Bellway

Annual Report and Accounts 2017

Contents

Financial Highlights

Group revenue (£m)

2,558.6
+14.2%

Operating profit (£m)

571.6
+16.2%

Operating margin (%)

22.3
+30bps

Profit before taxation (£m)

560.7
+12.6%

Earnings per ordinary share (p)

370.6
+12.7%

Proposed total dividend per ordinary share (p)

122.0
+13.0%

Net asset value per ordinary share (p)(~)

1,785
+17.3%

Return on capital employed (%)(~)

27.6
-60bps

Note:

~ Bellway uses a range of statutory performance measures and alternative performance measures when reviewing the performance of the Group against its strategy. Definitions of the alternative performance measures, and a reconciliation to statutory performance measures can be found on pages 111 to 113. Throughout this report '~' refers to alternative performance measures.

Introduction

Bellway has over 70 years of homebuilding experience, growing from a local north east of England family-owned business to a national FTSE 250 housebuilder.

It has been another record year, during which we have increased the number of homes sold by 10.6%. We are proud to have been awarded 5 star homebuilder status by the Home Builders Federation ('HBF'), which proves our commitment to customer service.

We are Building Homes, Building Value.

For further details on our business please visit:

www.bellway.co.uk

Non-Financial Highlights

Number of homes sold (homes)

9,644
+10.6%

Average selling price (£)

260,354
+3.0%

Owned and controlled land bank (plots)

37,855[1]
+8.2%

Order book value at 31 July (£m)

1,296.3
+16.0%

Plots contracted in the year (plots)

11,613
+21.5%

Note:

1. Excluding joint ventures.

Front cover images: Developments by each of our operating divisions

1. Yorkshire – Wyvern Grange, Dore, South Yorkshire.
2. North London – Kingswood Park, High Wycombe, Buckinghamshire.
3. North West – Damson Grove, Sandbach, Cheshire.
4. North East – Stephenson Park, Killingworth, North Tyneside.
5. Essex – Arunbrook, Colchester, Essex.
6. Thames Gateway – The Residence, Nine Elms, London Borough of Wandsworth.
7. Scotland – Manor Park, Cumbernauld, Glasgow.
8. Northern Home Counties – Hanwell View, Banbury, Oxfordshire.
9. Wessex – Holmwood Park, Ferndown, Dorset.

Back cover images: Developments by each of our operating divisions

10. Durham – Elwick Grove, Hartlepool, Teesside.
11. Manchester – The Works, Eccles, Greater Manchester.
12. East Midlands – Milldale, Chellaston, Derbyshire.
13. South London – St George's Gate, Tooting, London Borough of Wandsworth.
14. Kent – Portland Gardens, Wouldham, Kent.
15. South Midlands – The Brambles, Coventry, Warwickshire.
16. Wales – Monks Meadow, Llanwern, Newport.
17. West Midlands – Ashtree Gardens, Ashby de la Zouch, Leicestershire.
18. South West – Westlea Rise, Swindon, Wiltshire.
19. Thames Valley – Sun Park, Farnborough, Hampshire.

Bellway at a glance

Building value at a local and national level – our Group structure

We are proud of our heritage in the north east of England and our base in Newcastle upon Tyne, where the business was founded over 70 years ago. It is from our headquarters in Newcastle upon Tyne that we currently operate through 19 divisions covering the main population centres across England, Scotland and Wales, as shown on the map to the right.

Our divisional structure allows local management teams to respond to specific demands in their area and, through their detailed local knowledge, acquire land on which to design and build homes that meet or exceed the expectations of our customers and contribute to creating strong local communities. The divisional teams are supported by our Regional Chairmen and by our specialist Head Office teams.

Building value locally – our product and customer mix

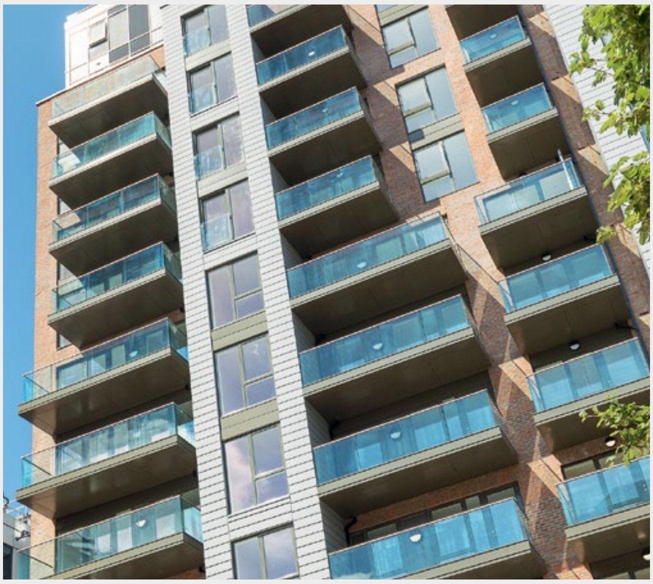
We build high quality homes designed to complement the style of existing local housing in developments that meet local demand and enhance the community. With a range that extends from one-bedroom apartments to six-bedroom family homes, we offer an extensive choice from which customers can choose a property that fits their particular requirements. We also provide homes to housing associations for social housing.

Our focus is to provide desirable, traditional family housing across our divisions outside London and apartments within the London boroughs, with our activity in London predominantly in zone 2 and beyond.

Results for 2016/17

During the 2016/17 year we sold 9,644 homes, paid £136.6 million in dividends and employed an average of 2,544 employees.

We continue to focus on our growth strategy to help us build on our success in 2017/18 and beyond.



Thames Gateway – Dockside, Canary Wharf, London Borough of Tower Hamlets.

Our office locations

North London – Crossways, Slough, Berkshire.

Our capacity for growth

We believe our long-term growth prospects remain compelling:

- 19 divisions provide capacity of c.11,000 homes p.a.
- strong balance sheet and operating capacity provides ability to progress further divisional expansion and volume growth.
- a diverse range of product allows divisions to acquire a wide range of sites.
- experienced high rise London developer with an affordable price point.

For more information on our strategy see pages 14 and 15.

Scotland
Head Office
North East
Durham
Yorkshire
North West
Manchester
West Midlands
East Midlands
South Midlands
Northern Home Counties
Wales
South West
Thames Valley
Wessex
North London
Essex
Thames Gateway
Kent
South London

Chairman's Statement

> "I would like to place on record the Board's gratitude to all those who have contributed to this outstanding performance."
>
> **John Watson**
> Executive Chairman

Introduction

The Group, comprising nineteen trading divisions, has delivered another excellent set of results, surpassing the records set last year in respect of volume, operating margin and profit. Earnings per share has risen by 12.7% to 370.6p (2016 – 328.7p) and RoCE remains high at 27.6%(~) (2016 – 28.2%).

At the same time as achieving these outstanding results and adding further value for shareholders, Bellway remains committed to growing the business in a safe, responsible and sustainable manner. In doing so, the Group has increased its contribution to the supply of much needed new homes whilst upholding high standards in both customer care and health and safety.

Bellway has invested significantly in land, maintaining its rigorous and disciplined investment criteria and with a strong balance sheet and focus on operational delivery, I am confident that the Group is well positioned to deliver further growth, this year and beyond.

Strong market parameters support the growth strategy

The parameters supporting growth are strong as there continues to be an imbalance between the supply and demand for high quality new homes. Interest rates are low, with the Bank of England base rate reducing to 0.25% at the start of the year, ensuring that financing a new home remains affordable. The availability of sustainable mortgage finance is also good, supported by a responsible lending environment and the government's Help to Buy scheme.

The land market remains attractive, providing good quality opportunities at attractive rates of return and the planning environment is generally favourable. Bellway has both the financial and operational capacity to capitalise on these investment opportunities. Whilst the skills shortage facing the entire construction sector is a moderator to the industry's overall ability to deliver growth, it is not preventing Bellway from continuing to increase its output of new homes.

Given the strong market conditions, the Board continues to see the opportunity for disciplined volume growth, with a focus on RoCE, as providing a significant opportunity to add value for shareholders.

A long-term approach to creating shareholder value

The Board believes value generation is best evaluated through capital growth, in the form of increased net asset value per share ('NAV'), together with the payment of a regular dividend.

Measured over a medium-term, in the three years from 31 July 2014, the strategy has resulted in total growth in value of 925.5p per share(~), comprising NAV growth of 667.0p per share(~) and cumulative dividend payments of 258.5p per share(~). This represents an annualised accounting return of 22.3%(~) relative to the 31 July 2014 NAV of 1,118p per share(~).

For the year ended 31 July 2017, the strong trading performance has resulted in NAV rising by 17.3% to 1,785p(~) (2016 – 1,522p). Furthermore, the growth in earnings has enabled the Board to recommend a 14.2% increase in the final dividend to 84.5p per share (2016 – 74.0p), increasing the proposed total dividend for the year by 13.0% to 122.0p per share (2016 – 108.0p). If approved, the total dividend will be covered by earnings three times(~) (2016 – three times).

For the foreseeable future, and assuming the opportunity for growth remains unchanged, Bellway will continue to re-invest earnings into financially attractive land opportunities and maintain a dividend cover of around three times earnings.
The compounding effect of additional NAV and dividend growth will facilitate further long-term value creation for shareholders.

Board changes

As previously announced, Jason Honeyman was appointed to the Board as Chief Operating Officer on 1 September 2017. Jason commenced employment with Bellway in January 2005 as Managing Director of the Thames Gateway division, becoming Southern Regional Chairman in December 2011.

Jason has considerable experience in the housebuilding sector, having overseen the successful management of our southern divisions since 2011. Given the expansion of the Group, his appointment to this new role adds further strength to the operational management team and will support the delivery of the ongoing, disciplined growth strategy.

In addition to Jason's appointment, I have temporarily taken the position of Executive Chairman during Ted Ayres' period of absence from the organisation due to illness.

People and supply chain

A responsible and long-term approach to managing the business is enabling Bellway to increase the number of homes sold, whilst maintaining a focus on both build quality and customer care. It is the hard work, dedication and efforts of both those who work for, and with Bellway that has enabled the Group to do this, whilst also achieving this record set of results. I would like to place on record the Board's gratitude to all those who have contributed to this outstanding performance.

John Watson
Executive Chairman

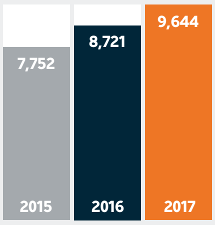
16 October 2017

Principal KPIs

The Group has six principal KPIs which are shown below. Our secondary performance measures, which support these KPIs, are shown on pages 8 to 13.

Number of homes sold (homes)

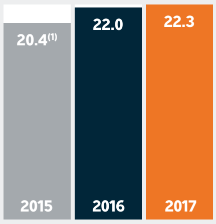
9,644
+10.6%



This KPI demonstrates how well the business model is able to support the Group's strategy of delivering volume growth.

Operating margin (%)

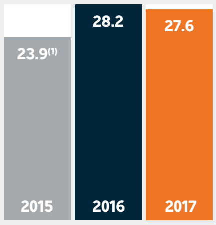
22.3
+30bps



Operating margin demonstrates how efficiently the business is being operated.

Return on capital employed (%)[~]

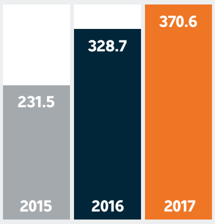
27.6
-60bps



Return on capital employed ('RoCE') is a key indicator of how we are delivering our strategy of building shareholder value which is reliant on land acquisition and the subsequent performance of our developments.

Earnings per ordinary share (p)

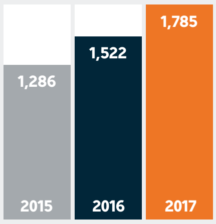
370.6
+12.7%



Earnings per ordinary share ('EPS') is a useful measure of how profitable Bellway is, year on year.

Net asset value per ordinary share (p)[~]

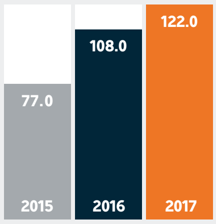
1,785
+17.3%



The directors consider net asset value per ordinary share ('NAV') to be a useful proxy when reviewing whether shareholder value, on a share by share basis, has increased or decreased in the period.

Proposed total dividend per ordinary share (p)

122.0
+13.0%



This is another useful indicator of how the directors are delivering the strategy of generating shareholder value, particularly when combined with NAV per ordinary share.

Note:
1. Stated before exceptional item (note 5).

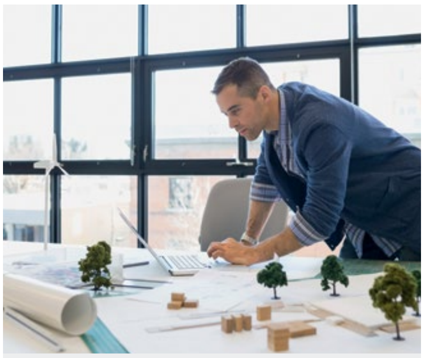
About Us
Strategic Report
Governance
Accounts
Other Information

Business Model

Selecting the right land

What we do

- Land opportunities are identified by our divisional land and planning teams and the Head Office strategic land team using their local knowledge and contacts. A viability assessment and appraisal is prepared by the division, which is assessed in detail at regional and then Group level, where the final decision is taken to purchase the site. Board approval may also be required depending upon the value and nature of the proposed acquisition.
- Land acquisitions are considered against a number of criteria, including gross margin, RoCE, capital requirements, forecast sales rates and planning prognosis.
- The number of large, long-term sites we own is strictly controlled to avoid having too much capital tied up or concentrated in one location.
- We often secure land without the benefit of an implementable detailed planning permission ('DPP'), typically brownfield sites with an outline planning consent or on a 'subject to planning' basis. We use the expertise of our land and planning teams to obtain a DPP which thereby adds value and enables higher returns.



Managing the planning process

What we do

- Our land bank is comprised of three tiers:
  - i) owned or unconditionally contracted land with DPP.
  - ii) pipeline plots of land owned or controlled by the Group pending DPP, with development expected to commence within the next three years.
  - iii) strategic long-term land (either owned or under option) which has the benefit of a positive planning status and is generally held under option.
- Our divisional and Head Office planning teams work closely with local authorities and communities to obtain DPP to construct homes which reflect planning and vernacular requirements. The divisional and Head Office planning teams progress a combination of medium-term 'pipeline' land and land from our strategic land bank throughout the planning system.

Constructing the right product

What we do

- We construct a wide range of homes to suit a variety of budgets and lifestyles. Our homes are built to specific building, technical and health and safety regulations and other regulatory requirements as well as to our own quality standards.
- We take the health and safety of our employees, sub-contractors and visitors to any of our locations very seriously.
- We strive to maintain long-term working relationships with reputable sub-contractors to reduce health and safety risks and to ensure the availability and quality of materials and labour. We seek to ensure that we have suitable building materials available at competitive prices to enable us to construct homes to the high standards expected of us by our customers, within budget and on time.
- We are signatories to the Prompt Payment Code and ensure that our sub-contractors and suppliers are paid in accordance with contractual requirements.
- We closely monitor work in progress to ensure that build rates are consistent with sales rates.

Delivering an excellent customer experience

What we do

- We aspire to sell homes that are desirable and affordable for our customers. The satisfaction of our customers is of the utmost importance and ultimately this will determine the success or otherwise of our business.
- We aim to deliver an excellent experience to our customers, both before and after occupation of their homes, building upon our reputation as a quality national housebuilder.
- We aim to increase the number of homes sold through continued investment in appropriate land and our divisional teams.

Investing in our people

What we do

- Our people are key to the success of our business and we aim to provide them with a rewarding and fulfilling career.
- We aim to continue hiring top quality people to complement our existing employees.

Our outputs

- Re-invest profit.
- Earnings for employees.
- Payments to sub-contractors and suppliers.
- Investment in communities.
- Payments to national and local government.
- Dividends to shareholders.

Selecting the right land

What we rely on

- Where sites require planning consent it may take many months to progress a parcel of land through the planning consent process before we can start building and selling homes. We therefore require our land teams to purchase sufficient sites to ensure that we have the necessary amount of land to meet our short-term volume growth targets as well as a pipeline of land for subsequent years.

Our impact

- By building quality homes on predominantly brownfield land we are contributing to the regeneration of areas in mainly urban locations.
- By collaborating with local communities we are delivering high quality sustainable housing developments.
- By paying section 106 and Community Infrastructure Levy ('CIL') contributions we provide local authorities with revenue for community investment.
- By building homes, local authorities benefit from additional revenue under the New Homes Bonus.

For more information see pages 28 to 35.

The risk we mitigate

- The inability to source suitable land at our minimum gross margin and RoCE hurdle rates. There has been no change to this risk during the year.

For more information see pages 16 to 20.

KPIs

Failure to have an adequate supply of land would put our ability to achieve our volume growth targets under pressure. We therefore link part of the executive directors' bonuses to the delivery of a sufficient land bank to meet our growth aspirations. RoCE is a key indicator of how we are delivering our strategy of building shareholder value which is reliant on land acquisition and the subsequent performance of our developments. Gross margin enables us to monitor the robustness of our land purchasing process and the level of profit on land purchases.

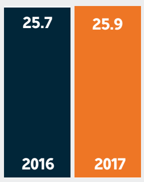
The RoCE remains strong, but has reduced slightly by 60 bps to 27.6%. Gross margin has increased and the land bank remains appropriate.

Sufficient land bank of plots with DPP

REM

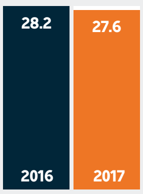
Gross margin (%)

25.9
+20bps



RoCE (%)[~]

27.6
-60bps



REM Link to remuneration – see pages 51 to 70.

Managing the planning process

What we rely on

- Our planning teams build collaborative relationships with local councils, residents and interest groups so that our completed developments benefit the communities in which they are built and reflect local needs. We also rely on government support to make improvements to the planning process such as the continuation of the National Planning Policy Framework ('NPPF').

Our impact

- We consult with local residents as part of the planning process to help us build the homes our customers desire locally.
- We make contributions to local communities through section 106 and CIL payments and through the provision of the New Homes Bonus.

For more information see pages 28 to 35.

The risk we mitigate

- Delays and increasing complexity in the planning process. There has been no change to this risk during the year.

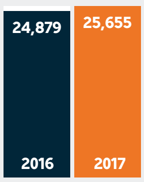
For more information see pages 16 to 20.

KPIs

These KPIs enable us to monitor the number of plots in each tier of our land bank to ensure they remain sufficient to help us deliver our strategy of volume growth. At the end of the year we had an appropriate number of plots in each land bank tier.

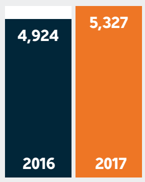
Number of plots owned and controlled with DPP (plots)[1]

25,655
+3.1%



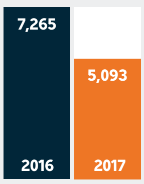
Number of plots acquired with DPP (plots)[1]

5,327
+8.2%



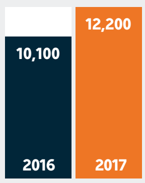
Number of plots converted from medium-term 'pipeline' (plots)[1]

5,093
-29.9%



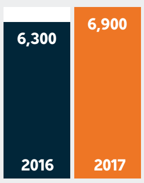
Number of plots in 'pipeline' (plots)[1]

12,200
+20.8%



Number of plots in strategic land bank with positive planning status (plots)[1]

6,900
+9.5%



Note:
1. Excluding joint ventures.

Constructing the right product

What we rely on

- Experienced construction people, strong relationships with skilled sub-contractors and consultants together with Group purchasing arrangements with suppliers and manufacturers are key to enabling us to deliver homes built to the right standard, at the right time and at the right price.

Our impact

- The health and safety of everyone who works on and visits any of our locations is paramount.
- Reducing waste on site delivers cost savings for the business and reduces the amount of waste sent to landfill.
- Building strong long-term relationships with sub-contractors, consultants and suppliers and manufacturers of materials generates benefits for us, those we do business with and the communities in which we operate.
- Adhering to the commitments we have signed up to in the Prompt Payment Code is consistent with our aim to be regarded as a responsible and reliable national housebuilder.

For more information see pages 28 to 35.

The risks we mitigate

- Shortage of appropriately skilled construction people and sub-contractors.
- Shortage of building materials at competitive prices.

There has been no change to these risks during the year.

- Significant health and safety risks inherent in the construction process.

This risk has increased during the year as a result of increased complexity in regulations and build programmes.

For more information see pages 16 to 20.

KPIs

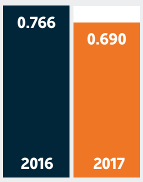
The health and safety of our employees, sub-contractors and visitors on site is paramount. We therefore include the Group's health and safety performance as part of the executive directors' potential bonus payment. Improvements in health and safety performance are indicated by a lower NHBC health and safety incident rate and by a reduction in the number of RIDDOR lost time accidents.

All of these KPIs improved during the year.

NHBC health and safety incident rate

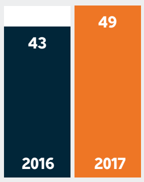
0.690
-9.9%

REM



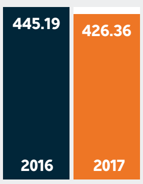
Number of NHBC Pride in the Job Awards (awards)

49
+14.0%



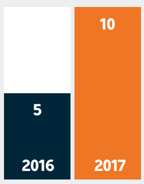
Number of RIDDOR seven-day lost time accidents per 100,000 site operatives (accidents)

426.36
-4.2%



Number of NHBC Health and Safety Awards (awards)

10
+100.0%



REM Link to remuneration
– see pages 51 to 70.


Bellway
Bellway
Bellway
NHBC

Delivering an excellent customer experience

What we rely on

- Sales and customer care teams who are well trained, have the right attitude and the resources available to them to deliver excellent service to our customers both before and after occupation of their home.
- Well trained Site Managers who are responsible for, and take genuine pride in, the quality of each finished home that we build.

Our impact

- We continue to improve energy efficiency by building homes which are, on average, more energy efficient than is required by building regulations.
- Customer handover folders contain information on sustainable travel, local recycling centres and energy efficiency advice.
- For every completed customer survey we make a donation to our national charity partner. This donation has increased by 100% per survey this year.

For more information see pages 28 to 35.

The risks we mitigate

- There are a number of risks, which if not appropriately mitigated, will negatively impact customer experience. Our risk management processes seek to reduce the impact of all risks, thus trying to maintain an excellent level of customer experience. There has been no change to these risks during the year.

For more information see pages 16 to 20.

KPIs

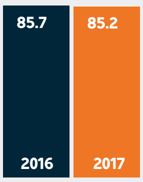
We have chosen the following KPIs as they demonstrate progress made in delivering our strategy of volume growth. We believe that customer satisfaction plays a very important part in achieving this volume growth and part of the bonus available to the executive directors is based upon improvements made in customer service.

All of these KPIs have improved during the year with the exception of customer care satisfaction which has reduced slightly, but has remained high.

Customer care satisfaction (%)

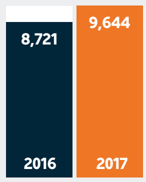
85.2
-50bps

REM



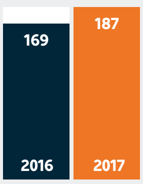
Number of homes sold (homes)

9,644
+10.6%



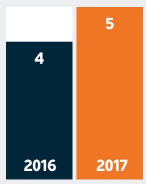
Reservation rate (number)

187
+10.7%



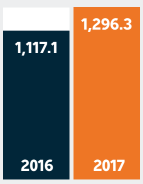
HBF homebuilder status (star)

5
+1



Order book value at 31 July (£m)

1,296.3
+16.0%



REM Link to remuneration – see pages 51 to 70.

Investing in our people

What we rely on

- Our skilled, professional and dedicated employees are provided with the right level of training, support and resources.

Our impact

- Further improvements in training and development.

For more information see pages 28 to 35.

The risk we mitigate

- The inability to attract and retain appropriate people remains a significant risk to the business. There has been no change to this risk during the year.

For more information see pages 16 to 20.

KPIs

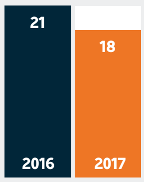
We use the following KPIs as indicators of how successful we have been during the year in managing and developing our people.

All of these KPIs have improved during the year, apart from the percentage of employees who have worked for the Company for ten years or more, which has fallen, and the percentage of NVQ Level 6 qualified Site Managers and Assistant Site Managers which has remained the same.

We have replaced our KPI on hours of customer care training with the number of training days per employee. As this is a new KPI no prior year comparator is provided

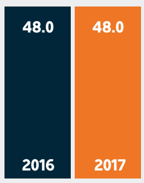
Employees who have worked for the Group for ten years or more (%)

18
-300bps



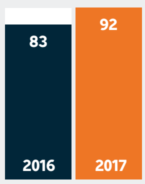
Site Managers and Assistant Site Managers with NVQ Level 6 or above (%)

48.0
No change



Graduates and apprentices (number)

92
+10.8%

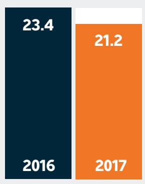


Training days per employee (days)

4.2

Employee turnover (%)

21.2
-220bps



Strategy

Our strategy enables us to maximise the value that our business model creates, so for this reason, our strategy is closely aligned to our business model.

Selecting the right land

Managing the planning process

Constructing the right product

Overview

Selecting the right land

Acquiring high quality sustainable sites in areas of strong customer demand that meet or exceed both our financial and non-financial acquisition criteria is key to the success of the business.

Managing the planning process

Working with local planning authorities and communities in compliance with the NPPF in order to deliver effective and sufficient planning consents for the business.

Constructing the right product

Providing an appropriate product range on housing and apartment developments, at prices that are affordable for our customers and which are built efficiently and to a high quality.

