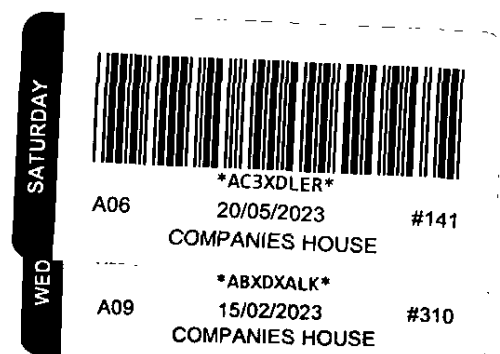


CREST NICHOLSON PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 2022



Registered no. 1040616

CREST NICHOLSON PLC STRATEGIC REPORT

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Annual Report and Financial Statements consolidate the results of Crest Nicholson plc (the 'Company') and its subsidiaries (together referred to as the 'Group') and include the Group's interest in jointly controlled entities. The principal activity of the Group is the design and delivery of sustainable housing and mixed-use communities. The Groups' core operations are focused on the southern half of the UK with emphasis on creating high quality, well-designed homes and sustainable communities.

FUTURE DEVELOPMENTS

This year has been characterised by significant uncertainty in the external environment. At the start of the year our sector was starting to recover from the operational disruption created by COVID-19. The economic backdrop pointed to rising inflation and increasing interest rates, however the housing market continued to demonstrate its resilience, as it had done so throughout the pandemic, and we traded well during this time.

The tragic conflict in Ukraine acted as an accelerant to these pressures, creating energy supply concerns, adding further commodity supply issues, and increasing global geopolitical uncertainty. In housebuilding cost inflation started to grow with raw material price increases and labour inflation driving up the cost of construction. The housing market has mitigated the impact of these increased costs through comparable levels of house price inflation. Trading conditions started to become tougher over the summer, culminating in significant political and economic turbulence in the UK in early autumn. A year that had started so positively for all housebuilders became increasingly challenging as we closed our year at the end of October.

We set out an update to our strategy at our Capital Markets Day in October 2021. Having completed the first phase of this strategy and delivered a strong financial and operational turnaround, the Board outlined to shareholders why it believed growing Crest Nicholson's footprint in the UK and expanding into new geographies was the best way to create value over the medium term.

We have made a strong start with these ambitions in FY22. In Yorkshire we have opened an office, establishing a small team which has been active in the land market, acquiring its first site and with terms agreed on several others. We have been able to attract high quality talent with expertise in the region and have been pleased by the local reception to the Crest Nicholson brand. In East Anglia we have recruited an experienced leader who has recently joined us and will implement a similar approach in that region.

Given the uncertain economic backdrop and challenges outlined above we have decided to defer the planned opening of a third new division in FY23. We will also remain disciplined and selective in acquiring new sites and incurring incremental overheads across the whole Group and will look to accelerate the growth plan in the new divisions when market conditions stabilise.

Delivering excellent customer service is a major focus for all Crest Nicholson employees, reflected by our inclusion of attaining a five-star rating in the Home Builders Federation (HBF) customer satisfaction survey as one of our five strategic priorities. In addition, our industry is undergoing significant change in this area. The New Homes Quality Code (Code) was introduced in October 2022, and we have been preparing to align our business operations and processes to comply with the requirements of the Code. We welcome its objectives which will support the delivery of high standards from housebuilders and see customers being more actively involved during the construction process through to completion.

As outlined above, this year has seen the housebuilding sector impacted by disruption to labour and supply chains through a combination of adjusting to life outside of the European Union, the aftermath of COVID-19 and the conflict in Ukraine. Against this backdrop we have experienced operational challenges and disruption in one of our divisions that has delayed the handover of some properties to customers. This has disproportionately impacted our overall satisfaction score which is now expected to be marginally below the threshold required to retain five-star for FY22.

The outlook for the housing market is clearly uncertain. There are many political and economic factors, some global in nature, which we cannot hope to influence or change. Our focus in times like this must be on those things we can control.

The hard work of the past three years has put the Group in a strong financial position. Our balance sheet is robust and gives us confidence to trade effectively in all market scenarios. We also want to remain active in the land market, recognising the competition for new sites, and ensuring we emerge from any downturn in market conditions in the strongest possible condition. We have an experienced leadership team who have extensive experience of operating in tougher market conditions. We enter FY23 with a strong forward order book, a portfolio of excellent land assets and an operating platform with multiple channels to market.

We are convinced that the fundamentals of the housing market in the long-term remain attractive. The lack of land which can be immediately developed, and the skill and experience required to navigate our planning system, will eventually require reforms if we are to significantly boost our nation's housing supply. Our strategy to grow Crest Nicholson into new geographies remains undiminished. We will remain disciplined and selective in the way we allocate capital and will look to accelerate our growth plans when calmer market conditions return.

The strategic priorities of the Group include:

- *Placemaking and quality* – Our land portfolio will continue to provide opportunities for the Group to demonstrate its master planning and placemaking expertise. We aim to create aspirational developments that we know our customers are proud to call home and deliver high quality, well-specified homes.

Registered no. 1040616

Classified as **GENERAL**

CREST NICHOLSON PLC STRATEGIC REPORT (continued)

We are committed to improving the energy efficiency and sustainability of our homes. We are adapting our homes in response to *The Future Homes Standard* ensuring that we continue to reduce the impact that the construction and usage of our homes has on the climate.

We want to build developments that people wish to live in and call home. We do this by creating attractive and vibrant communities with a focus on sustainability. An example of this is our development Fernhurst in Camberley, Surrey. Within the development we have provided a wildflower meadow with mown footpaths, an informal wetland basin area and will contain equipped play areas. The site has been designed to attract a range of wildlife such as bats, butterflies and distinctive birds surrounded by leafy woodlands. The site is adjacent to Hawley Park Farm Country Park which provides 15 acres of open meadow with tree and hedgerow planting. The space provides opportunities for dog walking and informal recreation including a play area, picnic area and natural play trail. The site has been created as a Suitable Alternative Natural Greenspace (SANG) which helps to reduce recreational pressure on the nearby Thames Basin heathland habitats.

- **Land Portfolio** – We have a well located land portfolio which provides us with flexibility in how we choose to develop it. Our short-term land portfolio represents approximately five years' worth of supply which we consider to be appropriate for our needs. Most of these sites can be delivered by utilising our standard house type range and some are well suited to development for partners who we work closely with to realise value for both parties.

Our strategic land portfolio generally offers longer-term opportunities to create value, often at superior margins to short-term land and enables us to utilise our strengths in promotion and placemaking. These sites are predominantly controlled under option representing good capital efficiency.

We remain disciplined and selective on the procurement of land and new acquisitions must meet our elevated hurdle rates to reflect the current economic uncertainty. During the year we have been able to add high quality sites to our land portfolio across the Group. This included the purchase of 142 plots in Kinver, Staffordshire – a high-quality location in our Midlands division. Our team's expertise in sourcing land opportunities and managing relationships with landowners was pivotal to securing this scheme. While the land market remains highly competitive the Group's standard house type range and efficient operating platform have supported our ability to procure land on compelling economic terms. Occasionally the Group believes it can best realise value for stakeholders by disposing of land interests. In May 2022 the Group disposed of its 50% share in the joint venture containing the London Chest Hospital site in East London for £16.0m to its joint venture partner receiving £8.0m cash in the year and £8.0m in FY23.

- **Operational efficiency** – Central to every part of our strategy is a desire to do things efficiently and right first time. Using our standard house types and specifications we can build with greater consistency which in turn leads to higher quality. These house types are efficient to plot and use development space effectively. As the Group expands into new regions, we will maintain strong oversight on incremental overheads.

Our new house types accounted for 75% of completions in FY22. Our house types have the benefit of contemporary thinking with respect to the requirements of *The Future Homes Standard* and energy efficiency. They also have flexibility when replanning sites. Plotting efficiency is an ongoing process to maintain flexibility in our product offerings and to optimise the value of the developments. Replans and replanning will continue to bring positive benefits in coverage while also enhancing the returns from our schemes. During the year we began rolling out a new ERP system. Construction Industry Solutions (COINS) is the most commonly used software system in the construction industry and provides users with a fully integrated experience across commercial, technical and financial activities. The introduction of this system will provide greater control and oversight of our build programmes and generate a richer level of insight down to plot-level data.

During the year global inflationary pressures and supply chain constraints as a result of the war in Ukraine and the aftermath of COVID-19 disruption both contributed to a steep rise in building material costs. In the labour market a shortage of skilled workers also led to high wage inflation which also added to the cost to construct new homes. While inflation has moderated in both of these areas, for those materials that have a high energy cost to produce such as concrete and steel, pricing has remained dynamic. Our operational efficiency programme has helped to mitigate the impact of these costs increases in FY22.

- **Five-star customer service** – We are committed to delivering high quality homes and excellent customer service to our customers. During the year we have made further investment in training, we have recruited a Quality Assurance team to support further our site teams and the introduction of COINS for customer service, which will provide better oversight on snag resolution process.

In October 2022 the New Homes Quality Board (NHQB) was established for the purposes of developing a new framework to oversee reforms in the build quality of new homes and the customer service provided by developers. The NHQB introduced the New Homes Quality Code (Code) and the New Homes Ombudsman Service to ensure best practice in the housebuilding sector. We welcome the objectives and purpose of the Code, which covers the period from initial enquiry through to completion, and then two years post-occupation. We are making good progress in preparing for the Code and how we will deliver the high standards of quality and service the Code requires.

CREST NICHOLSON PLC STRATEGIC REPORT (continued)

- Multi channel approach – The Partnerships & Strategic Land (PSL) division is responsible for both sourcing land and developing partnership arrangements. Their strategic land team are experienced in managing and promoting strategic land to bring these sites through to our short-term land portfolio. The other responsibility of this division is to develop strategic relationships with the public sector, Private Rented Sector (PRS) and Registered Providers.

By working closely with partners to identify which sites and product types align with their business models we can forward sell significant volumes at a relatively small discount to private open market prices and margins. These transactions often benefit from earlier cash receipts which de-risks build programme commitments and can deliver a higher return on capital employed. Our strategy envisages that approximately 20% of total Group revenue each year will come from alternative channels to the private market.

PSL continues to develop strong strategic relationships with institutional investors and local authorities and has successfully negotiated and delivered significant transactions in FY22. During the year the Group announced its biggest PRS deal, worth £120m, with funds managed by leading global investment management firm, Oaktree Capital Management, L.P. and CompassRock International. The transaction involves the sale of 403 homes across three key developments in Southern England, offering high quality private rental units to local residents. The investment encompasses homes located at Brightwells Yard, Farnham, The Tower at Centenary Quay, Southampton, and Walton Court Gardens, Walton-on-Thames.

Our strategic priorities are underpinned by four foundations:

- Safety, Health & Environment - This is our number one priority as we strive for continuous improvement and set the target to be among the industry leaders for safety performance.
- Sustainability & Social Value – We recognise the importance placed on environmental, social and governance issues by our stakeholders. We aim to integrate sustainability into all aspects of the business in order to deliver a positive contribution, both environmentally and socially, through our operations and the creation of new homes and communities.
- People - The quality of our people and the decisions they make are fundamental to the successful implementation of our strategy. We will continue to focus on the diversity of our workforce and embed the values that will strengthen our culture.
- Financial Targets - In October 2021 at our Capital Markets Day, the Group communicated new financial targets for FY24 through to FY26.

MARKET OVERVIEW

Despite the current economic and political uncertainty, the long-term fundamentals of the UK housing market remain strong.

UK Economy

Overview

The UK economy continues to be impacted by a variety of factors and the outlook remains uncertain. At the start of 2022 COVID-19 restrictions remained a concern and this has further affected global supply chains and increased labour supply challenges. Against this backdrop the UK started to see significant inflation in the economy. In February 2022 Russia invaded Ukraine which has created further geopolitical and economic uncertainty, given Russia's contribution to the world's energy resources and Ukraine's provision of raw materials and foodstuffs. In May 2022 the Bank of England increased the base interest rate by 25bps to 1%. Over the summer mounting political pressure resulted in the departure of the Prime Minister. The newly appointed Prime Minister and Chancellor of the Exchequer announced a Mini Budget in September 2022 which proposed significant unfunded tax cuts across a range of areas which caused the pound to rapidly fall in value, reaching a 37-year low against the US dollar.

Forward forecasts for interest rates started to climb even higher as the Bank of England reaffirmed its objective to keeping inflation under control and raised the base interest rate further.

Consumer confidence started to decline, weakening the economic backdrop even further. The economic uncertainty was so acute that it resulted in the Chancellor being replaced, before the Prime Minister herself chose to resign. The appointment of another new Prime Minister and Chancellor, coupled with the delivery of a more prudent economic plan has provided some stability and confidence. GDP growth is still expected to be negative for the remainder of 2022 and the UK is forecast to be in recession in 2023. The depth and duration of that economic downturn remains unclear and will be subject to the influences of the geopolitical factors outlined above.

Key risks

- Continued volatility in the economic and political backdrop will have negative impact on growth
- Potential increase in the rate of unemployment has implications on customers' confidence and ability to buy homes
- Negative sentiment towards investment

Our response

- Continue to maintain our robust financial position
- Focus on margin performance ahead of volume growth
- Adjust the pace of planned growth in our new and existing divisions.

Registered no. 1040616

Classified as General

CREST NICHOLSON PLC STRATEGIC REPORT (continued)

Housing market fundamentals

Overview

The housing market has demonstrated its relative resilience to recent economic shocks, such as COVID-19, however its performance remains heavily sentiment driven and mortgage costs have historically remained low for a long time.

The biggest underpin to this robust performance is the imbalance of housing supply to meet buyer demand. This situation has developed over generations as the UK has not built enough homes to keep pace with population growth and changing household sizes. The Government recognises the importance of increasing the number of homes being built and has communicated an annual target of 300,000 new homes per year.

In addition, it has created the Department of Levelling Up, Housing and Communities (DLUHC) with the specific objective of ensuring that investment, regeneration and housing is considered across the whole of the UK.

The number of new homes being constructed in the UK is closer to 200,000 per year and this is expected to reduce in 2023. To reach its target, the Government will have to stimulate the conditions for regeneration and economic investment, including housebuilding.

The pandemic has also triggered a change in housing demand as people re-evaluated their working patterns and housing needs. In particular the growth in demand for single family homes has been strongest where there is provision for home working options and excellent transport links. With energy supply uncertainty customers are also carefully examining the energy efficiency performance of any new home, and new build properties perform strongly in this respect.

Key risks

- Rising interest rates will have an impact on mortgage pricing and consumer confidence
- The long-term structural imbalance of supply and demand remains unaddressed
- Undersupply of housing continues to underpin house price inflation and affordability challenges for buyers.

Our response

- Strong land portfolio in Southern England with limited supply
- Expansion into Yorkshire and East Anglia where we see long-term strong demand and future growth
- Remain selective and disciplined in the acquisition of new sites.

Government legislation — fire and building safety

Overview

In January 2022 the Secretary of State for DLUHC announced the Government's intention to widen and lengthen the definition of legal obligation on developers to fund the remediation of buildings affected by fire safety issues.

As of 9 August 2022, 49 developers, including Crest Nicholson, have signed a pledge committing to remediate life-critical fire-safety works in buildings over 11 metres that they developed or refurbished over the last 30 years in England. Developers making this commitment have also agreed to reimburse any funding granted to building owners from Government remediation programmes.

Each developer will be expected shortly to sign a legally binding contract reflecting these pledges and inform leaseholders in affected buildings how they will be meeting their commitments. The housebuilding sector are working with the Home Builders Federation (HBF) and the DLUHC to agree the necessary legal documentation.

Key risks

- Costs for fire remediation may be difficult to estimate due to the complex nature of the process
- Build cost inflation increases the total amount required for the remediation
- Scope of building safety issues increase, leading to additional cost.

Our response

- Signed the Government's Building Safety Pledge in April 2022
- Recorded an additional £105.0m combustible material related charge. Closing combustible materials provision is £140.8m at 31 October 2022
- The Group is working as swiftly as possible with all stakeholders to complete these works.

CREST NICHOLSON PLC STRATEGIC REPORT (continued)

Affordability and lending environment

Overview

Housing affordability is becoming more challenging across the UK housing market. The UK house price to earnings ratios reached a peak in Q3 2022 at 7 times, above the 2009 peak at 6.3 times, which preceded the collapse in pricing associated with the Global Financial Crisis (GFC). All economic downturns are different and there are several factors that suggest the next one may not be as severe. Firstly, lending banks are more strongly regulated, stress tested and capitalised since the GFC. Secondly, employment levels in the UK remain strong and thirdly the Government has demonstrated through its actions during times like COVID-19, that it is committed to maintaining a strong housing market as an underpin to general economic health.

However, rising interest rates have already led to some higher mortgage costs. Recent pricing has been as high as 5.5% (Nationwide 2yr fixed rate) with further interest rate impact expected. The increase in mortgage rates sees a prospective first-time buyer's monthly mortgage payment rise from approximately 34% of take-home pay to approximately 45% (based on a 5.5% mortgage rate)*. Mortgage approvals have also started to fall, down 26% year-on-year in FY22, reflecting the increased economic uncertainty**.

The additional burden of increasing mortgage repayments on household finances comes at a time of rising energy bills, food prices and modest wage inflation. The combination of these factors will weigh on housing affordability.

The Government has sought to provide some assistance to home buyers, recently increasing the threshold to pay stamp duty to £425,000 for first time buyers, and £250,000 otherwise. The Help-to-Buy scheme will end on 31 March 2023. Participation in the scheme continues to reduce with buyers now seeking alternative methods of financing such as Deposit Unlock and First Homes.

* Source: Nationwide Housing Index. ** Source: Bank of England.

Key risks

- Economic volatility and rising unemployment may force people to sell homes and reduce prices
- Prospective buyers may be unable to finance a house move given the other impacts on their household finances
- Banks become more risk averse and withdraw affordable financing offers to prospective buyers.

Our response

- Actively promoting Deposit Unlock as an alternative to Help-to-Buy to help our customers with the affordability of a new home
- Adjust the pace of our build programmes and land acquisitions to reflect tougher market conditions
- A strong balance sheet that will enable us to prioritise our returns over volume during any downturn.

Climate change

Overview

The Climate Change Act 2008 commits the UK Government to reducing greenhouse gas emissions by at least 100% of 1990 levels (net zero) by 2050. It is setting an ambitious agenda to decarbonise the UK economy. Several upcoming climate change regulations and disclosures with which we have to comply include:

The Future Homes Standard (FHS): Updates to Part L of the Building Regulations will require a 31% reduction in carbon emissions over current regulations starting from June 2022. From 2025 the FHS will require at least a 75% reduction in carbon emissions compared to current standards, together with the prohibition of fossil fuel heating, including gas boilers.

Biodiversity net gain: The legislation will require all developments to deliver a biodiversity net gain of 10% which means developments will need to create a 10% measurable improvement in the biodiversity of the site developed relative to the site if development had not occurred.

Task Force for Climate-related Financial Disclosure (TCFD): It is a mandatory requirement for companies to disclose climate-related financial information within the annual report. (See page 6 for more information.)

Key risks

- Emerging regulations to reduce emissions associated with our homes
- Carbon tax and other pricing mechanisms could increase the cost of fuel, energy and materials
- An inability to transition to lower emissions technology.

Our response

- Continue to improve awareness and knowledge of climate change across the Group
- Conduct further embodied carbon analysis to reduce upstream scope 3 emissions, and to trial and monitor technologies to support delivery of The Future Homes Standard
- Established a biodiversity framework to help deliver biodiversity net gains on our developments.

CREST NICHOLSON PLC STRATEGIC REPORT (continued)

Land and planning

Overview

The land market remains highly competitive, driven by a lack of supply and housebuilders' need to replenish their pipelines of new sites following a strong market in recent years. Opportunities are generally more plentiful on larger sites and schemes, but given the economic uncertainty, many developers are now communicating caution in their approach to purchasing new land which may be acquired at the peak of this market cycle.

Acquiring sites is only the first challenge that developers currently face in building new homes. The planning system is currently highly inefficient. Resourcing issues, a lack of political impetus and a backlog of applications received during COVID-19 are leading to delays in obtaining consents and slowing down the speed at which builders can get on site. This backdrop has been present for some time but has deteriorated further in the past year.

In addition, several environmental agenda items have also emerged in the past year, contributing to planning delays. Nutrient issues and water neutrality challenges have been highlighted in several parts of the country by Natural England. The Government has acknowledged that these concerns require clear policy making and guidelines to ensure the planning system can proceed with granting approvals.

The Government has repeatedly communicated its intention to reform the UK's planning system. Central to this message is a desire to 'level up' the UK, by encouraging investment and new home building in areas away from the South East.

Key risks

- More complexity and change created by new legislation and proposed reforms of planning
- Insufficient land in the market for future expected output and for growth
- Competition on pricing and payment terms for land and associated house prices.

Our response

- Approximately five years' worth of short-term land – the right level for the size of our business
- Standard house type range and placemaking capabilities have supported ability to procure land on compelling economic terms
- A strategic land portfolio which will continue to provide a supply of high quality sites at superior margins.

KEY PERFORMANCE INDICATORS

We monitor our business performance using a range of key performance indicators (KPIs). 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 KPIs were revised during the year to improve alignment between the measures we use to run the Group 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 KPIs are reflected in our senior management incentive schemes.

