13.4m additional NRV was charged, mainly relating to the legacy Farnham development.

Inventories are stated after an NRV provision of £20.2m (2022: £12.6m), which it is currently forecast that over a third will be used in the next financial year.

Movements in the NRV provision in the current and prior year are shown below:

	2023 £m	2022 £m
At beginning of the year	12.6	20.7
Underlying NRV provided in the year	13.4	9.6
Underlying NRV used in the year	(5.0)	(7.2)
Exceptional NRV used in the year	(0.8)	(10.5)
Total movement in the year	<u>7.6</u>	<u>(8.1)</u>
At end of the year	<u>20.2</u>	<u>12.6</u>

**16 TRADE AND OTHER PAYABLES**

	2023 £m	2022 £m
<b>Non-current</b>		
Land payables on contractual terms	30.0	32.9
Contract liabilities	0.3	-
Accruals and deferred income	1.3	2.7
	<u>31.6</u>	<u>35.6</u>
<b>Current</b>		
Land payables on contractual terms	110.9	136.0
Other trade payables	60.0	38.9
Contract liabilities	3.9	14.6
Amounts owed to Group undertakings	43.3	38.9
Amounts owed to joint ventures	0.7	20.6
Taxes and social security costs	0.1	0.1
Other payables	-	1.9
Accruals	110.3	165.5
	<u>329.2</u>	<u>416.5</u>

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 income statement. At 31 October 2023 the difference between the fair value and nominal value of land payables is £6.8m (2022: £2.4m).

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, the Directors expect a significant proportion of the contract liabilities total to be recognised as revenue in the next reporting period.

Amounts owed to Group undertakings are generally unsecured, repayable on demand and carry interest at 5%. Amounts owed to joint ventures are unsecured, repayable on demand and interest free.

Amounts due to joint ventures is interest free and repayable on demand. See note 11 for additional details on the Company's interests in joint ventures.

Other trade payables mainly comprise amounts due to suppliers and subcontractor's 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.



**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**17 PROVISIONS**

	Combustible materials £m	Legal provision £m	Joint ventures £m	Other provisions £m	Total £m
At 1 November 2021	42.6	-	-	0.5	43.1
Provided in the year	102.5	-	-	-	102.5
Imputed interest	1.0	-	-	-	1.0
Utilised in the year	(5.3)	-	-	-	(5.3)
Released in the year	-	-	-	(0.4)	(0.4)
Funding commitment recognised	-	-	1.2	-	1.2
Reclassification	-	-	-	0.3	0.3
At 31 October 2022	140.8	-	1.2	0.4	142.4
Provided in the year	12.0	13.0	-	0.4	25.4
Imputed interest	4.6	-	-	-	4.6
Utilised in the year	(12.6)	-	-	(0.2)	(12.8)
Funding commitment change	-	-	(0.3)	-	(0.3)
At 31 October 2023	144.8	13.0	0.9	0.6	159.3
At 31 October 2023					
<b>Non-current</b>	73.6	-	-	0.2	73.8
<b>Current</b>	71.2	13.0	0.9	0.4	85.5
	144.8	13.0	0.9	0.6	159.3
At 31 October 2022					
<b>Non-current</b>	70.5	-	-	0.3	70.8
<b>Current</b>	70.3	-	1.2	0.1	71.6
	140.8	-	1.2	0.4	142.4

**Combustible materials**

As a consequence of signing the Developer Remediation Contract on 13 March 2023, the Company has entered into contractual commitments with the UK Government to identify and remediate those buildings it has developed with possible life-critical fire safety defects. The signing of the contract did not materially alter the provision required as at 31 October 2022, which reflected the requirements of the Pledge. The Company is currently working on circa 90 buildings in various stages of design, procurement and works.

The combustible materials provision reflects the estimated costs to complete the remediation of life-critical fire safety issues on identified buildings. The Directors have used a combination of BSF costed information, other external information, and internal assessments as a basis for the provision, which is a best estimate at this time.