How we performed in 2016/17

Selecting the right land

- We have continued to focus our land buying in areas of strong customer demand and in sustainable locations.
- We secured DPP on sufficient land during the year to meet our requirements for 2017/18.
- We only acquired land which met or exceeded our minimum acquisition criteria.
- During the previous year we appointed three strategic land directors to secure longer-term land interests across the country and secure planning on strategic land. During the year we entered into option agreements to purchase 26 sites which fall into this category (2016 – 9 sites).

Managing the planning process

- We increased the number of plots we own or that are unconditionally contracted with DPP by 776 plots to 25,655 plots, and the number of 'pipeline' plots (owned and controlled awaiting implementable DPP) by 2,100 plots to 12,200 plots. We have an interest in a number of long-term strategic land holdings, of which 6,900 plots (2016 – 6,300) have been identified as benefiting from a positive planning status.
- The number of plots that were converted from our medium-term 'pipeline' land bank to land with DPP in 2016/17 was 5,093 plots (2016 – 7,265 plots).
- We invested in sufficient 'pipeline' land to provide plots to progress through the planning process.

Constructing the right product

- Group house types are now being used in seven divisions in the north. We will consider further roll-out after receiving more feedback from the business and our customers.
- New, more comprehensive assessment processes are in place for Group suppliers.
- NHBC now undertake an annual in-depth construction quality audit on each site in addition to their routine more frequent inspections.
- Inspection of our sites by both internal and external specialists ensured maintenance of high standards of health and safety compliance and performance.
- Focused site briefings on how to reduce slips, trips and falls reduced the number of RIDDOR seven-day lost time accidents.
- The Board paid close attention to our health and safety performance at each Board meeting, monitoring performance against pre-determined targets and objectives.

Our plans for 2017/18

Selecting the right land

- We aim to ensure that plots in our owned or unconditionally contracted land bank with DPP at the year end are sufficient to meet the following year's growth targets and to progress land through the planning system to contribute towards subsequent years' growth targets.
- We will continue to acquire land which meets or exceeds our acquisition criteria.
- We will continue to focus our land buying in areas of high demand and in sustainable locations at or above our minimum gross margin and RoCE hurdle rates.

Managing the planning process

- We aim to have sufficient plots with DPP at 31 July 2018 to meet our 2018/19 volume growth aspirations.
- We aim to invest in sufficient 'pipeline' land to provide plots which can be reliably progressed through the planning process and replenish land being actively developed without tying up excess capital.
- We aim to increase the number of strategic option sites to complement the other tiers of the land bank.

Constructing the right product

- The Board will continue to monitor the health and safety performance at each Board meeting.
- Our sites will continue to be regularly inspected by both internal and external specialists to ensure high standards of health and safety compliance and performance are maintained.
- We will have focused site briefings on fire stopping and the quality issues that are most commonly reported back to us by our customers.

The metrics we use to measure our performance are on pages 8 to 13. We also have a number of additional areas of focus which can be seen on the right of this page.

Delivering an excellent customer experience

Making sure that our customers receive an excellent experience when purchasing a new home, both prior to and following moving in.

- We regained our HBF 5 star homebuilder status (one of only two national housebuilders to do so).
- We have continuously refreshed our training for all customer-facing employees and are pleased to report that our independent customer satisfaction score is 85.2%.
- We have doubled the charitable donation for every completed customer survey from £5 to £10.
- Our expanding national network of divisions, together with the development of attractive, affordable homes has helped to increase both the number of homes sold and the average selling price to record levels for the Group.
- We successfully opened a new division in County Durham which will help augment our sales performance.

- We will continue to sell a wide range of high quality homes to suit a variety of budgets in locations sought after by our customers.
- We will continuously refresh our training for all customer-facing employees.
- We aim to increase the number of new homes we bring to the market and increase our sales outlets whilst maintaining our high standards of quality and service levels.
- We will seek to retain our HBF 5 star homebuilder status.

Investing in our people

Providing our people with a rewarding and fulfilling career, enabling them to achieve their full potential and deliver high levels of performance, contributing to the success of the business.

- We have developed a structured Bellway induction programme.
- We have created a suite of mandatory and developmental e-learning courses and have increased the number of training days per employee.
- We have reviewed, benchmarked and improved some of our core benefits, including holiday entitlement and company car scheme.
- We have developed an employee well-being plan.
- We have developed a succession planning framework and begun the process of reviewing the talent in our business.
- We have developed a series of structured apprenticeship programmes, which are due to launch in the current financial year.
- We have increased the number of graduates and apprentices we recruit and train by 11%.

- We will launch new apprenticeship programmes and increase the number of apprentices recruited.
- We will create a new Bellway Site Manager apprenticeship development programme.
- We will create management development training, guidance and tools.
- We will implement initiatives to tackle skills shortage.
- We will make further improvements to core benefits and delivery of well-being plan.

Additional areas of focus

Expand and enhance geographic coverage by opening new divisions principally in conurbations where demand is high.

Investing further in our existing operational divisional structure.

Proactively manage our balance sheet.

Ensure sufficient resources are available in our specialist Head Office teams.

Ensure that robust Group-wide systems are in place to support our expanding divisional network in delivering our growth strategy.

Risk Management

We have a well-established and effective framework in place for managing risks. That said, due to continuing changes both inside and outside of our business, we have reviewed and updated our framework as deemed appropriate during the year. The introduction of an in-house risk and internal audit function now adds further strength to our risk management framework.

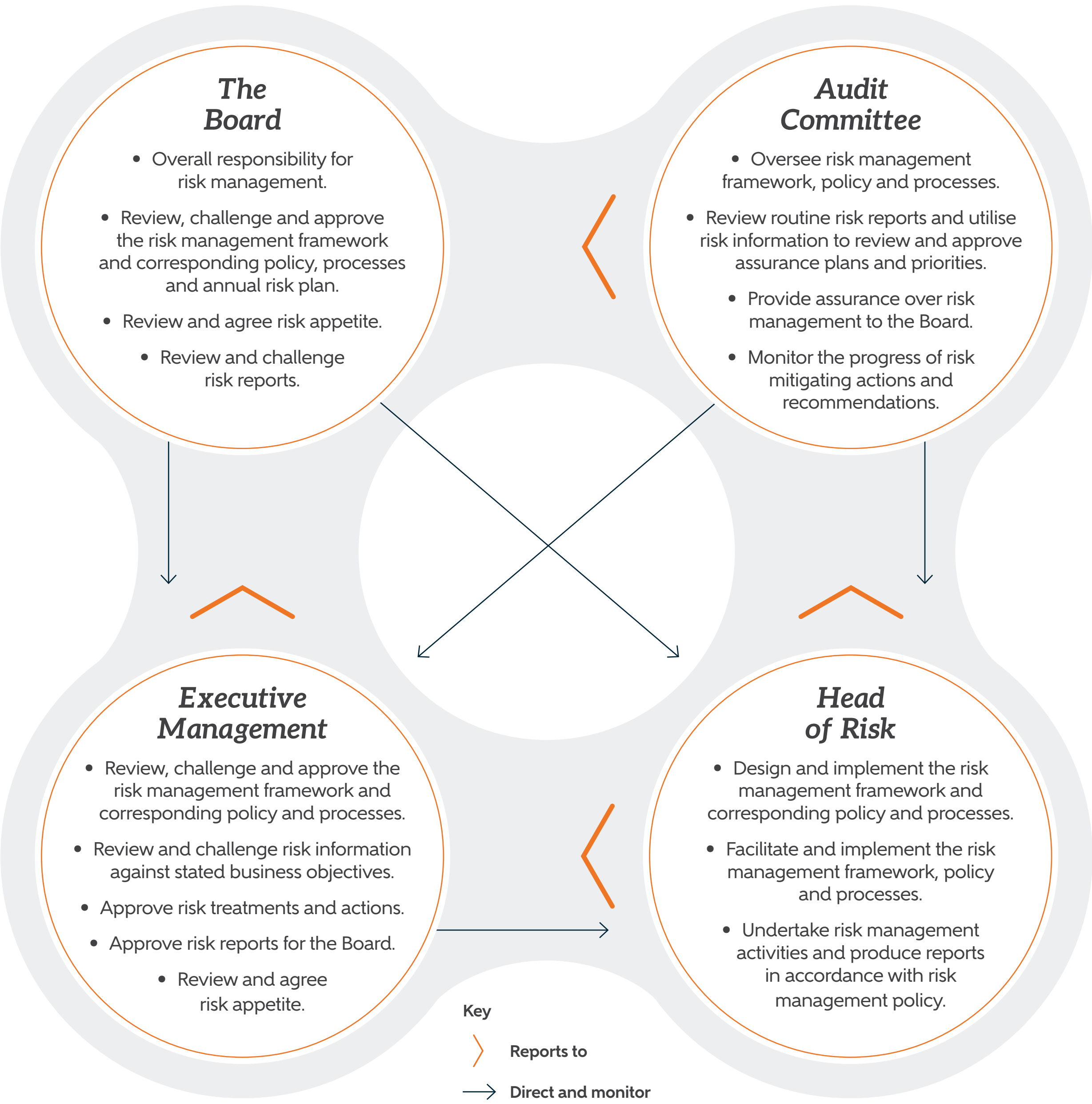
It is the responsibility of management to implement the Board's policies on risk management and internal control.

Our risk management objectives are to:

- assess risks against an agreed appetite for risk, which is regularly reviewed.
- ensure risk management roles and responsibilities are defined, communicated and understood.
- improve the balance of risk and return through developing and maintaining a proactive, risk aware culture.
- ensure there is a consistent approach for the identification, assessment, control, monitoring, follow up and reporting of risks.
- develop and implement action plans to ensure that risks are mitigated where required, are within our agreed risk appetite and that improvements are made to our control environment.
- ensure the approach to risk management meets the needs of the business, senior management and all key stakeholders.

Risk management roles and responsibilities

Within any business, the management of risk is the responsibility of every employee. In undertaking individual roles and responsibilities, employees are assisting in identifying, assessing and managing risks. Specific roles and responsibilities as set out in our risk management framework and corresponding policy are:



Risk management process

A detailed risk register is maintained of all of our potential risks, including strategic, operational, financial and compliance risks. The risk management processes are set up to ensure all aspects of the business are considered, from strategy through to business execution. Specialist areas are also incorporated into the risk processes, for example, corporate responsibility and joint ventures.

The risk register is reviewed on a regular basis as part of the management reporting process resulting in the regular assessment of each risk, its severity and any required mitigating actions. The severity of risk is determined based on a defined scoring system assessing risk impact and likelihood.

Derived from the detailed risk register, a summary of principal risks is reported to management, the Audit Committee and the Board. This summary is mainly, but not exclusively, comprised of risks scoring above our risk appetite after mitigation. This summary is reviewed throughout the year, with the Board systematically considering the risks taking into account any changes which may have occurred. Once a year, via the Audit Committee, the Board determines whether the system of risk management is appropriately designed and operating effectively.

More information on risk management and internal controls is included within the Audit Committee Report on pages 46 to 50.

Principal risks

Through our regular risk management programme of activities, we have identified the following principal risks to our business:

Risk and description	Strategic relevance	KPIs	Mitigation	Change in year
Land				
Inability to source suitable land at appropriate gross margins and RoCE.	- Insufficient land would affect our volume growth targets. - Failure to buy land at the right margin would have a detrimental effect on future returns.	- Land bank (with DPP). - Number of homes sold. - RoCE. - Gross margin. - EPS.	- Budgeting and forecasting of growth targets to ensure land bank supports strategic target. - Thorough pre-purchase due diligence and viabilities on all proposed land purchases. These are kept under regular review to ensure capital is invested appropriately. - Authorisation of all land purchases in accordance with Group procedures at Head Office.	No change.
Planning				
Delays and complexity in the planning process.	- Failure to obtain planning within appropriate, pre-planned timescales would have a detrimental impact on our growth prospects and have an adverse effect on returns.	- EPS. - RoCE. - Number of plots acquired directly in land bank with an implementable DPP. - Number of plots converted from medium-term pipeline to land with DPP. - Number of plots in our pipeline land bank. - Number of plots identified in our strategic land bank with a positive planning status.	- Centralised and divisional planning specialists provide advice and support to the divisions to assist with securing planning permissions. - Management of immediate, medium-term and strategic land to maintain an appropriate balance of land in terms of quantity and location.	No change.
Construction resources				
Shortage of appropriately skilled sub-contractors and shortages of building materials at competitive prices.	- Failure to secure required resources causes delays in construction, impacting the ability to deliver volume growth targets. - Pricing pressure would impact returns.	- Number of homes sold. - Customer care satisfaction. - Employee turnover. - EPS.	- Systems are in place to select, appoint, monitor, manage and build long-term relationships with our sub-contractors. - Competitive rates and prompt payment for our sub-contractors. - Group purchasing arrangements are in place. - Continued review and monitoring of supplier performance.	No change.
Health and safety				
There are significant health and safety risks inherent in the construction process.	- In addition to the moral obligation and the requirement to act in a responsible manner, injuries to any individual while at one of our business locations could delay construction and result in criminal prosecution, civil litigation and reputational damage.	- Number of RIDDOR seven-day lost time accidents. - NHBC Health and Safety Awards. - NHBC health and safety benchmark.	- The Board considers health and safety issues at every meeting. - Regular visits to sites by senior management (independent of our divisions) and external consultants to monitor health and safety standards and performance against the health and safety policies and procedures.	This risk has increased slightly during the year as a result of increased complexity in regulations and build programmes.

Risk and description	Strategic relevance	KPIs	Mitigation	Change in year
Sales and external factors				
There are a number of external factors that could affect our ability to generate sales, including but not limited to: - economic factors, especially house price inflation and interest rates. - mortgage availability. - government housing policy.	- The ultimate impact of these external factors would be on the ability to sell houses and apartments and on returns.	- Number of homes sold. - Forward order book. - Reservation rate. - Customer care satisfaction. - EPS. - RoCE.	- Ongoing monitoring of key business metrics and development of action plans as necessary. - Product range and pricing strategy determined based on regional market conditions. - Use of sales incentives, such as part-exchange, to encourage the selling process. - Use of government-backed schemes to encourage home ownership.	No change.
Human resources				
Inability to attract and retain appropriate people.	- Failure to attract and retain people with appropriate skills will affect our ability to perform and deliver our volume growth target.	- Employee turnover. - Number of graduates and apprentices. - Number of people who have worked for the Group for ten years or more.	- Continued development of the Group Human Resources function and implementation of our people strategy. - Competitive salary and benefits packages which are regularly reviewed. - Succession plans in place and key person dependencies identified and mitigated. - Graduate and apprentice training programmes in place.	No change.
IT and security				
Failure to have suitable systems in place and appropriate back up, contingency plans and security policies.	- Poor performance of our systems would affect operational efficiency, profitability and our control environment.	- EPS.	- Group-wide systems are in operation which are centrally controlled with an outsourced support function in place. - Continued investment in systems. - Regular review and testing of our security measures, contingency plans and IT security policies.	This risk has increased due to growing complexity of our business, together with continued external exposure to ever-changing security threats.
Legal and regulatory compliance				
Failure to comply with legislation and regulatory requirements.	- Lack of appropriate procedures and compliance would result in delays in land development and construction, have a detrimental impact on profitability and reputation and potentially lead to financial penalties and other regulatory consequences.	- Volume growth. - EPS.	- Central Secretariat, Legal, Health and Safety and Technical functions advise and support divisions on compliance and regulatory matters. - Group-wide policies, procedures and training for key regulatory matters.	No change.

The previously reported principal risk relating to the environment remains under constant review, but mitigating actions during the year and our current control environment have reduced potential exposure from this risk and it has thus been removed from our principal risks.

Financial risk management

The Group's financial instruments comprise cash, bank loans and overdrafts and various items such as trade receivables and trade payables that arise directly from its operations. 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 Board's policy is to maintain a strong capital base to underpin the future development of the business in order to deliver value to shareholders. The Group finances its operations through re-invested profits, bank borrowings, cash in hand and the management of working capital.

The Board expects to maintain a dividend cover of around three times earnings.

Management of financial risk

The main risks associated with the Group's financial instruments held during the year have been identified as credit risk, liquidity risk, interest rate risk and housing market risk. The Board is responsible for managing these risks and the policies adopted, which have remained unchanged during the year and are set out below.

Credit risk

The Group's exposure to credit risk is largely mitigated as the vast majority of the Group's sales are made on completion of a legal contract, at which point monies are received in exchange for transfer of legal title.

There is no specific concentration of credit risk in respect of home sales as the exposure is spread over a number of customers. In respect of trade receivables, the amounts presented in the balance sheet are stated after adjusting for any doubtful receivables, based on the judgement of the Group's management through using both previous experience and knowledge of the current position (note 14).

In managing risk, the Group assesses the credit risk of its counterparties before entering into a transaction. As part of the disposal of the Group's interest in Barking Riverside Limited, as set out in note 5 to the accounts, the Group has a receivable with a fair value of £11.984 million due from L&Q New Homes Limited. The credit risk associated with this receivable is considered to be low as it is a reputable counterparty.

No credit limits were exceeded during the reporting period or subsequently and the Group does not anticipate any losses from non-performance by these counterparties.

The Board considers the Group's exposure to credit risk to be acceptable and normal for an entity of its size, in the industry in which it operates.

Liquidity risk

The Group finances its operations through a mixture of equity (comprising share capital, reserves and re-invested profit) and debt (comprising bank overdraft facilities and borrowings). The Group manages its liquidity risk by monitoring existing facilities and cash flows against forecast requirements based on a three-year rolling cash forecast.

The Group's Treasury Policy has, as its principal objective, the maintenance of flexible bank facilities in order to meet anticipated borrowing requirements. The Group's banking arrangements outlined in note 17 to the accounts are considered to be adequate in terms of flexibility and liquidity for its medium-term cash flow needs. Relationships with banks and overall cash management are co-ordinated centrally. The Group is operating well within its financial covenants and available bank facilities.

Short-term cash surpluses are placed on deposit at competitive rates with high quality counterparties. Other than those disclosed, there are no financial instruments or derivative contracts. The Board therefore considers the Group's liquidity risk to be mitigated.

In relation to land payables, certain payables are secured on the respective land asset held (note 16). No other security is held against any other financial assets of the Group.

Interest rate risk

Interest rate risk reflects the Group's exposure to fluctuations in interest rates. The risk arises because the Group's overdraft and floating rate bank loans bear interest based on LIBOR.

The Group's attitude to interest rate risk and forecast debt is influenced by the existing and forecast conditions prevailing at the time that each new interest-bearing instrument is entered into. This will determine, amongst other things, the term and whether a fixed or floating interest rate is obtained.

During the year ended 31 July 2017, it is estimated that an increase of 1% in interest rates applying to the full year would have decreased the Group's profit before taxation by £1.708 million (2016 – £0.986 million).

Housing market risk

The Group is affected by movements in UK house prices. These in turn are affected by factors such as credit availability, employment levels, interest rates, consumer confidence and supply of land with planning.

While it is not possible for the Group to fully mitigate housing market risk on a national macroeconomic basis, the Group does continually monitor its geographical spread within the UK, seeking to balance investment in areas offering the best immediate returns with a long-term spread of its operations throughout the UK to minimise the effect of local microeconomic fluctuations.

Going Concern and Long-Term Viability Statements

Going Concern Statement

After conducting a full review, the directors have a reasonable expectation that the Group has adequate resources to fund its operations for at least the next 12 months. For this reason, they continue to adopt the going concern basis in preparing the accounts as discussed further on page 85.

Long-Term Viability Statement

As required by provision C.2.2 of the UK Corporate Governance Code, the directors have assessed the prospects of the Group over a three-year period, taking account of the Group's current position and principal risks. The directors consider that a three-year period is appropriate as this is the period covered by the Group's near-term business plan.

To assess the Group's prospects the directors conduct an annual strategic review of the Group's business model and strategy, to ensure it remains fit for purpose. A robust assessment was also carried out of the principal risks facing the business that would have an adverse impact on the Group's viability over the three-year period.

The Group has in place considerable flexible bank facilities with three lenders, which provides access to finance in tranches until November 2020. In advance of each of these facilities expiring, a review will be undertaken to determine whether a facility needs to be renewed based on the strategy, cash forecast and pricing.

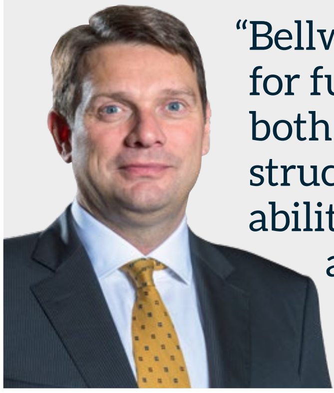
The land bank consists of land with DPP to meet our land requirements for the short and medium-term needs of the business bolstered by a further pipeline of sites which are being progressed through the planning process.

In addition, the Group has for the last eight consecutive financial years achieved year on year growth in legal completions, revenue and operating margin.

Although the triggering of Article 50 is a potential risk for the UK housebuilding sector the reservation rate seems to be unaffected so far.

Having considered all of the factors described above, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Operating Review



> "Bellway has significant capacity for further volume growth, both from its existing divisional structure and as a result of its ability to open new divisions in areas of strong demand."

Jason Honeyman
Chief Operating Officer

Trading performance

Demand for new housing remained strong across the country, with the Group taking an average of 187 reservations per week (2016 – 169), an increase of 10.7%. Site visitor numbers were ahead of the prior year and website traffic continued to rise.

As is normally the case, sales were strongest in the second half of the year, with the usually robust spring market boosted further by new site openings and investment in work in progress. Accordingly, the weekly reservation rate for the second half of the year increased by 14.8% to 209 (2016 – 182), seemingly unaffected by the General Election and the wider uncertainty arising from the ongoing EU negotiations. The cancellation rate remained low, at just 11% for the full year (2016 – 11%), reflecting strong underlying customer confidence.

The government's Help to Buy scheme continued to be an important selling tool, used widely across the Group in 35% (2016 – 30%) of completions. In London, where the maximum equity loan percentage can be up to 40% of the property value, Help to Buy was used in 32% of completions.

The pricing environment remained positive, with modest low, single digit house price inflation benefiting the average selling price on most sites across the country.

The table below shows the number of and average selling price of homes completed in the year, analysed geographically, between private and social homes.

The number of homes sold increased by 10.6% to 9,644 (2016 – 8,721), with the proportion of social completions increasing to 21.5% of the total (2016 – 15.8%), as previously guided and in accordance with planned construction programmes.

The average selling price rose by 3.0% to £260,354 (2016 – £252,793) and the private average selling price rose by 6.3% to £296,018 (2016 – £278,403), with this increase attributable to previous investment in higher value locations, together with the benefit of some modest house price inflation.

The northern divisions increased output by 11.2% to 4,655 homes (2016 – 4,187 homes), benefiting from strong market conditions and completions from developments in good quality locations, where demand is higher. This was particularly the case in our Yorkshire division, which has increased its output by over 75% to 467 homes (2016 – 266 homes), as a result of a strong operational focus and investment in land and work in progress.

Growth is also being achieved from our newer, fledgling divisions, such as those located in Coventry and County Durham, opened in February 2016 and August 2016 respectively. Previous, controlled investment in these areas, enabled these two new divisions to contribute a combined output of 327 homes, whilst retaining significant capacity to add further volume and profit growth in the years ahead.

Homes sold (number)

	Private		Social		Total	
	2017	2016	**2017**	2016	**2017**	2016
North	**3,897**	3,651	**758**	536	**4,655**	4,187
South	**3,670**	3,694	**1,319**	840	**4,989**	4,534
Group total	**7,567**	7,345	**2,077**	1,376	**9,644**	8,721

Average selling price (£000)

	Private		Social		Total	
	2017	2016	**2017**	2016	**2017**	2016
North	**233.3**	220.6	**97.9**	92.2	**211.3**	204.2
South	**362.6**	335.6	**149.1**	131.3	**306.2**	297.7
Group average	**296.0**	278.4	**130.4**	116.1	**260.4**	252.8

Output in the south grew by 10% to 4,989 homes (2016 – 4,534 homes), with strong anchor divisions such as Thames Gateway and Essex, both with a presence in London, delivering over 800 completions each.

London continues to make a meaningful contribution to the Group's performance, representing 10% of completions (2016 – 14%) and 14% of housing revenue (2016 – 21%). It has, however, formed a lower proportion of the Group's overall output, reflecting timing of construction programmes and investment in land elsewhere in the country.

The Residence, Bellway's relatively high value, flagship development located in Battersea is trading well, contributing 137 completions. The outlook on this development is positive, with 72% of the apartments in this scheme either exchanged or completed at prices in line with or above the most recent site appraisal.

In general, Bellway prefers to acquire land in more affordable locations within the capital, where market conditions remain attractive. Sites such as Barking Riverside, where the Group still has a retained interest in some 2,800 plots, have performed particularly well, contributing 182 completions in the year at an average selling price of £245,204.

Overall, the Group retains its ability to be flexible in its approach to land acquisition, investing in those areas around the country where returns are strongest and most resilient.

Construction and material costs

Growth in output in the construction sector and the wider industry skills shortage continued to place upward pressure on sub-contractor costs, particularly for trades such as bricklayers and scaffolders. Whilst there is some reliance upon overseas labour, predominantly in the south east and London, there is no evidence that this valuable resource has diminished as negotiations to leave the EU progress.

The availability of building materials is generally good, however, there are often localised incidences of under supply of certain products, such as roof tiles and particular facing bricks.

The Group is deploying a number of initiatives to counter the effect of cost increases, sub-contract and supply chain constraints and to improve overall operational efficiency. These include regularly reviewing construction schedules, lead-in times and build progress whilst forming strong partnerships with our sub-contractors and supply chain. In addition, a greater degree of product standardisation, with additional emphasis on design, should result in future cost savings, with Group house types now being plotted on most new sites in seven of our divisions. An independent quality review has also helped re-emphasise the importance of achieving quality standards on the first attempt, thereby reducing costly remedial work, and improved benchmarking between sites and divisions is resulting in added focus being placed on cost control.