		2022	2021	2020
Non-financial				
5 * (NHBC customer satisfaction score)	Stars	5	5	5
Annual injury incidence rate	Number	468	385	369
PRS/Affordable unit completions	%	35.1	37.1	49.1
Greenhouse gas emissions intensity (scope 1 and 2 emissions per 100 sq. m of completed homes)	Number	1.81	2.52	3.08
Waste intensity (tonnes of construction waste per 100 sq. m of completed homes)	Number	8.72	9.25	8.19
Voluntary employee turnover ¹	%	27	35	26
Financial				
Unit completions ²	Units	2,734	2,407	2,247
Return on capital employed ³	%	14.4	12.1	6.4
Earnings before interest and tax margin ³	%	15.4	14.0	8.3
Land creditors as a % of net assets ³	%	16.1	15.6	11.4
Net cash ³	£m	52.7	52.4	41.5
Land portfolio gross margin	%	25.0	23.4	16.0

¹ Voluntary employee turnover in FY20 includes those left within probation.

² Sales of homes recognised in the year including 100% of those held in joint ventures and on an equivalent unit basis. FY20 sales of homes recognised in the year including our proportion of those held in joint ventures and not on an equivalent unit basis.

³ Return on capital employed, land creditors as a % of net assets, earnings before interest and tax margin and net cash are alternative performance measures. See pages 72–73 for further details

CREST NICHOLSON PLC STRATEGIC REPORT (continued)

RESULTS AND DIVIDEND

The Group has made further good progress implementing its strategy which is reflected in our enhanced financial performance for the year. Increases in revenue, operating margin and return on capital employed demonstrate the underlying health of our operations. The balance sheet remains robust and will provide resilience in tougher market conditions and fuel our growth ambitions when more stable conditions return.

As in previous years, the Group 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. 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 the core operations and underlying business performance. All alternative performance measures are detailed on pages 72-73.

The trading year started strongly with good levels of demand for new homes. Construction activity and operating conditions were beginning to normalise after the supply chain disruption caused by COVID-19. Although labour inflation and rising prices of raw materials were starting to drive increasing levels of build cost inflation, housebuilders were managing to successfully offset this through house prices. As FY22 started to unfold the global geopolitical environment became increasingly uncertain. The conflict in Ukraine led to further supply chain disruption and created significant energy supply insecurity, both of which contributed to an acceleration in build cost inflation. Later in the summer domestic political uncertainty added further economic headwinds, resulting in a backdrop of rising interest rates across the course of the year, an increase in the cost of mortgage borrowing and speculation that this would result in much tougher trading conditions for housebuilders in FY23. Despite this external volatility the Group has traded strongly in the year, delivering an improvement across all key financial metrics.

Sales, including joint ventures, grew 17.5% on prior year at £955.8m (2021: £813.6m). This comprised £913.6m of statutory revenue (2021: £786.6m) and £42.2m of the Group's share of revenue through joint ventures (2021: £27.0m), reflecting a strong trading performance and a growing contribution from existing joint venture schemes reaching maturity.

The Group delivered 2,734 (2021: 2,407) home completions during the year, up 13.6% on prior year. 2,212 of these were open market completions (including bulk deals) (2021: 1,924), up 15.0% on prior year, with the balance derived from affordable completions at 522 (2021: 483), up 8.1% 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. The Group started to report on this basis at HY21 to align to the methodology commonly adopted by other UK housebuilders.

Open market (private) average selling prices increased to £388,000 (2021: £359,000) during the year. Since the Group announced an updated strategy in January 2020 it has focused on rolling out its standard house type range across new developments. These houses are typically more efficient to build and are offered to customers at lower price points than the Group's legacy house types. In addition, the Group has experienced a shift in the regional composition of its sales as it has moved away from selling in London and delivers a greater proportion of sales from other, lower priced geographies. These factors continue to support a reduction in average selling prices which has been more than offset by house price inflation in the year.

Adjusted gross profit margin was £192.8m (2021: £160.8m), up 19.9% on prior year, principally reflecting the stronger sales performance. Adjusted gross margin rate was slightly up on prior year at 21.1% (2021: 20.4%). The Group has outlined a margin recovery plan to bring margins in line with industry peers by FY24. Gross margin rate progression was expected to be flat this year as the prior year comparative included the contribution from the Longcross Film Studio sale. This was reflected in lower land and commercial sale revenue at £32.0m (2021: £49.2m). In addition, the Group continued to recognise several zero margin schemes including units at Brightwell's Yard, Farnham and the completion of Old Vinyl Factory, Hayes and Sherborne Wharf, Birmingham. Approximately one third of the Group's remaining NRV provision is expected to be used in FY23 and predominantly relates to the scheme at Brightwell's Yard, Farnham. Gross profit was £90.3m (2021: £140.0m), down 35.5% on prior year due to the impact of exceptional items.

Administrative expenses for the year were £49.6m (2021: £49.6m). The prior year comparative is inflated through the one-off voluntary repayment of the Government's Job Retention scheme for COVID-19 of £2.5m, which was received in FY20. The Group has continued to maintain a strong discipline on overheads, but the underlying increase reflects the backdrop of rising wage inflation and the competition for talent within the construction sector during the past year. Given the tougher economic outlook we expect to operate with far fewer vacancies for roles in FY23. In addition, there is significant regulatory change underway including complying with the New Homes Quality Code and preparing for the Department for Business, Energy & Industrial Strategy's corporate governance reform proposals. These factors will all contribute to an increase in the Group's headcount in FY23 and accordingly we expect administrative expenses to increase by over 10% compared to FY22.

On 6 May 2022, the Group disposed of its 50% share in the joint venture containing the London Chest Hospital to its joint venture partner for a total consideration of £16.0m. £8.0m of this was received in FY22 with the balance due in FY23. Accordingly, the Group recorded a £2.3m net impairment loss on financial assets for the year (FY21: £1.0m). This site had been the subject of planning objections and delays and is a complex build programme with significant levels of peak capital investment. By disposing of it for a small loss the Group has been able to forego the future recognition of a margin dilutive scheme and realise a strong cash inflow to invest into schemes that are consistent with its current strategy.

CREST NICHOLSON PLC STRATEGIC REPORT (continued)

Adjusted operating profit (or Earnings Before Interest and Tax – EBIT) increased in the year to £140.9m (2021: £110.2m) with adjusted EBIT rate increasing from 14.0% to 15.4%. Excluding the effect of the London Chest Hospital sale, adjusted EBIT rate would have been 15.7% for FY22, reflecting strong progress towards the 18-20% range currently being delivered by other housebuilding peers. Finally, adjusted profit before tax (APBT) for the year was £155.3m (2021: £116.8m), up 33.0% on prior year and profit before tax after exceptional items for the year was £50.3m (2021: £96.5m), reflecting the impact of the stronger year-on-year operating profit contribution offset by the exceptional charge outlined below. Operating profit was £38.4m (2021: £89.4m), down 57.0% on prior year due to the impact of exceptional items.

The Group has delivered another year of strong progress implementing its strategy, realising tangible progress in its financial performance. While the market outlook for FY23 has undeniably become more challenging. The Group is now realising the benefits of exiting those previously identified low margin legacy schemes. Opening new divisions in Yorkshire and East Anglia will provide volume growth in the future to accompany the Group's on-going margin recovery.

The Directors do not propose a dividend for the year (2021: nil).

EXCEPTIONAL ITEMS

Since the Grenfell Tower tragedy in 2017, the Government and construction sector have been carefully considering and identifying which buildings are exposed to potentially life-critical fire risk can be identified and swiftly remediated. Since the emergence of new Government guidance in this area the Group has collaborated with all impacted stakeholders to identify where it has a legal or constructive obligation to remediate legacy buildings.

The first exceptional charge taken in this respect was in FY19 for £18.4m and by the end of FY21 the Group had cumulatively recorded £47.8m of net exceptional charges and had an unutilised balance sheet provision of £42.6m. In January 2022, the Secretary of State for the Department for Levelling Up, Housing and Communities (DLUHC) announced the Government's intention to change the regulatory and legislative framework for fire remediation

These changes culminated in a request to housebuilders to sign the Government's Building Safety Pledge which the Group did on 19 April 2022. As a consequence of signing the Building Safety Pledge the Group informed the capital markets on 5 April 2022 that it considered a further exceptional charge of £80–120m represented its best estimate of the range of these incremental costs.

At FY22 the Group recorded an exceptional charge of £105.0m (2021: £20.3m) in respect of its further obligations upon signing the Pledge. Tax credit on exceptional items is £22.4m (2021: £3.9m). Further detail of these items can be found in note 4.

In January 2023, the Group received a £10.0m cash settlement from a third party relating to buildings included within the combustible materials provision. As this was not contracted in the current financial year, it has not been recognised in the FY22 consolidated financial statements. The receipt will be reflected in the FY23 consolidated financial statements as an exceptional credit.

SHARE CAPITAL

The Company has 115,294,459 Ordinary shares of 10p each in issue at 31 October 2022 (2021: 115,294,459 Ordinary shares). There have been no changes to the Company's share capital during the year.

FINANCIAL POSITION

The Group had net assets at 31 October 2022 of £1,049.1m (2021: £1,010.2m), an increase of 3.9% over the prior year.

Inventories at 31 October 2022 were £991.9m (2021: £1,039.8m), down 4.6% year-on-year. Included within this balance is an NRV provision of £12.8m (2021: £20.9m) which principally relates to the Group's scheme at Brightwell's Yard, Farnham. Completed units at 31 October 2022 were £30.1m (2021: £57.7m). Approximately one-sixth (2021: one-sixth) of the stock of completed units were show homes. Further detail on inventory can be found in note 17.

Return on capital employed (ROCE) increased strongly for the second successive year to 14.4% (2021: 12.1%), reflecting the increase in earnings and further progress on strengthening the balance sheet.

The Company has a robust balance sheet and adequate levels of funding to trade through any future economic uncertainty.

LAND PIPELINE

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

	2022		2021	
	Units ¹	GDV ² £m	Units ¹	GDV ² £m
Short-term housing	14,250	4,661	14,677	4,482
Short-term commercial	-	41	-	44
Total short-term	14,250	4,702	14,677	4,526
Strategic land	22,450	7,409	22,308	7,308
Total land pipeline	36,700	12,111	36,985	11,834

¹ 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.

CREST NICHOLSON PLC STRATEGIC REPORT (continued)

² 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 Group's portfolio. Units based on management estimates of site capacity.

The land market remains highly competitive. Strong sales rates across all major developers over the past two years, coupled with lack of availability of fresh land supply and delays in approving land in the planning process has seen the number of industry outlets fall. The uncertain market outlook is discouraging some developers from completing planned acquisitions. Given this structural lack of supply, our strong financial position, and the opportunity to participate when others are temporarily withdrawn, the Group intends to remain active in the land market in FY23. We will be selective and disciplined in identifying and acquiring sites. We have increased our hurdle rates and are focused on low-risk schemes in high quality locations. FY22 average outlets were 54 and we expect FY23 average outlets to be slightly lower, reflecting the backdrop outlined above. 2,771 plots have been approved in FY22 for purchase at a gross margin of 25.5% (after sales and marketing costs).

The Group's short-term land portfolio at 31 October 2022 comprised 14,250 (2021: 14,677) plots, representing approximately five years of supply based approximately on 2022 completion volumes (2021: five years supply based on 2021 completion volumes). In addition, the Group's strategic land portfolio comprised 22,450 plots (2021: 22,308), resulting in a total land portfolio at 31 October 2022 of 36,700 (2021: 36,985) plots with a Gross Development Value (GDV) of £12.1bn (2021: £11.8bn).

During the year, the Group added 3,094 units to the short-term land portfolio and delivered 2,734 home completions. Additions were made in all divisions including the new Yorkshire division. The Group also added 415 units to the strategic land portfolio.

RISK MANAGEMENT

We face a wide variety of risks and uncertainties, some arising from within the Group 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 Group, 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 Group'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 Group growth
- Maintaining the right culture and shared values.

PRINCIPAL RISKS AND UNCERTAINTIES

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

The Group'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 Group'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.

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 Group's principal risks are carefully considered by the Executive Leadership Team. The Board and Audit and Risk Committee both have oversight of the Group's emerging and principal risks and regularly assess these against the Group's risk appetite and its capacity to handle risk.

CREST NICHOLSON PLC
STRATEGIC REPORT (continued)

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 Group, maintaining effective risk-based decision making.

Emerging risks

Emerging risks have the potential to impact our Group 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. This is against the backdrop of the rising cost of living and higher energy prices in the UK, all of which are reducing disposable income levels which may significantly impact the housing market.

Regulatory change

This risk has continued to evolve during the year and impacts us in several ways. We signed the Government's Building Safety Pledge to address life critical fire safety issues. Amounts have been provided in the financial statements based on best estimates of the work required. However, as work progresses these estimates are clearly subject to variability and could change as Government legislation or regulation develops. Given the significance of this area, the Board has agreed this should be a principal risk. The acquisition of land remains very competitive and any proposed changes to the planning and approval process could impact our ability to deliver our growth ambitions. Corporate governance requirements are evolving following the BEIS consultation on audit reform and corporate governance. Some of the detailed requirements which may impact us are still unknown and developing.

Build costs

Material shortages and labour availability have continued to challenge our industry due to rising input costs, energy prices and supply chain dislocation through the year. This has resulted in inflationary pressures, having an impact on build costs. We have managed to mitigate the impact of the majority of these risks during the year through our operational efficiency programme and have maintained close working relationships with our supply chain partners through comprehensive trade agreements. We are enhancing our build cost controls and reporting through the introduction of our new ERP system across the divisions.

CREST NICHOLSON PLC
STRATEGIC REPORT (continued)

Reputational impact

There are many internal and external factors which could impact our reputation. Several legacy matters have impacted the perception of the housebuilding sector. If matters continue to negatively impact the industry's home buyers and other stakeholders, there is a potential that this could create a further principal risk.

Climate change Assessing the impacts and mitigations of both physical and transitional risks related to climate change are embedded in our risk management process at a Group and divisional level.

Changes to our principal risks

As part of the Group's risk review processes, some risks have evolved or been added to the Group's principal risks:

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

The Board no longer views the risk associated with a pandemic to be a principal risk although continues to monitor and manage any localised impacts arising from COVID-19.

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 PLC
STRATEGIC REPORT (continued)

Principal risks

1. Market conditions		
<p>Risk description</p> <p>A decline in macroeconomic 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, or higher costs of mortgage funding.</p> <p>Decreased sales volumes occurring from a drop in housing demand, could see an increasing number of units held as unreserved stock and part exchange stock with a potential loss realised on final sales.</p> <p>Changes to regulations and taxes, for example Stamp Duty Land Tax (SDLT) and the impact of Government schemes like Help to Buy; Equity Loan (HtB).</p> <p>An over-reliance on HtB, which is being withdrawn, and other Government-backed ownership schemes to boost sales volumes and rates.</p>	<p>Actions/mitigations</p> <p>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.</p> <p>Forward sales, land expenditure and work-in-progress are all carefully monitored to ensure they are aligned to current levels of demand.</p> <p>Our Multi Channel Approach gives us access to a range of tenure options and earnings resilience in changing market conditions.</p> <p>We focus on strategic purchasing of sites, continued development of shared ownership models and provision of a variety of incentive schemes.</p> <p>Actively promoting First Homes and Deposit Unlock as an alternative to HtB. We continually assess whether our organisational structures are appropriate to meet the changing demands within the housebuilding sector.</p>	<p>Development in the year</p> <p>Demand for housing has remained strong during the year, however there have been significant economic headwinds and political uncertainty in the latter part of the year which is likely to impact demand for housing in the near future. Rising inflation, interest rates and increasing energy costs are leading to reduced levels of disposable income.</p> <p>The Board and Executive Leadership Team continue to monitor market conditions and are adjusting our strategy and pace of growth to adapt to prevailing market conditions.</p> <p>We continue to build our pipeline of trusted partners and completed several large transactions in the year.</p> <p>The Group renewed its £250m Revolving Credit Facility to 2026. When allied to the strong cash profile exhibited throughout the year, the Group has adequate liquidity to deal with all reasonable downward market scenarios.</p>
2. Safety, Health & Environment (SHE)		
<p>Risk description</p> <p>A significant health and safety event could result in a fatality, serious injury or a dangerous situation to an individual.</p> <p>Significant environmental damage could be caused by operations on site or in our offices (for example, water contamination from pollution).</p> <p>Lack of recognition of the importance of the wellbeing of employees.</p> <p>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.</p>	<p>Actions/mitigations</p> <p>We have a strong safety leadership culture which is embedded in our operational processes and execution.</p> <p>We have effective safety management systems in place with increased authority for divisional build managers and Group SHE advisors to undertake incident investigations and implement follow up actions.</p> <p>We use external independent safety auditors to conduct regular site safety reviews as appropriate and without warning.</p> <p>Use of Construction Environment Risk Assessments and Environmental Management Plans.</p> <p>Use of external specialist consultants and/or contractors where specific health and safety requirements demand.</p> <p>There are flexible and agile working arrangements to enable employees to meet both their professional and/or personal needs. We have a network of mental health first aiders and a dedicated Employee Assistance Programme.</p> <p>We have a dedicated central team and strong governance processes to ensure we deliver on our safety pledge commitments.</p> <p>SHE performance is a bonus metric target used across the Group, including for Executive Directors.</p>	<p>Development in the year</p> <p>Safety performance continues to be our number one priority and performance remains stable.</p> <p>Our standard house type range is reducing build complexity and related risks.</p> <p>We continue to have a rigorous safety monitoring regime with safety inspections at divisional levels, including an independent safety advisory firm to assist in monitoring site performance.</p> <p>Safety performance is always discussed and challenged in our divisional reviews and we have enhanced and developed our SHE policies and procedures.</p> <p>We have launched new training materials and communications across our build teams and continue to provide safety bulletins and guidance updates.</p> <p>We have expanded our network of mental health first aiders across our divisions. We have also launched the FIKA mental health platform to support employees' wellbeing.</p> <p>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. Where appropriate, interim risk mitigation solutions have been deployed to ensure the safety of residents until remedial works can be completed.</p>

CREST NICHOLSON PLC
STRATEGIC REPORT (continued)

3. Access to site labour and materials		
<p>Risk description Rising production levels across the industry put pressure on our materials supply chain.</p> <p>The built environment struggles to attract the next generation of talent into skilled trade professions.</p> <p>There is also a potential reduction in labour availability from the EU market.</p> <p>Increased use of more modern methods of construction could result in a labour market that no longer has the knowledge and skills required to deliver these types of construction projects. It is also possible that the supply chain struggles to maintain capacity for new types of materials.</p> <p>Materials availability can be impacted by changes in demand, rising energy prices and dislocation in supply chains due to external events.</p> <p>Given the current UK economic climate and uncertainty there is an enhanced likelihood of suppliers and subcontractors facing insolvency.</p>	<p>Actions/mitigations We encourage longer-term relationships with our supply chain partners through Group trading agreements and multi-year subcontractor framework agreements. These agreements also seek to mitigate price increases.</p> <p>We have standardised the supply chain to ensure critical supply of materials.</p> <p>We engage in dialogue with major suppliers to understand critical supply chain risks and respond effectively.</p> <p>We have developed effective procurement schedules to mitigate supply challenges.</p> <p>We consider different construction methods such as timber frame or using alternative materials such as concrete bricks.</p>	<p>Development in the year Material shortages and labour availability challenges continue to impact the housebuilding industry across various product ranges and there have been continued inflationary pressures in the year. This has been exacerbated by the energy crisis and the Ukraine conflict which has impacted some supply chains.</p> <p>We continue to work with our supply chain partners through detailed demand planning to maximise our use of trade agreements and supply of available labour on key timelines.</p> <p>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.</p>
4. Customer service and quality		
<p>Risk description Customer service and build quality falls below our required standards, resulting in a reduction of reputation and trust, which could impact sales rates and volumes.</p> <p>Unforeseen product safety, quality issues or latent defects emerge due to new construction methods.</p> <p>Failure to effectively implement new regulations on build quality and respond to emerging technologies.</p>	<p>Actions/mitigations We continue to focus on enhancing build quality, achieving high customer satisfaction ratings and a retained commitment to excellent placemaking.</p> <p>We have enhanced our quality and build stage inspections to monitor adherence to our quality standards.</p> <p>We have a standardised house type range that reduces complexity and drives improvements in quality.</p> <p>Customer satisfaction and quality performance is a bonus metric target used across the Group, including for Executive Directors.</p>	<p>Development in the year We have continued to enhance our quality processes, training and performance measurement during the year and have recruited additional resources to support the drive to quality improvement.</p> <p>We have developed processes to support new regulatory requirements for the New Homes Quality Code and The Future Homes Standard.</p>
5. Build cost management		
<p>Risk description Build cost inflation and unforeseen cost increases driven by demands in the supply chain or failure to implement adequate cost control systems.</p> <p>Lack of awareness and understanding of external factors that may impact build costs including complex planning permissions and emerging sustainability and environmental regulations.</p> <p>A lack of quality in the build process could expose the Group to increased costs, reduced selling prices and volumes, and impact our reputation.</p>	<p>Actions/mitigations We benchmark our costs against existing sites to ensure our rates remain competitive. We build and maintain strong relationships with our suppliers and seek to obtain volume purchasing benefits.</p> <p>We operate a fair and competitive tender process and we are committed to paying our suppliers and subcontractors promptly.</p> <p>There are rigorous and regular divisional build cost review processes and site-based quality reviews.</p> <p>We continue to monitor alternative sources of supply where possible and utilise alternative production methods or materials where it is appropriate to do so.</p>	<p>Development in the year We have continued to see inflationary pressures during the year on build costs due to higher energy prices, supply shortages and geopolitical impacts due to the war in Ukraine. We have mitigated some of these impacts through our operational efficiency programme. Build cost inflation has been offset by increases in selling prices.</p> <p>The implementation of COINS as our new ERP platform has enhanced the reporting of build costs for the divisions implemented in FY22, and we will continue this roll out across the Group in FY23.</p>