The Company recorded a further net combustible materials charge of £12.0m in the year predominantly related to changes in forecast build cost scope and price over the duration of remediation, net of the change in discounting. £11.3m of the charge relates to exceptional items per note 4. The provision is stated after a related discount of £7.3m, which unwinds to the income statement as finance expense over the expected duration of the provision using the effective interest rate method.

The provision of £144.8m represents the Company's best estimate of future costs on 31 October 2023. The Company will continue to assess the magnitude and utilisation of this provision in future reporting periods. The Company recognises that required remediation works could be subject to further inflationary pressures and cash outflows. If forecast remediation costs on buildings currently provided for are 20.0% higher than provided, the pre-tax exceptional items charge in the income statement would be £29.0m higher. If further buildings are identified this could also increase the required provision, but the potential quantity of this change cannot be readily determined without further claims or investigative work.

The Company spent £12.6m in the year across several buildings requiring further investigative costs, including balcony and cladding-related works. The Company expects to have completed any required remediation within a five-year period, using £71.2m of the remaining provision within one year, and the balance within one to five years. The timing of the expenditure is based on the Directors best estimates of the timing of remediating buildings and repaying the BSF incurred costs. Actual timing may differ due to delays in agreeing scope of works, obtaining licences, tendering works contracts and the BSF payment schedule differing to our forecast.

The Company is continuing to review the recoverability of costs incurred from third parties where it has a contractual right of recourse. In the year £10.0m was recovered from third parties by the Company. The Company also recognised its share of recoveries from third parties in its joint venture Crest Nicholson Bioregional Quintain LLP of £0.6m, net of changes in build costs. Recoveries are not recognised until they are virtually certain to be received. See note 4 for income statement disclosure.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**17 PROVISIONS (continued)**

**Legal provision**

The Company is subject to a legal claim relating to a low-rise bespoke apartment block built by the Company which was damaged by fire in 2021. The fire caused extensive damage to the property which was subsequently demolished and is currently being rebuilt by the freeholder. In June 2023 the Company received a letter of claim alleging fire safety defects and claiming compensation for the rebuild and other associated costs. The Company has now assessed the claim and the provision recorded represents managements best estimate of the Company's potential exposure taking into account legal and professional advice. The claim and ultimate route to settlement is ongoing but the Company currently does not have a set timeline for when the matter will be concluded.

**Joint ventures**

Joint ventures represents the Company's legal or constructive obligation to fund losses on joint ventures.

**Other provisions**

Other provisions comprise dilapidation provisions on Company offices and dilapidation provisions on commercial properties where the Company previously held the head lease. In the prior year the Company reclassified the brought forward balance of dilapidations on Company offices which were previously offset against right of use assets.

**18. CALLED UP SHARE CAPITAL**

	2023 £	2022 £
<b>Allotted and fully paid</b>		
360 Ordinary shares of £1 each (2022: 360 Ordinary shares of £1 each)	<u>360</u>	<u>360</u>

**19 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. The Directors consider the possibility of a cash outflow in settlement of performance bonds and other arrangements to be remote and therefore this does not represent a contingent liability for the Company.

In the ordinary course of business, the Company enters into certain land purchase contracts with vendors on a conditional exchange basis. The conditions must be satisfied for the Company to recognise the land asset and corresponding liabilities within the statement of financial position. No land payable in respect of conditional land acquisitions has been recognised.

The Company 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 material contingent liability in respect of such claims has been recognised since there are no known claims of this nature.

As a consequence of signing the Developer Remediation Contract on 13 March 2023, the Company has entered into contractual commitments with the Government to identify and remediate those buildings it has developed with possible life-critical fire safety defects. Accordingly, whilst the Company believes that most significant liabilities will have been identified through the process of building owners assessing buildings and applying for BSF funding and through Crest commissioning assessments to date, contingent liabilities exist where additional buildings have not yet been identified which require remediation. Due to the enduring challenges of developing a reliable estimate of these possible costs, the Company continues to not disclose an expected range.