Planning and investing in land for growth

Although the satisfaction of pre-commencement conditions presents challenges to the industry, in general, the planning backdrop is positive and the number of planning permissions granted across the UK continues to rise.

The National Planning Policy Framework still has a positive effect in relation to encouraging local authorities to prepare a local plan and provide land for housing supply. In addition, whilst the detail is still outstanding, the Housing White Paper, published in February, includes proposals to ensure 'ambitious' local plans are put in place across England, to help prioritise brownfield land for development and to standardise the method for calculating housing need. These measures, amongst others, should improve the efficiency of the planning process and increase the delivery of new homes.

In the context of this supportive planning environment, the availability of good quality land remains strong, with key financial metrics in respect of gross margin and return on capital employed being met or exceeded.

Set against this backdrop, Bellway has continued to invest in land opportunities located in sustainable locations where there is strong local demand. The Group has entered into land contracts with a value of £767 million (2016 – £641 million) in order to acquire 11,613 plots (2016 – 9,555 plots) across 97 sites (2016 – 79 sites). Geographically, 43% of those sites contracted were in the north of the country and 57% were in the south, with this balanced approach to investment helping to spread risk.

The table below analyses the Group's land holdings at 31 July:

	2017	2016
Owned and controlled plots	**37,855**	34,979
Comprising:		
DPP: plots with implementable detailed planning permission	25,655	24,879
'Pipeline': plots pending an implementable DPP	12,200	10,100
Strategic plots with a positive planning status	**6,900**	6,300

As a result of this land buying activity and the ability of our land teams to progress sites through the planning system, the Group has 25,655 plots with the benefit of an implementable detailed planning permission ('DPP'). The Group now has all land in place with the benefit of DPP in order to meet this year's planned growth target.

The increase in the number of plots in part reflects the success the Group has had at converting plots from the Group's land 'pipeline', by obtaining DPP on land in which the Group already had a contractual interest. The Group acquired or obtained a DPP on 10,420 plots during the year, of which 5,093 originated from this 'pipeline' section of the land bank.

The Group has an interest in 12,200 plots within the 'pipeline', on owned or contracted sites, which already have the benefit of an outline planning permission, or where DPP is expected to be obtained within the next three years. A typical example includes a former commercial site in Hemel Hempstead, close to good transport links into the centre of London, contracted on an unconditional basis by our North London division in May 2017. Bellway is actively seeking to obtain DPP on a 184 unit scheme which should deliver a RoCE[~] in excess of 20%. Brownfield sites acquired in this manner help to secure a medium-term source of land for the Group and are often able to deliver attractive returns.

Overall, the Group's owned and controlled land bank, including those plots with DPP and those within the 'pipeline', comprises 37,855 plots (2016 – 34,979 plots), representing a notional land supply of 3.9 years (2016 – 4.0 years).

As well as investing in land that meets the Group's immediate needs, Bellway is benefiting from the appointment of three strategic land directors in the prior year, not only securing longer-term land interests throughout the country, but also successfully obtaining DPP during the year on 1,843 plots (2016 – 676 plots) that originated in the strategic land bank. Furthermore, the Group entered into option agreements to purchase an additional 26 sites (2016 – 9 sites), helping to replenish the strategic land bank, with this longer-term source of land supply providing a particularly useful 'top up' as the Group continues to grow in size.

As a result of this activity, the number of plots in the strategic land bank has increased to 6,900 (2016 – 6,300), with those reported representing only those that have a positive planning prognosis, being either identified for residential development in an emerging local plan or subject to a current planning application.

Taking pride in customer care

We aim to ensure that customers enjoy a positive experience when purchasing a new Bellway home and that their expectations with regards to build quality and service are at least met, if not exceeded. All new homes undergo a thorough quality inspection procedure before handover, thereby minimising the likelihood of subsequent issues and disruption to customers. In addition, our Site Managers undergo regular training, with 48% of individuals in these roles having achieved NVQ Level 6 qualification or above. Many of our sub-contractors also participate in ongoing briefing sessions in order to maintain the ongoing focus with regards to quality.

As a result of this approach, we are delighted that 49 of our Site Managers received NHBC Pride in the Job Awards (2016 – 43), recognising their commitment in this area. Not only is this an increase on the prior year, but proportionate to volume output, this record performance represents the highest number of awards of any national housebuilder, reflecting the quality and high standards that these valued employees have achieved.

We continually review our processes not only to ensure that new homes are built to a high standard, but also to make sure that our product design and layout evolves to meet expectations arising from modern living trends. We regularly seek feedback from our customers to assess our performance and, in the independent Home Builders Federation Customer Satisfaction survey, Bellway was awarded a 5 star builder status[1], one of only two mainstream national housebuilders to achieve this accolade. In addition, we assess our performance against a number of key measures including build quality, standard of finish and home condition. We use the results of these surveys to calculate an average overall customer care score which has remained consistently high at 85.2% (2016 – 85.7%).

We recognise the continuing importance of customer care and that further improvements can always be made. Notwithstanding our recognition as a 5 star builder[1], we have recently created a new Customer Experience Committee, the remit of which is to identify initiatives and drive further improvements in both build quality and service in the years ahead.

Building new homes safely

Construction works can be inherently risky and hence ensuring the health and safety of both operatives and members of the public is of the utmost importance to the Group. Sites are audited frequently by both our in-house safety team and external consultants to ensure that we maintain the highest of standards. We measure the number of reportable incidents arising from these inspections and as a result of our continued focus in this area, our NHBC reportable incident rate has fallen by 9.9% to 0.690 (2016 – 0.766), with a low score reflecting fewer reportable health and safety contraventions. There has also been a reduction in the lost time arising from accidents, with the seven-day reportable incident rate reducing by 4.2% to 426.36 incidents per 100,000 site operatives (2016 – 445.19).

Our efforts in this area of the business have been recognised with ten of our Site Managers receiving NHBC Health and Safety Awards (2016 – five), with this strong performance representing 18% of the total awards issued across the industry. Five of these Site Managers have also gone on to win highly commended awards, including a national 'best site' award.

Investing in our people

Given the opportunity for growth, Bellway has continued to expand its workforce, employing an average of 2,544 employees during the year (2016 – 2,366), an increase of 7.5%. Housebuilding has a positive net effect on the economy and we estimate that we supported 26,000 to 28,000 jobs, both directly and indirectly through sub-contract labour and the Group's supply chain.

Notwithstanding this growth in employee numbers, the industry continues to face a skills shortage, with the demand for labour exacerbated by ongoing growth in the sector. We implemented a number of initiatives during the year to assist with the attraction and retention of talent, including an enhanced Bellway induction programme and improvements to our core benefits.

In addition, recognising the longer-term skills shortage, we have created a set of structured apprenticeship programmes which are due to launch in the current financial year and have continued to increase the number of apprentices and graduates within the business by 11% to 92 people (2016 – 83). We have also taken steps to not only increase the number of training hours undertaken, but to better capture and report all types of training across the Group. As a result, the average training days per employee has risen to a record 4.2 days.

Bellway4Good

Bellway is committed to being a responsible homebuilder and we have continued to develop our approach to corporate responsibility ('CR') under the Bellway4Good banner, with the primary focus on our three pillars of the environment, construction and society & economy.

This is the third year that we have set ourselves a range of CR targets to drive forward performance across the business and we are pleased to report some key successes. We continued our energy efficiency work and have increased the percentage of construction compounds fitted with energy saving devices to 94% (2016 – 84%), whilst also launching a trial energy saving campaign for divisional offices. We also continued our focus on removing waste from landfill by further improving the waste diversion rate to 97.8% (2016 – 95.9%). We remain committed to ensuring timber purchased by Bellway is from sustainable sources and we are very pleased to report that we achieved the top rank in the World Wild Fund for Nature's ('WWF') Timber Scorecard 2017.

We have continued to refocus our charitable activity towards supporting the fundraising efforts of our employees. Along with the selection of Cancer Research UK as our national charity partner, we committed to matching every £1 raised by our employees with a Bellway donation of £2. We are delighted with how successful the partnership has proved, allowing Bellway and our employees to raise and donate £385,913 to help fund the search for a cure to cancer. We also top-up employee fundraising for other charities and good causes and across our wider charitable activity, Bellway's total donations, including those to our national charity partner, made through a combination of employee fundraising, matched funding and direct donations amounted to £521,920 (2016 – £284,704), of which £229,047 (2016 – £74,704) was raised by our employees and colleagues in our supply chain.

We have also taken the next step in quantifying the wider benefits that our business delivers, both locally in our operating divisions and also in the wider UK economy, through the publication of Bellway's first Economic and Social Impact Report. As a result of this work, we estimate that we have committed to invest £118 million in community infrastructure projects over the past year, in addition to our contribution to public finances through direct and indirect taxation and significant spend on local and national supply chains.

Current trading and outlook

In addition to achieving volume growth of 10.6%, the Group ended the financial year with an order book of 4,749 homes (2016 – 4,644 homes), with a value of £1,296.3 million (2016 – £1,117.1 million). In the first nine weeks of the new financial year, trading has remained strong, with the Group achieving 171 reservations per week (2016 – 162), an increase of 5.6%. As a result, the order book at 1 October rose by 17.4% to £1,361.5 million (2 October 2016 – £1,159.3 million), representing 5,034 homes (2 October 2016 – 4,701 homes).

This strong forward sales position, together with investment in land and work in progress and plans to open a new, twentieth trading division in the north of the country this financial year, should enable Bellway to deliver further growth in volume in the year ahead. The Board therefore expects that subject to market conditions, the Group will grow volume by at least 5% and complete the sale of around an additional 500 homes, equivalent to the output of an established operating division. In addition, anticipated completions from higher value developments such as The Residence in Battersea, should enable the Group to deliver additional revenue growth by further increases in the average selling price, which depending upon the progress of construction programmes, is expected to rise to around £280,000.

Bellway has significant capacity for further volume growth, both from its existing divisional structure and as a result of its ability to open new divisions in areas of strong demand. This capacity, together with a strong balance sheet, is enabling the Group to continue its disciplined growth strategy and deliver further value for shareholders.

Jason Honeyman
Chief Operating Officer

16 October 2017

Note:

1. As measured by the Home Builders' Federation Customer Satisfaction survey.

Financial Review

> "Continued focus on RoCE and the ongoing re-investment of earnings back into the business, ... continues to deliver ongoing value for shareholders."

Keith Adey
Group Finance Director

Operating performance

The continued delivery of the Group's disciplined growth strategy has resulted in housing revenue increasing by 13.9% to £2,510.9 million (2016 – £2,204.6 million), driven principally by the number of housing completions rising by 10.6% to 9,644 homes (2016 – 8,721 homes). This, together with other revenue of £47.7 million (2016 – £36.1 million), has resulted in total revenue rising by 14.2% to £2,558.6 million (2016 – £2,240.7 million).

The ongoing focus on growth has had a compounding effect on revenue. Over the past three years, the number of legal completions has increased by almost 41% and this, together with improvements in the average selling price, has resulted in revenue rising by over 72%, thereby demonstrating the effect that the strategy is having on the performance of the Group.

The gross margin has risen slightly to 25.9% (2016 – 25.7%), with good quality land opportunities, a strong focus on operations and the benefit of historical house price inflation assisting the Group in maintaining this high level.

In order to boost its operational capability and support continued growth, Bellway has invested significantly in its regional structure over recent years, both in new divisions and by strengthening teams within more established divisions. Notwithstanding this planned investment, administrative expenses have fallen to under 3.6%(~) of revenue (2016 – 3.7%), reflecting improved absorption of the overhead base as the Group delivers more output and maintains its culture of cost control. Overall, administrative expenses have risen more slowly than revenue, by 8.7% to £90.0 million (2016 – £82.8 million).

The strong trading performance has resulted in operating profit increasing by 16.2% to £571.6 million (2016 – £492.0 million) and the operating margin improving by a further 30 basis points to 22.3% (2016 – 22.0%), surpassing last year's record.

Net finance expense

The net finance expense of £11.2 million(~) (2016 – £11.1 million) principally includes notional interest on land acquired on deferred terms, which has increased slightly to £7.7 million (2016 – £7.6 million). The remaining net interest expense primarily relates to bank interest, comprising interest on drawn monies, commitment fees and refinancing costs on the Group's £430 million banking facilities. This has increased slightly to £4.5 million (2016 – £4.3 million), reflecting higher average net bank borrowings throughout the year.

Profitability

Profit before taxation ('PBT') rose by 12.6% to £560.7 million (2016 – £497.9 million), lower than the rate of operating profit growth, primarily as the PBT reported in the prior year benefited from the one-off exceptional and non-trading related profit of £17.3 million, arising on the disposal of the Group's interest in Barking Riverside Limited. The corporation tax charge was £106.7 million (2016 – £95.0 million), reflecting an effective tax rate of 19.0% (2016 – 19.1%). The effective tax rate is below the standard rate of corporation tax of 19.7% (2016 – 20.0%), primarily due to an enhanced tax deduction for remediating previously developed, brownfield land.

Investing cash for growth

The Group invested significantly in land and work in progress throughout the year in order to achieve future growth. As a result, the capital invested in land, net of land creditors and work in progress, increased by £331.6 million(~) (2016 – £289.4 million). Before taking this investment into account, cash generated from operations was £588.1 million(~) (2016 – £538.8 million), thereby demonstrating the substantial cash generative ability of the Group. After accounting for this investment in growth assets, cash generated from operations was £256.5 million (2016 – £249.4 million).

After expending £98.8 million on tax, paying a dividend of £136.6 million, providing joint venture funding of £29.4 million and taking into consideration other minor cash outflows of £2.2 million, the Group ended the year with net cash of £16.0 million(~) (2016 – £26.5 million), reflecting an ungeared(~) balance sheet (2016 – ungeared).

Land creditors, which are considered to be a source of longer-term debt finance, stood at £366.8 million (2016 – £304.2 million) and continue to be used only when it is cost effective to do so. Including land creditors, total debt stood at £350.8 million (2016 – £277.7 million), representing adjusted gearing of 16.0%(~) (2016 – 14.9%).

A strong balance sheet to secure future growth

Net tangible assets were £2,191.3 million (2016 – £1,867.0 million), of which inventory totalled £2,968.2 million (2016 – £2,548.3 million). Bellway has continued to invest in a controlled manner, securing land and sometimes limited production resource in order to establish a strong foundation to help achieve future growth targets.

The net amount invested in land has increased by £212.6 million to £1,838.2 million (2016 – £1,625.6 million) and work in progress has risen by £181.6 million to £1,017.7 million (2016 – £836.1 million). Bellway now has 10,251 units in production (2016 – 9,621 units) at a variety of stages across the Group, which will support future growth.

Other than land creditors and the use of net bank debt during the year, there are limited sources of long-term liabilities on the balance sheet. The pension scheme deficit remains modest at only £4.0 million (2016 – £8.0 million) and is unlikely to be a significant cash drain on the business in the years ahead.

A sustainable approach to value creation

RoCE continues to be a key metric used across the Group when appraising land opportunities and managing divisions' performance. As a result of this approach, and notwithstanding the significant investment in land and work in progress in order to secure future growth, Bellway achieved a strong RoCE of 27.6%(~) (2016 – 28.2%). Recognising that land creditors are a source of long-term funding, an adjusted measure including land creditors as part of the capital base, resulted in a RoCE of 23.9%(~) (2016 – 24.6%).

Post tax return on equity was 22.6%(~) (2016 – 23.5%), a strong result from a conservatively managed and lowly geared balance sheet.

This focus on returns has resulted in NAV increasing by 17.3% to 1,785p(~) (2016 – 1,522p), with this being achieved after paying out 111.5p per share in dividends.

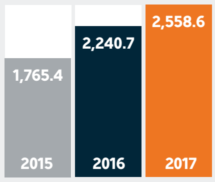
The disciplined growth strategy, with a continued focus on RoCE and the ongoing re-investment of earnings back into the business to achieve future growth, continues to deliver ongoing value for shareholders.

Keith Adey
Group Finance Director

16 October 2017

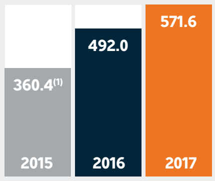
Group revenue (£m)

2,558.6
+14.2%



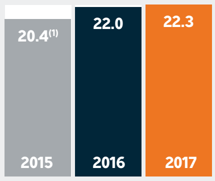
Operating profit (£m)

571.6
+16.2%



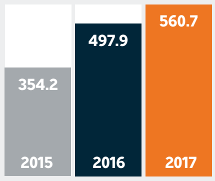
Operating margin (%)

22.3
+30bps



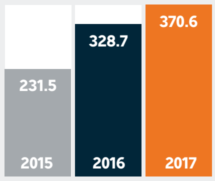
Profit before taxation (£m)

560.7
+12.6%



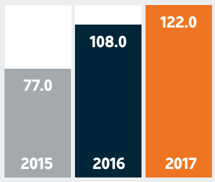
Earnings per ordinary share (p)

370.6
+12.7%



Proposed total dividend per ordinary share (p)

122.0
+13.0%



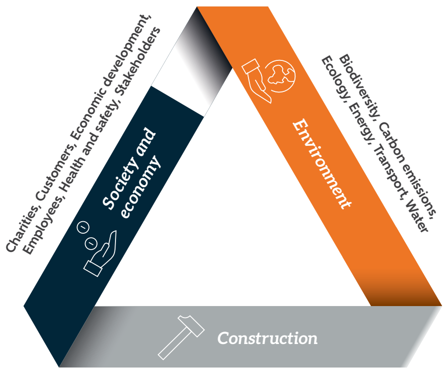
Note:
1. Stated before exceptional item.

Corporate Responsibility

Bellway is committed to being a responsible housebuilder. We aim to have a positive impact on all those who live in and around our developments while at the same time delivering high quality homes, in desirable surroundings, in areas where housing demand is strong.

This year we have continued to develop our approach to corporate responsibility ('CR'). Branded as Bellway4Good, we operate our CR activity under three core 'pillars'. By integrating CR practices into our business we are able to build better homes and communities, and create a stronger company for the long-term that delivers benefits to our shareholders, customers, employees and other stakeholders.

While ultimate responsibility for our CR programme rests with our Chief Executive, our CR Committee is chaired by the Group Finance Director and includes the Head of Sustainability and functional heads. This committee meets at least four times a year and is responsible for setting strategy and monitoring progress against targets and objectives.



Planning, Procurement, Research and development, Site management, Sustainability, Waste

Our key achievements in 2017

For 2017 we set the business a range of targets under each of our CR pillars. A total of 15 targets were set with 11 achieved in 2017. The remaining four are multi-year targets – substantial progress has been made against three of these targets this year and we are well on track to achieving them within the pre-agreed timeframes. The final target (around rationalising the number of waste management contractors we have across the Group) has been curtailed early after analysis demonstrated that negligible improvements to waste management could be achieved. The focus in 2017/18 in this area will switch to using existing waste management best practice to drive further improvements across the Group.

11	**targets achieved**
3	**targets in progress and will be rolled over into 2017/18**
0	**targets missed**
1	**target curtailed early**

A full summary of our performance as well as our 2018 targets is set out on our website www.bellway.co.uk/corporate-responsibility. Some of our key achievements are outlined below:

Environment

- increased the proportion of our construction compounds fitted with energy saving devices to 94% (2016 – 84%).
- increased the percentage of our forklift fleet fitted with energy efficient engines to 83.5% (2016 – 68.9%).

Construction

- improved our waste diversion rate to 97.8% (2016 – 95.9%).
- secured 100% of our timber from sustainable sources (2016 – 100%).
- achieved the highest rank in the WWF's Timber Scorecard 2017, one of only two national housebuilders to do so.

Society and economy

- regained our 5 star homebuilder status from the HBF, one of only two national housebuilders to have achieved this rating (2016 – 4 star).
- achieved an improved NHBC health and safety reportable incident rate of 0.690 (2016 – 0.766).
- delivered 4.2 training days per employee.
- donated a total of £385,913 (2016 – £159,228) to our charity of the year (including money raised by our employees, sub-contractors and suppliers).

We continue to participate in the Carbon Disclosure Project's ('CDP') 'Climate Change' and 'Forests' programmes. In November 2016 we improved our 'Climate Change' score to 'Awareness – C' and maintained our 'Forests' grade at 'Management – B'. Both of these scores are in line with our industry group average and the CDP programme average. Unfortunately towards the end of 2017 we were informed that Bellway was no longer a constituent of the FTSE4Good Index Series. The index has recently revised its scoring criteria and while we improved our score from 2.2 to 2.3, this was below the new 2.5 threshold required to remain a member of the index.

Thames Gateway – The Residence, Nine Elms, London Borough of Wandsworth.

Environment

As the demand for new housing increases, we recognise the need to enshrine climate change and the protection of the wider environment at the core of our Bellway4Good activities.

Energy	We will increase the proportion of construction compounds with energy saving devices to at least 90%.
	We will limit the engine size of forklifts to 55 watts on all sites by 2019, delivering fuel and carbon savings.
	We will develop a 'best practice' energy saving campaign, implement in one division and assess its impact prior to considering roll-out across the wider business.
Water	We will introduce metered supplies for construction water usage at 90% of new developments, building up an accurate picture of Bellway's water usage.
Carbon	We will develop quarterly carbon reporting with a view to establishing carbon reduction targets in future years.

4 targets achieved **1** target in progress and will be rolled over into 2017/18 **0** targets missed

Our construction activities impact on the environment in a number of ways. As a responsible housebuilder we have a duty to create sustainable communities for both now and the future, ensuring that we protect, conserve and enhance the environments in which we operate.

Biodiversity and ecology

We continue to carry out biodiversity and ecology risk assessments as part of the site planning process, ensuring that the full impact of the development is fully understood and associated mitigation measures implemented if necessary. Examples of recent measures include the provision of bat boxes, relocation of badger sets, migration of protected species to new habitats and the construction of on-site and off-site ponds for both drainage and to support and promote biodiversity.

In total 198 (65.8%) of our developments had Sustainable Urban Drainage Systems implemented (2016 – 129, 60.0%) and we planted over 277,000 trees and shrubs this year (2016 – over 195,000). We continue to invest in and develop brownfield sites which are acknowledged to support ecological, community and economic regeneration. During the year 59.0% of our new homes were built on land that had already been developed (2016 – 62.0%) and this strategy will continue to be important in our future plans, with brownfield sites making up 50.0% of the owned and controlled plots in our land bank.

Energy

Work on reducing our energy usage has continued across all aspects of our business. On our construction sites, the programme for installing energy saving technology in compounds continues and we estimate that this can save up to £500 per compound per year in energy costs. We now have 94.0% (2016 – 84.3%) of compounds fitted with this type of technology and we plan to reach 100% within the next few years.

This year has also seen a focus on the energy efficiency of our forklift vehicles on sites. We are changing to more energy efficient engines and already 83.5% of the machines used on our sites have been upgraded (2016 – 68.9%). We expect this to rise in 2018 as energy efficient engines become more readily available for the larger vehicles.

We continue to deliver energy saving benefits to our customers through the design of our homes. In 2017 the energy efficiency of our new homes, measured by their Dwelling Emission Rates, was 6.0% better than the relevant building regulations (2016 – 5.6% better). Some form of renewal energy technology was fitted in 38.6% of homes (2016 – 38.4%) while 48.2% of homes were fitted with waste recycling facilities (2016 – 49.3%).

We have also turned our attention to the sustainability performance of our offices this year with an environmental awareness campaign developed and introduced in three of our divisions. Focusing on issues such as energy saving, waste recycling and reduced paper usage, employee feedback and environmental performance will be monitored over the coming months prior to a potential roll-out across the entire Group.

Carbon reporting

In accordance with the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, we report on our greenhouse gas ('GHG') emissions as part of the annual Strategic Report. Our GHG reporting year is the same as our financial year, 1 August 2016 to 31 July 2017, and the previous year's figures have been provided as comparators.

The methodology used to calculate our emissions is based on the UK government's Environmental Reporting Guidelines (2013) and emission factors from the 2016 government GHG Conversion Factors for Company Reporting. The reported emission sources includes those which we are responsible for, as required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, with the exception of the following which were excluded from this report:

- gas and electricity from part-exchange properties due to immateriality and difficulty in accurately reporting and recording this data.
- emissions from site-based combined heat and power units for which we do not have operational control.

An element of carbon estimation is undertaken in the following areas:

- diesel fuel usage on a small number of sites where fuel is provided by our groundworks contractors. Bellway's share of the usage is estimated based on forklift usage.
- divisional offices where gas and electricity usage is included within landlord charges. Bellway's usage is estimated using a kwh per square meter of occupied floor space figure derived from other divisional offices with utility billing in place.

Our overall carbon emissions have increased by 11.5% to 24,909 tonnes CO_2e (2016 – 22,334). This has largely been driven by an increase in construction activity, with the number of homes sold increasing by 10.6% to 9,644 (2016 – 8,721). Using our chosen business metrics, carbon emissions per home sold has remained consistent with the previous year at 2.6 (2016 – 2.6) and carbon emissions per employee have risen by 4.3% to 9.8 (2016 – 9.4).

Both the 2016 and 2017 emissions have been externally verified by Zeco Energy to a 'reasonable assurance level' as part of a review of our carbon footprint.

In addition to recording carbon on a quarterly basis, 2018 will see further analysis of our carbon output to establish a 'cost of carbon' measure, identifying opportunities for savings, roll-out best practice and consider potential carbon reduction targets for the business.