CREST NICHOLSON PLC
STRATEGIC REPORT (continued)

6. Information security and business continuity		
<p>Risk description 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 compromises compliance with data privacy requirements.</p> <p>This could result in a higher risk of fraud, financial penalties and an impact to reputation.</p>	<p>Actions/mitigations 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.</p> <p>This is complemented by:</p> <ul style="list-style-type: none"> — 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 — IT disaster recovery and business continuity plans — IT Cyber Security and Data Sub-Board Committee, chaired by the Finance Director that meets through the year to address cyber security matters, assess threat levels and to develop appropriate policies and procedures. 	<p>Development in the year The threat of external cyber security risk is ever present and remains high. We routinely experience phishing attempts on our IT systems.</p> <p>We continue to utilise a Security Operations Centre (SOC) to monitor our networks and have enhanced our security policies and procedures with further training for employees. We regularly perform phishing training and mock exercises to highlight the risks across the Group.</p> <p>We have passed Cyber Essentials certification and moving forward with Cyber Essentials Plus certification. We have performed audits over our cyber risks and control environment.</p>
7. Attracting and retaining our skilled people		
<p>Risk description An increasing skills gap in the industry at all levels resulting in difficulty with recruiting a qualified and diverse mix of people for vacant positions.</p> <p>Employee turnover and requirement to induct and embed new employees, alongside the cost of wages increasing as a result of inflation.</p> <p>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.</p>	<p>Actions/mitigations Employee engagement surveys to enable the Board and Executive Leadership Team to understand employee feedback.</p> <p>Continual focus on improving flexible and agile working arrangements to support employees.</p> <p>Programmes of work to develop robust succession plans and improve diversity and inclusion across the business.</p> <p>Providing quality training and professional development opportunities through our Crest Nicholson Academy programmes.</p> <p>We monitor pay structures and market trends to ensure we remain competitive against our competitors.</p> <p>We monitor employee turnover, absence statistics and feedback from exit interviews.</p>	<p>Development in the year We are committed to providing competitive salary packages, reflecting market rates and offer a wide range of career development opportunities.</p> <p>During the year we launched a new people strategy and employee induction programme and have made further improvements to our learning and development training across the Group.</p> <p>We engage with our employees through a variety of communications, forums and surveys. Our engagement scores increased year-on-year.</p> <p>We became Silver Accredited through The 5% Club in respect to our recruitment and development of trainees.</p> <p>We continue to develop our diversity and inclusion policies and initiatives and have launched our Affinity Groups.</p> <p>We have started a programme to implement a new enterprise-wide talent management, recruitment, HR and payroll system next year.</p>

CREST NICHOLSON PLC
STRATEGIC REPORT (continued)

8. Solvency and liquidity		
<p>Risk description 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.</p> <p>Commitments to significant land and build obligations that are made ahead of revenue certainty.</p> <p>Fall in sales during economic slowdown and lack of available debt finance.</p> <p>Reductions in margins as average selling prices fall, inability to restructure appropriately and unsustainable levels of work-in-progress.</p> <p>To reflect the cyclical nature of housebuilding and following the GFC, equity investors in housebuilders now expect a lower risk investment proposition by way of a more capitalised and robust balance sheet.</p>	<p>Actions/mitigations Cash generation is a key focus for the Executive Leadership Team. Cash performance is measured against forecast with a variance analysis issued weekly by the Group Treasurer. Cash performance is also considered at divisional board level.</p> <p>We scrutinise the cash terms of land transactions. Private Rented Sector (PRS) and bulk sales also offer us the potential for early cash inflow.</p> <p>The Group has available the use of a £250m Revolving Credit Facility (RCF) which was unused throughout FY22.</p> <p>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 appraisal before being drawn down.</p> <p>Cash management is a bonus metric target used across the Group, including for Executive Directors.</p>	<p>Development in the year The Group continues to benefit from a strong balance sheet with diverse sources of funding. The Group operated with net cash throughout the year and signed a new £250m Sustainability-Linked RCF which expires in October 2026.</p> <p>We continue 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 capital allocation throughout the year.</p>
9. Laws, policies and regulations		
<p>Risk description This risk has continued to evolve during the year with developing regulations and progressing combustible materials works.</p> <p>Future regulatory changes could impact our ability to make medium and longer-term decisions.</p> <p>Failure to effectively implement new regulations including The Future Homes Standard and the Environment Act 2021, New Homes Quality Code, the Building Safety Act 2022 and the BEIS consultation on audit reform and corporate governance.</p>	<p>Actions/mitigations We engage with the Government directly and through the HBF, via various memberships of industry groups and build relationships in key local authority areas.</p> <p>We continue to assess and plan for emerging regulation and developments in readiness for potential regulatory change.</p>	<p>Development in the year The pace of regulatory reform has continued to increase. Plans for the requirements arising from The Future Homes Standard and the New Homes Quality Code have significantly advanced.</p> <p>We are developing our operating framework to support developing requirements from the BEIS consultation on audit reform and corporate governance.</p> <p>We undertake close consultation with the Government, through the HBF on evolving and developing regulation.</p>

CREST NICHOLSON PLC
STRATEGIC REPORT (continued)

10. Climate change		
<p>Risk description The Group will need to enhance its sustainable practices and processes as we transition to a carbon 'net zero' business by 2045 and continue to meet evolving Government regulations and growing investor expectations.</p> <p>Climate change could impact our business through transition and physical risks. Transition risks relate to the shift to a low carbon economy and include current and emerging regulations, technological change and shifts in stakeholder preferences.</p> <p>Physical risks are direct impacts from a changing climate, including rising temperatures, changing weather patterns increasing risk of droughts and flooding and more frequent and severe weather events.</p> <p>Failure to manage climate-related risks could lead to additional costs, build programme delays and damage to our reputation.</p>	<p>Actions/mitigations Our Sustainability Committee, chaired by our Chief Executive, oversees our sustainability strategy, including our approach to climate change. The Committee monitors performance against our climate targets and keeps abreast of climate-related risks and opportunities.</p> <p>We plan to transition to exclusive use of renewable electricity by 2025.</p> <p>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.</p> <p>GHG emission reduction targets is a bonus metric used across the Group. Our Executive Directors have GHG emission reduction targets within their Long-Term Incentive Plan.</p>	<p>Development in the year We continue to collaborate with our supply chain and consultants to find effective solutions to comply with the Future Homes Standard.</p> <p>We are committed to reducing our GHG emissions and in FY22 developed new science-based targets. Our targets include near-term scope 1, 2 and 3 emissions and a long term ambition to reach net-zero GHG emissions across our value chain by 2045. The targets have been approved by the Science Based Targets initiative.</p> <p>We agreed a new £250m Sustainability-Linked RCF, which incorporates targets to reduce GHG emissions associated with our operations and the use of our homes.</p> <p>We established a climate risk working group to review our climate-related risks and opportunities. External consultants facilitated a review of risks and opportunities under a range of climate scenarios. Our divisions have now incorporated a climate risk assessment within their risk register.</p>
11. Land availability and planning		
<p>Risk description There is a risk that we may not be able to source enough suitable strategic and consented land at the right economic terms to support our growth ambitions.</p> <p>There are further risks that acquired land is delayed in the planning process where local authorities and public sector resources are constrained.</p> <p>The regulatory planning and environmental landscape continues to evolve. There are further environmental requirements such as nutrients and water neutrality and increasing biodiversity obligations. This increases the challenge of providing quality and affordable homes in the locations required.</p>	<p>Actions/mitigations We have strategic and local market expertise within our land teams to ensure we acquire sites in the best locations and that allow us to demonstrate our placemaking credentials.</p> <p>We have formal relationships with key land suppliers, landowners and agents and local authorities.</p> <p>Land acquisitions are subject to formal appraisal and viability assessment through our approval process prior to bid submission and exchange of contracts.</p> <p>The planning status of all our sites are formally reviewed at our divisional boards on a monthly basis. We undertake close consultation with the Government on planning reform.</p>	<p>Development in the year Our strategy continues to focus on acquiring new sites and developing long-term strategic land options.</p> <p>Our investment decisions consider the economic outlook and uncertainties as well as the complexities in the planning process.</p> <p>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.</p>

CREST NICHOLSON PLC
STRATEGIC REPORT (continued)

12. Combustible materials		
<p>Risk description 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 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>Actions/mitigations We have a dedicated specialist team in place with robust 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. The forum reviews 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>Development in the year The Group has 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. 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 Group has maintained an active dialogue with DLUHC, coordinated by the HBF, to ensure the principles of the Building Safety Pledge are transferred into a long-form agreement, and represent the contractual basis for the Group's obligations in this area</p>

FINANCIAL RISK MANAGEMENT

The main risks associated with the Group's financial instruments are credit risk, liquidity risk, market risk and interest rate risk. The Board is responsible for managing these risks and the policies in place to manage this risk are disclosed within note 21 of these financial statements.

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 (Act). 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.

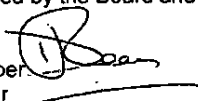
To the extent necessary for an understanding of the development, performance and position of the entity, an explanation of how the Group board has considered the matters set out in s172 (for the Group and for the entity) is set out on page 22 of the Group's annual integrated report, which does not form part of this report.

THE ROLE OF INTERNAL AUDIT

The business has outsourced its 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 Group's financial and operational objectives.

Approved by the Board and signed by its order by:

D Cooper
Director



Crest House
Pycroft Road
Chertsey
Surrey KT16 9GN
9 February 2023

CREST NICHOLSON PLC DIRECTORS' REPORT

The Directors present their report and the audited Consolidated Financial Statements and Company Financial Statements for the year ended 31 October 2022. Crest Nicholson plc (the 'Company') is a public company limited by shares, incorporated and domiciled in England and Wales. The address of the registered office is Crest House, Prycroft Road, Chertsey, Surrey, England. The immediate parent company is CN Finance plc, which is incorporated in Great Britain and registered in England and Wales. The largest higher 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. Copies of its Group 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
Tom Nicholson (resigned 27 May 2022)
David Marchant

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 CA2006 to be included within the Directors' Report have been presented within the Strategic Report to avoid duplication.

GOING CONCERN

The Company is the parent company of 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 year to 31 October 2023, and summary financial forecasts for the following two years, 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 Group financial statements in accordance with UK-adopted international accounting standards and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the group 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 UK-adopted international accounting standards have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

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

Registered no. 1040616

Classified as General

CREST NICHOLSON PLC
DIRECTORS' REPORT (continued)

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 Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

DONATIONS

During the year we donated £76,000 (2021: £31,000) to charities, including Variety, the Children's charity, and Cancer Research UK. There were no political donations made (2021: £nil).

EMPLOYMENT POLICY

Crest Nicholson plc 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 78 to 79 of the Group's annual integrated report, which does not form part of this report.

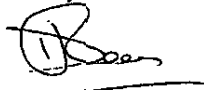
STAKEHOLDER ENGAGEMENT WITH OTHERS

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 page 77 of the Group's annual integrated report, 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 Annual General Meeting.

Approved by the Board and signed on its behalf by:



D Cooper
 Director

Crest House
 Pycroft Road
 Chertsey
 Surrey KT16 9GN
 9 February 2023

CREST NICHOLSON PLC
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CREST NICHOLSON PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- Crest Nicholson plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 October 2022 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the Company financial statements 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
- the financial statements 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 Consolidated and Company Statements of Financial Position as at 31 October 2022; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, and the Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, 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 Group's and 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 Group's and 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 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 Directors' Report for the year ended 31 October 2022 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 Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Registered no. 1040616

Classified as General

CREST NICHOLSON PLC**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CREST NICHOLSON PLC (continued)****Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of director's 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 Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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 Group 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 the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias, in particular in areas of estimation uncertainty as set out in note 1 to the consolidated financial statements. 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 forecasting, margin estimation and provisions;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations including unusual or unexpected journal postings to the consolidated income statement; and
- 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.

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 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. This description forms part of our auditors' report.

Use of this report

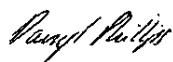
This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other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

Other required reporting**Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not 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 Company 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
9 February 2023

Registered no. 1040616

CREST NICHOLSON PLC
CONSOLIDATED INCOME STATEMENT
For the year ended 31 October 2022

	Note	2022 Pre- exceptional items £m	2022 Exceptional items (note 4) £m	2022 Total £m	2021 Pre- exceptional items £m	2021 Exceptional items (note 4) £m	2021 Total £m
Revenue	3	913.6	-	913.6	786.6	-	786.6
Cost of sales		(720.8)	(102.5)	(823.3)	(625.8)	(20.8)	(646.6)
Gross profit/(loss)		192.8	(102.5)	90.3	160.8	(20.8)	140.0
Administrative expenses		(49.6)	-	(49.6)	(49.6)	-	(49.6)
Net impairment losses on financial assets	16	(2.3)	-	(2.3)	(1.0)	-	(1.0)
Operating profit/(loss)	5	140.9	(102.5)	38.4	110.2	(20.8)	89.4
Finance income	7	13.3	-	13.3	9.2	-	9.2
Finance expense	7	(2.9)	(1.0)	(3.9)	(4.3)	0.5	(3.8)
Net finance income/(expense)	7	10.4	(1.0)	9.4	4.9	0.5	5.4
Share of post-tax profits/(losses) of joint ventures using the equity method	12	4.0	(1.5)	2.5	1.7	-	1.7
Profit/(loss) before taxation		155.3	(105.0)	50.3	116.8	(20.3)	96.5
Income tax (expense)/credit	8	(28.5)	22.4	(6.1)	(18.3)	3.9	(14.4)
Profit/(loss) for the financial year		126.8	(82.6)	44.2	98.5	(16.4)	82.1

The notes on pages 25 to 61 form part of these financial statements.

CREST NICHOLSON PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 October 2022

	Note	2022 £m	2021 £m
Profit for the financial year		44.2	82.1
Other comprehensive (expense)/income:			
Items that will not be reclassified to the consolidated income statement:			
Actuarial (losses)/gains on defined benefit schemes	15	(8.4)	20.2
Change in deferred tax on actuarial (losses)/gains of defined benefit schemes	14	1.6	(4.8)
Other comprehensive (expense)/income for the year net of income tax		(6.8)	15.4
Total comprehensive income		37.4	97.5

The notes on pages 25 to 61 form part of these financial statements.

CREST NICHOLSON PLC

Registered no. 1040616

Classified as General

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 October 2022

	Note	Share capital £m	Share premium account £m	Capital redemption reserve £m	Capital contribution reserve £m	Retained earnings £m	Total equity £m
Balance at 1 November 2020		11.5	65.3	38.0	15.0	781.0	910.8
Profit for the financial year attributable to equity shareholders		-	-	-	-	82.1	82.1
Actuarial gains of defined benefit schemes	15	-	-	-	-	20.2	20.2
Change in deferred tax on actuarial gains of defined benefit schemes	14	-	-	-	-	(4.8)	(4.8)
Total comprehensive income for the year		-	-	-	-	97.5	97.5
Transactions with shareholders:							
Equity-settled share-based payments	15	-	-	-	-	1.8	1.8
Deferred tax on equity-settled share-based payments	14	-	-	-	-	0.1	0.1
Balance at 31 October 2021		11.5	65.3	38.0	15.0	880.4	1,010.2
Profit for the financial year attributable to equity shareholders		-	-	-	-	44.2	44.2
Actuarial losses of defined benefit schemes	15	-	-	-	-	(8.4)	(8.4)
Change in deferred tax on actuarial losses of defined benefit schemes	14	-	-	-	-	1.6	1.6
Total comprehensive income for the year		-	-	-	-	37.4	37.4
Transactions with shareholders:							
Equity-settled share-based payments	15	-	-	-	-	1.9	1.9
Deferred tax on equity-settled share-based payments	14	-	-	-	-	(0.4)	(0.4)
Balance at 31 October 2022		11.5	65.3	38.0	15.0	919.3	1,049.1


The notes on pages 25 to 61 form part of these financial statements.

CREST NICHOLSON PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 October 2022

ASSETS	Note	2022	2021
		£m	£m
Non-current assets			
Property, plant and equipment	10	0.9	1.2
Right-of-use assets	11	3.7	3.7
Investments in joint ventures	12	9.0	6.8
Financial assets at fair value through profit and loss	13	3.3	4.2
Deferred tax assets	14	3.1	3.0
Retirement benefit surplus	15	11.1	16.7
Trade and other receivables	16	35.0	44.6
		<u>66.1</u>	<u>80.2</u>
Current assets			
Inventories	17	991.9	1,039.8
Financial assets at fair value through profit and loss	13	1.3	1.1
Trade and other receivables	16	499.9	368.6
Current income tax receivable		1.1	5.8
Cash and cash equivalents		52.7	52.4
		<u>1,546.9</u>	<u>1,467.7</u>
Total assets		<u>1,613.0</u>	<u>1,547.9</u>
LIABILITIES			
Non-current liabilities			
Trade and other payables	18	(39.0)	(73.5)
Lease liabilities	11	(2.3)	(2.7)
Deferred tax liabilities	14	(3.2)	(4.1)
Provisions	19	(70.8)	(28.4)
		<u>(115.3)</u>	<u>(108.7)</u>
Current liabilities			
Trade and other payables	18	(374.8)	(412.4)
Lease liabilities	11	(1.6)	(1.9)
Provisions	19	(72.2)	(14.7)
		<u>(448.6)</u>	<u>(429.0)</u>
Total liabilities		<u>(563.9)</u>	<u>(537.7)</u>
Net assets		<u>1,049.1</u>	<u>1,010.2</u>
EQUITY			
Share capital	20	11.5	11.5
Share premium account		65.3	65.3
Capital redemption reserve		38.0	38.0
Capital contribution reserve		15.0	15.0
Retained earnings		919.3	880.4
Total equity		<u>1,049.1</u>	<u>1,010.2</u>

The notes on pages 25 to 61 form part of these financial statements.

The financial statements on pages 21 to 61 were approved by the Board of Directors on 9 February 2023 and signed on its behalf by:


D Cooper
 Director

CREST NICHOLSON PLC
CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 October 2022

	Note	2022 £m	2021 £m
Cash flows from operating activities			
Profit for the financial year attributable to equity shareholders		44.2	82.1
Adjustments for:			
Depreciation on property, plant and equipment	10	0.4	1.0
Depreciation on right-of-use assets	11	1.9	2.4
Retirement benefit obligation admin expenses	15	0.9	-
Net finance income	7	(9.4)	(5.4)
Share-based payment expense	15	1.9	1.8
Share of post-tax profits of joint ventures using the equity method	12	(2.5)	(1.7)
Impairment of inventories	17	(8.1)	(19.7)
Net impairment of financial assets	16	2.3	1.0
Income tax expense	8	6.1	14.4
Operating profit before changes in working capital, provisions and contributions to retirement benefit obligations		37.7	75.9
Increase in trade and other receivables		(134.1)	(158.4)
Decrease in inventories		56.0	5.4
Increase in trade and other payables		22.8	110.9
Contribution to retirement benefit obligations		(3.4)	(11.2)
Cash (used by)/generated from operations		(21.0)	22.6
Finance expense paid		-	(0.4)
Income tax paid		(1.2)	(13.9)
Net cash (outflow)/inflow from operating activities		(22.2)	8.3
Cash flows from investing activities			
Purchases of property, plant and equipment		(0.1)	(0.2)
Disposal of financial assets at fair value through profit and loss		0.7	1.0
Funding to joint ventures		(7.5)	(13.0)
Repayment of funding from joint ventures		18.8	11.5
Dividends received from joint ventures		2.4	-
Finance income received		10.3	6.0
Net cash inflow generated from investing activities		24.6	5.3
Cash flows from financing activities			
Principal elements of lease payments	11	(2.1)	(2.7)
Net cash outflow from financing activities		(2.1)	(2.7)
Net increase in cash and cash equivalents		0.3	10.9
Cash and cash equivalents at the beginning of the year		52.4	41.5
Cash and cash equivalents at end of the year	23	52.7	52.4

The notes on pages 25 to 61 form part of these financial statements.

CREST NICHOLSON PLC NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Basis of preparation

Crest Nicholson plc (the 'Company') is a public company limited by shares, incorporated and domiciled in the UK. The address of the registered office is Crest House, Prycroft Road, Chertsey, Surrey, England. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group') and include the Group's interest in jointly controlled entities. The parent Company financial statements present information about the Company as a separate entity and not about its Group.

The financial statements are presented in pounds sterling and amounts stated are denominated in millions (£m), unless otherwise stated.

The Group financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards, and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. On 31 December 2020, IFRS as adopted by the European Union at that date were brought into UK law and became UK-adopted international accounting standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group's consolidated and Company financial statements have, therefore, been prepared in accordance with UK-adopted international accounting standards and have been prepared on the historical cost basis except for financial assets at fair value through profit and loss, which are as otherwise stated. The parent company financial statements are presented on pages 64 to 73.