The Company is reviewing the recoverability of costs incurred from third parties where it has a contractual right of recourse. As reflected in these financial results, the Company has a track record of successfully obtaining such recoveries, however no contingent assets have been recognised in these financial statements for such items.

**20 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 Company and key management personnel mainly comprise remuneration which is given in note 6. There were no transactions between the Company and key management personnel in the year.

The Company's Directors have associations other than with the Company. From time to time the Company may buy products or services from organisations with which a Director has an association. Where this occurs, it is on normal commercial terms and without the direct involvement of the Director.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**20 RELATED PARTY TRANSACTIONS (continued)**

The Company had the following transactions/balances with its joint ventures in the year/at year end:

	<b>2023</b>	<b>2022</b>
	<b>£m</b>	<b>£m</b>
Interest income on joint venture funding	<b>0.7</b>	<b>1.2</b>
Project management fees received	<b>1.9</b>	<b>2.0</b>
Amounts due from joint ventures, net of expected credit losses	<b>29.2</b>	<b>16.9</b>
Amounts due to joint ventures	<b>0.7</b>	<b>0.1</b>
Funding to joint ventures	<b>11.9</b>	<b>5.6</b>
Funding from joint ventures	<b>0.1</b>	<b>4.7</b>
Dividends received from joint ventures	<b>1.5</b>	<b>2.4</b>

**21 IMMEDIATE AND ULTIMATE PARENT COMPANY**

The immediate parent company is Crest Nicholson plc, which is incorporated in Great Britain and registered in England and Wales. The largest group of undertakings for which group financial statements are drawn up, and ultimate parent Company is that headed by Crest Nicholson Holdings plc, which is incorporated in Great Britain and registered in England and Wales. The smallest group in which they are is that headed by Crest Nicholson plc. Copies of Crest Nicholson Holdings plc and Crest Nicholson plc financial statements can be obtained from the Company's registered office which is shown in the Directors' Report.

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**22 RELATED UNDERTAKINGS**

In accordance with s.409 of the Companies Act 2006, the following is a list of all the Company's undertakings at 31 October 2023.

**Subsidiary undertakings**

As at 31 October 2023 the Company had the following subsidiary undertakings which are included in investments. All subsidiaries were incorporated in England and Wales.

Entity name	Registered office	Active / Dormant	Year end date	Voting rights and shareholding direct/(indirect)
Bath Riverside Estate Management Company Limited	2	9	31 October	100%
Bath Riverside Liberty Management Company Limited	2	9	31 October	100%
Castle Bidco Home Loans Limited	1	8	31 October	100%
Brightwells Residential 1 Company Limited	1	9	31 October	100%
Building 7 Harbourside Management Company Limited	1	8	31 December	58.33%
Buildings 3A, 3B & 4 Harbourside Management Company Limited	2	9	31 December	83.33%
CN Secretarial Limited	1	9	31 October	100%
CN Shelf 2 LLP	1	9	31 October	100%
CN Shelf 3 LLP	1	9	31 October	100%
Crest Estates Limited	1	9	31 October	66.67% (100%)
Crest Homes (Nominees) Limited	1	9	31 October	100%
Crest Homes (Nominees No.2) Limited	1	8	31 October	100%
Crest Homes (Northern) Limited	1	9	31 October	100%
Crest Homes (South East) Limited	1	9	31 October	100%
Crest Homes (South West) Limited	1	9	31 October	100%
Crest Homes (South) Limited	1	9	31 October	100%
Crest Homes (Wessex) Limited	1	9	31 October	100%
Crest Homes (Westerham) Limited	1	9	31 October	50% (100%)
Crest Homes Limited	1	9	31 October	100%
Crest Manhattan Limited	1	9	31 October	100%
Crest Nicholson (Chiltern) Limited	1	9	31 October	100%
Crest Nicholson (Eastern) Limited	1	9	31 October	100%
Crest Nicholson (Henley-on-Thames) Limited	1	8	31 October	100%
Crest Nicholson (Highlands Farm) Limited	1	9	31 October	100%
Crest Nicholson (Londinium) Limited	1	9	31 October	100%
Crest Nicholson (Midlands) Limited	1	9	31 October	100%
Crest Nicholson (Peckham) Limited	1	8	31 October	100%
Crest Nicholson (South East) Limited	1	9	31 October	50% (100%)
Crest Nicholson (South West) Limited	1	9	31 October	100%
Crest Nicholson (South) Limited	1	9	31 October	100%
Crest Nicholson (Stotfold) Limited	1	8	31 October	100%
Crest Nicholson Projects Limited	1	9	31 October	100%
Crest Nicholson Properties Limited	1	9	31 October	100%
Crest Nicholson Regeneration Limited	1	9	31 October	99% (100%)
Crest Nicholson Residential (South East) Limited	1	9	31 October	100%
Crest Nicholson Residential Limited	1	9	31 October	100%
Crest Nicholson (Wheatley) LLP	1	8	31 October	100%
Crest Partnership Homes Limited	1	9	31 October	100%
Crest Strategic Projects Limited	1	9	31 October	100%
Eastern Perspective Management Company Limited	1	9	31 October	100%
Essex Brewery (Walthamstow) LLP	1	9	31 October	100%
Ellis Mews (Park Central) Management Limited	1	8	31 October	100%
Harbourside Leisure Management Company Limited	1	8	30 December	71.43%
Park Central Management (Central Plaza) Limited	1	9	31 October	100%
Park Central Management (Zone 11) Limited	1	9	31 October	100%
Park Central Management (Zone 12) Limited	1	9	31 October	100%
Park Central Management (Zone 1A North) Limited	1	9	31 October	100%
Park Central Management (Zone 1A South) Limited	1	9	31 October	100%
Park Central Management (Zone 1B) Limited	1	9	31 October	100%