Greenhouse gas emissions (tonnes of CO_2e)(1)

	2017	2016
Scope 1 – Combustion of fuel and operation of facilities (including diesel and petrol used on site and in company cars on Group business).	**18,844**	16,362
Scope 2 – Electricity purchased for our own use.(2)	**6,065**	5,972
Total emissions	**24,909**	22,334

Emissions intensity:		
tCO_2e per Bellway home sold.	**2.6**	2.6
tCO_2e per Bellway employee.(3)	**9.8**	9.4

Notes:

1. Carbon dioxide equivalent as per the meaning given in section 93(2) of the Climate Change Act 2008.
2. Scope 2 emissions have been reported using a location based emission factor.
3. Based on the average number of employees during the year.

Construction

The construction process is the most visible impact we have on local communities, society and the wider environment. Working in partnership with local authorities, communities, suppliers and our sub-contractors is critical to our success.

Construction

Construction waste management	We will continue work to introduce a maximum number of waste management contractors across all divisions, aiming for 100% compliance by 2018 and work to identify key waste reduction opportunities.
Construction waste	We will maintain the proportion of waste diverted from landfill on construction sites at 95% or above.
Planning	We will pilot 'Building for Life 12' on a minimum of one site and assess the impact on planning, construction costs and development desirability over the next three years.
Construction R&D	We will continue to investigate new commercially available sustainable building products/techniques/materials to assess their design and build performance.
Supply chain management	We will continue to source 100% of timber from sustainable supplies.

3 targets achieved | 1 target in progress and will be rolled over into 2017/18 | 0 targets missed | 1 target curtailed early

Communities

The creation of attractive and sustainable communities remains key to our strategy. We continue to consult through tailored planning and community engagement strategies for each site. We aim to reach a representative range of stakeholders from existing communities, including property owners, local authorities, businesses, schools, residents' associations and other groups and where possible we incorporate feedback into our plans.

This year we began an assessment process to understand the benefits of utilising the 'Building for Life 12' industry standard for the design of new housing developments. This will include an impact assessment with the pre-existing community as well as post completion assessments undertaken with new home owners on the sites. The findings will help shape our evolving approach to delivering homes and communities that are attractive, functional and sustainable.

We contribute to local economies in a wider way other than the employment opportunities we offer and the new homes and communities we create. Through local consultation processes we make certain commitments relating to the sites we have acquired. These commitments vary from development to development, based on local need. These may include investments in local communities, such as education, healthcare facilities, sports facilities, transport infrastructure improvements and the creation of recreational space. During the year we committed to spend £118.2 million via section 106, affordable housing contributions and CIL payments (2016 – £147.9 million).

Waste

As the fourth largest national housebuilder by volume, we recognise our responsibility to minimise our impact on the environment through reducing waste. While we have continued to improve the Group's waste diversion rate to 97.8% (2016 – 95.9%), contributing to a 36.9% reduction in the amount of waste sent to landfill, during 2017 our construction waste per home sold increased by 7.1% to 9.25 tonnes (2016 – 8.64).

We are therefore committed to reducing the amount of waste we generate and in the coming year the focus will shift to waste elimination as we seek to reduce both waste tonnage and costs, rather than only driving an increase in diversion rates.

We will establish a waste per 1,000 square feet of completed homes metric and devise a strategy to reduce waste for implementation in 2018/19. Work to identify the potential benefits of rationalising our waste contract structure has been curtailed early and the focus will now be on utilising existing best practice to drive waste management improvement.

Supply chain

Our aim is to follow a responsible procurement policy with all of our supply chain partners. With a proportion of our procurement through Group contracts with national suppliers, this year we undertook a top level risk analysis and asked these suppliers to undertake a self-assessment audit process to identify strengths and weaknesses in our Group supply chain. To date the findings have identified no areas of significant concern.

We also work with many smaller businesses, including companies that are local to specific development sites, who provide materials, labour and services. The local and regional economies where we operate are significant beneficiaries of our activities. We are committed to paying our suppliers and sub-contractors within agreed terms and we remain a signatory to the Prompt Payment Code.

We continue, where possible, to procure materials from sustainable sources and this year we again ensured that 100% of our directly supplied timber came from certified sustainable sources (Category A and Category B sources). We are pleased that our stance on sustainable timber has been recognised in the WWF's Timber Scorecard 2017, with Bellway one of only two national housebuilders to secure the top score of '3 trees'.

We are committed to ensuring that there is no modern slavery, servitude and forced compulsory labour or human trafficking in our supply chains or in any part of our business and we act in accordance with the Modern Slavery Act 2015, publishing a slavery and human trafficking statement for the financial year to 31 July 2017 on our website. We also require all applicable suppliers and sub-contractors with a revenue of £36 million or more to confirm that they either have their own modern slavery policies in place or that they adopt the Bellway policy.

Quality

The quality of Bellway construction has again been recognised in the NHBC Pride in the Job Awards. These are the only UK-wide awards dedicated to recognising Site Managers who achieve the highest standards in housebuilding. Bellway Site Managers achieved a record 49 awards this year (2016 – 43), with candidates assessed on a wide range of criteria, including technical knowledge, leadership qualities and organisational skills. We are extremely proud of this achievement and their success is a testament to the quality and high standards they deliver on a daily basis.

Research and development

We are continually refining the design of our homes, both to meet the needs of evolving building regulations and also, where possible, to deliver sustainability benefits to both the Group and the customer. This year we have investigated five new processes, materials and products to understand how they can influence and improve the design of our homes. Overlaying this, our initiative to increase standardisation of our house types will deliver improvements in quality and reductions in waste.

Society and economy

With housing as the fifth priority of the electorate[1] and the estimate that around 250,000 new homes are needed each year to keep up with demand[2], Bellway's activities deliver a range of social and economic benefits, both locally and nationally.

Customer engagement	We will deliver high levels of customer satisfaction and aim to achieve '5 star homebuilder' status for the 2016/17 year.	
Health and safety	We will deliver 'slips, trips & falls' site briefings at 100% of sites to aid a reduction in our RIDDOR seven-day reportable incident rate.	
Employee development	We will increase the number of training days per employee compared to 2015/16 levels.	
Employee development	We will develop a more structured and integrated programme for graduates, trainees and apprentices by 2018.	
Charitable giving	We will engage with our employees and Cancer Research UK with the aim of raising and donating over £100,000 to the charity in the 2016/17 year.	

4 targets achieved · 1 target in progress and will be rolled over into 2017/18 · 0 targets missed

Economy

Investment in new homes is vitally important for the regional and national economies. It directly stimulates growth, supports jobs and ensures regional economic competitiveness through access to labour. In addition, housebuilding as a sector plays an important role in generating economic output and the HBF estimate that housebuilding accounts for 3% of the UK's total Gross Domestic Product ('GDP').[3]

This year we produced our first Economic and Social Impact Report which can be found on our website. In total we estimate that overall economic output as a result of Bellway's housebuilding activities in 2015/16 generated £4.7 billion for the UK economy.

Customers

We have continued our focus on delivering excellent customer care across our business, aided by the delivery of 997 days of customer care training in the year (2016 - 966 days). We are proud to have regained our rating as a 5 star homebuilder from the HBF (2016 – 4 star), meaning that at least nine out of ten of our customers would recommend Bellway to a friend. We are one of only two national housebuilders who have achieved the 5 star rating for this current period.

Affordability

The government's recent white paper[2] highlighted that, in the current market place, affordability is often a barrier to people wanting to either take their first step on the property ladder or to upsize as their circumstances change. Therefore supporting the affordability of new homes is vital to the continuing success of our business and the UK housing market as a whole.

We build a comprehensive range of houses and apartments to enable customers to select the right property for their needs and budget. Our average selling price this year was £260,354 (2016 – £252,793) and 8% of our homes were sold to unassisted first-time buyers (2016 – 11%). For those requiring additional assistance, the continuing government's Help to Buy schemes have been an important mechanism to support home ownership and of the 9,644 homes sold this year (2016 – 8,721), 35% were through the various Help to Buy schemes (2016 – 30%).

In total around 43% of our homes were sold to first-time and deposit-assisted buyers (2016 – 41%), representing 4,123 homeowners whom Bellway have helped to get their foot on the property ladder this year (2016 – 3,534).

Another 22% (2016 – 16%) of our homes were sold to affordable housing providers (mostly housing associations) and local councils, representing an important contribution to meeting local housing need. These affordable homes are either let by the affordable housing provider at below market rents or provide the opportunity of affordable home ownership through 'shared ownership' and other intermediate products.

Employees

The quality of our developments, the standard of our customer service, the strength of our business strategy and the value we deliver for our stakeholders are all a result of the people who make up Bellway. We believe in treating all of our employees and sub-contractors fairly and responsibly. We have a range of policies and procedures in place to ensure that equal opportunities are provided to all existing and prospective employees of Bellway and we act in accordance with the Modern Slavery Act 2015. We will be updating our slavery and human trafficking statement for the financial year to 31 July 2017 on our website. We offer competitive salary and benefits packages, including pension, life assurance, a private medical scheme and a save as you earn share option scheme.

Safety

The well-being of all who interact with our sites remains our highest priority and we continue to actively promote safe working through the use of training, site briefings, informal and formal inspections and best practice forums to ensure all our developments operate in a safe manner.

This year we have successfully reduced our RIDDOR seven-day reportable incident rate to 426.36 incidents per 100,000 site operatives (2016 – 445.19). This is a direct result of various safety initiatives undertaken, including a campaign addressing slips, trips and falls, which are a major cause of accidents on site. For the fourth year running, our NHBC health and safety incident rate improved to 0.690 (2016 – 0.766). Bellway Site Managers won ten awards at the 2017 NHBC Health and Safety Awards (2016 – five), including the national award in the large builder category and the national runner up award in the multi-storey category.

Charitable engagement

As a responsible business we continue to support local and national charities, as well as the communities in which we develop.

We have improved our Charity of the Year programme with the focus now on support for a single cause, Cancer Research UK, and a commitment for the Group to 'double match' every pound raised by employees.

We are extremely pleased with how successful the partnership has proved, allowing us to raise and donate an amazing £385,913 to the charity in just 12 months – this is a 142% increase on the total donated in the previous year (2016 – £159,228). Our employees, sub-contractors and suppliers raised £184,793 of this total.

We have decided to extend the partnership for at least another year and we look forward to working with our employees to try and make 2018 just as successful.

Each of our divisions also operates their own budget for donations to local charities and community groups. In the past year we have supported employee fundraising by topping-up amounts raised by 50%. In 2017 employees raised a total of £44,254 for various charities and causes of their choice (2016 – £40,058).

Across our wider charitable activity, Bellway's total donations (through a combination of employee fundraising, matched funding and direct donations) amounted to £521,920 (2016 – £284,704), an 83% increase on last year. Of this total, £229,047 was raised by employees from their colleagues, friends, family, our suppliers and sub-contractors, a huge 207% increase on last year (2016 – £74,704).

Looking forward

In 2018 we will undertake further work on our existing multi-year targets and have set additional single and multi-year targets to further develop our Bellway4Good agenda.

All 2018 targets can be viewed on our website and some of our key aims are outlined below:

- ensure 100% of our compounds are fitted with energy saving devices by 2020.
- roll-out an energy saving campaign to all divisional offices to reduce office energy use.
- devise a strategy to set a longer-term carbon reduction target for 2018/19.
- establish a rolling average measurement of tonnes of waste per 1,000 square feet of completed homes to shape a strategy to reduce waste in 2018/19.
- retain our 5 star homebuilder status.
- increase total donation to Cancer Research UK to at least £600,000.

In summary, 2017 has been another successful year in the development of our Bellway4Good programme, with our CR strategy now better understood across the business.

We remain committed to operating Bellway in a sustainable manner, one which delivers benefits for the environment, our shareholders, customers, employees and the local communities in which we operate.

Approval of the Strategic Report

The Strategic Report was approved by the Board and signed on its behalf by:

John Watson
Executive Chairman

16 October 2017

Director and employee profile

The following table shows the gender split in the Group as at 31 July 2017:

	Male No.	Male %	Female No.	Female %	Total No.	Workforce %
Board of directors	6	86	1	14	7	<1
Senior managers	108	86	18	14	126	5
Other employees	1,739	71	723	29	2,462	95
Total	**1,853**	**71**	**742**	**29**	**2,595**	**100**

Notes:

1. 'No Place Like Home' (October 2016), Confederation of British Industry.
2. 'Fixing our Broken Housing Market' (February 2017), Department for Communities and Local Government.
3. 'The Economic Footprint of UK House Building' (2015), Home Builders Federation.

Board of Directors and Group General Counsel and Company Secretary

John Watson

Executive Chairman (interim)

Committee N

Appointed to the Board in 1995, becoming non-executive Chairman on 1 February 2013 and Executive Chairman on 14 August 2017 on an interim basis for the duration of the Chief Executive's leave of absence.

Background and experience

John, a Chartered Surveyor, joined Bellway in 1978 and was later appointed Managing Director of the North East division, a position which he held for 12 years. John joined the Board as Technical Director in 1995 and became Chief Executive on 1 November 1999. On 31 January 2013 he stepped down as Chief Executive to become Chairman.

Ted Ayres

Chief Executive

Committee NR*

Appointed to the Board on 1 August 2011.

Background and experience

Ted joined Bellway in January 2002 as a divisional Managing Director, becoming Southern Regional Chairman in 2006. Ted was appointed to the Board as Operations Director on 1 August 2011 and succeeded John Watson as Chief Executive on 1 February 2013.

Keith Adey

Group Finance Director

Committee NR

Appointed to the Board on 1 February 2012.

Background and experience

Keith, a Chartered Accountant, joined Bellway in December 2008 as Group Chief Accountant, becoming Group Finance Director on 1 February 2012. Prior to joining Bellway he worked at KPMG and Grainger plc.

Other appointments

Bellway p.l.c. 1972 Pension Scheme – Trustee.

John Cuthbert OBE DL

Senior independent non-executive director

Committees A N* R

Appointed to the Board on 1 November 2009.

Background and experience

John, a Chartered Accountant, worked in the water industry from 1991 to 2010, when he retired as Managing Director of Northumbrian Water Group plc, having formerly been Managing Director of North East Water plc and Managing Director of Essex and Suffolk Water plc. John became senior independent non-executive director on 1 February 2014.

Other appointments

North Music Trust – Trustee.

Amazing Media Group Limited – Board Member.

Let's Grow Investment Panel – Chair.

Sunderland University Development Committee – Chair.

Newcastle College Group – Governor and Audit Committee Chair.

Mike Toms

Non-executive director

Committees A N R*

Appointed to the Board on 1 February 2009.

Background and experience

Mike was formerly an executive director of BAA plc. He has also been a non-executive Chairman of Northern Ireland Electricity plc, a non-executive director of Viridian Group PLC and of UK Coal PLC. He is a member of the Royal Institution of Chartered Surveyors ('MRICS') and a member of the Royal Town Planning Institute ('MRTPI').

Other appointments

Birmingham Airport Holdings Limited – non-executive director.

J Murphy & Sons Limited – non-executive director.

Oxera Consulting LLP – director (non-statutory).

Denise Jagger

Non-executive director

Committees A N R

Appointed to the Board on 1 August 2013.

Background and experience

Denise, a solicitor, has been a partner at Eversheds LLP (now Eversheds Sutherland LLP) since 2004. Previously she was Company Secretary and General Counsel at ASDA Group plc, later part of Wal-Mart, from 1993 to 2004. Prior to this she worked in the City in corporate finance with Slaughter and May. Denise's previous non-executive directorships include The British Olympic Association, Redrow plc, SCS Upholstery plc and Scarborough Building Society.

Other appointments

Pool Reinsurance Limited – non-executive director and Chair of Remuneration, Nominations and Conflicts Committees.

University of York – pro Chancellor.

St Giles Trust – Chairman.

Y2019 Limited – independent director.

Eversheds Sutherland LLP – partner.

Jason Honeyman

Chief Operating Officer

Committee NR

Appointed to the Board on 1 September 2017.

Background and experience

Jason commenced employment with the Company in January 2005 as Managing Director of the Thames Gateway division, becoming Southern Regional Chairman in December 2011.

Simon Scougall

Group General Counsel and Company Secretary

Appointed on 1 February 2016.

Background and experience

Simon, a solicitor, was appointed Group General Counsel and Company Secretary in February 2016. Simon joined Bellway in March 2011 and has held senior positions within the Group including that of Group Commercial Director. He has over 15 years' experience in the housebuilding sector, working either in-house or for clients in private practice.

A Audit Committee
N Nomination Committee
R Board Committee on Executive Directors' Remuneration
NR Board Committee on Non-Executive Directors' Remuneration
* Denotes Committee Chairman

Paul Hampden Smith

Non-executive director

Committees A* N R

Appointed to the Board on 1 August 2013.

Background and experience

Paul is a Chartered Accountant and was Group Finance Director of Travis Perkins plc from 1996 until his retirement in February 2013, having worked for Travis Perkins since 1988. He was previously senior independent non-executive director and Chairman of the Audit Committee of Clipper Logistics plc and a non-executive director and Chairman of the Audit Committee of Pendragon PLC and Redrow plc.

Other appointments

Grafton Group plc – senior independent non-executive director, Chairman of the Audit & Risk Committee and a member of the Nomination and Remuneration Committees.

Delapre Abbey Preservation Trust – Chairman.

Cumberland Lodge, Windsor Great Park – Chairman of the Audit Committee.

Jill Caseberry

Non-executive director

Committees A N R

Appointed to the Board on 1 October 2017.

Background and experience

Jill has extensive sales, marketing and general management experience across a number of blue chip companies including Mars, PepsiCo and Premier Foods.

Other appointments

Northgate plc – non-executive director, Remuneration Committee Chair and a member of the Audit and Risk and Nominations Committees.

She also currently runs her own sales and marketing consultancy.

Chairman's Statement on Corporate Governance

"I am responsible for ensuring that the correct cultural tone is set from the top."

John Watson
Executive Chairman

Dear Shareholder

As Chairman of the Board I am responsible for leading the Board and ensuring that we play a full and constructive part in the development and delivery of the Group's strategy and overall commercial objectives. I am also responsible for promoting the highest standards of integrity, probity and corporate governance throughout the Group and particularly at Board level including ensuring that the correct cultural tone is set from the top. The Board believes that instilling high standards of corporate governance throughout all areas of our operations will help to deliver our strategy of building shareholder value as well as benefiting other stakeholders.

Main activities of the Board during the year

The Board meets formally and informally during the year to consider strategy, performance, risk, major land acquisitions, potential conflicts of interest and reports from senior employees and external advisers.

One meeting a year is devoted entirely to the consideration of strategy where the Board agrees the way forward and ensures that the necessary financial, human, land and other resources are in place to meet its objectives. Areas focused on during the strategy day were the opening of new divisions, integration of new Head Office functions, house building efficiency savings, dividend policy, government policy and succession planning.

The non-executive directors meet to review the performance of management and they also meet without me being present to appraise my performance. These meetings are chaired by the senior independent non-executive director.

Throughout the year the Board visited seven divisions and also received regular reports from the Regional Chairmen and local management on the opportunities and challenges they face. The meetings with operational management ensured that the Board's standards and values for integrity and honesty are disseminated. Each of our 19 divisions has its own management team and staff who manage and take pride in the success of their own operational business within the strategy set by the Board. In this way we create a culture that motivates and rewards our colleagues. We promote a supportive culture that enables our employees to develop their talents and skills.

Each year we also hold separate annual conferences for the divisional Managing Directors, Finance Directors, Sales Directors, Technical and Commercial Directors and Planning Managers which are attended by the executive directors or members of the Head Office senior management team.

The Board also takes regular reports from the Group General Counsel and Company Secretary on legal, commercial and insurance matters. During the year we reviewed and refreshed our Whistleblowing Procedure and Anti-Bribery and Corruption Policy and procedures.

We also host informal Chairman's dinners where senior management meet members of the Board. The Chairman meets with individual directors on a regular basis outside of Board meetings. This process allows for two-way discussion enabling the Chairman to act as necessary to deal with any issues relating to Board effectiveness.

Board effectiveness

There were no changes to the Board during the year but the Nomination Committee continue to review succession planning and the composition of the Board with regard to the balance of relevant skills.

The Board has been strengthened by the appointment of an additional executive director and two new non-executive directors who join the business during the 2017/18 financial year.

Mike Toms will be stepping down from the Board at the conclusion of the Annual General Meeting ('AGM'). I would like to place on record my thanks, and that of the whole Board, to Mike for his hard work and commitment both as a non-executive director and Chairman of the Board Committee on Executive Directors' Remuneration.

All directors have access to the advice and services of the Group General Counsel and Company Secretary and his department who ensure that directors take independent professional advice when judged necessary in order to discharge their responsibilities.

During the year an externally facilitated evaluation of the Board and its committees was conducted with the assistance of Lintstock Limited. These evaluations concluded that the Board and committees were well run and continued to be operating effectively.

The main areas highlighted for further development or improvement were:

- succession planning.
- continue to focus on strategy as a top priority.

The Board and the Group General Counsel and Company Secretary will work with senior management to develop and improve these areas during the year and the progress made will be reported on in next year's report.

The areas highlighted for improvement in last year's Board evaluation and progress made are set out in the table at the bottom of this page.

Conflicts of interest

Pursuant to the provisions of the Companies Act 2006 relating to conflicts of interest, the Board has put in place a register to deal with the notification, authorisation, recording and monitoring of directors' interests and these procedures have operated throughout the year.

Compliance with the UK Corporate Governance Code (the 'Code')

I am pleased to confirm that the Board considers that it has complied throughout the year with the detailed provisions of the Code published in 2016. The Code is available, free of charge, from the Financial Reporting Council, online at www.frc.org.uk or by telephoning 020 7492 2300.

Diversity

The Board is committed to making appointments on merit, against objective criteria and the Board strongly supports the principle of boardroom diversity in all its aspects. As at 31 July 2017 our female employees made up 29% (2016 – 28%) of our total workforce, while 14% (2016 – 14%) of the Board and 14% (2016 – 13%) of our senior management were women. Following the appointment of two new directors since 31 July 2017, women now make up 22% of the Board.

Shareholder engagement

The Company encourages active dialogue with its private and institutional shareholders, both current and prospective, and the directors communicate with both existing and prospective institutional shareholders on a regular basis and as requested. During the year our executive directors hosted a presentation attended by a number of institutional investors as well as meeting analysts and shareholders after our results announcements, with other members of the senior management team. The Board receives regular updates from our advisers on investors' and analysts' views on the Company.

Shareholders are also kept up-to-date with our progress throughout the year through the Annual Report and announcements to the Stock Exchange for the full year and half year results and trading updates.

The whole Board is available for questions at the AGM, to which institutional and private investors are invited to attend. I am pleased to report that at the last AGM over 92% of the votes cast were cast in favour of the resolutions put to shareholders by the Board.

The Chairman and senior independent non-executive director are always available to discuss issues with current and prospective shareholders and institutions, as and when required. In addition, the whole Board is regularly updated at Board meetings on shareholder and investor views and activities by the Chief Executive and the Group Finance Director.

Further information for shareholders is available in the Shareholder Information section of this report on page 116 and also on our website at www.bellwaycorporate.com.

John Watson
Executive Chairman

16 October 2017

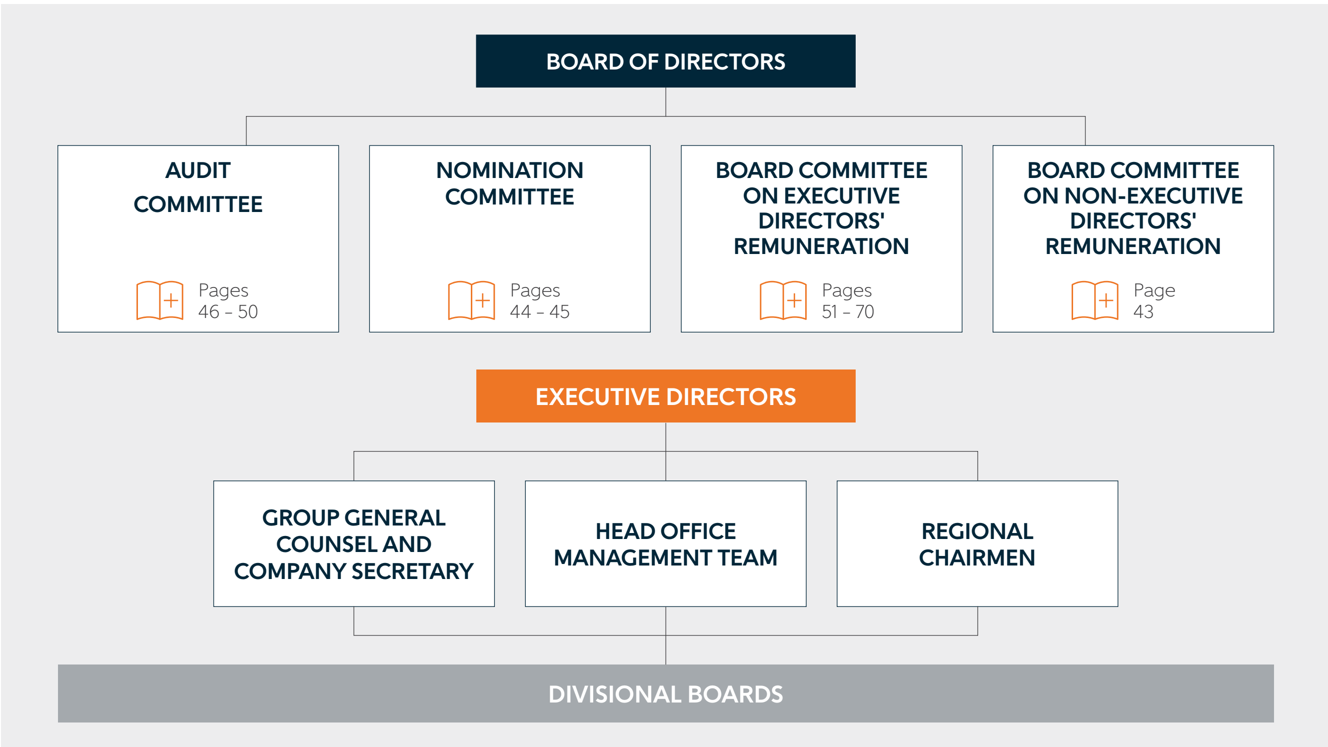
Board evaluation 2015/16 update

Action	Progress
Greater prominence and discussion in relation to KPIs.	- This is now a standing item for discussion at each Board meeting. - The KPIs Schedule has been updated and continues to evolve.
Further evolution in relation to the management of risk.	- Risk is now a standing item in the Group Finance Director's Report. - A full Board discussion on risk takes place once a year.
Board papers/agendas to be more forward-looking and strategy focused.	- Board agendas have been reorganised to give more focus on strategy or areas where decisions are required. - Board papers have been refreshed and management reports have improved significantly.
Greater clarity on the Group's culture.	- Work on this area is ongoing in conjunction with Group Human Resources. The Board recognises its importance in setting the Group's culture from the top.
Succession planning at and below Board level.	- An immediate disaster plan has been agreed and the finalisation of a detailed longer-term succession plan at and below Board level is underway.