The preparation of financial statements in conformity with UK-adopted international accounting standards 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.

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.

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

The Directors are satisfied that the Crest Nicholson Group has sufficient resources to continue in operation for the foreseeable future. The Directors reviewed detailed financial forecasts, and covenant compliance covering the year to 31 October 2023, and summary financial forecasts for the following two years, 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 and Group on a going concern basis.

Critical accounting estimates and judgements

The preparation of the consolidated 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 Group'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 (see note 3), 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 (see note 3), and the recognition of the defined benefit pension scheme surplus (see note 15).

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 consolidated statement of financial position at the lower of cost or net realisable value (NRV). On a monthly basis management update estimates of future revenue and expenditure for each development. Future revenue and expenditure may differ from estimates 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 sustained improved revenue or reduced expenditure forecast on a development. If forecast revenue was 10.0% lower on sites within the short-term portfolio as at 31 October 2022, the impact on profit before tax would have been £7.0m lower (2021: £10.9m lower).

Registered no. 1040616

Classified as General

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
1 ACCOUNTING POLICIES (continued)

Estimation of development profitability

Due to the nature of development activity and, in particular, the length of the development cycle, the Group has to make 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 Group has established internal controls that are designed to ensure an effective assessment of estimates is made of the costs to complete developments. The Group considers estimates of the costs to complete on longer-term sites, which typically have higher up front shared infrastructure costs to have greater estimation uncertainty than sites of shorter duration with less infrastructure requirements. A change in estimated margins on sites, for example due to changes in estimates of build cost inflation or a reduction in house prices could alter future profitability. If forecast costs were 10.0% higher on sites which contributed to the year ended 31 October 2022 and which are forecast to still be in production beyond the year ending 31 October 2024 (2021: beyond the year ending 31 October 2023), profit before tax in the current year would have been £25.3m lower (2021: £12.8m lower).

The Group 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 Group is currently contracted to and as such do not impact the carrying value of inventories or their associated project margins.

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 Group. To the extent that such assumptions differ to that expected, the pension liability would change. See note 15 for additional details.

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 22). The key assumptions 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, works to complete and disruption to customers, along with the timing of forecast expenditure. During the year, the combustible materials provision has been increased to reflect the most contemporaneous assessment of these costs and to reflect the impact of signing the Government's Building Safety Pledge (the Pledge). As a result of signing the Pledge the Group has committed to funding the remediation of life critical fire safety issues on buildings over 11 meters in which the Group was involved going back 30 years. The Directors have used Building Safety Fund (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 consolidated income statement would be £28.2m 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 19 for additional details.

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

The Group reviewed the application of its revenue policy relating to recognised over time housing units. From 1 November 2021 revenue is now recognised on over time units by reference to the stage of completion, via surveys of work performed on contract activity. The Group 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

During the year, the Group has adopted the following new and revised standards and interpretations that have had no impact on the financial statements:

- Amendments to IFRS 4: Insurance Contracts – deferral of IFRS 9
- Amendments to IFRS 7, IFRS 4, and IFRS 16: Interest rate benchmark reform – Phase 2.

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 2022 reporting period and have not been adopted early by the Group. The Group does not expect that the adoption of these standards, amendments and interpretations will have a material impact on the financial statements of the Group in future years.

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
1 ACCOUNTING POLICIES (continued)

Alternative performance measures

The Group has adopted various Alternative Performance Measures (APMs), as presented on pages 74-75. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, and should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

Consolidation

The consolidated financial statements include the financial statements of Crest Nicholson plc, its subsidiary undertakings and the Group's share of the results of joint ventures and joint operations. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

(a) Subsidiaries

Subsidiaries are entities in which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The profits and losses of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used by the Group to account for the acquisition of subsidiaries that are a business under IFRS 3. On acquisition of a subsidiary, all of the subsidiary's separable, identifiable assets and liabilities existing at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities and the resulting gains and losses that arise after the Group has gained control of the subsidiary are charged to the post-acquisition consolidated income statement or consolidated statement of comprehensive income. Accounting policies of acquired subsidiaries are changed where necessary, to ensure consistency with policies adopted by the Group.

Acquisitions of subsidiaries which do not qualify as a business under IFRS 3 are accounted for as an asset acquisition rather than a business combination. Under such circumstances the fair value of the consideration paid for the subsidiary is allocated to the assets and liabilities purchased based on their relative fair value at the date of purchase. No goodwill is recognised on such transactions.

(b) Joint ventures

A joint venture is a contractual arrangement in which the Group and other parties undertake an economic activity that is subject to joint control and these parties have rights to the net assets of the arrangement. The Group reports its interests in joint ventures using the equity method of accounting. Under this method, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's share of results of the joint venture after tax is included in a single line in the consolidated income statement. Where the share of losses exceeds the Group's interest in the entity and there is no obligation to fund these losses, the carrying amount is reduced to nil and recognition of further losses is discontinued, unless there is a long-term receivable due from the joint venture in which case, if appropriate, the loss is recognised against the receivable. If an obligation to fund losses exists the further losses and a provision are recognised. Unrealised gains on transactions between the Group and its joint ventures are eliminated on consolidation. Accounting policies of joint ventures are changed where necessary, to ensure consistency with policies adopted by the Group.

(c) Joint operations

A joint operation is a joint arrangement that the Group undertakes with other parties, in which those parties have rights to the assets and obligations of the arrangement. The Group financial statements for joint operations by recognising its share of the jointly controlled assets and liabilities and income and expenditure on a line-by-line basis in the consolidated statement of financial position and consolidated income statement.

Revenue and profit recognition

Revenue comprises the fair value of the consideration received or receivable, net of value added tax, rebates and discounts.

The Group 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 Group. Surpluses or deficits on the disposal of part exchange properties, which are bought in at their forecast recoverable amount, are recognised directly within cost of sales and are not material to the results of the Group. Proceeds received on the disposal of part exchange properties, which is not included in revenue, are £48.9m (2021: £48.6m).

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 Group 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 Group or over the performance of the works if they are controlled by the customer.

Registered no. 1040616

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
1 ACCOUNTING POLICIES (continued)

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.

Government grants

Unconditional Government grants are recognised against the line item to which they relate in the consolidated income statement or statement of financial position. Conditional Government grants received are presented in the consolidated statement of financial position as accruals and deferred income. As conditions are satisfied the Government grants are recognised against the line item to which they relate.

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 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 consolidated 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 consolidated income statement in order to assist the users of the financial statements in understanding what the Directors consider to be the underlying business performance of the Group, which is 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 consolidated 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.

Income and deferred tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on taxable profit for the year and any adjustment to tax payable in respect of previous years. Taxable profit is profit before tax per the consolidated income statement after adjusting for income and expenditure that is not subject to tax, and for items that are subject to tax in other accounting periods. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the consolidated statement of financial position date. 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 profits.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax liabilities are recognised for all temporary differences. Deferred tax is calculated using tax rates that have been substantively enacted by the consolidated statement of financial position date.

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
1 ACCOUNTING POLICIES (continued)

Dividends

Final and interim dividend distributions to the Company's shareholders are recorded in the Group'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 Group operates a defined benefit (DB) scheme (closed to new employees since October 2001 and to future service accrual since April 2010) and also makes payments into a defined contribution scheme for employees.

In respect of the DB scheme, the 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 periods, such benefits measured at discounted present value, less the fair value of the scheme assets. The rate used to discount the benefits accrued is the yield at the consolidated statement of financial position date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit method. The operating and financing costs of such plans are recognised separately in the consolidated income statement; past service costs and financing costs are recognised in the periods in which they arise. The Group recognises expected scheme gains and losses via the consolidated income statement and actuarial gains and losses are recognised in the period they occur directly in other comprehensive income, with associated deferred tax.

The retirement benefit deficit or surplus recognised in the consolidated statement of financial position represents the deficit or surplus 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 (such as service or performance) not being met. The fair value is spread over the period during which the employees become unconditionally entitled to the shares and is adjusted to reflect the actual number of options that vest. At the consolidated statement of financial position date, if it is expected that non-market conditions will not be satisfied, the cumulative expense recognised in relation to the relevant options is reversed. The proceeds received are credited to share capital (nominal value) and share premium when the options are exercised if new shares are issued. If treasury shares are used the proceeds are credited to retained reserves. There are no cash-settled share-based compensation plans.

Software as a Service (SaaS) arrangements Implementation costs including costs to configure or customise a cloud provider's application software are recognised as administrative expenses when the services are received, and the Group determines that there is no control over the asset in development.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition. Depreciation is calculated to write off the cost of the assets on a straight-line basis to their estimated residual value over its expected useful life at the following rates:

Fixtures and fittings	10%
Computer equipment and non-SaaS software	20% to 33%

The asset residual values, carrying values and useful lives are reviewed on an annual basis and adjusted if appropriate at each consolidated statement of financial position date.

Right-of-use assets and lease liabilities

The Group assesses at lease inception whether a contract is, or contains, a lease. The Group 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 consolidated income statement as an administrative expense over the shorter of its useful economic life or its lease term on a straight-line basis.

The Group recognises lease liabilities at the present value of future lease payments, lease payments being discounted at the rate implicit in the lease or the Group'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 consolidated income statement over the lease term as a finance 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 Group is reasonably certain to exercise that option.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
1 ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value (NRV).

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

Part exchange 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 consolidated income statement.

Land inventories and the associated land payables are recognised in the consolidated 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 fair value through profit and loss (FVTPL)
- measured subsequently at fair value through other comprehensive income (FVOCI).

The classification of financial assets depends on the Group's business model for managing the asset and the contractual terms of the cash flows. Assets that are held for the collection of contractual cash flows that represent solely payments of principal and interest are measured at amortised cost, with any interest income recognised in the consolidated income statement using the effective interest rate method.

Financial assets that do not meet the criteria to be measured at amortised cost are classified by the Group as measured at FVTPL. Fair value gains and losses on financial assets measured at FVTPL are recognised in the consolidated income statement and presented within administrative expenses. The Group currently has no financial assets measured at FVOCI.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss (which comprise shared equity receivables) are classified as being held to collect and initially recognised at fair value. Changes in fair value relating to the expected recoverable amount are recognised in the consolidated 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 consolidated income statement. Current trade and other receivables do not carry any interest and are stated at their amortised cost, as reduced by appropriate allowances for estimated irrecoverable amounts. Non-current trade and other receivables are discounted to present value when the impact of discounting is deemed to be material, with any discount to nominal value being recognised in the consolidated income statement as interest income over the duration of the deferred payment.

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 consolidated statement of financial position at nominal value.

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
1 ACCOUNTING POLICIES (continued)

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 consolidated income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise or included within interest accruals.

Financial liabilities

Financial liabilities are initially recognised at fair value and subsequently classified into one of the following measurement categories:

- measured at amortised cost
- measured subsequently at FVTPL.

Non-derivative financial liabilities are measured at FVTPL when they are considered held for trading or designated as such on initial recognition. The Group has no non-derivative financial liabilities measured at FVTPL.

Land payables

Land payables are recognised in the consolidated statement of financial position from the date of unconditional exchange of contracts. Where land is purchased on deferred settlement terms then the land and the land payable are discounted to their fair value using the effective interest method in accordance with IFRS 9. The difference between the fair value and the nominal value is amortised over the deferral period, with the financing element being charged as an interest expense through the consolidated income statement.

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method. Trade and other payables on deferred terms are initially recorded at their fair value, with the discount to nominal value being charged to the consolidated income statement as 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. 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 consolidated statement of financial position when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated. 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 Group's trading results and working capital.

2 SEGMENTAL ANALYSIS

The Executive Leadership Team (comprising Peter Truscott (Chief Executive), Tom Nicholson (Chief Operating Officer) until 27 May 2022, Duncan Cooper (Group Finance Director), David Marchant (Group Operations Director), Kieran Daya (Managing Director, Crest Nicholson Partnerships and Strategic Land), Jane Cookson (Group HR Director) and Kevin Maguire (General Counsel and Company Secretary)), which is accountable to the Board, has been identified as the chief operating decision maker for the purposes of determining the Group's operating segments. The Executive Leadership Team approves investment decisions, allocates group resources and performs divisional performance reviews. The Group operating segments are considered to be its divisions, 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 Group identifies that it has one reportable operating segment.

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3 REVENUE

Revenue type	2022 £m	2021 £m
Open market housing including specification upgrades	803.7	654.7
Affordable housing	76.9	78.7
Total housing	880.6	733.4
Land and commercial sales	32.0	49.2
Freehold reversions	1.0	4.0
Total	913.6	786.6

In the prior year land and commercial sales include revenue of £42.3m from the sales of the Longcross Film Studio to our joint unincorporated arrangement partner on that scheme. Commercial sales are immaterial in each year.

Timing of revenue recognition	2022 £m	2021 £m
Revenue recognised at a point in time	842.6	695.3
Revenue recognised over time	71.0	91.3
Total revenue	913.6	786.6

Proceeds received on the disposal of part exchange properties, which is not included in revenue, were £48.9m (2021: £48.6m). These have been included within cost of sales.

Assets and liabilities related to contracts with customers	2022 £m	2021 £m
Contract assets (note 16)	25.1	56.4
Contract liabilities (note 18)	(19.3)	(25.0)

Contract assets have decreased to £25.1m from £56.4m in 2021, reflecting less unbilled work-in-progress on affordable and other sales in bulk at the year end. This is in line with the trading of the Group and the contractual arrangements in the Group's contracts. Contract liabilities have reduced to £19.3m from £25.0m in 2021, 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 Group 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 £19.6m (2021: £21.3m) that was included in contract liabilities at the beginning of the year.

During the year £nil (2021: £nil) of revenue was recognised from performance obligations satisfied or partially satisfied in previous years.

At 31 October 2022 there was £322.4m (2021: £358.5m) of transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied on contracts exchanged with customers. We are forecasting to recognise £257.4m (2021: £261.7m) of transaction prices allocated to performance obligations that are unsatisfied on contracts exchanged with customers within one year, £65.0m (2021: £96.8m) within two to five years, and £nil (2021: £nil) over five years.

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED 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 consolidated income statement in order to assist the users of the financial statements in understanding what the Directors consider to be the underlying business performance of the Group. This is consistent with 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 consolidated 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. Exceptional items for the year relate to the same category of items booked in previous financial years.

	2022 £m	2021 £m
Cost of sales		
Combustible materials charge	102.5	31.2
Combustible materials credit	-	(2.4)
Net combustible materials charge	102.5	28.8
Inventory impairment credit	-	(8.0)
Total cost of sales exceptional charge	102.5	20.8
Net finance expense		
Finance expense credit	-	(0.5)
Combustible materials imputed interest	1.0	-
Share of post-tax loss of joint ventures		
Combustible materials charge of joint ventures	1.5	-
Total exceptional charge	105.0	20.3
Tax credit on exceptional charge	(22.4)	(3.9)
Total exceptional charge after tax credit	82.6	16.4

Combustible materials related charges

Following the fire at Grenfell Tower in 2017, and the subsequent review of building design, construction methods and materials used, the Group has acted swiftly to identify and remediate any legacy buildings where it has a constructive or legal obligation to do so. The Group recognises the significant distress caused to residents and as such has always sought to engage constructively with residents, building owners, Government and other affected stakeholders.

Accordingly, the Group had cumulatively recorded £47.8m of net charges in respect of these obligations between the year ended 31 October 2019 to 31 October 2021.

On 19 April 2022, the Group signed the Government's Building Safety Pledge, which has a wider perimeter of potential buildings impacted and has thus contributed to a further combustible material related total exceptional charge of £105.0m for the year ended 31 October 2022. Due to the material nature of the charge, it has been recognised as an exceptional item. See note 19 for additional information.

The combustible materials charge of joint ventures represents the Group's share of exceptional combustibles materials charge in its joint venture Crest Nicholson Bioregional Quintain LLP. The joint venture completed a development in Brighton in 2011 and recognised a provision following an independent fire engineers report recommending remedial works.

In January 2023, the Group received a £10.0m cash settlement from a third party relating to buildings included within the combustible materials provision. As this was not contracted in the current financial year, it has not been recognised in the FY22 consolidated financial statements. The receipt will be reflected in the FY23 consolidated financial statements as an exceptional credit.

Inventory impairment credit and finance expense credit

In the year ended 31 October 2021 the Group released unused inventory impairment and reversed a finance expense charge which were previously recognised as exceptional, resulting in a credit in those periods. For further details see note 4 within the Group's consolidated financial statements for the year ended 31 October 2021.

Taxation

An exceptional income tax credit of £22.4m (2021: £3.9m) has been recognised in relation to the above exceptional items using the actual tax rate applicable to these items.

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5 OPERATING PROFIT

Operating profit of £38.4m (2021: £89.4m) from continuing activities is stated after charging/(crediting):

	Note	2022 £m	2021 £m
Inventories expensed in the year	17	823.2	646.6
Inventories impairment movement in the year	17	(8.1)	(19.7)
Staff costs	6	58.4	53.4
Depreciation on property, plant and equipment	10	0.4	1.0
Depreciation on right-of-use assets	11	1.9	2.4
Joint venture project management fees received	24	(2.0)	(1.5)
Government grants repaid		-	2.5

Government grants repaid

During the year ended 31 October 2020 the Group recognised £2.5m credit within administrative expenses relating to the Government's Job Retention Scheme (JRS). On the 14 December 2020, the Group voluntarily repaid the JRS grant, representing a charge within administrative expenses in the prior year.

	2022 £000	2021 £000
Auditors' remuneration:		
Audit of the financial statements of subsidiaries of Crest Nicholson plc	762	640
Audit of parent company and these consolidated financial statements	21	25

The audit fees payable in 2022 included £30,000 in relation to additional costs for the 2021 audit (2021: fees payable includes £70,000 in relation to additional costs for the 2020 audit).

Fees payable to the Group's auditors for non-audit services included £95,000 (2021: £90,000) in respect of an independent review of the half year results and is not included in the table above.

In addition to the above, PricewaterhouseCoopers LLP provide audit services to the Crest Nicholson Group Pension and Life Assurance Scheme and Group joint ventures. The fees associated with the services to the Crest Nicholson Group Pension and Life Assurance Scheme are £25,400 (2021: £24,000) and are met by the assets of the scheme, and the fees associated with services to Group joint ventures are £18,000 (2021: £28,000). The fees are not included in the auditors remuneration table above.

6 STAFF NUMBERS AND COSTS

	2022 Number	2021 Number
(a) Average monthly number of persons employed by the Group		
Development	727	661

The Directors consider all employees of the Group to be employed within the same category of Development.

	2022 £m	2021 £m
(b) Staff costs (including Directors and Key Management)		
Wages and salaries	48.0	43.8
Social security costs	6.0	5.4
Other pension costs	2.5	2.4
Share-based payments (note 15)	1.9	1.8
	<u>58.4</u>	<u>53.4</u>

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
6 STAFF NUMBERS AND COSTS (continued)

	2022 £m	2021 £m
(c) Key Management remuneration		
Salaries and short-term employee benefits	4.0	4.3
Directors remuneration for loss of office	0.5	-
Share-based payments	1.0	0.9
	<u>5.5</u>	<u>5.2</u>

Key Management comprises the Executive Management Team (which includes the Executive Directors of the Board) are considered to have the authority and responsibility for planning, directing and controlling the activities of the Group.

	2022 £m	2021 £m
(d) Directors' remuneration		
Salaries and short-term employee benefits	2.6	2.9
Directors' remuneration for loss of office	0.5	-
Share-based payments	0.8	0.8
	<u>3.9</u>	<u>3.7</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid Director was £1.5m (2021: £1.5m).

	Number of Directors	
	2022	2021
Retirement benefits are accruing to the following number of Directors under:		
Defined contribution schemes	-	-
Defined benefit schemes	-	-
The number of Directors who exercised share options was	-	-
The number of Directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was	3	4

7 FINANCE INCOME AND EXPENSE

	2022 £m	2021 £m
Finance income		
Interest income	0.7	0.2
Interest payable to Group undertakings	10.2	5.8
Interest on amounts due from associates (note 24)	2.1	2.8
Interest on financial assets at fair value through profit and loss (note 13)	-	0.4
Net interest on defined benefit pension scheme (note 15)	0.3	-
	<u>13.3</u>	<u>9.2</u>
Finance expense		
Interest expense	-	(0.4)
Imputed interest on deferred land creditors	(2.8)	(2.8)
Interest on lease liabilities (note 11)	(0.1)	(0.2)
Interest on financial assets at fair value through profit and loss (note 13)	-	0.5
Net interest on defined benefit pension plan obligations (note 15)	-	(0.9)
Imputed interest on combustible materials provision – exceptional (note 19)	(1.0)	-
	<u>(3.9)</u>	<u>(3.8)</u>
Net finance income/(expense)	<u>9.4</u>	<u>5.4</u>

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8 INCOME TAX EXPENSE

	2022 £m	2021 £m
Current tax		
UK Corporation tax expense on profits for the year	(5.9)	(11.4)
Adjustments in respect of prior years	-	(0.2)
Total current tax expense	(5.9)	(11.6)
Deferred tax		
Origination and reversal of temporary differences in the current year	(0.2)	(2.8)
Total deferred tax expense (note 14)	(0.2)	(2.8)
Total income tax expense in consolidated income statement	(6.1)	(14.4)

Corporation tax is calculated at 19.0% (2021: 19.0%) of the profit chargeable to tax for the year, and, from 1 April 2022 the Group is subject to the Residential Property Developer Tax (RPDT) at a rate of 4.0%. This results in a weighted statutory rate of corporation tax of 21.3% for the year. The effective tax rate for the year is 12.2% (2021: 14.9%) which is lower (2021: lower) than the weighted standard rate of UK corporation tax due to the impact of the changes in UK tax rates on deferred tax and the RPDT annual allowance and adjustments and group relief. The Group expects this profile to continue in future years.