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**22 RELATED UNDERTAKINGS (continued)**

Entity name	Registered office	Active / Dormant	Year end date	Voting rights and shareholding direct/(indirect)
Park Central Management (Zone 3/1) Limited	1	9	31 October	100%
Park Central Management (Zone 3/2) Limited	1	9	31 October	100%
Park Central Management (Zone 3/3) Limited	1	9	31 October	100%
Park Central Management (Zone 3/4) Limited	1	9	31 October	100%
Park Central Management (Zone 4/41 & 42) Limited	1	9	31 October	100%
Park Central Management (Zone 4/43/44) Limited	1	9	31 October	100%
Park Central Management (Zone 5/53) Limited	1	9	31 October	100%
Park Central Management (Zone 5/54) Limited	1	9	31 October	100%
Park Central Management (Zone 5/55) Limited	1	9	31 October	100%
Park Central Management (Zone 6/61-64) Limited	1	9	31 October	100%
Park Central Management (Zone 7/9) Limited	1	9	31 October	100%
Park Central Management (Zone 8) Limited	1	9	31 October	100%
Park Central Management (Zone 9/91) Limited	1	9	31 January	100%

**Subsidiary audit exemption**

The following subsidiaries have taken advantage of an exemption from audit under section 479A of the Companies Act 2006. The parent company, Crest Nicholson plc has provided a statutory guarantee for any outstanding liabilities of this business. All subsidiary undertakings have been included in the financial statements of Crest Nicholson Holdings plc as at 31 October 2023.

Crest Homes (Nominees No. 2) Limited (02213319)  
Crest Nicholson (Henley-on-Thames) Limited (03828831)  
Crest Nicholson (Peckham) Limited (07296143)  
Crest Nicholson (Stotfold) Limited (08774274)  
Crest Homes (Nominees) Limited (01715768)  
Crest Nicholson Residential Limited (00714425)

**Joint venture undertakings**

At 31 October 2023 the Company had an interest in the following joint venture undertakings which are equity accounted within the financial statements. The principal activity of all undertakings is that of residential development.