Corporate Governance Report

The Board and Group General Counsel and Company Secretary at the strategy day in July 2017.

1. Denise Jagger
2. Keith Adey
3. Simon Scougall
4. Ted Ayres
5. John Cuthbert OBE DL
6. Paul Hampden Smith
7. John Watson
8. Mike Toms



Statement about applying the Principles of good governance

The Board acknowledges the importance of, and is committed to the principle of, achieving and maintaining a high standard of corporate governance and in promoting a positive culture within the Group.

We have applied the Principles of good governance, including both the Main Principles and the Supporting Principles, by complying with the Code. Further explanations of how the Main Principles and Supporting Principles have been applied are set out below and in the Report of the Board on Directors' Remuneration.

Leadership

At the date of this report the Board consists of nine directors whose names, responsibilities and other details appear on pages 36 to 37. Currently four of the directors are executive and five are non-executive. The Chairman was, until 14 August 2017, a non-executive Chairman but is temporarily acting as Executive Chairman while the Chief Executive is absent on medical grounds.

There have been and will be over the coming months a number of further changes to the membership of the Board. I am pleased to welcome three new directors to the Board. Jason Honeyman was appointed on 1 September 2017 as Chief Operating Officer. To prepare for the retirement of Mike Toms and John Cuthbert we have appointed two new non-executive directors. Jill Caseberry joined the Board on 1 October 2017 and Ian McHoul will join the Board on 1 February 2018. Mike Toms will step down from the Board at the conclusion of the AGM on 13 December 2017, and John Cuthbert will step down during 2018.

The Board sets the strategic aims, ensures that the necessary resources (including finances, people and materials) are in place for the Company to meet these objectives and also reviews management performance. It defines the Company's values and standards and ensures that its obligations to its shareholders are understood and met.

The Board has put in place the following structure which allows it to provide entrepreneurial leadership of the Group and to delegate authority for operational matters through a framework of prudent and effective controls, which enable risk to be assessed and managed.

Chairman

- promoting the highest standards of integrity, probity and corporate governance throughout the Group and particularly at Board level including ensuring that the correct cultural tone is set from the top.
- ensuring that the Company complies with the requirements of the UK Corporate Governance Code and adheres to the highest standards of governance.
- leading the Board and ensuring its effectiveness.
- setting the Board's agenda.
- ensuring the directors receive accurate, timely and clear information.
- ensuring effective communication with shareholders.
- ensuring the effective conduct of Board meetings and facilitating the effective contribution of all directors and the Group General Counsel and Company Secretary.
- leading the evaluation of the performance of the Board, its committees and individual directors.
- overseeing the induction of any new directors and the development of existing directors.
- ensuring that the views of shareholders are communicated to the Board as a whole.
- encouraging constructive relations between the executive and non-executive directors and the Group General Counsel and Company Secretary.
- approves land purchases over specified limits.

Chief Executive

- implementing the strategy agreed by the Board.
- leading the executive directors and the senior management team in the day-to-day running of the Group's business.
- ensuring the effective implementation of Board decisions.
- reviewing the Group's organisational structure and recommending changes as appropriate.
- together with the Chairman, providing coherent leadership of the Company, including representing the Group to customers, suppliers, government, shareholders, financial institutions, employees, the media, the community and the general public.
- keeping the Chairman informed of all important matters.
- approving the purchase of all strategic land.
- overseeing the health and safety, sales and marketing and technical departments.

During the Chief Executive's absence on medical leave his responsibilities have been shared between the Executive Chairman, executive directors and the Group General Counsel and Company Secretary.

Group Finance Director

- devising and implementing the financial strategy and policies of the Group including treasury and tax.
- developing budgets and financial plans.
- responsible for the Group's investor relations activities.
- overseeing the CR, finance, IT and risk departments.

Chief Operating Officer

- supervising the activities of the Regional Chairmen and divisional senior management, overseeing their development and succession planning.
- overseeing Group operations.
- overseeing the activities of subsidiary companies.
- approving land purchases within specified limits.
- overseeing divisional expansion plans.

Senior independent non-executive director

- acting as a sounding board for the Chairman, executive directors and the Group General Counsel and Company Secretary.
- being available to shareholders.
- leading the annual appraisal of the Chairman.
- holding meetings with the non-executive directors without the Chairman present.

Non-executive directors

- constructively challenging management.
- contributing to the development of strategy.
- scrutinising the performance of management.
- ensuring integrity of financial information and financial controls and ensuring systems of risk management are robust.
- determining appropriate levels of executive director and Group General Counsel and Company Secretary remuneration.
- appointing and removing executive directors and succession planning.
- serving on Board committees.

Group General Counsel and Company Secretary

- supporting the Chairman and Chief Executive in fulfilling their duties.
- keeping the Board regularly updated on corporate governance matters.
- responsible for legal compliance throughout the Group including ensuring policies and procedures are maintained and updated on a regular basis.
- providing support to the Board and committees.
- overseeing the legal, company secretarial, HR and Head Office land and planning departments.

The Board has adopted a schedule of matters which are specifically reserved for its decision, which includes strategy and management, structure and capital, financial reporting and controls, internal controls covering both financial and operational areas of the business, land acquisition, contracts and agreements, communication, Board membership and other appointments, remuneration, delegation of authority, corporate governance matters, Group policies and other miscellaneous items.

In addition, it has a series of matters that are dealt with at regular Board meetings including both an operational and a strategic review, a financial review, major land acquisitions, major projects, risk, health and safety, HR, reporting requirements, corporate governance and internal control (including any whistleblowing issues).

Board effectiveness

All directors have access to the advice and services of the Group General Counsel and Company Secretary and his department. All of the directors may take independent professional advice at the Group's expense where they judge it necessary to discharge their responsibilities as directors.

In accordance with the Code, all of the directors will retire from the Board and offer themselves for re-election or election at the forthcoming AGM, apart from Mike Toms who is stepping down at the conclusion of the AGM and will therefore not be seeking re-election. None of the executive directors hold external directorships.

The Board, its committees and the individual directors are subject to annual performance evaluation and all directors are subject to annual re-election by shareholders. The Board regularly reviews the directors' other interests and appointments to ensure that there are no conflicts of interest.

The Chairman is responsible for leading the Board and ensuring it operates effectively. The directors possess an appropriate balance of skills and experience to meet the requirements of the business.

During the year there were seven Board meetings, three Audit Committee meetings, four meetings of the Board Committee on Executive Directors' Remuneration, one meeting of the Board Committee on Non-Executive Directors' Remuneration and three Nomination Committee meetings. The Board normally holds a separate meeting at least once a year dedicated almost entirely to strategy.

The non-executive directors met twice during the year, including once without the Chairman present.

Paul Hampden Smith was unable to attend one Board meeting during the year and there were no other absences from any other Board or committee meetings.

Board activity during the year

The Board visited our divisions in Durham, East Midlands, South Midlands and West Midlands to engage directly with the divisional teams. They also visited our Nine Elms, Highgate and Greenwich sites in London as well as meeting with senior management from our North London, South London and Thames Gateway divisions.

We have a schedule of matters which are considered at each Board meeting and also receive presentations and reports from Head Office, regional and divisional management and external advisers throughout the year.

In-between Board meetings the directors receive updates from the Chairman or the Group General Counsel and Company Secretary to advise them of any significant matters affecting the Group or its performance.

During the year the work carried out by the Board included:

- strategy.
- considering regular reports on KPIs from the Chief Executive.
- risk and internal control.
- consideration of recommendations from the Board committees.
- scrutiny of reports from the Chief Executive, Group Finance Director, Group General Counsel and Company Secretary and senior management at each Board meeting.
- considering regular reports on health and safety matters from the Chief Executive.
- approval of major land purchases.
- Board evaluation.
- approval of bank facility agreements.
- receiving presentations from each of the three Regional Chairmen on the performance of the divisions under their responsibility.

- receiving presentations from Health and Safety, HR, IT, Sales and Marketing and Technical Head Office departments.
- approval of new or updated Group policies and procedures including Anti-Bribery and Corruption Policy, Anti-Slavery Policy, Data Protection Compliance Policy and Whistleblowing Procedure.
- approval of revised terms of reference for Board committees.
- approval of major IT expenditure.
- approval of the Group's insurance programme.
- approval of the Group's Slavery and Human Trafficking Statement for 2015/16.
- approval of the Annual Report and Accounts for 2015/16.
- approval of preliminary announcement, interim results and trading updates.
- recommending the final dividend for 2015/16 to be approved by shareholders and approval of the interim dividend for 2016/17.

Training and development

The Board receives appropriate training and updates on various matters relevant to its role and responsibilities, as and when required. Training needs are reviewed as part of the performance evaluation process and on an ongoing basis.

Following this year's evaluation no specific training needs were identified, however, the Board does receive annual training on health and safety legislation and this year also received formal site induction health and safety training at our Nine Elms' site.

Non-executive directors attend external training sessions designed specifically for non-executives and members of Board committees as and when required, which this year included executive remuneration.

Board balance and independence

The roles of Chairman and Chief Executive are separate, with a clear division of responsibilities ensuring a balance of responsibility and authority at the head of the Group.

The Chairman is not regarded as independent as he was formerly Chief Executive of the Company. The Company considers all of its other non-executive directors, excluding the Chairman, to be independent, as defined in the Code. Each of the independent non-executive directors has, at all times, acted independently of management and has no relationship which would materially affect the exercise of his or her independent judgement and decision-making.

The senior independent non-executive director is John Cuthbert, with whom shareholders may raise any queries or concerns they may have.

Whenever any director considers that he or she is interested in any contract or arrangement to which the Group is or may be a party, due notice is given to the Board. No such instances have arisen during the year.

Board evaluation

This year's evaluation of the performance and effectiveness of the Board and its committees was externally facilitated by Lintstock Limited who has no other connection with the Company.

Each director and the Group General Counsel and Company Secretary completed a questionnaire in relation to the performance of the Board and any committees of which they were a member. This was followed by the Chairman meeting individually with each director and the Group General Counsel and Company Secretary to discuss the points raised.

The Chairman's performance was assessed by the senior independent non-executive director, who considered the views of the other directors and the Group General Counsel and Company Secretary as part of that process.

The Chairman evaluated the performance and effectiveness of each of the directors. Each committee chairman reviewed the responses to the committee questionnaires before reaching their conclusions on how the committees had performed during the year. The Board, led by the Chairman, evaluated its own performance.

The evaluation concluded that, overall, the Board and its committees are performing well. The Chairman's Statement on Corporate Governance above provides further information on this year's Board evaluation process and progress made against the areas for improvement which were identified in last year's evaluation process.

The Board committees

The Board has formally constituted Audit, Remuneration and Nomination Committees. The terms of reference for these committees are available either on request from the Group General Counsel and Company Secretary, at the AGM or on our website: www.bellwaycorporate.com.

Other committees of the Board are formed to perform certain specific functions as and when required.

The work carried out by each of the Board committees during the year is described in the reports of the committee chairmen which follow.

Board Committee on Non-Executive Directors' Remuneration

The Board Committee on Non-Executive Directors' Remuneration comprises the executive directors and is chaired by the Chief Executive.

This committee meets at least once a year to review and recommend the terms, conditions and remuneration of the non-executive directors (excluding the Chairman). Last year it met on one occasion to review the fees and terms of appointment of the non-executive directors and receives advice from the Group General Counsel and Company Secretary and external remuneration consultants when required.

Nomination Committee Report

"2016/17 has been largely about succession. The steps taken and the plans put in place should ensure the continuity needed to maintain momentum within the business."

John Cuthbert
Chairman of the Nomination Committee

Membership

Director	Date appointed to Committee	Number of meetings attended during the year
John Cuthbert (Chairman)	1 November 2009, appointed Chairman on 1 February 2013	3/3
Mike Toms	1 February 2009	3/3
John Watson	1 February 2013	3/3
Paul Hampden Smith	1 August 2013	3/3
Denise Jagger	1 August 2013	3/3
Jill Caseberry	1 October 2017	N/A

Main focus in 2016/17

- Board succession focusing on changes in the composition of the Board over the next two years, including a successor to the Chairman when he retires in 2019.
- Initiate the recruitment process for two new non-executive directors who will join the Board in 2017/18.
- Approval of the Nomination Committee report for inclusion in the 2015/16 Annual Report.
- Performance evaluation of the Committee.

Focus areas for 2017/18

- To finalise a recommendation on the succession plan for the Chairman.
- To work with management to provide a comprehensive induction for our two new non-executive colleagues.
- To consider and submit for approval by the Board the Board's Diversity Policy.
- To continue to develop, with support from the executive directors and Group Human Resources, the succession plan for those immediately below Board level.

Responsibilities and terms of reference

The main areas of the Nomination Committee's (the 'Committee') responsibilities are:

- to review the structure, size and composition of the Board and recommend to the Board any changes it considers appropriate. This encompasses membership of the Board committees and the re-appointment, if appropriate, of non-executive directors at the end of their term of office.
- to consider succession planning not only within the Board but also immediately below Board level and ensure appropriate plans are in place.
- to identify candidates to fill Board vacancies and nominate these to the Board for approval. Appointments to the Board are made on merit using a formal, rigorous and transparent process against objective criteria recommended by the Committee. These criteria take into account the skills, knowledge and experience of existing members of the Board and the importance of diversity, in all its aspects, within the Board. The appointment of a non-executive director is for a specified term and re-appointment is not automatic, rather it is made on the recommendation of the Committee.
- to carry out an annual performance evaluation of the Committee and review the results of the Board performance evaluation in relation to the composition of the Board.

The Committee meets at least twice a year and operates under its own terms of reference. These have been agreed by the Board and are available at www.bellwaycorporate.com/corporateGovernance.

The members of the Committee are shown in the table to the left.

Activities in 2016/17

The main focus for the Committee in 2016/17 has been succession planning within the Board. There will be a number of changes in the composition of the Board over the next eighteen months as existing Board members step down. This includes the Chairman whose term of appointment ends in early 2019.

Non-executive directors

As part of the planning for these Board changes the Committee initiated a recruitment process to identify two new non-executive directors to replace Mike Toms and I as we will both reach the end of our third terms of appointment during 2018.

We began the recruitment process by refreshing and reviewing the Board skills matrix. Following that review the Committee concluded that candidates should ideally possess one or more of the following attributes: have relevant sector experience, be a current executive or have been in a recent executive post, be based in the south (to reflect the Group's exposure to the London market) and enhance diversity within the Board.

The Committee interviewed a number of recruitment consultants and appointed The Zygos Partnership ('Zygos') to provide support in identifying suitable candidates. This is the third assignment Zygos have undertaken on behalf of the Committee over an eight year period. The members of the team at Zygos have developed a good understanding of both the business and the way the Board operates.

Following detailed scrutiny of an initial long-list of candidates, a very strong short-list was identified and a series of interviews with the short-listed candidates concluded in September 2017.

The Committee recommended to the Board that Jill Caseberry and Ian McHoul be appointed and their appointments were subsequently approved.

Executive directors

The Committee has also had to respond to the unfortunate need for Ted Ayres to take a leave of absence from the business for a medical condition. Two specific actions were taken to ensure momentum within the business was maintained during Ted's absence. The Chairman, who has a very detailed understanding of the business from his previous role as Chief Executive, was asked to take on the role of Executive Chairman and the appointment of Jason Honeyman to the Board as Chief Operating Officer was brought forward.

The Chairman

The term of office of the Chairman, John Watson, ends on 31 January 2019 and the Committee started the process of considering options for succession during 2016/17.

We took the opportunity to consult a number of major shareholders on the options for succession during the year and will take into account comments from that consultation in our deliberations. I am also consulting with the executive directors.

In reaching a decision the Committee will need to be mindful of the extent of change within the Board over the next eighteen months and of the importance of continuity within the Board.

John Cuthbert
Chairman of the Nomination Committee

16 October 2017

Audit Committee Report

"The Committee is an important component of the governance framework of the Group."

Paul Hampden Smith
Chairman of the Audit Committee

Membership

Director	Date appointed to Committee	Number of meetings attended during the year
Paul Hampden Smith (Chairman)	1 August 2013, appointed Chairman on 1 February 2014	3/3
Mike Toms	1 February 2009	3/3
John Cuthbert	15 January 2010	3/3
Denise Jagger	1 August 2013	3/3
Jill Caseberry	1 October 2017	N/A

Main focus in 2016/17

- Financial reporting.
- Internal control and risk management.
- Audit effectiveness and re-appointment.
- Review of Independent Auditor Policy.
- Approval of changes to the Whistleblowing Procedure, Anti-Bribery and Corruption Policy, Data Protection Compliance Policy and approval of the Anti-Slavery Policy and human trafficking statement.

Focus areas for 2017/18

- Financial reporting.
- Internal control and risk management.
- Audit effectiveness.
- Approve annual tax strategy statement.
- Assist with the induction of the two new Committee members who join during 2017/18.

I am pleased to apprise you of the work undertaken by the Audit Committee (the 'Committee') during the year ended 31 July 2017 in relation to financial reporting, internal control, risk and external audit. The Committee is an important component of the governance framework of the Group, with its principal activities focused on the integrity of financial reporting, the quality and effectiveness of internal controls, risk management and reviewing the performance of the external auditor.

Committee membership and meetings

The Committee comprises the five independent non-executive directors shown in the table to the left. I confirm that between them they have an appropriate and relevant combination of experience and knowledge.

The Code requires that the Committee has at least one member with recent and relevant financial experience, and the Board has confirmed that they believe that I, as Chair of the Committee, satisfy these criteria. The Board has also confirmed that they are confident that the collective experience of the Committee members enables them to act effectively as an audit committee.

Further information on the experience and knowledge of the Committee members is included in the directors' biographies on pages 36 and 37.

In line with the terms of reference, there were three scheduled meetings of the Committee during the year and there were no absences from any meeting.

The Group Finance Director, Group General Counsel and Company Secretary, Group Finance Manager and Head of Risk attend meetings by invitation and were present at all meetings during the year. The Committee is supported by the Deputy Group Company Secretary who acts as secretary to the Committee.

Two of the meetings during the year were also attended by representatives from the external auditor, KPMG LLP ('KPMG'), who also met with the Committee independently of management. No issues were raised during these discussions. I also had further discussions, independently of each other, with the Group Finance Director, Head of Risk and KPMG, and reported relevant information to other members of the Committee.

In advance of Committee meetings, detailed papers are prepared both by management and KPMG, thereby allowing informed discussions and decisions to take place.

Responsibilities and terms of reference

The main responsibilities of the Committee are:

Financial reporting

- to monitor the integrity of the financial statements of the Group and any other formal announcements relating to the Group's financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements contained in them, whilst having regard to matters communicated by the external auditor.
- to review and challenge, where necessary, the actions and judgements of management, in relation to the Interim Announcement and Annual Report and Accounts, before submission to the Board.
- where the Committee is not satisfied with any aspect of the proposed financial reporting by management, it shall report its views to the Board.
- where requested by the Board, the Committee should review the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Internal control and risk

- to review the Group's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors or by the Board itself, the Group's internal control, internal audit and risk management systems.
- to assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks.
- to review the Group's arrangements for its employees to raise concerns, in confidence, about possible wrong-doing, financial reporting or other matters through the Group's Whistleblowing Procedure and to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.
- to review annually the Group's policies and procedures to ensure compliance with the Bribery Act 2010.

External audit

- to oversee the process for selecting the external auditor, including approval of their terms of engagement and negotiation and agreement of their remuneration.
- to consider the appointment/re-appointment of the external auditor and to assess the independence of the external auditor, ensuring that key partners are rotated at appropriate intervals.
- to make appropriate recommendations through the Board to the shareholders for their approval at each annual general meeting in relation to the appointment, re-appointment and removal of the external auditor.
- to agree with the external auditor, before the audit commences, the nature and scope of the audit and to review the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.
- to review the external auditor's management letter and management's response.
- to consider management's response to any major external audit recommendations.
- to authorise the provision of non-audit services by the external auditor and to ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity.
- to ensure that the audit services contract is put out to competitive tender at regular intervals as required by regulation or best practice; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tender process.

A comprehensive version of the Committee's terms of reference is available on the Group's website at www.bellwaycorporate.com/corporateGovernance.

Main activities during the year

The main activities performed by the Committee during the year in each area of responsibility are described below:

Financial reporting

- reviewed the final draft of the Annual Report and Accounts, together with a report produced by KPMG which detailed their findings both on areas of key financial reporting judgement and other areas of audit focus.
- reviewed the final draft of the 2017 Interim Announcement.
- reviewed and approved the Group's proposed new accounting policies for when IFRS 15 'Revenue from contracts with customers' and IFRS 16 'Leases' are adopted in future accounting periods. This included considering the effect on the financial statements of the changes in the policies.
- the audit for the year ended 31 July 2016 was chosen by the Financial Reporting Council ('FRC') for an Audit Quality Review as part of their routine processes. As part of the process I had discussions with the FRC and provided feedback to other members of the Committee where relevant. KPMG produced a report, which was considered by the Committee, highlighting the findings of this review and how they would address them during the audit for the year ended 31 July 2017. The Committee is not aware that any of the findings have resulted in a significant change to KPMG's audit approach.
- the Committee reviewed and concluded that the 2017 Annual Report and Accounts present a fair, balanced and understandable assessment of the Group's position and prospects after considering guidance from the external auditor. The Committee made this recommendation to the Board.

- in accordance with section C.2.2. of the Code and the FRC guidance on Risk Management, Internal Control and Related Financial and Business Reporting, the Committee considered the viability statement and going concern basis of preparation, before recommending to the Board that the disclosures in the 2017 Annual Report and Accounts are appropriate.
- the Committee confirmed that they believe the significant financial reporting judgements during the year continued to be:
  - Profit recognition; and
  - The carrying value of the Group's land and work in progress.

The table below sets out the matters considered and the action performed by the Committee during the year in relation to the significant financial reporting judgements.

Internal control and risk management

The Committee is responsible for reviewing and assessing the Group's internal controls and risk management systems and providing guidance on these to the Board. The Board is responsible for reviewing the effectiveness of the system of internal controls.

Throughout the year the risk register for the Group has been reviewed and updated by management. This review includes ensuring the completeness of risks, assessing their likelihood, their impact and the effectiveness of the control environment to mitigate the risks.

Risk is considered at each Board meeting, with a full review of the risk register taking place at least annually. The internal control and risk management process only reduces the risk of material misstatement or loss, and does not eliminate this risk completely.

During the year a detailed analysis of the risk register was prepared by management and was considered by the Committee. This analysis set out both the existing controls and included consideration of additional controls that could be implemented to further enhance the control environment.

The principal risks facing the Group, which are described in the Strategic Report on pages 18 to 19, are regularly reviewed and cover all aspects of Bellway's operations including land acquisition, planning, construction, health and safety, sales, HR, IT and legal and regulatory compliance.

The continuing role of the Board is, on a systematic and ongoing basis, to review the key risks inherent in the business, the operation of the systems and controls necessary to manage such risks and their effectiveness and to satisfy itself that all reasonable steps are being taken to mitigate these risks.

Profit recognition	**The carrying value of the Group's land and work in progress**
Matters considered	
Gross profit of £661.6 million has been recognised on housing and other revenue. Gross profit for completed housing sales is recognised based on the latest whole site/phase margin, which is derived as part of the site/phase valuation process. These valuations are updated frequently throughout the life of the site/phase and include both actual and forecast selling prices, land costs and construction costs. The forecast costs and revenues are estimates and are inherently uncertain due to potential changes in market conditions.	Land and work in progress (including showhomes) are the most significant assets on the Group's balance sheet and at 31 July 2017 had a book value of £2,934.1 million. All inventory is held at the lower of cost and net realisable value, which is determined by the whole site/phase margin as set out in the 'profit recognition' section. The risk is that for any site/phase, currently trading or not, the whole site/phase margin may be negative resulting in a net realisable value that is below cost. Management have reviewed all sites/phases to ensure those with a forecast negative whole site/phase margin have an appropriate provision, and this has been re-assessed at regular intervals during the year.
Action performed by the Committee	
The Committee understands the Group's revenue and gross profit recognition policy and the related systems and controls. Management outlined the existing systems and controls surrounding revenue recognition, gross profit recognition and the valuation process. The Committee discussed these controls, challenging management where appropriate. The external auditor explained to the Committee the work they have undertaken in relation to the systems and controls surrounding revenue recognition, gross profit recognition and the valuation process and provided an explanation of the detailed substantive testing performed. The Committee also reviewed a summary prepared by KPMG explaining their findings from their work testing the design and operational effectiveness of the Group's systems and controls pertaining to revenue recognition and the valuation process. Following enquiry with management and the external auditor, the Committee concluded that there are appropriate systems and internal controls in place to assess and quantify both actual and forecast selling prices and costs, and that the Group's profit recognition policy is appropriate and has been properly applied in these financial statements.	The Committee understands the Group's methodology in reviewing the carrying value of the Group's land and work in progress and the surrounding controls. Management provided a summary of the work undertaken which was considered by the Committee. The external auditor explained to the Committee the work they performed in relation to the carrying value of the Group's land and work in progress. This included the procedures identified in relation to profit recognition and a review of the latest site/phase valuation for all sites/phases active during the year and those that are yet to commence production. Following enquiry with management and the external auditor, the Committee concluded that there are appropriate systems and internal controls in place to assess the carrying value of the Group's land and work in progress, and that the carrying value of these assets in the financial statements is appropriate.