Reconciliation of tax expense in the year	2022 £m	2021 £m
Profit before taxation	50.3	96.5
Tax on profit at 21.3% (2021: 19.0%)	(10.7)	(18.3)
Effects of:		
Expenses not deductible for tax purposes	(0.6)	(0.7)
Enhanced tax deductions	0.2	0.2
Group relief	4.0	4.2
Adjustments in respect of prior years	-	(0.2)
Effect of change in rate of tax	0.5	0.4
Impact of RPDT annual allowance and adjustments	0.5	-
Total income tax expense in consolidated income statement	(6.1)	(14.4)

Expenses not deductible for tax purposes include business entertaining and other permanent disallowable expenses. Enhanced tax deductions include items for which, under tax law, a corporation tax deduction is available in excess of the amount shown in the consolidated income statement. Examples are share schemes, defined benefit pension payments and land remediation enhanced allowances. Adjustments in respect of prior periods reflect the difference between the estimated consolidated income statement tax charge in the prior year and that of the actual tax outcome.

Effect of change in rate of tax reflects the impact on deferred tax balances in respect of the RPDT tax rate of 4.0% which was effective from 1 April 2022. As a result, the deferred tax balances on the consolidated statement of financial position have been measured using these revised rates.

RPDT was introduced by HM Treasury to obtain a contribution from the UK's largest residential property developers towards the cost of remediating defective cladding in the UK's high-rise housing stock and is expected to remain in force for up to ten years. RPDT is an additional tax on profits generated from residential property development activity, in excess of an annual threshold and adjusting for interest expense disallowable under RPDT. The impact of RPDT annual allowance and adjustments reflects the net tax benefit of the annual threshold and interest adjustment.

The UK corporation tax rate will increase from 19.0% to 25.0% with effect from 1 April 2023.

9 DIVIDENDS

There were no distributions to equity shareholders in the year (2021: nil). No dividend has been proposed by the Directors after the statement of financial position date (2021: nil).

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10 PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings £m	Computer equipment and software £m	Total £m
Cost			
At 1 November 2020	2.0	12.0	14.0
Additions	-	0.2	0.2
Disposals	(0.2)	(9.0)	(9.2)
At 31 October 2021	1.8	3.2	5.0
Additions	-	0.1	0.1
Disposals	(0.1)	(0.4)	(0.5)
At 31 October 2022	1.7	2.9	4.6
Accumulated depreciation			
At 1 November 2020	1.0	11.0	12.0
Charge for the year	0.2	0.8	1.0
Disposals	(0.2)	(9.0)	(9.2)
At 31 October 2021	1.0	2.8	3.8
Charge for the year	0.2	0.2	0.4
Disposals	(0.1)	(0.4)	(0.5)
At 31 October 2022	1.1	2.6	3.7
Net book value			
At 31 October 2022	0.6	0.3	0.9
At 31 October 2021	0.8	0.4	1.2
At 1 November 2020	1.0	1.0	2.0

The Group has contractual commitments for the acquisition of property, plant and equipment of £nil (2021: £nil).

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	Office buildings £m	Motor vehicles £m	Photocopiers £m	Total £m
Cost				
At 1 November 2020	13.3	6.7	0.6	20.6
Additions	-	0.1	-	0.1
Disposals	(0.2)	(2.6)	(0.6)	(3.4)
At 31 October 2021	13.1	4.2	-	17.3
Additions	-	1.3	-	1.3
Disposals	-	(1.0)	-	(1.0)
At 31 October 2022	13.1	4.5	-	17.6
Accumulated depreciation				
At 1 November 2020	9.5	4.6	0.5	14.6
Charge for the year	1.4	0.9	0.1	2.4
Disposals	(0.2)	(2.6)	(0.6)	(3.4)
At 31 October 2021	10.7	2.9	-	13.6
Charge for the year	1.0	0.9	-	1.9
Disposals	-	(1.0)	-	(1.0)
Reclassification*	(0.6)	-	-	(0.6)
At 31 October 2022	11.1	2.8	-	13.9
Net book value				
At 31 October 2022	2.0	1.7	-	3.7
At 31 October 2021	2.4	1.3	-	3.7
At 1 November 2020	3.8	2.1	0.1	6.0

* Relates to the brought forward balance of dilapidations on Group offices, now presented in provisions (see note 19).

Lease liabilities included in the consolidated statement of financial position

	2022 £m	2021 £m
Non-current	2.3	2.7
Current	1.6	1.9
Total lease liabilities	3.9	4.6

Amounts recognised in the consolidated income statement

	2022 £m	2021 £m
Depreciation on right-of-use assets	1.9	2.4
Interest on lease liabilities	0.1	0.2

Amounts recognised in the consolidated cash flow statement

	2022 £m	2021 £m
Principal elements of lease payments	2.1	2.7

Maturity of undiscounted contracted lease cash flows

	2022 £m	2021 £m
Less than one year	1.7	2.1
One to five years	2.4	2.9
More than five years	-	-
Total	4.1	5.0

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12 INVESTMENTS

Investments in joint ventures

Below are the joint ventures that the Directors consider to be material to the Group:

- Crest Sovereign (Brooklands) LLP: In April 2019 the Group entered into a partnership agreement with Sovereign Housing Association Limited to develop a site in Bristol. The LLP commenced construction in 2019, with sales completion forecast for 2027. The LLP will be equally funded by both parties, who will receive interest on loaned sums. The Group performs the role of project manager, for which it receives a project management fee.
- Crest A2D (Walton Court) LLP: In January 2016 the Group entered into a partnership agreement with A2 Dominion Developments Limited to procure and develop a site in Surrey. The LLP commenced construction in 2019, with sales completion forecast for 2026. The development will be equally funded by both parties by way of interest free loans. The Group performs the role of project manager, for which it receives a project management fee.
- Elmsbrook (Crest A2D) LLP: In July 2017 the Group entered into a partnership agreement with A2 Dominion Developments Limited to procure and develop a site in Oxfordshire. The LLP commenced construction in 2018, with sales completion forecast for 2023. The development will be equally funded by both parties by way of interest free loans. The Group performs the role of project manager, for which it receives a project management fee.

Disposal of joint venture Bonner Road LLP

In August 2015 the Group entered into a partnership agreement with Your Litespace Limited to procure and develop a site in London. This site has been the subject of planning objections and delays and is a complex build programme with significant levels of peak capital investment. On 6 May 2022 the Group disposed of its 50% interest in Bonner Road LLP to its joint venture partner for consideration of £16.0m, of which £8.0m was received in the year and £8.0m is receivable in the next financial year. The carrying value of the amounts due from the joint venture was further impaired recording a £2.3m net impairment loss on financial assets in the year as presented below and represents the final value to be realised upon the disposal:

	£m
Proceeds from disposal of interest in Bonner Road LLP	16.0
Amounts due from the joint venture at 6 May 2022	(37.6)
Expected credit loss charged to the consolidated income statement to 31 October 2021	11.8
Cumulative loss recognised in the consolidated income statement to 31 October 2021	6.9
Loss recognised in the consolidated income statement from 1 November 2021 to 6 May 2022	0.6
Expected credit loss charged to the consolidated income statement in the year	2.3
Total expected credit loss utilised in the year £14.1m (see note 16).	

	2022 £m	2021 £m
Total investments in joint ventures		
Crest Sovereign (Brooklands) LLP	2.3	-
Crest A2D (Walton Court) LLP	3.4	2.2
Elmsbrook (Crest A2D) LLP	3.3	4.5
Other non-material joint ventures	-	0.1
Total investments in joint ventures	9.0	6.8

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 26 for further details.

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
12 INVESTMENTS (continued)

Summarised financial information for joint ventures

The tables below provide financial information for joint ventures that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant joint ventures and not Crest Nicholson Holdings plc's share of those amounts.

2022

	Crest Sovereign (Brooklands) LLP £m	Bonner Road LLP £m	Crest A2D (Walton Court) LLP £m	Elmsbrook (Crest A2D) LLP £m	Other non- material joint ventures £m	Total £m
Summarised statement of financial position						
Current assets						
Cash and cash equivalents	0.3	-	0.1	1.6	0.2	2.2
Inventories	28.8	-	40.4	7.8	-	77.0
Other current assets	2.3	-	0.1	0.1	0.2	2.7
Current liabilities						
Financial liabilities	(1.0)	-	(0.6)	-	-	(1.6)
Other current liabilities	(6.9)	-	(1.4)	(3.0)	(3.3)	(14.6)
Non-current liabilities						
Financial liabilities	(18.9)	-	(31.9)	-	-	(50.8)
Net assets/(liabilities)	4.6	-	6.7	6.5	(2.9)	14.9
Reconciliation to carrying amounts						
Opening net (liabilities)/assets at 1 November 2021	(1.0)	(13.7)	4.3	8.9	0.2	(1.3)
Profit/(loss) for the year	5.6	(1.2)	1.2	2.4	(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	4.6	-	6.7	6.5	(2.9)	14.9
Group's share of closing net assets/(liabilities) at 31 October 2022	2.3	-	3.4	3.3	(1.4)	7.6
Losses recognised against receivable from joint venture (note 16)	-	-	-	-	0.2	0.2
Fully provided in the Group financial statements (note 19)	-	-	-	-	1.2	1.2
Group's share in joint venture	2.3	-	3.4	3.3	-	9.0
Amount due to the Group (note 16)	10.4	-	15.9**	0.8	-	27.1
Amount due from the Group (note 18)	-	-	-	-	0.1	0.1
Summarised income statement for the twelve months ending 31 October 2022						
Revenue	47.4	-	26.0	11.0	-	84.4
Expenditure	(39.9)	-	(23.6)	(8.6)	(0.1)	(72.2)
Expenditure – exceptional item (note 4)	-	-	-	-	(3.0)	(3.0)
Operating profit/(loss) before finance expense	7.5	-	2.4	2.4	(3.1)	9.2
Finance expense	(1.9)	(1.2)	(1.2)	-	-	(4.3)
Pre-tax and post-tax profit/(loss) for the year	5.6	(1.2)	1.2	2.4	(3.1)	4.9
Group's share in joint venture profit/(loss) for the year	2.8	(0.6)	0.6	1.2	(1.5)	2.5

* Groups share of the net liabilities comprises £7.5m made up of brought forward net liabilities £6.9m and current year £0.6m.

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

The Group is committed to provide such funding to joint ventures as may be required by the joint venture in order to carry out the project if called. Funding of this nature is currently expected to be £1.2m (2021: £nil). The Group 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 PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
12 INVESTMENTS (continued)

2021	Crest Sovereign (Brooklands) LLP £m	Bonner Road LLP £m	Crest A2D (Walton Court) LLP £m	Elmsbrook (Crest A2D) LLP £m	Other non- material joint ventures £m	Total £m
Summarised statement of financial position						
Current assets						
Cash and cash equivalents	0.8	0.1	-	6.6	0.2	7.7
Inventories	42.8	59.9	45.8	7.2	-	155.7
Other current assets	4.8	-	0.6	0.6	0.2	6.2
Current liabilities						
Financial liabilities	(22.4)	-	(7.8)	(2.2)	-	(32.4)
Other current liabilities	(6.2)	(0.2)	(3.7)	(3.3)	(0.2)	(13.6)
Non-current liabilities						
Financial liabilities	(20.8)	(73.5)	(30.6)	-	-	(124.9)
Net (liabilities)/assets	(1.0)	(13.7)	4.3	8.9	0.2	(1.3)
Reconciliation to carrying amounts						
Opening net (liabilities)/assets at 1 November 2020	(2.4)	(11.5)	2.0	5.2	0.2	(6.5)
Profit/(loss) for the year	1.4	(2.2)	0.7	3.7	-	3.6
Capital contribution reserve	-	-	1.6	-	-	1.6
Closing net (liabilities)/assets at 31 October 2021	(1.0)	(13.7)	4.3	8.9	0.2	(1.3)
Group's share of closing net (liabilities)/assets at 31 October 2021	(0.5)	(6.9)	2.2	4.5	0.1	(0.6)
Losses recognised against receivable from joint venture (note 16)	0.5	6.9	-	-	-	7.4
Group's share in joint venture	-	-	2.2	4.5	0.1	6.8
Amount due to the Group (note 16)	21.2	18.2*	15.5*	1.1	-	56.0
Amount due from the Group (note 18)	-	-	-	-	0.1	0.1
Summarised income statement for the twelve months ending 31 October 2021						
Revenue	22.0	-	15.5	16.6	-	54.1
Expenditure	(18.4)	-	(13.7)	(12.9)	-	(45.0)
Operating profit before finance expense	3.6	-	1.8	3.7	-	9.1
Finance expense	(2.2)	(2.2)	(1.1)	-	-	(5.5)
Pre-tax and post-tax profit/(loss) for the year	1.4	(2.2)	0.7	3.7	-	3.6
Group's share in joint venture profit/(loss) for the year	0.7	(1.1)	0.3	1.8	-	1.7

* £18.2m stated after expected credit loss of £11.8m, and £15.5m stated after expected credit loss of £0.1m.

Subsidiary undertakings

Crest Nicholson Operations Limited is the only subsidiary undertaking that is significant to the Group and traded during the year. The Group's interest is in respect of ordinary issued share capital that is wholly owned, incorporated in Great Britain and included in the consolidated financial statements. A full list of the Group's undertakings including subsidiaries and joint ventures is set out in note 26.

Registered no. 1040616

Classified as General

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2022 £m	2021 £m
At beginning of the year	5.3	5.4
Disposals	(0.7)	(1.0)
Imputed interest	-	0.9
At end of the year	4.6	5.3
Of which:		
Non-current assets	3.3	4.2
Current assets	1.3	1.1
	4.6	5.3

Financial assets at FVTPL are carried at fair value and categorised as level 3 (inputs not based on observable market data) within the hierarchical classification of IFRS 13: Revised.

FVTPL comprise shared equity loans secured by way of a second charge on the property. The loans can be repaid at any time within the loan agreement, the amount of which is dependent on the market value of the asset at the date of repayment. The assets are recorded at fair value, being the estimated amount receivable by the Group, discounted to present day values.

The fair value of future anticipated cash receipts takes into account Directors' views of an appropriate discount rate (incorporating purchaser default rate), future house price movements and the expected timing of receipts. These assumptions are given below and are reviewed at each year end, although short term house prices may fall, 3% is considered to be a fair medium term assessment:

Assumptions	2022	2021
Discount rate, incorporating default rate	10.5%	10.5%
House price inflation for the next three years	3.0%	3.0%
Timing of receipt	8 to 17 years	8 to 17 years

	2022 Increase assumptions by 1 %/year £m	2022 Decrease assumptions by 1 %/year £m
Sensitivity – effect on value of FVTPL (less)/more		
Discount rate, incorporating default rate	(0.1)	0.1
House price inflation for the next three years	0.1	(0.1)
Timing of receipt	(0.1)	-

The difference between the anticipated future receipt and the initial fair value is charged over the estimated deferred term to financing, with the financial asset increasing to its full expected cash settlement value on the anticipated receipt date. The imputed finance income credited to financing for the year ended 31 October 2022 was £nil (2021: £0.9m).

At initial recognition, the fair values of the assets are calculated using a discount rate, appropriate to the class of assets, which reflects market conditions at the date of entering into the transaction. The Directors consider at the end of each reporting period whether the initial market discount rate still reflects up-to-date market conditions. If a revision is required, the fair values of the assets are remeasured at the present value of the revised future cash flows using this revised discount rate. The difference between these values and the carrying values of the assets is recorded against the carrying value of the assets and recognised directly in the consolidated income statement.

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Deferred tax assets	Share-based payment £m	Pension deficit £m	Short-term temporary differences £m	Total £m
At 1 November 2020	0.1	2.6	3.7	6.4
Consolidated income statement movements	0.2	(1.9)	(1.1)	(2.8)
Equity movements	0.1	(0.7)	-	(0.6)
At 31 October 2021	0.4	-	2.6	3.0
Consolidated income statement movements	0.5	-	-	0.5
Equity movements	(0.4)	-	-	(0.4)
At 31 October 2022	0.5	-	2.6	3.1

Deferred tax liabilities	Pension surplus £m	Total £m
At 1 November 2020	-	-
Equity movements	(4.1)	(4.1)
At 31 October 2021	(4.1)	(4.1)
Consolidated income statement movements	(0.7)	(0.7)
Equity movements	1.6	1.6
At 31 October 2022	(3.2)	(3.2)

Total deferred tax charged to equity in the year is £1.2m (2021: charged to equity £4.7m).

Deferred tax assets expected to be recovered in less than 12 months is £0.9m (2021: £0.5m), and more than 12 months is £2.2m (2021: £2.6m). Deferred tax liabilities are expected to be settled in more than 12 months.

At the consolidated statement of financial position date the substantively enacted future corporation tax rate up to 31 March 2023 is 19.0% and from 1 April 2023 is 25.0%. A new residential property developer tax (RPDT) became effective from 1 April 2022. RPDT 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 Group has no material unrecognised deferred tax assets.

15 EMPLOYEE BENEFITS

(a) Retirement benefit obligations

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 £2.3m (2021: £2.0m). At the consolidated statement of financial position date there were no outstanding or prepaid contributions (2021: £nil).

Defined benefit scheme

The Company sponsors the Crest Nicholson Group Pension and Life Assurance Scheme (the Scheme), a funded defined benefit pension scheme in the UK. The Scheme is administered within a trust that is legally separate from the Company. Trustees are appointed by both the Company and the Scheme's members and act in the interest of the Scheme and all relevant stakeholders, including the members and the Company. The Trustees are also responsible for the investment of the Scheme's assets.

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
15 EMPLOYEE BENEFITS (continued)

The Scheme closed to future accrual from 30 April 2010. Accrued pensions in relation to deferred members are revalued at statutory revaluation in the period before retirement. Benefits also increase either at a fixed rate or in line with inflation while in payment. The Scheme provides pensions to members on retirement and to their dependants on death.

The Company pays contributions to improve the Scheme's funding position as determined by regular actuarial valuations. The Trustees are required to use prudent assumptions to value the liabilities and costs of the Scheme whereas the accounting assumptions must be best estimates.

Responsibility for 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 Trustees are aware of these risks and manage them through appropriate investment and funding strategies.

The Scheme is subject to regular actuarial valuations, which are usually carried out every three years. The last actuarial valuation was carried out with an effective date of 31 January 2021. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so includes 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 2022 by a qualified independent actuary. The figures in the following disclosure were measured using the Projected Unit Method.

The investment strategy in place for the Scheme is to invest in a mix of return seeking, index linked and fixed interest investments. At 31 October 2022, the allocation of the Scheme's invested assets was 36% in return seeking investments, 45% in liability-driven investing, 16% in cash and 3% in insured annuities. Details of the investment strategy can be found in the Scheme's Statement of Investment Principles, which the Trustees update as their policy evolves.

It should also be noted that liabilities relating to insured members of the Scheme have been included as both an asset and a liability.

Following the High Court judgement in the Lloyds case, overall pension benefits now need to be equalised to eliminate inequalities between males and females in Guaranteed Minimum Pensions (GMP). The Company has allowed for this in its accounts by adding a 1.3% (2021: 2.0%) reserve reflecting an approximate estimate of the additional liability. During the year, the impact of GMP on additional liabilities was recalculated to be 1.3% rather than 2.0%, with the 0.7% financial impact reduction being adjusted through total comprehensive income.

	2022 £m	2021 £m	2020 £m
The amounts recognised in the consolidated statement of financial position are as follows:			
Present value of scheme liabilities	(148.9)	(225.2)	(228.3)
Fair value of scheme assets	160.0	241.9	214.5
Net surplus/(deficit) amount recognised at year end	11.1	16.7	(13.8)
Deferred tax asset recognised at year end within non-current assets	-	-	2.6
Deferred tax liability recognised at year end within non-current liabilities	(3.2)	(4.1)	-

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

The rules of the Scheme provide the Group 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 trustees have no unilateral right to wind the Scheme up. Based on these rights and in accordance with IFRIC 14, the Group has made the judgement that the net surplus in the Scheme is recognised in full.

At the consolidated statement of financial position date the substantively enacted future corporation tax rate up to 31 March 2023 is 19.0% and from 1 April 2023 is 25.0%. The deferred tax liability on the retirement benefit surplus has been evaluated applying a 29.0% tax rate, made up of the corporation tax rate 25.0% and 4.0% RPDT.