Entity name	Registered office	Active / Dormant	Yearend date	Voting rights and shareholding
<b>Material joint ventures</b>				
Crest A2D (Walton Court) LLP	1	8	31 March	50%
Crest Sovereign (Brooklands) LLP	4	8	31 October	50%
Elmsbrook (Crest A2D) LLP	5	8	31 March	50%
Crest Peabody (Turweston) LLP	1	8	31 May	50%
<b>Other joint ventures not material to the Company</b>				
Crest Nicholson Bioregional Quintain LLP	1	8	31 October	50%
English Land Banking Company Limited	1	8	31 October	50%
Haydon Development Company Limited	3	8	30 April	21.36%
North Swindon Development Company Limited	3	8	31 October	32.64%

**Registered office**

1 500 Dashwood Lang Road, Bourne Business Park, Addlestone, Surrey KT15 2HJ  
2 Units 1, 2 & 3 Beech Court, Wokingham Road, Hurst, Reading RG10 0RU  
3 6 Drakes Meadow, Penny Lane, Swindon, Wiltshire SN3 3LL  
4 Sovereign House, Basing View, Basingstoke RG21 4FA  
5 The Point, 37 North Wharf Road, London W2 1BD

**Active / Dormant**

8 Active  
9 Dormant

**CREST NICHOLSON OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**22 RELATED UNDERTAKINGS (continued)**

**Joint operations**

The Company is party to a joint unincorporated arrangement with Linden Homes Limited, the purpose of which was to acquire, and develop, a site in Hemel Hempstead, Hertfordshire. The two parties are jointly responsible for the control and management of the sites' 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 Company 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 Company financial statements relating to this joint arrangement as at 31 October 2023. 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 Company's accounting policies, the Company 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 statement of financial position and income statement as there is no legal entity in place and the arrangements as structured such that the Company has a direct interest in the underlying assets and liabilities of each arrangement.

## CREST NICHOLSON OPERATIONS LIMITED ALTERNATIVE PERFORMANCE MEASURES (UNAUDITED)

The Company uses a number of APM which are not defined within IFRS. The Directors use these APM, along with IFRS measures, to assess the operational performance of the Company as detailed in the Strategic Report on pages 1 to 14. Definitions and reconciliations of the financial APMs used to IFRS measures, are included below:

### Sales

The business uses sales as a core management measure to reflect the full extent of its business operations and responsibilities. Sales is a combination of statutory revenue as per the income statement and the Company's share of revenue earned by joint ventures, as detailed in the below table.

	2023 £m	2022 £m
Revenue	646.0	892.0
Company's share of joint venture revenue (note 11)	34.6	42.2
<b>Sales</b>	<b>680.6</b>	<b>934.2</b>

### Return on capital employed

The Company uses ROCE as a core management measure to reflect the profitability and efficiency with which capital is employed. ROCE is calculated as adjusted operating profit before joint ventures divided by average capital employed (capital employed = equity plus net borrowing or less net cash), as presented below. ROCE achieved by the Company in the year decreased to 4.1% (2022: increased 19.9%).

		2023	2022
Adjusted operating profit	£m	28.5	131.3
Average of opening and closing capital employed	£m	693.9	661.2
ROCE	%	4.1	19.9

  

		2023	2022	2021
Capital employed				
Equity shareholders' funds	£m	744.1	713.0	696.8
Net cash	£m	(26.1)	(43.2)	(44.2)
Closing capital employed	£m	718.0	669.8	652.6

### Net cash

Net cash is cash and cash-equivalents. Net cash illustrates the Company's overall liquidity position and general financial resilience. Net cash has decreased in the year to £26.1m from £43.2m in 2022.

### Land creditors as a percentage of net assets

The Company uses land creditors as a percentage of net assets as a core management measure to ensure that the Company is maintaining a robust financial position when entering into future land commitments. Land creditors as a percentage of net assets is calculated as land creditors divided by net assets, as presented below. Land creditors as a percentage of net assets has decreased in the year to 18.9% (2022: increased to 23.7%).