The key areas of control are as follows:

- the Board has agreed a list of key risks which affect the Group, that are reviewed throughout the year and has considered the extent to which the measures taken by the Group mitigate those risks.
- the acquisition of land and land interests is initiated by divisional management and reviewed by the appropriate Regional Chairman prior to submission to Head Office for approval. All land acquisitions must achieve minimum financial acquisition criteria and are subject to approval by the executive directors and in certain circumstances, approval by the Board.
- a comprehensive monitoring and reporting system is in place including annual budgets, monthly forecasting and management reporting, incorporating variance analysis and commentary. This is produced by divisional management and reviewed by the Regional Chairmen and function heads at Head Office. Summaries are also provided to the executive directors.
- monthly divisional board meetings are held to review divisional performance, which are attended by the Regional Chairmen. The executive directors attend certain divisional board meetings on a regular basis during the year, and this is supplemented with main Board visits to divisions.
- site/phase valuations are produced periodically throughout the life of a site/phase, with a summary of the actual and forecast costs and revenues produced at a divisional level prior to review by the divisional management team and Head Office team.
- regular visits to sites by in-house health and safety teams and external consultants to monitor health and safety standards and performance.
- a central treasury function operates at Head Office ensuring the optimum financing is obtained for the Group as a whole.
- a number of the Group's key functions are dealt with centrally. These include taxation, pensions, insurance, IT, legal, HR, regulatory compliance and company secretarial functions. This centralisation ensures a consistent approach and the appropriate range of skills to manage these specialised areas.

Where any control recommendations are made by the external auditors, these are considered, and where relevant are implemented to further strengthen the control environment.

As mentioned in last year's report, a Head of Risk was appointed who has a direct reporting line into both the Group Finance Director and myself. Whilst performing internal audit reviews, the Head of Risk has utilised specialists from within relevant functions to assist in delivering the audit plan.

Once an internal audit review is completed, a report is produced by the Head of Risk which is shared with the relevant members of the divisional and Group management team. These reports summarise any system and control deficiencies identified, together with recommendations to enhance the control environment where appropriate. A central log is retained along with progress against any system and control improvements to ensure they are implemented in a timely and controlled basis.

During the year the Committee:

- reviewed and approved the Internal Audit Charter and Risk Management Policy.
- reviewed and approved the Internal Audit Plan for 2016/17.
- reviewed the findings of internal audit and risk reviews undertaken in the year along with any control improvements arising from such reviews.

External audit

Audit effectiveness and re-appointment

The external auditor of the Group is KPMG, and their performance is monitored by the Committee.

During the year the Committee reviewed the performance of KPMG using the guidance note titled 'Audit Quality' produced by the FRC.

This review consisted of:

- considering the robustness and appropriateness of KPMG's approach to auditing the significant risk areas facing the Group.
- considering whether KPMG's materiality proposal for the 2015/16 financial year, which was the most up to date information held at the date of the review, was set at an appropriate level for the component parts of the Group.
- discussions with management who were involved in the financial reporting processes.
- an understanding of the findings of the Audit Quality Review ('AQR') team of the FRC following their inspection of audit firms including KPMG. This included understanding whether any of the findings would have affected the Bellway audit.
- an understanding of the AQR and internal KPMG quality review findings specifically in relation to the engagement partner, Nick Plumb.
- considering KPMG's independence, objectivity and professional scepticism.
- reviewing the performance of KPMG against their audit strategy for the 2015/16 financial year, the most recent fully completed audit cycle, and their interaction with the Committee during the process.
- considering where KPMG have added value and demonstrated proactivity.

Following this review, the Committee recommended to the Board, which is in turn recommending to the shareholders, that KPMG be re-appointed as the auditor of the Group.

KPMG has been the auditor of the Group since 1979 when Bellway was listed and it has not been tendered in the intervening period. Nick Plumb is the lead audit partner and has just completed his fourth year out of a maximum of five years in this role.

We are aware of the Order of the Competition and Markets in relation to FTSE 350 companies which will require the Group to change its external auditor prior to the audit for the year ending 31 July 2021.

Auditor independence and non-audit fees

The Independent Auditor Policy, which seeks to preserve the independence of the external auditor by defining those non-audit services which the external auditor may and may not provide, was updated during the year to reflect both the EU Audit Regulation and Directive and FRC Ethical Standards for Auditors. The main changes to the policy were:

- removing the ability for the auditor to provide tax compliance and other tax services.
- amending the level of total non-audit fees that may be charged by the auditor to a maximum of 70% of the average of audit fees paid by the Group in the last three consecutive financial years. This is a change from the previous policy which required Board approval for fees above 100% of the audit fee and a competitive process for any fee in excess of £200,000.

There are clearly defined levels of approval depending on the value of the work to be provided. Where fees exceed £100,000 Board approval is required.

The Group's external auditor is not engaged for any of the following non-audit related services:

- tax compliance and other tax services.
- bookkeeping or other services related to the accounting records or financial statements of the Group.
- financial information system design and implementation.
- appraisal or valuation services, fairness opinions, or contributions in kind reports.
- actuarial services.
- internal audit outsourcing services.
- management functions or human resources.
- broker or dealer, investment adviser or investment banking services.
- legal services and expert services unrelated to the audit.
- technical accounting advice.
- assistance on FTSE matters.
- any other service that is impermissible by regulation.

For an analysis of fees paid to KPMG see note 4 to the accounts. The non-audit fees are for ad hoc assurance work and an audit of the Group's final salary pension scheme.

The ratio of non-audit fees for the year to the external audit fee was 5.2%. KPMG provide written confirmation on an annual basis that they remain independent.

The Committee confirms there are no independence issues in relation to the external auditor and that the policy has been adhered to throughout the year.

Audit Committee assessment

During the year the Committee assessed both the performance of the Committee as a whole and that of its individual members, utilising a questionnaire that was independently facilitated.

I reviewed the results and consider the Committee to be effective, with members having an appropriate and complementary set of skills and experience to challenge the reports and findings reviewed and discussed by the Committee.

Other legislative requirements

Whistleblowing

The Group's Whistleblowing Policy is well publicised at all locations, and allows all employees to raise concerns in confidence to either the Deputy Group Company Secretary or, alternatively, an independent third party.

During the year the Committee approved changes to the Whistleblowing Policy to include references to slavery and human trafficking as per the Modern Slavery Act.

Bribery Act

The Group's Anti-Bribery and Corruption Policy and procedures are circulated throughout the Group and are included on the Group's intranet. This already robust policy and procedure was further strengthened by management during the year, with the amendments being approved by the Committee.

Modern Slavery Act

The Committee reviewed and approved the Anti-Slavery Policy and the Slavery and Human Trafficking Statement for the year ended 31 July 2016 which sets out the actions already taken by the Group in relation to this, along with the actions to be taken during the year ended 31 July 2017. These are new requirements following the introduction of the Modern Slavery Act 2015.

Data protection compliance

During the year a thorough review was undertaken and the Committee approved the Data Protection Compliance Policy. This policy sets out the Group's approach in relation to the data protection laws as the Group is committed to complying with such laws and respecting the privacy rights of individuals.

Paul Hampden Smith
Chairman of the Audit Committee

16 October 2017

Report of the Board on Directors' Remuneration

"The Committee considers that the bonus outturn and long-term incentive vesting reflects the strong performance of the Group and executive directors."

Mike Toms
Chairman of the Board Committee on Executive Directors' Remuneration

Membership

Director	Date appointed to Committee	Number of meetings attended during the year
Mike Toms (Chairman)	1 February 2009 (also date of appointment as Committee Chairman)	4/4
John Cuthbert	15 January 2010	4/4
Paul Hampden Smith	1 August 2013	4/4
Denise Jagger	1 August 2013	4/4
Jill Caseberry	1 October 2017	N/A

Main focus in 2016/17

- Approve the bonus payments and long-term incentive awards vesting levels for the 2015/16 year.
- Approve the 2015/16 Report of the Board on Directors' Remuneration.
- Set the bonus targets for the 2017/18 year.
- Make awards under the long-term incentive scheme.
- Review and determine the remuneration packages for the executive directors and the Group General Counsel and Company Secretary.
- Review the new Remuneration Policy.
- Review and determine the fee payable to the Chairman.
- Review current market practice and future trends in executive remuneration.
- Review remuneration policies for senior management below Board level.

Focus areas for 2017/18

- Oversee the successful transition between Mike Toms and Jill Caseberry as Chair of the Committee.
- Approve the bonus payments and long-term incentive awards vesting levels for the 2016/17 year.
- Approve the 2016/17 Report of the Board on Directors' Remuneration.
- Set the bonus targets for the 2018/19 year.
- Make awards under the long-term incentive scheme.
- Review and determine the remuneration packages for the executive directors and the Group General Counsel and Company Secretary.
- Review and determine the fee payable to the Chairman.
- Review remuneration policies for senior management below Board level.

Annual Statement

Dear Shareholder

I am pleased to present my ninth and final Report of the Board on Directors' Remuneration, for the 2016/17 financial year as Chairman of the Board Committee on Executive Directors' Remuneration (the 'Committee').

I will have served on the Board for nine years in February 2018 and will retire from the Board at the conclusion of the AGM on 13 December 2017. Jill Caseberry will become Chair of the Committee following my retirement.

Over this period the Committee have sought to operate and continuously improve a remuneration structure based on the three core elements of basic pay, annual bonus paid in cash and a share-based long-term incentive plan. I believe that this approach has aligned the management clearly with the interests of shareholders, who have seen operating profit rise from £51.3 million in 2009/10 to £571.6 million in 2016/17.

This is also the final year of reporting on the current remuneration policy which will expire at the AGM on 13 December 2017. A new remuneration policy, set out overleaf, will be subject to a binding shareholder vote at the 2017 AGM, and, if approved, is intended to apply for three years.

The Annual Report on Remuneration and this Annual Statement will also be subject to a single advisory vote at the forthcoming AGM.

I set out overleaf a summary of the pay outcomes for the 2016/17 financial year, the key features of the new remuneration policy and how it will be implemented in 2017/18.

Performance and reward in 2016/17

The housing market remains positive and these favourable market conditions, together with Bellway's strong operational focus and consistent execution of its growth strategy, has resulted in a 10.7% increase in the reservation rate and a 10.6% increase in housing completions, producing another set of excellent financial results.

Full details of how Company performance impacted the outcomes for the bonus and long-term incentive awards are set out later in the Annual Report on Remuneration. However, the main performance outcomes are summarised below:

- basic pay – as disclosed in last year's report, salaries were increased by 3% in line with the average increases awarded to the rest of the workforce generally.
- annual bonus:
  - operating profit grew by 16.2% to £571.6 million and this resulted in full payout under the financial element of the bonus (90% of salary).
  - there was a 3.1% increase in plots with detailed planning permission and this resulted in 15% of salary being earned as a bonus.
  - the Group's health and safety incident rate, as measured externally by the NHBC, improved further, resulting in a full payout of 7.5% of basic salary.
  - on customer care, Bellway was awarded 5 star homebuilder status by the HBF (one of only two national housebuilders to be recognised at this level). The customer care score remained high, but the target was narrowly missed, and no bonus was awarded on this measure.
  - this performance resulted in a total bonus of 112.5% out of a maximum of 120% of salary and this will be paid in November 2017.
- long-term incentive awards – the Performance Share Plan ('PSP') award and the final Share Matching Plan ('SMP') award made in 2014 were based on relative Total Shareholder Return ('TSR') performance against two peer groups. Bellway's TSR over the period was 40.7% and this strong growth means that the upper target was achieved against both targets and 100% of the awards will vest, subject to the application of Bellway's financial underpin test. The Committee has satisfied itself that the TSR performance properly reflected performance over a broad range of financial measures and the PSP and SMP awards will vest in November and December 2017 respectively.

The Committee considers that the bonus outturn and long-term incentive vesting reflects the strong performance of the Group and executive directors during the twelve-month and three-year period to 31 July 2017.

2017 proposed remuneration policy

Context

Since the Remuneration Policy was approved by shareholders in 2014, the Group has grown significantly and become more complex as a result of management successfully delivering the Group's strategy, focusing on expanding and enhancing geographic coverage by opening new divisions, principally in regions where demand is high, and investing further in the existing operational divisional structure.

In recent years, operational capacity has expanded significantly and the business now operates from 19 geographically spread trading divisions, 6 of which have been opened since August 2013. The Group opened its newest division in Durham, on 1 August 2016, with the 18th division opening in Coventry in February 2016. These new divisions have been making a positive contribution to completions and profitability, with the more established new divisions all performing well.

The Group has successfully launched a new brand, Ashberry Homes, to maximise its sales potential. It has made a number of significant corporate staff appointments to ensure that it is adequately resourced to manage a larger and more diversified business.

This strong organic growth over recent years, coupled with Bellway's strong balance sheet and operational capacity for further growth, has resulted in a more geographically diversified business which, subject to market conditions, is well placed for further growth.

The Board believes the current management team is critical to the evolution and implementation of the current strategy and to unlocking future value. It is essential that the remuneration policy is competitive but not excessive and that it rewards executive directors for strong and sustainable performance over the long-term, but not for failure. The policy must also align both executive and shareholder interests to retain, and, where necessary, attract individuals who are able to successfully implement the Group's strategy and grow shareholder value.

Overview of the 2017 remuneration policy

Following a comprehensive review of remuneration in the year, supported by its external advisers and following a consultation with leading investors and proxy voting agencies, the Committee determined that the 2014 approved policy remains effective, fair and fit-for-purpose. Therefore, we have only proposed minor changes to the policy to improve clarity and take account of recent developments in remuneration best practice:

- a key change is an increase to shareholding guidelines from 100% to 200% of salary which means we are now in line with market practice in this area.
- no changes are proposed to the bonus or PSP limits (at 120% and 150% of salary respectively). These incentive limits remain modest taking into account both the size and complexity of the business and in the context of practice at other housebuilders and similar-sized FTSE 250 companies.
- the two-year holding period will continue to apply for PSP awards.

If approved by shareholders at the AGM, this new policy will be effective from 13 December 2017 until our 2020 AGM.

How we will implement the proposed remuneration policy in 2017/18

From 1 August 2017, the Chairman, Chief Executive and Finance Director were awarded salary increases of 3%, consistent with the average salary increase to the general workforce.

As announced on 14 August 2017, Ted Ayres has taken a leave of absence from the Company to undergo treatment for a medical condition and John Watson will assume the position of Executive Chairman during this absence.

John Watson's salary as non-executive Chairman had been set at £212,000 from 1 August 2017. He will receive an additional payment at the rate of £100,000 p.a. for the period during which he has additional executive responsibilities in Ted Ayres' absence. This payment will be eligible for an annual bonus on the same terms as the executive directors. John Watson will continue to receive life and health benefits but not a contribution towards a pension or a car allowance. He will not participate in the PSP.

Jason Honeyman, who was promoted to the Board as Chief Operating Officer on 1 September 2017, has a salary of £383,000 which will next be reviewed in August 2018. He will participate in the annual bonus scheme and PSP. The benefits and pension contribution he will receive are in line with the remuneration policy.

The 2017/18 annual bonus will continue to be based mainly on financial performance, with a bonus of 90% of salary based on operating profit. The remaining bonus of 30% of salary will continue to be based on non-financial measures as used last year, with a bonus of 15% of salary on each of land bank and customer care, and with health and safety performance taken into account as part of the Committee's overall assessment of the bonus payment.

The Committee would have discretion if, for example, health and safety standards have been unsatisfactory, or there has been a major safety failure, to reduce the overall bonus payment and could, in exceptional cases, reduce the overall bonus payment to nil.

The proposed weightings ensure a strong focus on financial performance and sustainability through land bank at the same time as increasing the focus on customers, a key indicator of future growth.

Health and safety continues to remain an integral part of the performance assessment and now has greater potential influence on the bonus outcome than before.

The Committee considered introducing bonus deferral but on balance felt that this was not necessary taking into account an unchanged bonus opportunity (which is modest by market standards), the continuation of a holding period on the long-term incentive plan ('LTIP'), a significant increase in the share ownership guideline and greater focus on the PSP from 2018, see below.

The PSP award level for 2017/18 is being increased from 130% of salary to 150% of salary for executive directors, which remains within the policy limit. This increase provides a greater focus on incentivising long-term, sustained performance and, in the Committee's view, is preferred to increasing the annual bonus opportunity.

Whilst the Committee is aware of the sensitivity to increases in quantum in the current environment, it has considered this proposal very carefully and believes that having a 150% of salary grant level reflects both the increased size and complexity of the business as described above.

The PSP has proven to be a valuable instrument for successfully motivating Bellway's executives in recent years and the proposed award level is appropriate to retain and incentivise a proven, high calibre senior management team to deliver future success and long-term value creation for shareholders.

When considered in the context of the presence of several best practice features as set out above, the Committee believes the proposed increase is fair and reasonable.

The Committee uses benchmarking data with caution but notes that the current long-term incentive opportunity has fallen some way behind market levels and that, even with the proposed increase, the LTIP award opportunity remains relatively modest against comparable housebuilders and FTSE 250 companies of a broadly similar size.

No changes are proposed to the PSP performance metrics, with awards based on two measures of relative TSR performance with half determined against the performance of other quoted housebuilders and the other half against the FTSE 250 index, excluding investment trusts and financial services companies.

As part of its remuneration review during the year, the Committee considered a number of other possible financial measures for use in addition to TSR, including earnings per share ('EPS'). On balance, an EPS measure was not felt to be appropriate at this time due to the difficulties of accurately setting robust long-term financial targets given the cyclicality of the industry.

The Committee will keep this under review and will consult with shareholders prior to the introduction of an EPS or other financial measure in the future if it becomes appropriate at a later date.

I hope you will support the two resolutions relating to directors' remuneration which will be put to shareholders for approval at the AGM to be held on 13 December 2017. Further information on these resolutions is set out in the Notice of Meeting of the AGM.

Mike Toms
Chairman of the Board Committee on Executive Directors' Remuneration

16 October 2017

This part of the remuneration report, the Directors' Remuneration Policy, has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The overall remuneration policy has been developed in compliance with the principles of the UK Corporate Governance Code, UK institutional investor guidance and the Listing Rules.

The remuneration policy set out below will be put to a binding shareholder vote at the AGM on 13 December 2017 and, if approved, is intended to apply for three years unless a new policy is put to shareholders before then.

Directors' Remuneration Policy

Objectives of remuneration policy

The aim of the Committee is to ensure that the Company has competitive remuneration packages in place which will promote the long-term success of the Company and motivate executive directors in the overall interests of shareholders, the Group, its employees and its customers.

The Committee has a policy of paying a level of remuneration comparable with that at a peer group of similar UK housebuilding businesses, subject to experience and performance.

The Committee uses this comparative approach to benchmarking with caution, recognising the relatively few direct housebuilding comparators, their differing size and the risk of an upward ratchet effect with any peer-based analysis. The structure of the package has been designed to ensure that the performance-related elements of remuneration (annual bonus and long-term incentives) constitute a significant proportion of an executive's potential total remuneration package, but are only receivable if stretching performance targets are achieved.

The structure of the performance conditions for annual bonus and long-term incentives has been designed to provide a strong link to the Group's performance, namely a focus on maximising profit in a sustainable fashion and producing superior shareholder returns, thereby generating a strong alignment of interest between senior executives and shareholders.

Consideration of employment conditions elsewhere in the Group

Whilst we do not consult directly with employees when drawing up the executive remuneration policy, in determining the elements of remuneration for the executive directors the Committee takes into consideration the pay and conditions of employees throughout the Group as a whole, paying particular attention to the levels of basic pay increase awarded to the workforce generally.

Since 2015 the salaries of the directors have been increased in accordance with the general pay increase awarded to the workforce. Prior to that, the salaries of the recently appointed executive directors were below mid-market value and were increased incrementally until they reached mid-market levels.

All eligible employees, including the executive directors, can join the Group's savings related share option arrangements, have life assurance benefits and have access to pension arrangements. A significant proportion of employees benefit from health insurance, a company car or car allowance and are eligible to participate in a discretionary bonus scheme.

The Committee is apprised regularly of any significant policy changes for the workforce generally and management below Board level in particular.

Consideration of shareholder views

The Committee takes into account the views of shareholders. When any significant changes are proposed to the remuneration policy, the Chairman of the Committee will consult with major shareholders and representative bodies in advance. In setting the new policy in the year, the Committee consulted with major shareholders, the Investment Association ('IA') and Institutional Shareholder Services Inc. ('ISS') who were generally supportive of the proposed changes and the approach being taken.

Policy table

This section of the report describes the key components of each element of the remuneration arrangements for executive and non-executive directors.

Component and link to strategy	Operation	Maximum opportunity	Framework to assess performance
Salary			
To be market competitive and therefore assist in recruiting, retaining and motivating high quality executives. Reflects individual role and experience.	Salaries are normally reviewed in July each year and changes normally take effect from 1 August. They are typically determined by reference to market levels of a peer group of similar UK housebuilding businesses, taking account of salaries at other companies of a similar size, and by taking account of the role, performance, and experience of the individual, Company performance, salary increases throughout the rest of the business and economic conditions. Where salaries of new executive directors are positioned below market levels, the Committee's policy is to progress these over time, with increases potentially higher than for the general workforce, as experience is gained, subject to performance.	No prescribed maximum. Increases are normally in line with the average for the workforce generally. Increases may be below or above this e.g. due to promotion, change in responsibility or experience, role change, or a significant change in the size, value and/or complexity of the Company. Salaries for 2017/18 are set out in the Annual Report on Remuneration.	In addition to the reviews by the Chairman, as part of the annual Board evaluation, the performance of the executives and the Company is kept under continuous review by the Board.
Annual bonus			
To reward achievement with a combination of financial and non-financial operational based performance targets in accordance with Group KPIs.	Annual bonuses are normally payable in cash in November following the year end on 31 July, subject to the achievement of performance targets that were set at the start of the financial year. The Company operates a recovery mechanism which allows the Company to claw back some or all of the payments made under the variable components of an individual's remuneration, in the following circumstances: (i) material misstatement of results. (ii) error in assessing a performance condition. (iii) gross misconduct by the individual.	120% of basic salary maximum.	The bonus may be based on a combination of financial and strategic objectives, with financial performance accounting for a majority of the overall bonus opportunity. The Committee determines the choice of measure(s) and their weighting for each year to ensure alignment with the Board's priorities and Company strategy over the short to medium-term. The Committee has discretion to adjust the payment outcome to ensure it reflects the individual's contribution and/or the overall performance of the Company over the performance period. Details of the performance measures to be used for the 2017/18 year are set out in the Annual Report on Remuneration.

Component and link to strategy	Operation	Maximum opportunity	Framework to assess performance
Long-term incentives ('PSP')			
To encourage long-term value creation, aid retention, encourage shareholding and promote alignment of interests with shareholders.	The Company operates a PSP as its primary long-term incentive. Annual awards of nil cost options or conditional awards may be made under the PSP to the executive directors, at the discretion of the Committee. Awards normally vest three years after grant, subject to the achievement of stretching performance targets. Dividend equivalents (in cash or shares) may be payable, and will only accrue during the vesting and holding period on awards that ultimately vest. The Company operates recovery and withholding mechanisms which allow the Company, in exceptional circumstances, to clawback some or all of the payments made, or recover unvested awards, in the following circumstances: (i) material misstatement of results. (ii) error in assessing a performance condition. (iii) gross misconduct by the individual. A minimum holding period of two years applies to awards post-vesting.	150% of basic salary.	PSP awards are subject to stretching three-year targets. The current awards are subject to relative TSR conditions against relevant comparator companies. For future awards the Committee may choose a financial measure, such as EPS, RoCE or NAV, in conjunction with or as an alternative to TSR depending on the medium to long-term priorities of the Group at the time of grant. If the Committee decides to introduce a financial measure, it will carry out prior consultation with major shareholders. The Committee has discretion to adjust the vesting outcome in exceptional circumstances to ensure it is a true reflection of the overall performance of the Company over the performance period. Further details of the performance metrics applying to the awards for 2016/17 are set out in the Annual Report on Remuneration.
Pension			
To provide a structure and value that is market competitive.	Pension contributions into the Company's Group Self Invested Personal Pension Plan and/or a salary supplement in lieu of pension contributions.	Up to 20% of salary.	Not applicable.
Benefits			
To provide a range and value that is market competitive.	Typically comprises car or car allowance, life assurance and health insurance. Other benefits may be provided where appropriate. Any expenses incurred in carrying out duties will be fully reimbursed by the Company including any personal taxation associated with such expenses.	Not applicable.	Not applicable.
All employee share schemes			
To encourage employees to build a stake in the future of the Company.	The executive directors can participate in any HMRC-approved all-employee plans operated by the Company.	Subject to prevailing HMRC limits.	Not applicable.