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
15 EMPLOYEE BENEFITS (continued)

Amounts recognised in comprehensive income:

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

	2022 £m	2021 £m
Service cost		
Administrative expenses	(0.9)	(0.8)
Net interest Income/(expense)	0.3	(0.1)
Expense recognised in the consolidated income statement	(0.6)	(0.9)

	2022 £m	2021 £m
Remeasurements of the net liability		
Return on Scheme assets	(82.6)	19.5
Gains/(losses) arising from changes in financial assumptions	79.8	(2.8)
Loss arising from changes in demographic assumptions	(0.1)	(0.5)
Experience (losses)/gains	(5.5)	4.0
Actuarial (losses)/gains recorded in the consolidated statement of comprehensive income	(8.4)	20.2
Total defined benefit scheme (losses)/gains	(9.0)	19.3

	2022 %	2021 %
The principal actuarial assumptions used were:		
Liability discount rate	4.80	1.70
Inflation assumption – RPI	3.20	3.50
Inflation assumption – CPI	2.60	2.80
Revaluation of deferred pensions	2.60	2.80
Increases for pensions in payment		
Benefits accrued in respect of GMP	3.00	3.00
Benefits accrued in excess of GMP pre-1997	3.00	3.00
Benefits accrued post-1997	3.00	3.30
Proportion of employees opting for early retirement	0.00	0.00
Proportion of employees commuting pension for cash	100.00	100.00
Mortality assumption – pre-retirement	AC00	AC00
Mortality assumption – male and female post-retirement	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	SAPS S3 PMA _LCMI_2020 core model with initial addition of 0.3% and 2020 weighting of 0.0% ltr 1.25%

	2022 Years	2021 Years
Future expected lifetime of current pensioner at age 65		
Male aged 65 at year end	23.4	23.4
Female aged 65 at year end	25.0	24.9
Future expected lifetime of future pensioner at age 65		
Male aged 45 at year end	24.6	24.6
Female aged 45 at year end	26.3	26.3

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
15 EMPLOYEE BENEFITS (continued)

Changes in the present value of assets over the year

	2022	2021
	£m	£m
Fair value of assets at beginning of the year	241.9	214.5
Interest income	4.1	3.3
Return on assets (excluding amount included in net interest expense)	(82.6)	19.5
Contributions from the employer	3.4	11.2
Benefits paid	(5.9)	(5.8)
Administrative expenses	(0.9)	(0.8)
Fair value of assets at end of the year	160.0	241.9
Actual return on assets over the year	(78.5)	22.8

Changes in the present value of liabilities over the year

	2022	2021
	£m	£m
Liabilities at beginning of the year	(225.2)	(228.3)
Interest cost	(3.8)	(3.4)
Remeasurement gains/(losses)		
Gains/(losses) arising from changes in financial assumptions	79.8	(2.8)
Losses arising from changes in demographic assumptions	(0.1)	(0.5)
Experience (losses)/gains	(5.5)	4.0
Benefits paid	5.9	5.8
Liabilities at end of the year	(148.9)	(225.2)

Split of the Scheme's liabilities by category of membership

	2022	2021
	£m	£m
Deferred pensioners	(71.5)	(115.7)
Pensions in payment	(77.4)	(109.5)
	(148.9)	(225.2)

	2022	2021
	Years	Years
Average duration of the Scheme's liabilities at end of the year	14.0	17.0
This can be subdivided as follows:		
Deferred pensioners	18.0	21.0
Pensions in payment	10.0	12.0

Major categories of scheme assets

	2022	2021
	£m	£m
Return seeking		
Equities	2.3	19.6
Other (hedge funds, multi asset strategy and absolute return funds)	55.9	83.7
	58.2	103.3
Debt instruments		
Corporates	-	41.2
Liability-driven investing	71.6	86.1
	71.6	127.3
Other		
Cash	25.9	4.9
Insured annuities	4.3	6.4
	30.2	11.3
Total market value of assets	160.0	241.9

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
15 EMPLOYEE BENEFITS (continued)

Enil (2021: £17.8m) of Scheme assets have a quoted market price in active markets, £106.2m (2021: £137.4m) of Scheme assets have valuation inputs other than quoted market prices, including quoted market prices for similar assets in active markets, £42.4m (2021: £75.4m) 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 £11.4m (2021: £11.3m) of Scheme assets are cash and insured pension annuities.

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

The Scheme had a deficit as at the latest valuation date of 31 January 2021, with a recovery plan agreed between the Group and Trustees. 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 Trustees 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 3 consecutive months then the Group have the option to pay any remaining contributions to an escrow account. The Group expects to contribute £1.5m to scheme funding in the year ending 31 October 2023.

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 consolidated statement of financial position as at 31 October 2022 as a result of a change to the key assumptions. Please note that financial markets have been volatile over the year to 31 October 2022, in particular the discount rate assumption changed by much more than 0.25% p.a. As the Scheme has implemented a liability driven investment strategy, the changes in bond yields and inflation expectations had less impact on the net consolidated statement of financial position.

If the discount rate was 0.25% higher/(lower), the Scheme liabilities would decrease by £4.4m (increase by £4.3m) if all the other assumptions remained unchanged.

If the inflation assumption was 0.25% higher/(lower), the Scheme liabilities would increase by £2.6m (decrease by £2.9m) if all the other assumptions remained unchanged.

If life expectancies were to increase by one year, the scheme liabilities would increase by £6.4m if all the other assumptions remained unchanged.

(b) Share-based payments

The Group operates a Long-Term Incentive Plan (LTIP), employee share option scheme (ESOS), save as you earn (SAYE) and a deferred bonus plan.

Long-Term Incentive Plan

The Group's LTIP is open to the Executive Directors and senior management with awards being made at the discretion of the Remuneration Committee. 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 employee benefit trust (EBT), the issue of new shares (directly or to the EBT) 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 in 2021 and 2022 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 values the options using a binomial option valuation model. The market based TSR performance conditions applies 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. 961,765 of the options awarded in 2022 are subject to an additional post-vesting holding period, where shares can't 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. The average fair value at measurement date of the 25 August 2022 grant is £1.59.

Registered no. 1040616

Classified as General

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
15 EMPLOYEE BENEFITS (continued)

	26 Feb 2016	28 Feb 2018	16 Apr 2019	21 Jun 2019	20 Feb 2020	04 Aug 2020	08 Feb 2021	28 Jan 2022	25 Aug 2022	
Date of grant										
Options granted	1,075,943	1,112,762	1,140,962	278,558	1,125,531	7,298	1,328,192	1,341,918	23,955	
Fair value at measurement date	£5.07	£3.89	£3.15	£3.15	£4.28	£1.53	£2.50	£2.10	£1.59	
Share price on date of grant	£5.62	£4.76	£4.00	£3.55	£5.16	£1.85	£3.23	£3.07	£2.33	
Exercise price	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	
Vesting period	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years	
Expected dividend yield	3.50%	6.93%	8.20%	8.20%	6.40%	6.40%	4.30%	5.30%	5.30%	
Expected volatility	30.00%	35.00%	35.00%	35.00%	30.00%	30.00%	40.00%	40.00%	40.00%	
Risk free interest rate	0.43%	0.84%	0.81%	0.81%	0.45%	0.45%	0.03%	0.97%	0.97%	
	Binomial	Binomial	Binomial	Binomial	Binomial	Binomial	Binomial/ Monte Carlo	Binomial/ Monte Carlo	Binomial/ Monte Carlo	
Valuation model										
Contractual life from	26.02.16	28.02.18	16.04.19	21.06.19	20.02.20	04.08.20	08.02.21	28.01.22	25.08.22	
Contractual life to	25.02.26	27.02.28	15.04.29	20.06.29	19.02.30	03.08.30	07.02.31	27.02.32	27.02.32	
	Number of options	Number of options	Number of options	Number of options	Number of options	Number of options	Number of options	Number of options	Number of options	Total number of options
Movements in the year										
Outstanding at 1 November 2020	1,518	602,853	818,476	278,558	1,062,918	7,298	-	-	-	2,771,621
Granted during the year	-	-	-	-	-	-	1,328,192	-	-	1,328,192
Lapsed during the year	-	(602,853)	(125,542)	-	(108,787)	-	(51,755)	-	-	(888,937)
Outstanding at 31 October 2021	1,518	-	692,934	278,558	954,131	7,298	1,276,437	-	-	3,210,876
Granted during the year	-	-	-	-	-	-	-	1,341,918	23,955	1,365,873
Exercised during the year	(1,518)	-	-	-	-	-	-	-	-	(1,518)
Lapsed during the year	-	-	(692,934)	(278,558)	(62,161)	-	(78,761)	(29,443)	-	(1,141,857)
Outstanding at 31 October 2022	-	-	-	-	891,970	7,298	1,197,676	1,312,475	23,955	3,433,374
Exercisable at 31 October 2022	-	-	-	-	-	-	-	-	-	-
Exercisable at 31 October 2021	1,518	-	-	-	-	-	-	-	-	1,518
	£m	£m	£m	£m	£m	£m	£m	£m	£m	Total £m
Charge to income for the current year	-	-	-	-	1.1	-	(0.1)	0.2	-	1.2
Charge to income for the prior year	-	-	-	-	0.6	-	0.7	-	-	1.3

The weighted average exercise price of LTIP options was £nil (2021: £nil).

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
15 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 Company based on the market price at the date of invitation less a 20% discount. There are no performance conditions.

	03 Aug 2017	26 Jul 2018	30 Jul 2019	07 Aug 2020	03 Aug 2021	02 Aug 2022	
Date of grant							
Options granted	453,663	712,944	935,208	1,624,259	256,132	975,549	
Fair value at measurement date	£1.06	£0.52	£0.54	£0.36	£1.15	£0.66	
Share price on date of grant	£5.41	£3.77	£3.68	£1.94	£4.14	£2.67	
Exercise price	£4.20	£3.15	£2.86	£1.70	£3.42	£1.94	
Vesting period	3 years	3 years	3 years	3 years	3 years	3 years	
Expected dividend yield	5.10%	8.76%	8.96%	5.20%	1.98%	5.63%	
Expected volatility	35.00%	35.00%	35.00%	40.00%	45.30%	42.2%	
Risk free interest rate	0.30%	0.85%	0.38%	-0.08%	0.14%	1.62%	
Valuation model	Binomial	Binomial	Binomial	Binomial	Binomial	Binomial	
Contractual life from	01.09.17	01.09.18	01.09.19	01.09.20	01.09.21	01.09.22	
Contractual life to	01.03.21	01.03.22	01.03.23	01.03.24	01.03.25	01.03.26	

	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
Movements in the year								
Outstanding at 1 November 2020	93,578	125,753	297,636	1,538,670	-	-	2,055,637	£2.07
Granted during the year	-	-	-	-	256,132	-	256,132	£3.42
Exercised during the year	-	(37,133)	(4,491)	(3,528)	-	-	(45,152)	£3.01
Lapsed during the year	(93,578)	(47,778)	(145,788)	(411,054)	(11,838)	-	(710,036)	£2.39
Outstanding at 31 October 2021	-	40,842	147,357	1,124,088	244,294	-	1,556,581	£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	907,769	84,131	912,557	2,001,289	£1.94
Exercisable at 31 October 2022	-	-	96,832	-	-	-	96,832	
Exercisable at 31 October 2021	-	40,842	-	-	-	-	40,842	
	£m	£m	£m	£m	£m	£m	Total £m	
Charge to income for the current year	-	-	-	0.1	0.1	0.1	0.3	
Credit to income for the prior year	-	-	-	0.1	-	-	0.1	

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
15 EMPLOYEE BENEFITS (continued)

Deferred bonus plan

Under the terms of certain bonus schemes, some parts of bonus payments must be deferred into share options. The options carry no performance criteria and vest over one or three years. Options granted under the plan are exercisable between one and 10 years after the date of grant. Deferred bonus plan option numbers are based on the share price on the date of grant.

	28 Feb 2018	28 Feb 2020	26 Feb 2021	01 Mar 2021	01 Mar 2022	28 Jan 2022	09 Feb 2022	
Date of grant								
Options granted	188,122	20,956	34,800	22,264	251	230,605	58,848	
Fair value at measurement date	£4.89	£4.52	£3.28	£3.89	£4.06	£2.76	£2.76	
Share price on date of grant	£4.89	£4.52	£3.28	£3.42	£2.70	£3.06	£3.27	
Exercise price	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	
Vesting period	3 years	3 years	1 year	N/A	N/A	3 years	1 year	
Expected dividend yield and volatility	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Risk free interest rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Valuation model	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Contractual life from	28.02.18	28.02.20	26.02.21	01.03.21	02.03.22	28.01.22	09.02.22	
Contractual life to	27.02.28	27.02.30	25.02.31	27.02.28	25.02.31	27.01.25	08.02.23	
	Number of options	Number of options	Number of options	Number of options	Number of options	Number of options	Number of options	Total number of options
Movements in the year								
Outstanding at 1 November 2020	135,822	20,956	-	-	-	-	-	156,778
Granted during the year	-	-	34,800	22,264	-	-	-	57,064
Exercised during the year	(123,941)	(4,128)	-	(22,264)	-	-	-	(150,333)
Lapsed during the year	(11,881)	(14,568)	-	-	-	-	-	(26,449)
Outstanding at 31 October 2021	-	2,260	34,800	-	-	-	-	37,060
Granted during the year	-	-	-	-	251	230,605	58,848	289,704
Exercised during the year	-	-	(24,985)	-	(251)	-	-	(25,236)
Lapsed during the year	-	-	(9,815)	-	-	-	-	(9,815)
Outstanding at 31 October 2022	-	2,260	-	-	-	230,605	58,848	291,713
Exercisable at 31 October 2022	-	-	-	-	-	-	-	-
Exercisable at 31 October 2021	-	-	-	-	-	-	-	-
	£m	£m	£m	£m	£m	£m	£m	Total £m
Charge to income for the current year	-	-	-	-	-	0.4	-	0.4
Charge to income for the prior year	-	-	0.3	0.1	-	-	-	0.4

The weighted average exercise price of deferred bonus plan share options was £nil (2021: £nil).

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
15 EMPLOYEE BENEFITS (continued)

Total share incentive schemes	2022	2021
	Number of options	Number of options
Movements in the year		
Outstanding at beginning of the year	4,804,517	4,984,036
Granted during the year	2,631,126	1,641,388
Exercised during the year	(41,372)	(195,485)
Lapsed during the year	(1,667,895)	(1,625,422)
Outstanding at end of the year	<u>5,726,376</u>	<u>4,804,517</u>
 Exercisable at end of the year	 <u>96,832</u>	 <u>42,360</u>
	£m	£m
Charge to income for share incentive schemes	<u>1.9</u>	<u>1.8</u>

The weighted average share price at the date of exercise of share options exercised during the year was £2.77 (2021: £3.59). The options outstanding had a range of exercise prices of £nil to £3.42 (2021: £nil to £3.42) and a weighted average remaining contractual life of 6.2 years (2021: 6.4 years). The gain on shares exercised during the year was £0.1m (2021: £0.6m).

16 TRADE AND OTHER RECEIVABLES

	2022	2021
	£m	£m
Non-current		
Trade receivables	9.7	2.2
Loss allowance on trade receivables	-	-
Due from joint ventures	25.4	54.3
Loss allowance on amounts due from joint ventures	(0.1)	(11.9)
	<u>35.0</u>	<u>44.6</u>
 Current		
Trade receivables	49.7	25.2
Loss allowance on trade receivables	(0.3)	(0.1)
Contract assets	25.2	56.7
Loss allowance on contract assets	(0.1)	(0.3)
Due from group undertakings	383.6	266.5
Due from joint ventures	1.8	13.6
Other receivables	38.1	6.0
Prepayments and accrued income	1.9	1.0
	<u>499.9</u>	<u>368.6</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 Group is entitled to recovery of costs incurred under the agreement. In the prior year these agreements were presented in inventories and accruals, with balances of £67.2m and £31.2m respectively. Current trade receivables of £21.2m have been collected as of 1 January 2023 (2021: £11.6m have been collected as of 1 January 2022). The remaining balance is due according to contractual terms, and no material amounts are past due. At the consolidated statement of financial position date the difference between the fair value of amounts due from joint ventures and nominal value is £0.4m (2021: £19.4m).

Amounts due from Group undertakings are unsecured, repayable on demand and carry interest at 5%. Amounts due from Group undertakings are stated after a loss allowance of £nil has been made (2021: £nil) in respect of expected credit losses, assessed on an estimate of default rates. £nil (2021: £nil) provision was made during the year, £nil (2021: £nil) was utilised, and £nil (2021: £nil) provision was released during the year.

Amounts due from joint ventures comprises funding provided on three (2021: four) joint venture developments which are being project managed by the Group and are repayable according to contractual arrangements. Amounts due from joint ventures are stated net of losses of £0.2m (2021: £7.4m). See note 12 for additional details on the Group's interests in joint ventures.

Amounts due from joint ventures are stated after a loss allowance of £0.1m (2021: £11.9m) 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. £2.3m (2021: £1.0m) provision was made during the year, £14.1m (2021: £nil) was utilised and £nil (2021: £nil) provision was released during the year. The actual result depends on achieved sales values and delivery of the build to forecast.

Registered no. 1040616

Classified as ~~GENERAL~~

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
16 TRADE AND OTHER RECEIVABLES (continued)

Current trade receivables and contract assets are stated after a loss allowance of £0.4m (2021: £0.4m) in respect of expected credit losses, assessed on an estimate of default rates. £nil (2021: £nil) provision was made during the year, £nil (2021: £nil) was utilised and £nil (2021: £nil) provision was released during the year.

	2022 £m	2021 £m
Movements in total loss allowance for expected credit losses		
At beginning of the year	12.3	11.3
Charged in the year on joint venture balances (note 12)	2.3	1.0
Utilised in the year on joint venture balances (note 12)	(14.1)	-
At end of the year	<u>0.5</u>	<u>12.3</u>

The maturity of non-current receivables is as follows:

	2022 £m	2021 £m
Due between one and two years	34.2	5.6
Due between two and five years	0.8	20.7
Due after five years	-	18.3
	<u>35.0</u>	<u>44.6</u>

17 INVENTORIES

	2022 £m	2021 £m
Work-in-progress	944.6	968.0
Completed buildings including show homes	30.1	57.7
Part exchange inventories	17.2	14.1
	<u>991.9</u>	<u>1,039.8</u>

Total inventories of £821.7m (2021: £646.6m) were recognised as cost of sales in the year.

During the year £9.6m additional NRV was charged, mainly on three legacy developments already held at zero margin. Two of the developments were completed in the year.

Total inventories are stated net of a net realisable value provision of £12.8m (2021: £20.9m) 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.

	2022 £m	2021 £m
At beginning of the year	20.9	40.6
Pre-exceptional NRV charge/(credit) in the year	9.6	(2.5)
Pre-exceptional NRV used in the year	(7.2)	(5.2)
Exceptional NRV credit in the year (note 4)	-	(8.0)
Exceptional NRV used on in the year	(10.5)	(4.0)
Total movement in NRV in the year	<u>(8.1)</u>	<u>(19.7)</u>
At end of the year	<u>12.8</u>	<u>20.9</u>

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 TRADE AND OTHER PAYABLES

	2022 £m	2021 £m
Non-current		
Land payables on contractual terms	32.9	63.8
Other payables	0.2	0.2
Contract liabilities	0.3	-
Accruals and deferred income	5.6	9.5
	<u>39.0</u>	<u>73.5</u>
Current		
Land payables on contractual terms	136.0	94.1
Other trade payables	41.1	32.0
Contract liabilities	19.0	25.0
Amounts owed to joint ventures	0.1	0.1
Taxes and social security costs	1.8	1.8
Other payables	2.0	7.0
Accruals	174.8	252.4
	<u>374.8</u>	<u>412.4</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 consolidated income statement. At 31 October 2021 the difference between the fair value and nominal value of non-current land payables is £2.4m (2021: £3.5m).

Contract liabilities represent payments on account received from customers in excess of billable work in progress on affordable and other sales in bulk on contracts in which revenue is recognised over time. Based on historical trends, the Directors expect a significant proportion of the contract liabilities total to be recognised as revenue in the next reporting period.

Amounts owed to joint ventures are unsecured, repayable on demand and interest free. See note 12 for additional details on the Group's interests in joint ventures.

Other trade payables mainly comprise amounts due to suppliers and subcontractors retentions. Suppliers are settled according to agreed payment terms and subcontractor retentions are released once the retention condition has been satisfied.

Accruals are mainly work in progress related where work has been performed but not yet invoiced.

19 PROVISIONS

	Combustible materials £m	Joint ventures £m	Other provisions £m	Total £m
At 1 November 2020	14.8	-	0.4	15.2
Provided in the year	31.2	-	0.1	31.3
Utilised in the year	(3.4)	-	-	(3.4)
At 31 October 2021	42.6	-	0.5	43.1
Provided in the year	102.5	-	0.3	102.8
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	-	-	0.6	0.6
At 31 October 2022	140.8	1.2	1.0	143.0
At 31 October 2022				
Non-current	70.5	-	0.3	70.8
Current	70.3	1.2	0.7	72.2
	<u>140.8</u>	<u>1.2</u>	<u>1.0</u>	<u>143.0</u>
At 31 October 2021				
Non-current	28.4	-	-	28.4
Current	14.2	-	0.5	14.7
	<u>42.6</u>	<u>-</u>	<u>0.5</u>	<u>43.1</u>

Registered no. 1040616

Classified as General

CREST NICHOLSON PLC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****19 PROVISIONS (continued)****Combustible materials**

Following the fire at Grenfell Tower in 2017, the Government announced a public inquiry surrounding the circumstances leading up to and surrounding the fire, including a review of fire-related building regulations, notably those relating to external walls, and issued a new regulatory framework for building owners.