		2023	2022	2021
Land creditors	£m	140.9	168.9	157.9
Net assets	£m	744.1	713.0	696.8
Land creditors as a percentage of net assets	%	18.9	23.7	22.7

**CREST NICHOLSON OPERATIONS LIMITED**  
**ALTERNATIVE PERFORMANCE MEASURES (UNAUDITED)(continued)**

**Adjusted performance metrics**

Adjusted metrics as shown below are alternative performance measures, consisting of statutory metrics adjusted for the exceptional items as presented in note 4. The exceptional items have a material impact to reported performance and arise from recent, unforeseen events. As such, the Directors consider these adjusted performance metrics reflect a more accurate view of its core operations and underlying business performance. EBIT margin for share award performance conditions is equivalent to operating profit margin.

<b>Year ended 31 October 2023</b>		<b>Statutory</b>	<b>Exceptional items</b>	<b>Adjusted</b>
Gross profit	£m	77.9	14.3	92.2
Gross profit margin	%	12.1	2.2	14.3
Operating profit	£m	14.2	14.3	28.5
Operating profit margin	%	2.2	2.2	4.4
Net finance (expense)/income	£m	(9.2)	4.6	(4.6)
Share of post-tax profit/(loss) of joint ventures using the equity method	£m	3.3	(0.6)	2.7
Profit before taxation	£m	35.9	18.3	54.2
Income tax expense	£m	(4.2)	(4.8)	(9.0)
Profit after taxation	£m	31.7	13.5	45.2

<b>Year ended 31 October 2022</b>		<b>Statutory</b>	<b>Exceptional items</b>	<b>Adjusted</b>
Gross profit	£m	81.7	102.5	184.2
Gross profit margin	%	9.2	11.5	20.7
Operating profit	£m	28.8	102.5	131.3
Operating profit margin	%	3.2	11.5	14.7
Net finance (expense)/income	£m	(5.6)	1.0	(4.6)
Share of post-tax profit/(loss) of joint ventures using the equity method	£m	2.5	1.5	4.0
Profit before taxation	£m	25.7	105.0	130.7
Income tax expense	£m	(3.7)	(22.4)	(26.1)
Profit after taxation	£m	22.0	82.6	104.6



**Glossary**

APM	Alternative performance measures
BSF	Building Safety Fund
EBIT	Earnings before interest and taxes
ELT	Executive Leadership Team
ERP	Enterprise resource planning
ESG	Environment, Social & Governance
FRC	Financial Reporting Council
FHS	Future Homes Standard
FVTPL	Fair value through profit or loss
FVOCI	Fair value through other comprehensive income
GDV	Gross Development Value
GHG	Greenhouse gas
HBF	Home Builders Federation
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicators
LTIP	Long-Term Incentive Plan
NHBC	National House Building Council
NRV	Net realised value
APBT	Adjusted Profit before tax
PBT	Profit before tax
PSL	Partnerships and Strategic Land
Pledge	Building Safety Pledge
PRS	Private Rented Sector
RCF	Revolving Credit Facility
ROCE	Return on capital employed
RPDT	Residential property developer tax
RPs	Registered Providers
SHE	Safety, Health & Environment

**CREST NICHOLSON OPERATIONS LIMITED**  
**DIRECTORY**

**500 Dashwood Lang Road, Bourne Business Park, Addlestone, Surrey KT15 2HJ**  
**Telephone 01932 580555 Fax 0870 336 3990**

**Crest Nicholson South**

Eileen Guihen  
Acting Managing Director  
Telephone: 01932 580444

**Crest Nicholson Eastern**

Asa Chittock  
Managing Director  
Telephone: 01277 693230

**Crest Nicholson Chiltern**

Adrian Sims  
Managing Director  
Telephone: 01727 616940

**Crest Nicholson South West**

Mark Foyle  
Managing Director  
Telephone: 01179 236600

**Crest Nicholson Midlands**

Tim Brickley  
Managing Director  
Telephone: 01214 351100

**Crest Nicholson Yorkshire**

Guy Evans  
Managing Director  
Telephone: 01135 215930

**Crest Nicholson Partnerships and Strategic Land**

Kieran Daya  
Managing Director  
Telephone: 01932 580555

**[www.crestnicholson.com](http://www.crestnicholson.com)**