Component and link to strategy	Operation	Maximum opportunity	Framework to assess performance
Share ownership guideline for executive directors			
To align executive directors' interests with those of shareholders.	Executive directors are required to accumulate a minimum shareholding equivalent to 200% of basic salary. Within a period of three months of appointment an executive director must acquire a minimum of 1,000 ordinary shares in the Company and must retain at least 50% of any shares awarded under the PSP (or SMP in respect of awards granted in 2014 or before), after allowance for paying tax, until the requisite number of shares has been accumulated. If personal circumstances make this difficult, the Committee would exercise discretion.	Not applicable.	Not applicable.
Chairman and non-executive directors			
To set appropriate fees in light of the time commitment, responsibilities, wider market and best practice.	The Chairman's fee is determined by the Board Committee on Executive Directors' Remuneration. The remuneration of the non-executive directors is determined by the Board Committee on Non-Executive Directors' Remuneration, which comprises the executive directors. Fee levels are normally reviewed annually, taking into account the time commitment and responsibilities of the roles including membership or chairmanship of Board committees and the level of fees for similar positions in comparable companies. Non-executive directors are not normally entitled to any benefits (with the exception of the Chairman who receives health and life assurance benefits) or pension. They do not participate in any bonus or long-term incentive plans and they are not entitled to compensation on termination of their arrangements, other than normal notice provisions of three months given by either party. Travel, accommodation and other related expenses incurred in carrying out the role will be paid by the Company including any personal taxation associated with such expenses.	Not applicable.	The performance of the non-executive directors is assessed by the Chairman. The senior independent non-executive director reviews the performance of the Chairman in conjunction with the directors.

For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to the Company to honour any commitments entered into with current or former directors (such as in connection with the unvested SMP awards and the final SMP award which was granted in 2014, notwithstanding that the SMP does not form part of the Company's policy going forward). Details of any payments made to former directors will be set out in the Annual Report on Remuneration as they arise.

Choice of performance measures and approaches to target setting

The performance measures used in the annual bonus and long-term incentive plan are aligned with the Company's KPIs and the business strategy.

For the annual bonus, operating profit is an appropriate barometer of short-term performance. Customer care and land bank are important drivers of future growth and maintaining a strong health and safety record is very important to our employee base and the Group.

The Committee believes that relative TSR is an appropriate long-term performance metric as it generates an alignment of interest between executives and institutional shareholders by providing a reward mechanism for delivering superior stock market performance. The TSR performance is independently calculated for the Committee by the Company's brokers.

Targets for incentive plans are set to be stretching but achievable, taking into account internal and external reference points, including internal forecasts and market consensus.

Clawback

The time period over which clawback will apply is at any time before the later of:

(i) the first anniversary of the date on which an award vests.

(ii) the date of publication of the Company's first set of audited financial statements covering the financial year in which the vesting took place.

Incentive plan discretions

The Committee will operate the annual bonus plan and PSP in accordance with their respective rules. As part of the rules the Committee holds certain discretions which are required for both an efficient operation and administration of these plans, and are consistent with standard market practice. These include the following discretions:

- participants of the plans.
- the timing of the grant of an award and/or payment.
- the size of an award and/or a payment (albeit with quantum and performance targets restricted to the descriptions detailed in the policy table on page 56).
- the assessment of performance criteria and the determination of vesting.
- discretion required when dealing with a change of control (e.g. the timing of testing performance targets) or restructuring of the Group.
- determination of a good/bad leaver for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen.
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends).
- the annual review of performance conditions for the annual bonus plan and PSP from year-to-year.
- if certain events occur (e.g. a material divestment or acquisition of a Group business), which mean the original performance conditions are no longer appropriate, the Committee retains the ability to make adjustments to the targets and/or set different measures and alter weightings as necessary to ensure the conditions achieve their original purpose and are not materially less difficult to satisfy.
- the outstanding share incentive awards which are detailed in the tables on pages 65 and 66 will remain eligible to vest based on their original award terms. In addition, all arrangements disclosed in previous reports of the Remuneration Committee will remain eligible to vest or become payable on their original terms.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Approach to recruitment remuneration

In arriving at a total package and in considering the quantum for each element of the package, the Committee will take into account the skills and experience of the candidate and the market rate for a candidate of that experience, as well as the importance of securing the preferred candidate.

Element	General policy	Detail
Salary.	At a level required to attract the most appropriate candidate.	Discretion to pay lower basic salary with incremental increases, potentially higher than for the general workforce, as new appointee becomes established in the role.
Pension and benefits.	In accordance with Company policies.	Additional benefits in relation to recruitment may be provided where considered appropriate, for example, relocation expenses or allowances, legal fees and other recruitment-related costs may be payable. Pension provision will be in line with the limits set out in the policy table.
Bonus.	In accordance with existing schemes.	Depending on the timing of recruitment, bespoke targets could be introduced for an individual within the maximum individual limits of the annual bonus plan applicable at the time. Pro-rating would be applied as appropriate for intra-year joiners.
Long-term incentives (PSP).	In accordance with Company policies and maximum limits in the PSP rules.	An award may be made in the year of joining or, alternatively, the award can be delayed until the following year. Targets would normally be the same as for other directors and grant levels consistent within the permitted individual maximum under the rules of the plan and this policy.
Buyout of forfeited remuneration.	The Committee may make an award in cash or shares to replace deferred or incentive pay forfeited by an executive leaving a previous employer (and, if required, by relying on the flexibility provided in the Listing Rules to grant such replacement awards).	Awards would, where possible, be consistent with the awards forfeited in terms of the vehicle, structure, vesting periods, expected value and performance conditions.

Service contracts and loss of office payment policy

The executive directors have service contracts with a 12-month notice period from the Company and a 6-month notice period from the executive.

The overriding principle for payments on loss of office will be to honour contractual remuneration entitlements. The Committee would determine, on an equitable basis, the appropriate treatment of performance-linked elements of the package, taking account of the circumstances, in accordance with the rules of each respective plan. Failure will not be rewarded.

The Company may pay statutory claims. Reasonable costs of legal expenses incurred by the director may be reimbursed by the Company by making direct payment to the professional adviser.

Element	Bad leaver[1]	Departure on agreed terms[2]	Good leaver[3]
Salary, pension and benefits (after cessation of employment).	Nil.	Up to 12 months' basic salary, benefits and pension. Payments may be phased and subject to offsetting against alternative income from elsewhere during the notice period. The Company may pay in lieu of notice an amount equivalent to 12 months' salary, pension and benefits.	Apart from death, the Company may pay up to 12 months' basic salary, benefits and pension, less any period of notice worked. Payments may be phased and subject to offsetting against alternative income from elsewhere during the notice period. The Company may pay in lieu of notice an amount equivalent to 12 months' salary, pension and benefits.
Annual bonus.	No bonus payable.	For the proportion of the financial year worked, bonus may be payable pro-rata, subject to performance, at the discretion of the Committee. There will be no bonus payment in respect of any period of notice not worked.	For the proportion of the financial year worked, bonus may be payable pro-rata, subject to performance, at the discretion of the Committee.
PSP (and SMP awards granted in 2014 or before).	All awards, including those which have vested but are unexercised will lapse immediately upon cessation of employment.	Awards will lapse upon cessation of employment, unless the Committee decides otherwise, in which case awards may vest. Where employment ends before the vesting date, awards may vest at the normal time (other than by exception) to the extent that the performance conditions have been satisfied. The level of vested award will be reduced, pro-rata, based upon the period of time after the grant date and ending on the date of cessation of employment, relative to the three-year performance period unless the Committee, acting fairly and reasonably, decides that such a scaling back is inappropriate in any particular case.	Awards may be exercised within 12 months of the vesting date. Where employment ends before the vesting date, awards may be exercised at the normal vesting time (other than by exception) and only to the extent that the performance conditions have been satisfied. The level of vested award will be reduced, pro-rata, based upon the period of time after the grant date and ending on the date of cessation of employment, relative to the three-year performance period unless the Committee, acting fairly and reasonably, decides that such a scaling back is inappropriate in any particular case.
Other payments.	Nil.	Depending upon circumstances, the Committee may consider payments in respect of an unfair dismissal award, outplacement support and assistance with legal fees.	The Company may pay for outplacement support and assistance with legal fees.

Notes:

1. For example, normal resignation from the Company or termination for cause (e.g. disciplinary issues).
2. This may cover a range of circumstances such as business reorganisation, changes in reporting structure, change in requirement for the role, termination as a result of a failure to be re-elected at an AGM, etc.
3. Leaver for compassionate reasons such as death, injury, disability or retirement, with the agreement of the employer.

The details of the executive directors' service contracts are as follows:

Executive director	First appointed as a director	Current contract commencement date
Ted Ayres	1 August 2011	1 August 2011
Keith Adey	1 February 2012	1 February 2012
Jason Honeyman	1 September 2017	1 September 2017

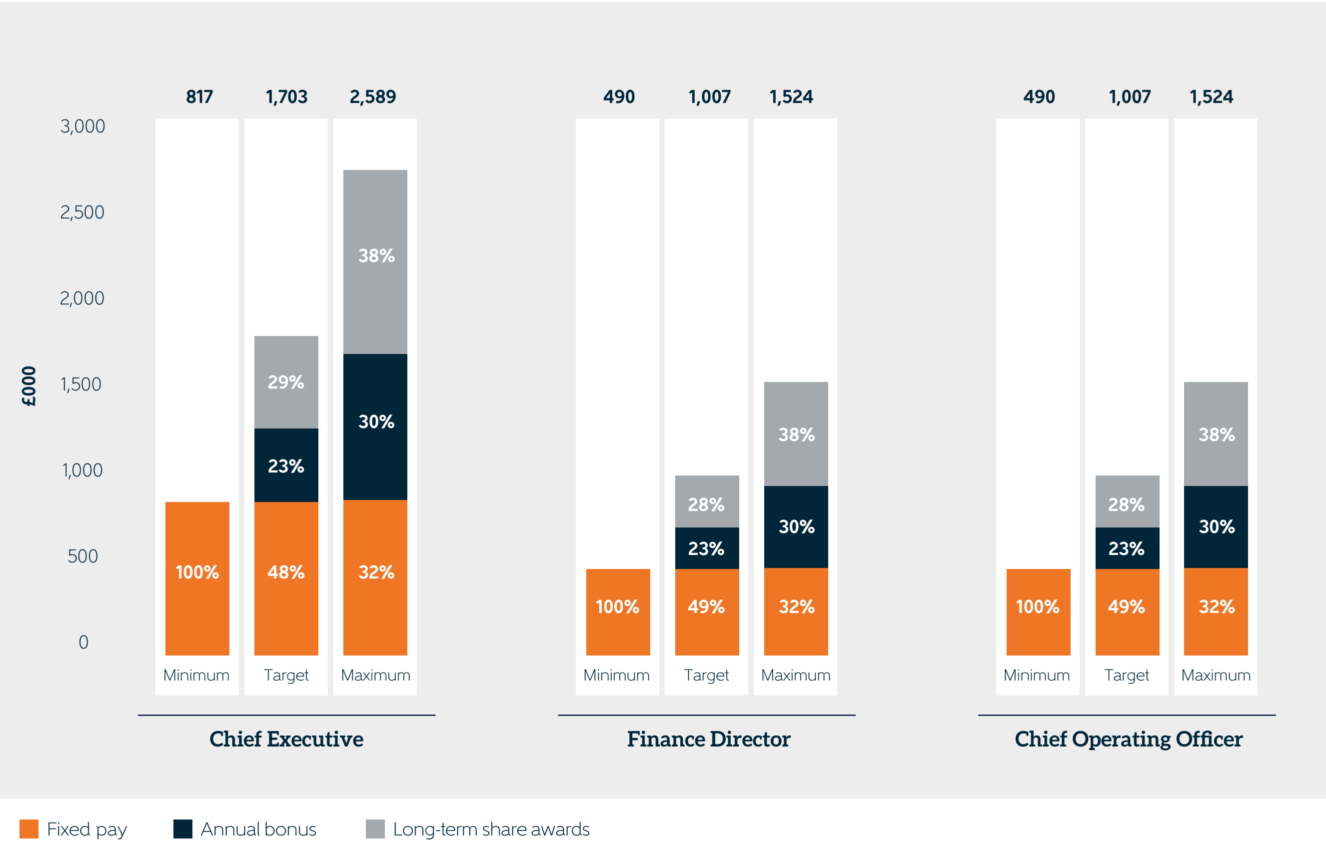
The executive directors may accept external appointments provided that such appointments do not, in any way, prejudice their ability to perform their duties as executive directors of the Company. The extent to which any executive director is allowed to retain any fees payable in respect of such appointments, or whether such fees are remitted to the Company, will be assessed on a case-by-case basis. None of the executive directors currently hold any outside appointments.

All non-executive directors have letters of appointment with the Company for no more than three years, subject to annual re-appointment at the AGM, with a three-month notice period by either side. The appointment letters for the Chairman and non-executive directors provide that no compensation is payable on termination, other than fees accrued and expenses.

Non-executive director	First appointed as a director	Current letter of appointment commencement date	Current letter of appointment expiry date
John Watson	1 August 1995	1 February 2016	31 January 2019
Mike Toms	1 February 2009	1 February 2015	31 January 2018
John Cuthbert	1 November 2009	1 November 2015	31 October 2018
Paul Hampden Smith	1 August 2013	1 August 2016	31 July 2019
Denise Jagger	1 August 2013	1 August 2016	31 July 2019
Jill Caseberry	1 October 2017	1 October 2017	30 September 2020

Illustrations of application of current remuneration policy

The remuneration policy results in a significant portion of remuneration received by executive directors being dependent on the Group's performance. The chart below illustrates how the total pay opportunities for the executive directors vary under three performance scenarios: minimum, target and maximum. The chart is indicative, as share price movement and dividend accrual have been excluded.



Notes:

1. Chart labels show proportion of total package comprised of each element.
2. Assumptions:
   - Minimum – fixed pay only (salary + benefits + pension/pay in lieu of pension). Salary is based on actual for 2017/18, benefits are based on the value of actual benefits received in 2016/17 and pension/pay in lieu of pension is based on policy of 20% of salary applied to the 2017/18 salary.
   - Target – fixed pay plus 50% of maximum bonus payment plus PSP award of 150% of salary with 50% of the award vesting.
   - Maximum – fixed pay plus 100% of maximum bonus payment plus PSP award of 150% of salary with 100% of the award vesting.

Annual Report on Remuneration

Committee membership and activity

The Committee meets at least twice a year and details of the Committee members and their attendance are set out in the table on page 51. The operation of the Committee is conducted by reference to its terms of reference which have been prepared to comply with relevant statutory, regulatory and corporate governance requirements and best practice and are available at www.bellwaycorporate.com/corporateGovernance.

None of the Committee members have a personal financial interest, other than as shareholders, in the matters to be decided. There are no conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business.

Activities during 2016/17

While the main focus of the Committee this year has been on the new remuneration policy, the following activities have also taken place:

- approve the bonus payments and long-term incentive awards vesting levels for the 2015/16 year.
- approve the 2015/16 Report of the Board on Directors' Remuneration.
- set the bonus targets for the 2017/18 year.
- make awards under the long-term incentive scheme.
- review and determine the remuneration packages for the executive directors and the Group General Counsel and Company Secretary.
- review the new Remuneration Policy.
- review and determine the fee payable to the Chairman.
- review current market practice and future trends in executive remuneration.
- review remuneration policies for senior management below Board level.

The Committee receives independent external advice from New Bridge Street ('NBS'), part of Aon plc. NBS was appointed by the Committee and does not provide any other services to the Company other than to the Board Committee on Non-Executive Directors' Remuneration. NBS is also a member of the Remuneration Consultants Group and abides by its Code of Conduct. The Committee is satisfied that NBS is independent. The total fee paid to NBS for advice to the committees during the year was £45,101. The Committee also benefited from advice received from the Group General Counsel and Company Secretary, on issues other than those relating to his own remuneration.

The remuneration of the non-executive directors (apart from the Chairman) is determined by the Board Committee on Non-Executive Directors' Remuneration, which comprises the executive directors. It also receives advice from the Group General Counsel and Company Secretary and NBS.

Implementation of remuneration policy in 2016/17

The auditor is required to report on the information contained in the following part of this report.

Single figure of total remuneration

		Salary and fees £	Taxable benefits[2] £	Pension[3] £	Annual bonus £	Sub-total £	Long-term incentives[4] £	Other items[5] £	Total £
Non-executive Chairman									
John Watson	**2017**	**206,000**	**861**	**–**	**–**	**206,861**	**–**	**–**	**206,861**
	2016	200,000	827	–	–	200,827	–	–	200,827
Executive directors									
Ted Ayres	**2017**	**637,000**	**30,255**	**127,420**	**716,625**	**1,511,300**	**1,610,081**	**–**	**3,121,381**
	2016	618,000	30,211	123,600	710,700	1,482,511	1,302,464	–	2,784,975
Keith Adey	**2017**	**372,000**	**30,467**	**74,500**	**418,500**	**895,467**	**933,387**	**–**	**1,828,854**
	2016	354,197[1]	30,091	72,200	415,150	871,638	770,158	2,233	1,644,029
Non-executive directors									
Mike Toms	**2017**	**64,000**	**–**	**–**	**–**	**64,000**	**–**	**–**	**64,000**
	2016	59,941	–	–	–	59,941	–	–	59,941
John Cuthbert	**2017**	**64,000**	**–**	**–**	**–**	**64,000**	**–**	**–**	**64,000**
	2016	62,593	–	–	–	62,593	–	–	62,593
Paul Hampden Smith	**2017**	**64,000**	**–**	**–**	**–**	**64,000**	**–**	**–**	**64,000**
	2016	59,941	–	–	–	59,941	–	–	59,941
Denise Jagger	**2017**	**56,000**	**–**	**–**	**–**	**56,000**	**–**	**–**	**56,000**
	2016	54,636	–	–	–	54,636	–	–	54,636
	2017	**1,463,000**	**61,583**	**201,920**	**1,135,125**	**2,861,628**	**2,543,468**	**–**	**5,405,096**
Totals	2016	1,409,308	61,129	195,800	1,125,850	2,792,087	2,072,622	2,233	4,866,942

Notes:

1. Keith Adey's basic salary for 2015/16 was £361,000 and where reference is made in this report to his basic salary for 2015/16 this is the amount to which reference is being made. The figure shown in the table above is the actual amount paid during the financial year, reflecting a reduction in his take-home pay during a period of paternity leave.
2. Taxable benefits include car allowance and health insurance.
3. Pension includes both payments in lieu of pension of £181,851 and contributions to a defined contribution scheme of £20,069. None of the directors are members of the Group's defined benefit scheme and both of the executive directors are members of a defined contribution scheme.
4. The value of long-term incentives in 2017 reflects the vesting of the 2014 PSP awards, which will be exercisable from 10 November 2017, including additional shares in lieu of dividends accrued from the date of grant to the date of vesting, and also the vesting of the 2014 SMP awards which will be exercisable from 4 December 2017. The value shown is based on a share price of £29.59, being the average share price for the last quarter of the financial year i.e. 1 May – 31 July 2017 as a proxy for the share price at vesting. The 2016 figures for Ted Ayres and Keith Adey have been adjusted by £127,822 and £73,757 respectively to reflect the actual share prices at the dates of vesting, which took place after the publication of last year's report, and the additional shares in lieu of dividends accrued from the date of grant to the date of vesting of the 2013 PSP awards (3,806 and 2,169 shares respectively). The additional shares in lieu of dividends accrued for the 2013 SMP awards were already included in the figure shown in last year's report.
5. Other items refer to the discount on the awards, during the year stated, under the Group's all employee savings related share option scheme.

Annual bonus for the year ended 31 July 2017

The annual bonus is payable in November 2017 for performance during the year ended 31 July 2017. The performance targets for the 2016/17 bonus comprised operating profit and three non-financial measures.

The actual bonus payment against operating profit was determined on the following basis:

Measure	Weighting (% of salary)	Threshold (39% pays out)	Target (50% pays out)	Maximum value (100% pays out)	Actual	Payment (% of maximum)	Payment (% of salary)
Operating profit (pre-exceptional)	90%	£515.0 million	£540.0 million	£570.0 million	£571.6 million	100%	90%

The actual operating profit grew by 16.2% and exceeded the maximum value forecast by the directors, shareholders and analysts at the start of the year.

Since 2014/15 the payment of any bonus for non-financial performance has been based on a sliding scale of targets. For land bank, a 10% payment would be triggered for a predetermined percentage increase in plots with detailed planning permission ('DPP'), with an additional 1% payment for further improved performance, up to a maximum of 15% of salary. Similarly, for health and safety and customer care there is a minimum payment of 4.5% for no deterioration in scores, with additional 1% increments payable up to a maximum of 7.5% for improved performance.

The basis for payment of the actual bonus against the three non-financial metrics that applied are set out in the table below:

Non-financial measure	Objectives and performance against target	Score
Land bank	Increase in the land bank of plots with DPP (available for completion in the following financial year) in the year to 31 July 2017 to ensure our growth aspirations are not frustrated by land shortages in future years.	Maximum – 15% of salary.
	The land bank of plots with DPP (available for completion in the following financial year) grew by 3.1% during the year. This met the target required for a maximum payment.	Achieved in full – 15% of salary awarded.
Health and safety	No deterioration of the NHBC health and safety incident rate from the baseline as a minimum and additional payments made for improvements in health and safety performance by reference to the NHBC health and safety incident rate. Improvements in health and safety performance are indicated by a lower NHBC health and safety incident rate.	Maximum – 7.5% of salary.
	Our baseline NHBC health and safety incident rate was 0.986, which represents a level of safety significantly better than other housebuilders. The target for a maximum payment in 2017 was 0.986. The actual rate was 0.690, which exceeded the target for a maximum payment.	Achieved in full – 7.5% of salary awarded.
Customer care	No deterioration of previous year's net assessment of customer satisfaction score as a minimum, with additional bonus opportunity for improvement in the Group's customer satisfaction score.	Maximum – 7.5% of salary.
	The Group's customer care score in 2017 was 85.2% compared with 85.7% in 2016. The customer care score remained high, but the target was narrowly missed, and no bonus was awarded on this measure.	Not achieved – no bonus payment awarded.

Overall, the Committee is satisfied that the resulting bonus payment of 112.5% of salary (out of 120%) is reflective of the Company's record performance during the year.

Long-term incentives vesting in respect of performance period ended 31 July 2017

The PSP and SMP awards granted in 2014 which will vest on 10 November and 4 December 2017 respectively, were based on a three-year TSR performance for the period to 31 July 2017. The applicable vesting percentages will be as follows:

Metric	Performance condition	Threshold target	Stretch target	Actual	% vesting
50% of awards	Relative TSR against an index of peer housebuilders comprising Barratt Developments PLC, The Berkeley Group plc, Bovis Homes Group PLC, Crest Nicholson Holdings plc, Persimmon plc, Redrow plc and Taylor Wimpey plc ('Index'): 25% of this part of an award vests at the Index, increasing, pro-rata, to full vesting at Index + 7.5% p.a.	29.6% TSR (Index)	37.1% TSR (Index + 7.5% p.a.)	40.7% Bellway TSR	50%
50% of awards	Relative TSR against the FTSE 250 (excluding financial services companies and investment trusts): 25% of this part of an award vests at median, increasing, pro-rata, to full vesting at the upper quartile.	85.5 rank (median)	43 rank (upper quartile)	18 Bellway rank	50%
Total					**100%**

An underpin was also applied to the 2014 PSP and SMP awards. Regardless of TSR performance, no part of an award will vest unless the Committee is satisfied that there has been an improvement in the underlying financial performance of the Group over the performance period, taking into account, inter alia, operating profit, operating margin, RoCE and NAV. The Committee agreed that this underpin had been met and the following PSP and SMP awards are expected to be exercisable on 10 November and 4 December 2017 respectively.

	Scheme	Number of shares at grant	Guaranteed number of shares to vest	Estimated value at vesting[1] £000
Ted Ayres	PSP	35,842	35,842	1,061
	SMP	14,562	14,562	431
Keith Adey	PSP	20,908	20,908	619
	SMP	8,298	8,298	246

Notes:

1. Based on a share price of £29.59, being the average share price for the last quarter of the financial year i.e. 1 May – 31 July 2017 as a proxy for the share price at vesting.
2. Additional shares (not included above) will be awarded in lieu of dividends accrued from the date of the 2014 PSP award to the date of vesting in respect of each director as follows: Ted Ayres 4,009 shares and Keith Adey 2,338 shares. For the SMP award the additional shares in lieu of dividends accrued will be calculated following the ex-dividend date of the final dividend for the year ended 31 July 2017, which is after the date of publication of this report. Details of these additional shares will be included in next year's report.