On joining the Group in 2019, the new Executive Leadership Team (ELT) quickly established a dedicated internal team, headed by a Special Projects Director, to implement the Group's response to fire safety matters. Against a changing regulatory backdrop, the Group has found that the interpretation of Government and industry guidance often varies between professional advisors who are engaged to identify and implement remediation required.

In order to oversee and govern the Group's response to fire safety matters, the ELT meets regularly, chaired by the Chief Executive with attendance from the Group Finance Director, Group Operations Director and Special Projects Director. In 2019 the team conducted a full review into all legacy buildings it believed may be at risk based on guidance at that time, any relevant regulations, and considered any notification of claims. Accordingly, the Group recognised a combustible materials provision. With ongoing regulatory changes, this provision was subsequently increased in financial years 2020 and 2021 to reflect the Group's interpretation of the legacy portfolio following those changes to the Government regulatory framework, along with any new notifications received if it was considered that they represented an expected liability.

In addition, as time has passed the Group has also been able to apply the benefit of experience to develop a more accurate assessment and forecast of its potential liability. As such the Group now has a detailed risk register of all legacy buildings in scope, which it regularly reviews. The team considers the application of the latest guidelines against each affected building, advice from its technical or legal advisors along with relevant updates or notifications from a variety of stakeholders. Such sources can include residents, management companies, freeholders, subcontractors, architects, mortgage lenders, building control bodies and independent fire engineers.

The risk register considers the progress of any identified remediation works and adjusts the provision to reflect the Group's best estimate of any future remediation works. As such the consolidated full year financial statements are prepared on the Group's current best estimate of these future costs and this may evolve in the future based on the result of ongoing inspections, further advice, the progress and cost to complete of in-progress remediation works and whether Government legislation and regulation becomes more or less stringent in this area. See note 22 for disclosures relating to further potential liabilities and recoveries relating to the combustible materials provision.

On 19 April 2022 the Group signed the Government's Building Safety Pledge which commits the Group to remediate life critical fire safety issues to PAS9980 standards on buildings over 11 meters in which the Group was involved going back 30 years. As a result of this the number of buildings in scope for which the Group has an obligation to remediate significantly increased. 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 Buildings Safety Fund (BSF) cost information and external information as a basis for the provision.

Accordingly, the Group recorded a cost of sales combustible materials charge of £102.5m in the year. This charge comprises £79.0m specifically for buildings where BSF funding had been applied for, which the Group have now agreed to cover under the Building Safety Pledge, and £23.5m for movements in previous cost estimates, extending the liability period to 30 years, build cost inflation and discounting.

The further charge is in addition to the £18.4m net amount charged in 2019, £0.6m charged in 2020 and £28.8m charged in 2021.

Forecast build cost inflation over the duration of remediation has been allowed for within the charge. The charge is stated after a related discount of £5.1m, which unwinds to the consolidated income statement as finance expense over the life of the cash expenditure.

The provision of £140.8m represents the Group's best estimate of costs at 31 October 2022. The Group will continue to assess the magnitude and utilisation of this provision in future reporting periods. The Group recognises that required remediation works could be subject to further inflationary pressures and cash outflows (sensitivity disclosures in note 1).

The Group spent £5.3m in the year across several buildings requiring further investigative costs, including balcony and cladding related works. The Group expects to have completed any required remediation within a five-year period, using £70.3m 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 Group is continuing to review the recoverability of costs incurred from third parties where it has a contractual right of recourse. In the prior year £2.4m was recovered from third parties, which was recorded as an exceptional credit in the consolidated income statement. See note 4 for income statement disclosure.

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
19 PROVISIONS (continued)

Joint ventures

Joint ventures represents the Group's legal or constructive obligation to fund losses on joint ventures. The loss is a result of the combustible materials charge as described in note 4.

Other provisions

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

20 SHARE CAPITAL

	2022 £m	2021 £m
Allotted and fully paid		
115,294,459 Ordinary shares of 10p each (2021: 115,294,459)	<u>11.5</u>	<u>11.5</u>

21 FINANCIAL RISK MANAGEMENT

The Group's financial instruments comprise cash, bank loans, trade and other receivables, financial assets at fair value through profit and loss and trade payables. The main objective of the Group's policy towards financial instruments is to maximise returns on the Group's cash balances, manage the Group's working capital requirements and finance the Group's ongoing operations.

Capital management

The Group's policies seek to match long-term assets with long-term finance and ensure that there is sufficient working capital to meet the Group's commitments as they fall due, comply with the loan covenants and continue to sustain trading.

Financial risk

As virtually all of the operations of the Group are in sterling, there is no direct currency risk, and thus the Group's main financial risks are credit risk, liquidity risk and market interest rate risk. The Board is responsible for managing these risks and the policies adopted are as set out below.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or other counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash deposits, as most receivables are secured on land and buildings.

The Group has cash deposits of £52.7m (2021: £52.4m) which are held by providers of the parent Company's banking facilities. These are primarily provided by HSBC Bank Plc, Barclays Bank Plc, Lloyds Bank Plc and Natwest Group PLC, being four of the UK's leading financial institutions. Surplus cash is placed on deposit with banks with a minimum credit rating, in accordance with Group policy. The security and suitability of these banks is monitored by treasury on a regular basis.

Financial assets at fair value through profit and loss, as described in note 13, of £4.6m (2021: £5.3m) are receivables on extended terms granted as part of a sales transaction and are secured by way of a legal charge on the relevant property and therefore credit risk is considered low.

The carrying value of trade and other receivables is mainly amounts due from housing association sales, land sales and commercial sales and equates to the Group's exposure to credit risk which is set out in note 16. Amounts due from joint ventures of £27.1m (2021: £56.0m) is funding provided on three (2021: four) joint venture developments which are being project managed by the Group and are subject to contractual arrangements. The Group has assessed the expected credit loss impact on the carrying value of trade and other receivables as set out in note 16. Within trade receivables the largest single amount outstanding at the year end is £11.2m (2021: £3.8m) which is within agreed terms.

In managing risk the Group assesses the credit risk of its counterparties before entering into a transaction. No credit limits were exceeded during the reporting period, and the Directors do not expect any material losses from non-performance of any counterparties, including in respect of receivables not yet due. No material financial assets are past due or are considered to be impaired as at the consolidated statement of financial position date (2021: none).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Cash flow forecasts are produced to monitor the expected cash flow requirements of the Group against the available facilities. The principal risks within these cash flows relate to achieving the level of sales volume and prices in line with current forecasts.

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
21 FINANCIAL RISK MANAGEMENT (continued)

The following are the contractual maturities of the financial liabilities of the Group at 31 October 2022:

2022	Carrying value £m	Contractual cash flows £m	Within 1 year £m	1-2 years £m	2-3 years £m	More than 3 years £m
Other financial liabilities carrying no interest	390.8	393.4	355.3	35.4	1.1	1.6
	<u>390.8</u>	<u>393.4</u>	<u>355.3</u>	<u>35.4</u>	<u>1.1</u>	<u>1.6</u>

The following are the contractual maturities of the financial liabilities of the Group at 31 October 2021:

2021	Carrying value £m	Contractual cash flows £m	Within 1 year £m	1-2 years £m	2-3 years £m	More than 3 years £m
Other financial liabilities carrying no interest	463.7	467.4	390.5	54.6	17.4	4.9
	<u>463.7</u>	<u>467.4</u>	<u>390.5</u>	<u>54.6</u>	<u>17.4</u>	<u>4.9</u>

Market interest rate risk

Market interest rate risk reflects the Group's exposure to fluctuations to interest rates in the market. The risk arises because the Group's other loans are subject to floating interest rates based on the EU reference rate. For the year ended 31 October 2022 it is estimated that an increase of 1% in interest rates applying for the full year would decrease the Group's profit before taxation by £nil (2021: £nil).

At 31 October 2022, the interest rate profile of the financial liabilities of the Group was:

Sterling	Carrying amount		Financial liabilities carrying no interest	Total
	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	£m	£m
Financial liabilities	-	-	390.8	390.8
	<u>-</u>	<u>-</u>	<u>390.8</u>	<u>390.8</u>

At 31 October 2021, the interest rate profile of the financial liabilities of the Group was:

Sterling	Carrying amount		Financial liabilities carrying no interest	Total
	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	£m	£m
Financial liabilities	-	-	463.7	463.7
	<u>-</u>	<u>-</u>	<u>463.7</u>	<u>463.7</u>

The floating rate financial liabilities are subject to interest rates referenced to the EU reference rate, and agreement within the Group respectively.

For financial liabilities which have no interest payable but for which imputed interest is charged, consisting of land creditors, the weighted average period to maturity is 14 months (2021: 24 months).

The maturity of the financial liabilities is:

	2022 £m	2021 £m
Repayable within one year	353.1	387.6
Repayable between one and two years	35.0	53.9
Repayable between two and five years	2.1	21.0
Repayable after five years	0.6	1.2
	<u>390.8</u>	<u>463.7</u>

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
21 FINANCIAL RISK MANAGEMENT (continued)

Fair values

Financial assets

The Group's financial assets are detailed in the below table. The carrying amounts of financial assets is a reasonable approximation of fair value which would be measured under a level 3 hierarchy. Financial assets at fair value through profit and loss are carried at fair value and categorised as level 3 (inputs not based on observable market data) within the hierarchical classification of IFRS 13 Revised.

	2022 £m	2021 £m
Sterling cash deposits	52.7	52.4
Trade receivables	59.1	27.3
Amounts due from group undertakings	383.6	266.5
Amounts due from joint ventures	27.1	56.0
Other receivables	29.6	6.0
Total financial assets at amortised cost	552.1	408.2
Financial assets at fair value through profit and loss	4.6	5.3
Total financial assets	556.7	413.5

Financial liabilities

The Group's financial liabilities are detailed in the below table. The carrying amounts of financial liabilities is a reasonable approximation to their fair value.

	2022 £m	2021 £m
Land payables on contractual terms	168.9	157.9
Other trade payables	41.1	32.0
Amounts due to joint ventures	0.1	0.1
Lease liabilities	3.9	4.6
Other payables	2.2	7.2
Accruals	174.6	261.9
Total financial liabilities at amortised cost	390.8	463.7

22 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 Group.

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

The Group provides for all known material legal actions, where having taken appropriate legal advice as to the likelihood of success of the actions, it is considered probable that an outflow of economic resource will be required, and the amount can be reliably measured. No material contingent liability in respect of such claims has been recognised since there are no known claims of this nature.

In 2019, the Group created a combustible materials provision, which was subsequently increased in financial years 2020 and 2021. This provision is subject to the Directors' estimates on costs and timing, and the identification of legacy developments where the Group may have an obligation to remediate or upgrade to meet new Government guidance where it is responsible to do so. This provision has been difficult to reliably estimate due to the changing nature of Government regulation in this area, and where the Group is no longer the freehold owner and has no visibility over remediation requirements. As such the Group has historically not disclosed a range of possible future costs. As a consequence of signing the Government's Building Safety Pledge on 19 April 2022, the Group has now become responsible for the remediation of a larger number of buildings, constructed over a longer historic time period. Accordingly, whilst the Group believes that most significant liabilities will have been identified through the process of building owners assessing buildings and applying for BSF funding, 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 Group continues to not disclose an expected range.

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

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23 MOVEMENT IN NET CASH/(DEBT)

	2022 £m	Movement £m	2021 £m
Cash and cash equivalents	<u>52.7</u>	<u>0.3</u>	<u>52.4</u>

24 RELATED PARTY TRANSACTIONS

Transactions between fellow subsidiaries, which are related parties, are eliminated on consolidation, as well as transactions between the Company and its subsidiaries during the current and prior year.

Transactions between the Group and key management personnel mainly comprise remuneration which is given in note 6. Detailed disclosure for Board members is given within the Directors' Remuneration Report. There were no other transactions between the Group and key management personnel in the year.

Transactions between the Group and the Crest Nicholson Group Pension and Life Assurance Scheme is given in note 15.

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

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

	2022 £m	2021 £m
Interest income on joint venture funding	2.1	2.8
Project management fees received	2.0	1.5
Amounts due from joint ventures, net of expected credit losses	27.1	56.0
Amounts due to joint ventures	0.1	0.1
Funding to joint ventures	(7.5)	(13.0)
Repayment of funding from joint ventures	18.8	11.5
Dividends received from joint ventures	2.4	-

25 IMMEDIATE AND ULTIMATE PARENT COMPANY

The immediate parent Company is CN Finance 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. Copies of its Group financial statements can be obtained from the Company's registered office which is shown in the Directors' Report.

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
26 GROUP UNDERTAKINGS

In accordance with S409 CA2006, the following is a list of all the Group's undertakings at 31 October 2022.

Subsidiary undertakings

At 31 October 2022 the Company had the following subsidiary undertakings which are included in the consolidated financial statements. All subsidiaries were incorporated in England and Wales.

Entity name	Registered office	Active / dormant	Year end date	Voting rights and shareholding (direct or indirect)
Bath Riverside Estate Management Company Limited	2	Dormant	31 October	100%
Bath Riverside Liberty Management Company Limited	2	Dormant	31 October	100%
Brightwells Residential 1 Company Limited	1	Dormant	31 October	100%
Bristol Parkway North Limited*	1	Dormant	31 October	100%
Building 7 Harbourside Management Company Limited	2	Active	31 December	58.33%
Buildings 3A, 3B & 4 Harbourside Management Company Limited	2	Dormant	31 December	83.33%
Clevedon Developments Limited	1	Dormant	31 October	100%
Clevedon Investment Limited*	1	Active	31 October	100%
CN Nominees Limited*	1	Dormant	31 October	100%
CN Properties Limited*	1	Dormant	31 October	100%
CN Secretarial Limited	1	Dormant	31 October	100%
CN Shelf 1 LLP	1	Dormant	30 June	100%
CN Shelf 2 LLP	1	Dormant	30 June	100%
CN Shelf 3 LLP	1	Dormant	30 June	100%
Crest (Claybury) Limited*	1	Dormant	31 October	100%
Crest Developments Limited*	1	Dormant	31 October	100%
Crest Estates Limited	1	Dormant	31 October	100%
Crest Homes (Eastern) Limited*	1	Dormant	31 October	100%
Crest Homes (Midlands) Limited*	1	Dormant	31 October	100%
Crest Homes (Nominees) Limited	1	Dormant	31 October	100%
Crest Homes (Nominees No. 2) Limited	1	Active	31 October	100%
Crest Homes (Northern) Limited	1	Dormant	31 October	100%
Crest Homes (South East) Limited	1	Dormant	31 October	100%
Crest Homes (South West) Limited	1	Dormant	31 October	100%
Crest Homes (South) Limited	1	Dormant	31 October	100%
Crest Homes (Wessex) Limited	1	Dormant	31 October	100%
Crest Homes (Westerham) Limited	1	Dormant	31 October	100%
Crest Homes Limited	1	Dormant	31 October	100%
Crest Manhattan Limited	1	Dormant	31 October	100%
Crest Nicholson (Bath) Holdings Limited*	1	Dormant	31 October	100%
Crest Nicholson (Chiltern) Limited	1	Dormant	31 October	100%
Crest Nicholson (Eastern) Limited	1	Dormant	31 October	100%
Crest Nicholson (Epsom) Limited*	1	Dormant	31 October	100%
Crest Nicholson (Henley-on-Thames) Limited	1	Active	31 October	100%
Crest Nicholson (Highlands Farm) Limited	1	Dormant	31 October	100%
Crest Nicholson (Londinium) Limited	1	Dormant	31 October	100%
Crest Nicholson (Midlands) Limited	1	Dormant	31 October	100%
Crest Nicholson (Peckham) Limited	1	Active	31 October	100%
Crest Nicholson (South East) Limited	1	Dormant	31 October	100%
Crest Nicholson (South West) Limited	1	Dormant	31 October	100%
Crest Nicholson (South) Limited	1	Dormant	31 October	100%
Crest Nicholson (Stotfold) Limited	1	Active	31 October	100%

* Direct shareholding

Registered no. 1040616

Classified as General

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
26 GROUP UNDERTAKINGS (continued)

Entity name	Registered office	Active / dormant	Year end date	Voting rights and shareholding (direct or indirect)
Crest Nicholson Developments (Chertsey) Limited*	1	Active	31 October	100%
Crest Nicholson Operations Limited*	1	Active	31 October	100%
Crest Nicholson Pension Trustee Limited*	1	Dormant	31 January	100%
Crest Nicholson Projects Limited	1	Dormant	31 October	100%
Crest Nicholson Properties Limited	1	Dormant	31 October	100%
Crest Nicholson Regeneration Limited	1	Dormant	31 October	100%
Crest Nicholson Residential (London) Limited	1	Dormant	31 October	100%
Crest Nicholson Residential (Midlands) Limited*	1	Dormant	31 October	100%
Crest Nicholson Residential (South East) Limited	1	Dormant	31 October	100%
Crest Nicholson Residential (South) Limited*	1	Dormant	31 October	100%
Crest Nicholson Residential Limited	1	Dormant	31 October	100%
Crest Partnership Homes Limited	1	Dormant	31 October	100%
Crest Strategic Projects Limited	1	Dormant	31 October	100%
Eastern Perspective Management Company Limited	1	Dormant	31 October	100%
Essex Brewery (Walthamstow) LLP	1	Dormant	31 October	100%
Harbourside Leisure Management Company Limited	1	Active	30 December	71.43%
Landscape Estates Limited	1	Dormant	31 October	100%
Mertonplace Limited*	1	Dormant	31 October	100%
Nicholson Estates (Century House) Limited*	1	Dormant	31 October	100%
Park Central Management (Central Plaza) Limited	1	Dormant	31 October	100%
Ellis Mews (Park Central) Management Limited	1	Active	31 October	100%
Park Central Management (Zone 11) Limited	1	Dormant	31 October	100%
Park Central Management (Zone 12) Limited	1	Dormant	31 October	100%
Park Central Management (Zone 1A North) Limited	1	Dormant	31 October	100%
Park Central Management (Zone 1A South) Limited	1	Dormant	31 October	100%
Park Central Management (Zone 1B) Limited	1	Dormant	31 October	100%
Park Central Management (Zone 3/1) Limited	1	Dormant	31 October	100%
Park Central Management (Zone 3/2) Limited	1	Dormant	31 October	100%
Park Central Management (Zone 3/3) Limited	1	Dormant	31 October	100%
Park Central Management (Zone 3/4) Limited	1	Dormant	31 October	100%
Park Central Management (Zone 4/41 & 42) Limited	1	Dormant	31 October	100%
Park Central Management (Zone 4/43/44) Limited	1	Dormant	31 October	100%
Park Central Management (Zone 5/53) Limited	1	Dormant	31 October	100%
Park Central Management (Zone 5/54) Limited	1	Dormant	31 October	100%
Park Central Management (Zone 5/55) Limited	1	Dormant	31 October	100%
Park Central Management (Zone 6/61-64) Limited	1	Dormant	31 October	100%
Park Central Management (Zone 7/9) Limited	1	Dormant	31 October	100%
Park Central Management (Zone 8) Limited	1	Active	31 October	100%
Park Central Management (Zone 9/91) Limited	1	Dormant	31 January	100%
Park West Management Services Limited*	1	Active	31 March	62.00%

* Direct shareholding

CREST NICHOLSON PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
26 GROUP UNDERTAKINGS (continued)

Subsidiary audit exemption

The following subsidiaries have taken advantage of an exemption from audit under section 479A of the Companies Act 2006. Crest Nicholson plc has provided a statutory guarantee for any outstanding liabilities of these subsidiaries.

Clevedon Investment Limited (00454327)	Crest Nicholson (Bath) Holdings Limited (05235961)
Crest Homes (Nominees No. 2) Limited (02213319)	Crest Nicholson (Stotfold) Limited (08774274)
Crest Nicholson (Henley-on-Thames) Limited (03828831)	Crest Nicholson (Peckham) Limited (07296143)
Crest Nicholson Developments (Chertsey) Limited (04707982)	

Joint venture undertakings

At 31 October 2022 the Group had an interest in the following principal joint venture undertakings which are equity accounted within the consolidated financial statements. The principal activity of all undertakings is that of residential development. All joint ventures were incorporated in England and Wales.

Entity name	Registered office	Active / Dormant	Year end date	Shareholding (direct or indirect)
Material joint ventures				
Crest A2D (Walton Court) LLP	1	Active	31 March	50%
Crest Sovereign (Brooklands) LLP	4	Active	31 October	50%
Elmsbrook (Crest A2D) LLP	5	Active	31 March	50%
Other joint ventures not material to the Group				
Crest/Vistry (Epsom) LLP	1	Active	31 October	50%
Crest Nicholson Bioregional Quintain LLP	1	Active	31 October	50%
English Land Banking Company Limited	1	Active	31 October	50%
Haydon Development Company Limited	3	Active	30 April	21.36%
North Swindon Development Company Limited	3	Active	31 October	32.64%

Registered office:

- 1 Crest House, Pyrcroft Road, Chertsey, Surrey KT16 9GN.
- 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.

Joint operations

The Group 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 site's development, with each party funding 50% of the cost of the land acquisition and development of the site, in return for 50% of the returns. As such this arrangement was designated as a joint operation.

The Group is party to a joint unincorporated arrangement with CGNU Life Assurance Limited the purpose of which is to acquire, and develop, a site in Chertsey, Surrey. The two parties are jointly responsible for the control and management of the site's development, with each party funding 50% of the cost of the land acquisition and development of the site, in return for 50% of the returns. As such this arrangement has been designated as a joint operation.

The Group is party to a joint arrangement with Passion Property Group Limited, the purpose of which was to develop a site in London. The development was completed in 2014 and there are no material balances in the Group financial statements relating to this joint arrangement as at 31 October 2022. The two parties were jointly responsible for the control and management of the site's development, with each party having prescribed funding obligations and returns. As such this arrangement has been designated as a joint operation.

In line with the Group's accounting policies, the Group has recognised its share of the jointly controlled assets and liabilities, and income and expenditure, in relation to these joint arrangements on a line-by-line basis in the consolidated statement of financial position and consolidated income statement as there is no legal entity in place and the arrangements as structured such that the Group has a direct interest in the underlying assets and liabilities of each arrangement.

Crest Nicholson Employee Share Ownership Trust

The Group operates the Crest Nicholson Employee Share Ownership Trust (the Trust), which is used to satisfy awards granted under the Group's share incentive schemes, shares are allotted to the Trust or the Trust is funded to acquire shares in the open market. The Trust falls within the scope of IFRS 10: Consolidated Financial Statements, and is consolidated within the Group financial statements, as the Group is considered to have control over the Trust.

Registered no. 1040616

Classified as General

CREST NICHOLSON PLC
COMPANY STATEMENT OF FINANCIAL POSITION
As at 31 October 2022

	Note	2022 £m	2021 £m
ASSETS			
Non-current assets			
Property, plant and equipment	4	0.9	1.2
Right-of-use assets	5	0.2	0.3
Investments	6	20.4	20.4
Deferred tax assets	7	1.2	1.1
Trade and other receivables	8	9.3	9.6
		<u>32.0</u>	<u>32.6</u>
Current assets			
Trade and other receivables	8	387.2	280.3
Cash and cash equivalents		7.8	1.9
		<u>395.0</u>	<u>282.2</u>
TOTAL ASSETS		<u>427.0</u>	<u>314.8</u>
LIABILITIES			
Non-current liabilities			
Lease liabilities	5	-	(0.2)
		<u>-</u>	<u>(0.2)</u>
Current liabilities			
Trade and other payables	9	(134.0)	(36.2)
Lease liabilities	5	(0.2)	(0.5)
Current income tax liabilities		(2.6)	-
Provisions	10	(0.6)	-
		<u>(137.4)</u>	<u>(36.7)</u>
TOTAL LIABILITIES		<u>(137.4)</u>	<u>(36.9)</u>
NET ASSETS		<u>289.6</u>	<u>277.9</u>
EQUITY			
Called up share capital	11	11.5	11.5
Share premium account		65.3	65.3
Capital redemption reserve		38.0	38.0
Capital contribution reserve		15.0	15.0
Retained earnings		159.8	148.1
Total Equity		<u>289.6</u>	<u>277.9</u>

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The Company recorded a profit for the financial year of £11.2m (2021: £10.9m).

The financial statements on pages 64 to 73 were approved by the Board of Directors on 9 February 2023 and signed on its behalf by:

On behalf of the Board

D Cooper
Director

CREST NICHOLSON PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 October 2022

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Capital contribution reserve £m	Retained earnings £m	Total equity £m
Balance at 1 November 2020	11.5	65.3	38.0	15.0	136.4	266.2
Total comprehensive income for the year	-	-	-	-	10.9	10.9
Transactions with shareholders:						
Equity-settled share-based payments	-	-	-	-	0.8	0.8
Balance at 31 October 2021	11.5	65.3	38.0	15.0	148.1	277.9
Total comprehensive income for the year	-	-	-	-	11.2	11.2
Transactions with shareholders:						
Equity-settled share-based payments	-	-	-	-	0.5	0.5
Balance at 31 October 2022	11.5	65.3	38.0	15.0	159.8	289.6

CREST NICHOLSON PLC NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Crest Nicholson plc (the 'Company') is a public company limited by shares and incorporated and domiciled in the UK. The address of the registered office is Crest House, Pyrcroft Road, Chertsey, Surrey KT16 9GN. The Company financial statements have been prepared and approved by the Directors in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'), in accordance with the Companies Act 2006 as applicable, and have been prepared on the historical cost basis. In previous period the Financial statements were prepared under the historical cost accounting rules and in accordance with applicable UK accounting standards. 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). The accounting policies have been applied consistently in dealing with items which are considered material.

These financial statements present information about the Company as an individual undertaking and not about its Group. Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

As outlined in FRS 101 paragraph 8(a) the Company is exempt from the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payments'. This exemption has been taken in the preparation of these financial statements.

As outlined in FRS 101 paragraph 8(d-e) the Company is exempt from the requirements of IFRS 7 'Financial Instruments: Disclosures', and from the requirements of paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement'. These exemptions have been taken in the preparation of these financial statements.

As outlined in FRS 101 paragraph 8(h) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements. This exemption has been taken in the preparation of these financial statements.

As outlined in FRS 101 paragraph 8(i) the Company is exempt from the requirement to provide information about the impact of IFRSs that have been issued but are not yet effective. This exemption has been taken in the preparation of these financial statements.

Under FRS 101 paragraph 8(j) the Company is exempt from the requirement to disclose related party transactions with 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.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Going concern

The Directors reviewed detailed cashflows and financial forecasts for the next year and summary cashflows and financial forecasts for the following two years 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 and Group on a going concern basis.

Adoption of new and revised standards

There were no new standards, amendments or interpretations that were adopted by the Company and effective for the first time for the financial year beginning 1 November 2021 that had a material impact on the Company.

The adoption of the other amendments and annual improvements in the period did not have a material impact on the financial statements.

CREST NICHOLSON PLC
NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)
1 ACCOUNTING POLICIES (continued)

Software as a Service (SaaS) arrangements Implementation costs including costs to configure or customise a cloud provider's application software are recognised as operating expenses when the services are received.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition. Depreciation is calculated to write off the cost of the assets on a straight-line basis to their estimated residual value over its expected useful life at the following rates:

Fixtures and fittings	10%
Computer equipment and non-SaaS software	20 to 33%

The asset residual values, carrying values and useful lives are reviewed on an annual basis and adjusted if appropriate at each statement of financial position sheet date.

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 of the Group. The discount is subsequently unwound and recorded in the income statement over the lease term as a finance 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.

Investments

Investments in Group undertakings are included in the statement of financial position at cost less any provision for impairment.

Taxation

Income tax comprises current tax and deferred tax. Income tax is recognised in the Company's income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income.

Current tax is the expected tax payable on taxable profit for the year and any adjustment to tax payable in respect of previous years. Taxable profit is profit before tax per the Company's income statement after adjusting for income and expenditure that is not subject to tax, and for items that are subject to tax in other accounting periods. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date. Where uncertain tax liabilities exist, the liability recognised is assessed as the amount that is probable to be payable.

Deferred tax is provided in full on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated using tax rates that have been substantively enacted by the statement of financial position date.

Dividends

Final and interim dividend distributions to the Company's shareholders are recorded in the Company's financial statements in the earlier of the period in which they are approved by the Company's shareholders, or paid.

CREST NICHOLSON PLC
NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)
1 ACCOUNTING POLICIES (continued)

Employee benefits

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.

Financial assets

Financial assets are initially recognised at fair value and subsequently classified into one of the following measurement categories:

- measured at amortised cost
- measured subsequently at fair value through profit or loss (FVTPL)
- measured subsequently at fair value through other comprehensive income (FVOCI)

The classification of financial assets depends on the Company's business model for managing the asset and the contractual terms of the cash flows. Assets that are held for the collection of contractual cash flows that represent solely payments of principal and interest are measured at amortised cost, with any interest income recognised in the income statement using the effective interest rate method. Financial assets that do not meet the criteria to be measured at amortised cost are classified by the Company as measured at FVTPL. Fair value gains and losses on financial assets measured at FVTPL are recognised in the income statement and presented within net operating expenses. The Company currently has no financial assets measured at FVOCI.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment. A provision for impairment of trade 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.

Cash and cash equivalents

Cash and cash equivalents are cash balances in hand and in the bank.

Interest-bearing loans and borrowings

Borrowings are recognised initially at fair value, net of direct transaction costs. Finance charges are accounted for on an accruals basis in the 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. The carrying amount of interest-bearing loans and borrowings equates to their fair value.

Financial liabilities

Financial liabilities are initially recognised at fair value and subsequently classified into one of the following measurement categories:

- measured at amortised cost
- measured subsequently at fair value through profit or loss (FVTPL)

Non-derivative financial liabilities are measured at FVTPL when they are considered held for trading or designated as such on initial recognition. The Company has no non-derivative financial liabilities measured at FVTPL.

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.

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.

Accounting estimates and judgements

The preparation of the financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the 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.

CREST NICHOLSON PLC
NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)
1 ACCOUNTING POLICIES (continued)

The Directors consider the key sources of estimation uncertainty that has a risk of causing a material adjustment to the carrying value of assets and liabilities are as described below.

Carrying value of investments

Investments are stated at cost and subject to impairment provision. The Directors consider the net assets of investments in their assessment of the required impairment provision.

Share-based payments

Assumptions are made in determining the fair value of employee services received in exchange for the grant of options under share-based payments awards at the date of grant, and of the likely outcome of non-market conditions.

Audit fee

Auditors' remuneration for audit of these financial statements was £27,500 (2021: £25,000) and is included within the audit fees within note 5 of the consolidated financial statements.

2 DIRECTORS AND EMPLOYEES

	2022 Number	2021 Number
(a) Monthly average number of persons employed by the Company		
Development	4	4

The Directors' consider all employees of to be employed within the same category of Development.

	2022 £m	2021 £m
(b) Staff costs and Directors' remuneration		
Salaries and short-term employee benefits	2.6	2.9
Directors remuneration for loss of office	0.5	-
Share-based payments	0.8	0.8
	<u>3.9</u>	<u>3.7</u>

Directors' remuneration above gives information for the Directors entire Group remuneration. Directors' remuneration is borne by Companies across the Group. The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid Director was £1.5m (2021: £1.5m). In addition to the above the Company incurred social security costs of £0.4m (2021: £0.4m) in respect of employees in the year.

3 DIVIDENDS

There were no distributions to equity shareholders in the year (2021: nil). No dividend has been proposed by the Directors after the statement of financial position date.

CREST NICHOLSON PLC
NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)

4 PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings £m	Computer equipment and software £m	Total £m
Cost			
At 1 November 2020	2.0	12.0	14.0
Additions	-	0.2	0.2
Disposals	(0.2)	(9.0)	(9.2)
At 31 October 2021	1.8	3.2	5.0
Additions	-	0.1	0.1
Disposals	(0.1)	(0.4)	(0.5)
At 31 October 2022	1.7	2.9	4.6
Accumulated depreciation			
At 1 November 2020	1.0	11.0	12.0
Charge for the year	0.2	0.8	1.0
Disposals	(0.2)	(9.0)	(9.2)
At 31 October 2021	1.0	2.8	3.8
Charge for the year	0.2	0.2	0.4
Disposals	(0.1)	(0.4)	(0.5)
At 31 October 2022	1.1	2.6	3.7
Net book value			
At 31 October 2022	0.6	0.3	0.9
At 31 October 2021	0.8	0.4	1.2
At 1 November 2020	1.0	1.0	2.0

The Company has contractual commitments for the acquisition of property, plant and equipment of £nil (2021: £nil).

CREST NICHOLSON PLC
NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)

5 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	Office buildings £m	Total £m
Cost		
At 1 November 2020, 31 October 2021 and 31 October 2022	7.3	7.3
Accumulated depreciation		
At 1 November 2020	6.4	6.4
Charge for the year	0.6	0.6
At 31 October 2021	7.0	7.0
Charge for the year	0.4	0.4
Reclassification*	(0.3)	(0.3)
At 31 October 2022	7.1	7.1
Net book value		
At 31 October 2022	0.2	0.2
At 31 October 2021	0.3	0.3
At 31 October 2020	0.9	0.9

* Relates to the brought forward balance of dilapidations on Group offices, now presented in provisions (see note 10).

	2022 £m	2021 £m
Lease liabilities included in the Statement of Financial Position		
Non-current	-	0.2
Current	0.2	0.5
Total lease liabilities	0.2	0.7

	2022 £m	2021 £m
Amounts recognised in the Income Statement		
Depreciation on right-of-use assets	0.4	0.6
Interest on lease liabilities	-	-

	2022 £m	2021 £m
Amounts recognised in the Cash Flow Statement		
Lease liabilities paid	0.6	0.6

	2022 £m	2021 £m
Maturity of undiscounted contracted lease cash flows		
Less than one year	0.2	0.6
One to five years	-	0.2
More than five years	-	-
Total	0.2	0.8

6 INVESTMENTS

	2022 £m	2021 £m
Shares in subsidiary undertakings		
Cost at beginning and end of the year	20.4	20.4
Provisions at beginning and end of the year	-	-
Net book value at beginning and end of the year	20.4	20.4

The subsidiary undertakings which are significant to the Company and traded during the year are set out below. The Company's interest is in respect of ordinary issued share capital which is wholly owned and all the subsidiary undertakings are incorporated in Great Britain. They are directly owned by the Company. A full list of subsidiaries is provided in note 26 to the consolidated financial statements.

CREST NICHOLSON PLC
NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)
6 INVESTMENTS (continued)

Subsidiary
Crest Nicholson Operations Limited

Nature of business
Residential and commercial property development

The Directors believe the carrying value of investments is supported by the underlying net assets of the subsidiaries.

7 DEFERRED TAX ASSETS

	Share-based payments £m	Short-term temporary differences £m	Total £m
At 1 November 2020	0.1	0.8	0.9
Income statement movements	0.1	0.1	0.2
At 31 October 2021	0.2	0.9	1.1
Income statement movements	(0.1)	0.2	0.1
At 31 October 2022	0.1	1.1	1.2

At the consolidated statement of financial position date the substantively enacted future corporation tax rate up to 31 March 2023 is 19.0% and from 1 April 2023 is 25.0%. A new residential property developer tax ('RPDT') became effective from 1 April 2022. RPDT is an additional tax at 4% 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 Group has no material unrecognised deferred tax assets.

8 TRADE AND OTHER RECEIVABLES

	2022 £m	2021 £m
Non-current		
Amounts owed by joint ventures	9.3	9.6
Current		
Amounts owed by parent company	383.6	266.5
Amounts owed by joint ventures	0.8	12.0
Other receivables	1.4	1.0
Prepayments and accrued income	1.4	0.8
	387.2	280.3

The Company considers the credit quality of financial assets that are neither past due nor impaired as good. Trade and other receivables mainly comprise amounts owed by parent company, group undertakings and joint ventures.

Amounts owed by parent company are unsecured, repayable on demand and carry an interest rate of 5.0% (2021: 5.0%). Amounts owed by parent and group undertakings are stated after an allowance of £nil has been made (2021: £nil) in respect of expected credit losses. £nil (2021: £nil) provision was made during the year, £nil (2021: £nil) was utilised, and £nil (2021: £nil) provision was released during the year.

Amounts due from joint ventures comprises funding provided on one (2021: one) joint venture developments which are being project managed by the Company and are subject to contractual arrangements. Amounts due from joint ventures are stated after an allowance of £nil has been made (2021: £nil) in respect of expected credit losses. £nil (2021: £nil) provision was made during the year, £nil (2021: £nil) was utilised, and £nil (2021: £nil) provision was released during the year. Other receivables are stated after an allowance of £nil (2021: £nil) has been made in respect of expected credit losses. £nil (2021: £nil) provision was made during the year, £nil (2021: £nil) was utilised, and £nil (2021: £nil) provision was released during the year.

The maturity of non-current receivables is as follows:

	2022 £m	2021 £m
Due between one and two years	9.3	2.6
Due between two and five years	-	7.0
Due after five years	-	-
	9.3	9.6

CREST NICHOLSON PLC
NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)

9 TRADE AND OTHER PAYABLES

	2022 £m	2021 £m
Current		
Amounts owed to Group undertakings	125.7	28.5
Other taxation and social security	1.6	1.8
Other payables	1.4	0.8
Accruals	5.3	5.1
	<u>134.0</u>	<u>36.2</u>

Amounts owed to Group undertakings are unsecured, repayable on demand and interest free. Other trade payables mainly comprise amounts due to suppliers which are settled according to agreed payment terms. Accruals are mainly overhead related where work has been performed but not yet invoiced.

10 PROVISIONS

	Dilapidations £m	Total £m
At 1 November 2020 and 31 October 2021	-	-
Provided in the year	0.3	0.3
Reclassification	0.3	0.3
At 31 October 2022 - Current	<u>0.6</u>	<u>0.6</u>

Dilapidations comprise a provision on the Head Office building with expires in 2023. In the year the Company reclassified the brought forward balance of dilapidations which was previously offset against right of use assets.

11 CALLED UP SHARE CAPITAL

	2022 £m	2021 £m
Allotted and fully paid		
115,294,459 Ordinary shares of 10p each (2021:115,294,459)	<u>11.5</u>	<u>11.5</u>

12 CONTINGENCIES AND COMMITMENTS

There are performance bonds and other arrangements, including those in respect of joint venture partners, undertaken in the ordinary course of business. It is impractical to quantify the financial effect of performance bonds and other arrangements. 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 addition, the Company is required from time to time to act as guarantor for the performance by subsidiary undertakings of contracts entered into in the normal course of their business and typically provide that the Company will ensure that the obligations of the subsidiary are carried out or met in the unlikely event that any subsidiary default occurs. The Company considers the likelihood of an outflow of cash under these arrangements to be remote and therefore this does not represent a contingent liability for the Company.

13 RELATED PARTIES

The Company is exempt from disclosing transactions with wholly owned subsidiaries in the Group. Other related party transactions are included within those given in note 24 of the Group financial statements.

14 GROUP UNDERTAKINGS

A list of all the Group's undertakings at 31 October 2022 is given in note 26 of the Group financial statements.

15 IMMEDIATE AND ULTIMATE PARENT COMPANY

The immediate parent company is CN Finance plc, which is incorporated in Great Britain and registered in England and Wales. The largest higher 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. Copies of its Group financial statements can be obtained from the Company's registered office which is shown in the Directors' Report.

CREST NICHOLSON PLC
ALTERNATIVE PERFORMANCE MEASURES (UNAUDITED)

The Group uses a number of alternative performance measures (APMs) which are not defined within IFRS. The Directors use these APMs, along with IFRS measures, to assess the operational performance of the Group as detailed in the Strategic Report on pages 1 to 18. Definitions and reconciliations of the financial APMs used compared 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 consolidated income statement and the Group's share of revenue earned by joint ventures, as detailed in the below table.

	2022 £m	2021 £m
Revenue	913.6	786.6
Group's share of joint venture revenue	42.2	27.0
Sales	955.8	813.6

Return on capital employed (ROCE)

The business uses ROCE as a core management measure to reflect the profitability and efficiency with which capital is employed. 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. The Group has long-term performance measures linked to ROCE. ROCE achieved by the business in the year increased to 14.4% (2021: 12.1%).

		2022	2021	
Adjusted operating profit	£m	140.9	110.2	
Average of opening and closing capital employed	£m	977.1	913.6	
ROCE	%	14.4	12.1	
Capital employed		2022	2021	2020
Equity shareholders' funds	£m	1,049.1	1,010.2	910.8
Net cash	£m	(52.7)	(52.4)	(41.5)
Closing capital employed	£m	996.4	957.8	869.3

Net cash

Net cash is cash and cash-equivalents. Net cash illustrates the Group's overall liquidity position and general financial resilience. Net cash has improved in the year to £52.7m from £52.4m in 2021.

CREST NICHOLSON PLC
ALTERNATIVE PERFORMANCE MEASURES (UNAUDITED) (continued)

Adjusted performance metrics

Adjusted performance metrics as shown below comprise statutory metrics adjusted for the exceptional items as presented in note 4 of the consolidated financial statements. 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.

Year ended 31 October 2022		Statutory	Exceptional items	Adjusted
Gross profit	£m	90.3	102.5	192.8
Gross profit margin	%	9.9	11.2	21.1
Operating profit	£m	38.4	102.5	140.9
Operating profit margin	%	4.2	11.2	15.4
Net finance expense	£m	9.4	1.0	10.4
Share of post-tax profit/(loss) of joint ventures using the equity method	£m	2.5	1.5	4.0
Profit before taxation	£m	50.3	105.0	155.3
Income tax expense	£m	(6.1)	(22.4)	(28.5)
Profit after taxation	£m	44.2	82.6	126.8

Year ended 31 October 2021		Statutory	Exceptional items	Adjusted
Gross profit	£m	140.0	20.8	160.8
Gross profit margin	%	17.8	2.6	20.4
Operating profit	£m	89.4	20.8	110.2
Operating profit margin	%	11.4	2.6	14.0
Net finance expense	£m	5.4	(0.5)	4.9
Profit before taxation	£m	96.5	20.3	116.8
Income tax expense	£m	(14.4)	(3.9)	(18.3)
Profit after taxation	£m	82.1	16.4	98.5

Land creditors as a percentage of net assets

The Group uses land creditors as a percentage of net assets as a core management measure to ensure that the Group 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 increased in the year to 16.1% (2021: increased to 15.6%).

		2022	2021	2020
Land creditors	£m	168.9	157.9	103.9
Net assets	£m	1,049.1	1,010.2	910.8
Land creditors as a percentage of net assets	%	16.1	15.6	11.4