Directors' share-based rewards and options

Details of all directors' interests in the Company's share-based reward schemes are shown below:

Ted Ayres

Scheme	Awards/options held at 1 August 2016	Granted/ awarded during the year	Lapsed during the year	Exercised during the year	**Awards/options held at 31 July 2017**	Exercise price/ market price at date of award (p)	Date of grant/ award	Exercisable/ capable of vesting from
PSP[1]	34,506	–	–	(34,506)	**–**	1,449.0	18.12.2013	18.12.2016
PSP[2]	35,842	–	–	–	**35,842**	1,674.0	10.11.2014	10.11.2017
PSP[3]	33,727	–	–	–	**33,727**	2,382.0	13.11.2015	13.11.2018
PSP[4]	–	35,223	–	–	**35,223**	2,351.0	09.11.2016	09.11.2019
SMP[1]	14,501	–	–	(14,501)	**–**	1,448.0	28.11.2013	28.11.2016
SMP[2]	14,562	–	–	–	**14,562**	1,918.0	04.12.2014	04.12.2017
2013 SRSOS[7]	1,306	–	–	–	**1,306**	1,378.0	17.11.2014	01.02.2018
Totals	134,444	35,223	–	(49,007)	**120,660**			

Keith Adey

Scheme	Awards/ options held at 1 August 2016	Granted/ awarded during the year	Lapsed during the year	Exercised during the year	**Awards/options held at 31 July 2017**	Exercise price/ market price at date of award (p)	Date of grant/ award	Exercisable/ capable of vesting from
PSP(1)	19,668	–	–	(19,668)	**–**	1,449.0	18.12.2013	18.12.2016
PSP(2)	20,908	–	–	–	**20,908**	1,674.0	10.11.2014	10.11.2017
PSP(3)	19,701	–	–	–	**19,701**	2,382.0	13.11.2015	13.11.2018
PSP(4)	–	20,569	–	–	**20,569**	2,351.0	09.11.2016	09.11.2019
SMP(1)	9,320	–	–	(9,320)	**–**	1,448.0	28.11.2013	28.11.2016
SMP(2)	8,298	–	–	–	**8,298**	1,918.0	04.12.2014	04.12.2017
2013 SRSOS(7)	1,099	–	–	–	**1,099**	1,378.0	17.11.2014	01.02.2020
2013 SRSOS(7)	439	–	–	–	**439**	2,048.8	16.11.2015	01.02.2019
Totals	79,433	20,569	–	(28,988)	**71,014**			

Notes:

1. The performance period was 1 August 2013 – 31 July 2016. The TSR performance condition was in two parts. Half was measured by reference to an index of UK housebuilders comprising Barratt Developments PLC, The Berkeley Group plc, Bovis Homes Group PLC, Crest Nicholson Holdings plc, Persimmon plc, Redrow plc and Taylor Wimpey plc ('Housebuilders' Index'). If Bellway's TSR matched that of the index, 25% of the awards would vest. Full vesting would be achieved for 7.5% per annum outperformance of the index. The other half was measured by reference to the companies in the FTSE 250 Index (excluding financial services companies and investment trusts). Awards would start to vest at 25% if Bellway's TSR matches the median of the companies in the Group, increasing on a straight-line basis so that full vesting would be achieved if Bellway's TSR reached the upper quartile. Regardless of TSR performance, no part of an award will vest unless the Committee is satisfied that there has been an improvement in the underlying financial performance of the Company over the performance period, taking into account, inter alia, operating profit, operating margin, RoCE and NAV. Both parts of the performance conditions were met in full so 100% of these awards vested.
2. Details of the vesting of these awards which will take place in November and December 2017 is set out in full under the heading 'Long-term incentives vesting in respect of performance period ended 31 July 2017' above.
3. The performance period is 1 August 2015 – 31 July 2018. The awards are subject to the same TSR performance condition set out in note 1 above, and these awards are also subject to clawback provisions.
4. On 9 November 2016, awards of performance shares under the PSP were made to Ted Ayres and Keith Adey. The performance period is 1 August 2016 – 31 July 2019. The awards are subject to the same TSR performance condition set out in note 1, and these awards are also subject to clawback provisions. The awards were in the form of nil cost options. The face values on grant of these awards were £828,093 and £483,577 to Ted Ayres and Keith Adey respectively, equal to 130% of their respective salaries, in line with the current remuneration policy.
5. All of the above options set out in notes 1–4 were granted for nil consideration.
6. No share options were exercised in 2017 and therefore the gross gain is £nil. (The gross gain made by Keith Adey on the exercise of the 2003 SRSOS award in 2016 was £73,221). The value of long-term incentive plans for both Ted Ayres and Keith Adey, which were exercised in the year and those which will become exercisable in 2017/18, are shown in the single figure of total remuneration table on page 63.
7. Further details of the 2013 SRSOS are shown in the summary of outstanding share options in note 18 to the accounts.
8. The market price of the ordinary shares at 31 July 2017 was 3,190p and the closing range during the year was 2,012p to 3,190p.

Payments to past directors

No payments were made to past directors in the year.

Payments for loss of office

No payments were made for loss of office in the year.

Dilution limits/shares held in Trust to satisfy awards

The Bellway Employee Share Trust (1992) (the 'Trust') holds market-purchased shares to satisfy awards made under some of the Company's executive and employee share schemes. At 31 July 2017 the Trust held 184,403 shares. It is the Company's current intention to use market-purchased shares to satisfy awards made under the PSP and SMP. Awards made under the deferred bonus plans (to which the executive directors are not eligible) must be satisfied using market-purchased shares. The SRSOS uses new issued shares. The Company's share plans comply with the IA guidance on dilution limits and the position as at 31 July 2017 was:

Limit of 5% in any ten years under all executive share plans	Actual 0.00%
Limit of 10% in any ten years under all share plans	Actual 1.65%

Statement of directors' shareholdings and share interests

The directors' interests (including family interests) in the ordinary share capital of the Company at 31 July 2017 are set out below:

Director	**Beneficially owned at 31 July 2017**	% basic salary held by executive directors in shares[1]	Beneficially owned at 31 July 2016	Outstanding and unvested PSP awards	Outstanding and unvested SMP awards	Outstanding and unvested share options	Share options vested but unexercised	Share options exercised in the year
John Watson	**425,535**	N/A	425,535	N/A	N/A	N/A	N/A	N/A
Ted Ayres	**65,402**	304	52,498	104,792	14,562	1,306	–	49,007
Keith Adey	**35,450**	282	18,526	61,178	8,298	1,538	–	28,988
Mike Toms	**2,000**	N/A	2,000	N/A	N/A	N/A	N/A	N/A
John Cuthbert	**6,000**	N/A	6,000	N/A	N/A	N/A	N/A	N/A
Paul Hampden Smith	**12,548**	N/A	12,548	N/A	N/A	N/A	N/A	N/A
Denise Jagger	**1,250**	N/A	1,250	N/A	N/A	N/A	N/A	N/A

Notes:

1. Executive directors are required to accumulate a minimum shareholding equivalent to 200% of basic salary.
2. There has been no change in any of the above interests between 31 July 2017 and the date of this report. Since the year end two directors have joined the Board. Jason Honeyman has an interest in 4,252 shares and retains an interest in outstanding and unvested share options and awards over 31,589 shares. Jill Caseberry joined the Board on 1 October 2017 and as at the date of this report holds no shares in the Company.

The following section of this report is not required to be audited.

Implementation of remuneration policy in 2017/18

This section sets out how the Company will implement the remuneration policy for the 2017/18 financial year. Full details of how each element will operate are set out in the remuneration policy table earlier in this report.

Basic salaries

The Committee has awarded salary increases in line with the increases given to the general workforce of around 3% for 2017/18. Therefore from 1 August 2017, Ted Ayres' salary was increased to £656,000 p.a. and Keith Adey's salary was increased to £383,000 p.a.

On 14 August 2017 Ted Ayres took a leave of absence for medical reasons and John Watson moved from non-executive Chairman to Executive Chairman. John Watson's fee as non-executive Chairman had been set at £212,000 from 1 August 2017. He will be paid an additional fee at the rate of £100,000 p.a. in respect of his executive responsibilities during Ted Ayres' absence. This additional fee will be eligible for the annual bonus on the same basis as the executive directors. It will not be eligible for pension payments, LTIP awards or a car allowance.

On 1 September 2017 Jason Honeyman was promoted to the Board as Chief Operating Officer and his basic salary has been set at £383,000 p.a.

Annual bonus

For the 2017/18 financial year, the bonus opportunity will continue to be limited to 120% of basic salary. The performance conditions relate to a stretching target of pre-exceptional operating profit (with a maximum payment of 90% of basic salary achievable) and the following strategic performance measures which provide a maximum bonus opportunity of 30% of basic salary.

Strategic measure	**Objectives**	**Score**
Land bank	Increase in the land bank of plots with DPP (available for completion in the following financial year) in the year to 31 July 2018 to ensure our growth aspirations are not frustrated by land shortages in future years.	Maximum – 15% of salary.
Customer care	No deterioration of previous year's net assessment of customer satisfaction score as a minimum, with additional bonus opportunity for improvement in the Group's customer satisfaction score. The customer care element is assessed using the average of six key indicators, as measured by the NHBC. This measure is used as it reflects the metrics by which the performance of each division is managed by the executives.	Maximum – 15% of salary.

For each strategic element, sliding scale targets will apply whereby a proportion of the bonus will be payable if a base threshold is achieved, with further bonus paid on a sliding scale for improvements in performance up to the maximum bonus opportunity. In the event that the threshold profit criterion is not met, no bonus will be payable under the non-financial elements. Health and safety performance will be taken into account as part of the Committee's overall assessment of the bonus payment.

The Committee would have discretion if, for example, health and safety standards have been unsatisfactory, or there has been a major safety failure, to reduce the overall bonus payment and could, in exceptional cases, reduce the overall bonus payment to nil. This includes a possible reduction to the 2017/18 bonus in relation to the outcome of any health and safety investigation which has concluded in respect of the prior year. Maintaining a strong health and safety record remains a critical objective and the new bonus structure provides for health and safety to have greater influence on annual bonus outcomes.

The actual annual bonus performance targets are considered to be commercially sensitive at this time, and the Committee will disclose these retrospectively in next year's annual report on remuneration, provided they are no longer commercially sensitive.

Long-term incentives

The Company anticipates making a grant under the PSP in November 2017 with a face value equivalent to 150% of salary to the executive directors. Awards will vest to executives after three years, subject to the achievement of performance conditions based around TSR, which measures the total return on a notional investment in Bellway shares, compared to the return on the same notional investment in shares in a group of other companies or an index. This award will be subject to a relative TSR condition with 50% of awards measured against a group of housebuilders and the other 50% against the constituents of the FTSE 250 (excluding financial services companies and investment trusts). This is shown below:

Metric	Performance condition	Threshold target	Stretch target
50% of awards	Relative TSR against an index of peer housebuilders comprising Barratt Developments PLC, The Berkeley Group plc, Bovis Homes Group PLC, Crest Nicholson Holdings plc, Persimmon plc, Redrow plc and Taylor Wimpey plc ('Index'): 25% of this part of an award vests at the Index, increasing, pro-rata, to full vesting at Index + 7.5% p.a.	TSR (Index)	TSR (Index + 7.5% p.a.)
50% of awards	Relative TSR against the FTSE 250 (excluding financial services companies and investment trusts): 25% of this part of an award vests at median, increasing, pro-rata, to full vesting at the upper quartile.	Median	Upper quartile

Chairman and non-executive director fees from 1 August 2017

	Fee from 1 August 2016 £	% increase	**Fee from 1 August 2017 £**
Non-executive Chairman fee	206,000	3	**212,000**
Non-executive director fee	56,000	3	**57,680**
Senior independent non-executive director, Audit and Remuneration Committee Chair fees	8,000	3	**8,240**

The non-executive Chairman became Executive Chairman shortly after the start of the financial year on an interim basis while the Chief Executive is absent on medical leave. John Watson's salary as non-executive Chairman had been set at £212,000 from 1 August 2017. He will receive an additional payment at the rate of £100,000 p.a. for the period during which he has additional executive responsibilities in Ted Ayres' absence. On Ted Ayres' return to the business the Chairman will resume his non-executive role and his fee will revert to £212,000.

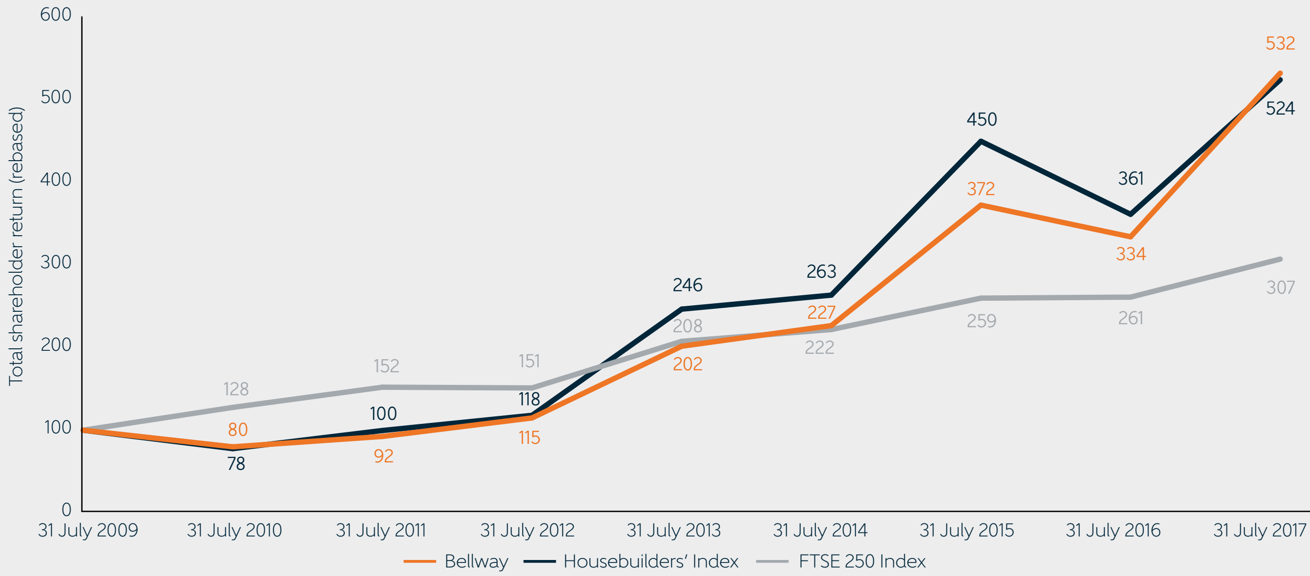
The Company's Articles of Association specify an annual limit on non-executive director fees of £500,000. This excludes the fees for the Chairman and additional fees payable to the senior independent non-executive director and to Committee Chairs. Shareholder approval is required to amend this limit.

Performance graph and table

The graph below shows the TSR performance over the past eight years of the Company, the FTSE 250 Index and the bespoke Housebuilders' Index (as defined in note 1 on page 66). The FTSE 250 Index has been selected as the most appropriate 'broad equity market index' as the Company has been a constituent of the FTSE 250 Index over this period. The bespoke Housebuilders' Index has been selected as this index is used for the Company's long-term incentive plans.

Total shareholder return

Source: Datastream (Thomson Reuters)



This graph shows the value, by 31 July 2017, of £100 invested in Bellway p.l.c. on 31 July 2009 compared with the value of £100 invested in the FTSE 250 Index and £100 invested equally in each of the housebuilders currently contained in the FTSE 350 Index (excluding Bellway). The other points plotted are the values at intervening financial year ends.

Chief Executive total remuneration

The table below sets out the total remuneration for the Chief Executive over the same eight-year period as for the chart above, together with the percentage of annual bonus paid and the vesting of long-term incentives as a percentage of the maximum (relating to the performance periods ending in that year).

	2010	2011	2012	2013	2014	2015	2016	**2017**
Total remuneration (£000)	1,532	1,899	1,396	1,243[(1)]	1,450	1,960	2,785[(2)]	**3,121**
Annual bonus paid (as % of maximum)	76.9%	100.0%	99.3%	100.0%	91.6%	88.8%	95.8%	**93.8%**
PSP vesting (as % of maximum)	48.3%	99.6%	0.0%	0.0%	50.0%	50.0%	100.0%	**100.0%**

Notes:

1. John Watson held the role of Chief Executive up until 31 January 2013 and Ted Ayres was Chief Executive for the remainder of the financial year from 1 February 2013 to 31 July 2013. The total remuneration for the period as Chief Executive was £714,053 for John Watson and £528,500 for Ted Ayres.
2. Restated as per note 4 to the table on page 63.

Percentage change in remuneration of the Chief Executive

The table below shows the percentage change over the financial year in respect of the Chief Executive's base salary, benefits and annual bonus compared to the average increase across all employees.

		% change
Salary	Chief Executive	+3
	All other employees	+3
Benefits	Chief Executive	0
	All other employees	+2
Annual bonus	Chief Executive	+1
	All other employees	+4

Importance of remuneration relative to dividends and section 106 and CIL payments

The table below shows the relative expenditure of the Group in respect of employee remuneration, dividends and section 106 and CIL payments, together with the percentage change in each, for the financial years ended 31 July 2016 and 31 July 2017. The directors have chosen dividends and section 106 and CIL payments as comparators to employee costs as they consider that these demonstrate the relative importance of the remuneration of its employees to the returns the Group generates to shareholders and the contribution it makes to developing communities through section 106 and CIL payments.

	2017 £000	2016 £000	% change
Employee costs[1]	**130,891**	118,899	+10
Dividends[2]	**149,575**	132,486	+13
Section 106 and CIL payments[3]	**118,176**	147,900	-20

Notes:

1. Employee costs are calculated as wages and salaries, bonus and taxable benefits (including the directors).
2. The dividend figures shown are the interim and final dividends paid or payable for the relevant financial year less forfeited dividends (see note 7).
3. The section 106 and CIL payments figures are calculated from invoices received for these payments.

Statement of voting at AGMs

The votes cast by proxy at AGMs in relation to resolutions regarding directors' remuneration are set out in the table below:

	Directors' Remuneration Policy (binding vote at AGM on 12 December 2014)		**Report of the Board on Directors' Remuneration (advisory vote at AGM on 13 December 2016)**	
	Number of votes	**% of votes cast**	**Number of votes**	**% of votes cast**
Votes cast in favour	89,575,994	97.67	86,002,698	99.35
Votes cast against	2,136,039	2.33	561,858	0.65
Total votes cast	91,712,033	100.00	86,564,556	100.00
Votes withheld	1,132,868	N/A	1,768,443	N/A

This report will be put to an advisory vote of the Company's shareholders at the AGM on 13 December 2017.

On behalf of the Board

Mike Toms
Chairman of the Board Committee on Executive Directors' Remuneration

16 October 2017

Report of the Directors

"The directors have proposed a final ordinary dividend for the year ended 31 July 2017 of 84.5p per share."

Simon Scougall
Group General Counsel and Company Secretary

The directors of Bellway p.l.c. present their report in accordance with section 415 of the Companies Act 2006.

Bellway p.l.c. is the holding company of the Bellway Group of companies and is a UK publicly listed company whose shares are traded on the London Stock Exchange. The main trading company is Bellway Homes Limited and this and all other subsidiaries and joint arrangements of the Group are listed in note 26 to the accounts.

The following table sets out where information can be found which is required to be reported on in the Report of the Directors, but has been included elsewhere in the Annual Report and Accounts and is simply cross-referenced here to avoid repetition. Where information that is required to be set out in this Report of the Directors has been included in the Strategic Report, reference is made to the Strategic Report in the table below:

Topic	Page number
Directors	36 – 37
Appointment and replacement of directors	42 and in the Articles
Directors' interests	67
Future developments	25 of the Strategic Report
Group undertakings	109
Environmental issues	28 – 35 of the Strategic Report
Greenhouse gas emissions	31 of the Strategic Report
Whistleblowing	50
Financial risk management	20 of the Strategic Report
Going concern	21 of the Strategic Report

Results and dividends

The profit for the year attributable to equity holders of the parent company amounts to £454.1 million (2016 – £402.9 million).

The directors have proposed a final ordinary dividend for the year ended 31 July 2017 of 84.5p per share (2016 - 74.0p). This has not been included within creditors as it was not approved by shareholders before the end of the financial year. The directors recommend payment of the final dividend on Wednesday 10 January 2018 to shareholders on the Register of Members at the close of business on Friday 1 December 2017.

Dividends paid during the year comprise a final dividend of 74.0p per share in respect of the year ended 31 July 2016, together with an interim dividend in respect of the year ended 31 July 2017 of 37.5p per share.

Directors' indemnities and Directors' and Officers' liability insurance

The Company carries appropriate insurance cover in respect of possible legal action being taken against its directors, officers and senior employees. The Articles provide the directors and officers with further protection against liability to third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of this report.

Major interests in shares

As at 31 July 2017 and as at the date of this report, the Company had been notified under DTR 5 of the following interests, amounting to 3% or more of the voting rights in the issued ordinary share capital of the Company:

	As at 31 July 2017		As at 16 October 2017	
	Number of shares with voting rights	**% total voting rights**	Number of shares with voting rights	% total voting rights
Standard Life Investments (Holdings) Limited – (name changed on 14 August 2017 to Standard Life Aberdeen plc following the merger of Aberdeen Asset Management PLC and Standard Life plc)	**12,237,705**	**9.97**	10,478,474	8.53
BlackRock Inc	**6,510,966**	**5.30**	6,510,966	5.30
Dimensional Fund Advisors LP	**6,150,766**	**5.00**	6,150,766	5.00
Credit Suisse Securities (Europe) Ltd	**3,890,282**	**3.17**	3,890,282	3.17

Post balance sheet events

There were no post balance sheet events.

Information on those third parties with which the Company has contracts or arrangements essential to its business

The Company is party to a number of banking agreements with major clearing banks. The withdrawal of such facilities could have a material effect on the financing of the business. There are no other arrangements which the Group considers to be critical to the performance of the business.

Takeovers Directive and change of control

The Company is party to a number of banking agreements which may be terminable in the event of a change of control of the Company. On a change of control any outstanding options and awards granted under the Group's share schemes would become exercisable, subject to any performance conditions being met.

Share capital

The Company's total issued share capital, as at 31 July 2017, consisted of 122,797,958 ordinary shares of 12.5p each. Further details of the issued capital of the Company can be found in note 18 to the accounts. The rights and obligations attaching to the ordinary shares in the Company are set out in the Articles of Association (the 'Articles'). Copies of the Articles can be obtained from Companies House or by writing to the Group General Counsel and Company Secretary at the Company's registered office.

Restrictions on the transfer of shares

The restrictions on the transfer of shares are set out in the Articles. In compliance with the Company's Share Dealing Code, Company approval is required for directors, certain employees and those persons closely associated with them to deal in the Company's ordinary shares. No person has special rights of control over the Company's share capital.

Rights in relation to the shares held in the employee benefit trust

The voting rights on shares held in the Bellway Employee Share Trust (1992) in relation to the Company's employee share schemes are exercisable by the trustees.

Restrictions on voting rights

Details of the deadlines for exercising voting rights are set out in the Articles. The directors are not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or on voting rights.

Amendments to the Articles

The Company may amend its Articles by passing a special resolution at a general meeting of its shareholders.

Powers of the Board

The business and affairs of the Company are managed by the directors, who may exercise all such powers of the Company as are, not by law or by the Articles, required to be exercised by the Company in general meetings. Subject to the provisions of the Articles, all powers of the directors are exercised at meetings of the directors which have been validly convened and at which a quorum is present.

Allotment of shares

During the year, 111,972 new ordinary shares were issued to satisfy awards made under the Company's employee share schemes. The directors have authority to allot shares within limits agreed by shareholders. Details of the renewal of this authority, including the resolutions which seek to renew this authority, are set out in the Notice of Meeting of the AGM, to be held on Wednesday 13 December 2017.

Purchase of the Company's own shares

The Company was given authority at the AGM on 13 December 2016 to purchase its own ordinary shares. As at the date of this report, no market purchases have been made by the Company. This authority will expire at the end of the forthcoming AGM. Details of the renewal of this authority including the resolution which seeks to renew this authority for a further year are set out in the Notice of Meeting of the AGM.

Listing Rules

There are no disclosures required by LR9.8.4 which apply to the Company.

Accountability and audit

The Going Concern Statement, Long-Term Viability Statement and the Statement of Directors' Responsibilities in respect of the Annual Report and Accounts are shown on pages 21, 21 and 74 respectively.

The Audit Committee, whose role is detailed on pages 46 to 50, has meetings at least twice a year with the Company's auditor, KPMG LLP.

People

The important role that our people perform is described throughout the Strategic Report. The following disclosures provide additional information on how we treat our people and how we engage with them.

We are an equal opportunities employer. It is our policy to develop and apply, throughout the Group, procedures and practices which are designed to ensure that equal opportunities are provided to all of our employees, or those who seek employment with the Group, irrespective of their age, colour, disability, ethnic origin, gender, marital status, nationality, parental status, race, religion, belief or sexual orientation.

All employees, whether part-time, full-time or temporary, are treated fairly and equally. Selection for employment, promotion, training or other matters affecting their employment is on the basis of aptitude and ability. All employees are supported and encouraged to develop to their full potential and the talents and resources of the workforce are fully utilised to maximise the efficiency of the organisation. Training at each division is planned and monitored through an annual training plan.

It is our policy to give full and fair consideration to the employment needs of disabled persons (and persons who become disabled whilst employed by the Group) and to comply with any current legislation with regard to disabled persons.

The importance of good communications with employees is recognised by the directors and senior management team. A newsletter is issued to all of our employees on a regular basis and each division maintains good employee relations using a variety of means appropriate to its own particular needs, with guidance when necessary from Head Office.

All new employees, when eligible, are automatically entered into the Group's pension arrangements. In addition, we operate a savings related share option scheme and have discretionary bonus arrangements in place. We also provide life assurance cover to all of our employees, offer a private medical scheme (depending on seniority) and offer childcare vouchers.

Health and safety at work

We promote all aspects of health and safety throughout our operations in the interests of employees, sub-contractors, suppliers, customers and visitors to our sites and premises. Health and safety issues are considered at each Board meeting and are addressed in the Strategic Report and on our website at www.bellway.co.uk/corporate-responsibility. The Board receives external advice and training from specialist advisers on both the directors' and the Company's regulatory obligations.

Auditor

In accordance with section 489 of the Companies Act 2006, a resolution for the appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming AGM.

AGM – special business

Five resolutions will be proposed as special business at the AGM to be held on Wednesday 13 December 2017. Explanatory notes on these resolutions are set out in the Notice of Meeting of the AGM.

Disclosure of all relevant information to the auditor

The directors who held office at the date of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and that each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently.
- make judgements and estimates that are reasonable, relevant and reliable.
- state whether they have been prepared in accordance with IFRSs as adopted by the EU.
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the Annual Report and Accounts

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Simon Scougall
Group General Counsel and Company Secretary

16 October 2017

Independent Auditor's Report to the Members of Bellway p.l.c.

1. Our opinion is unmodified

We have audited the financial statements of Bellway p.l.c. ('the Company') for the year ended 31 July 2017 which comprise the Group income statement, Group and Company statements of comprehensive income, statements of changes in equity, balance sheets, cash flow statements and the related notes, including the accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 July 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor by the shareholders on 19 January 1997. The period of total uninterrupted engagement is the 20 years ended 31 July 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality:	£26 million (2016 - £23 million)	
Group financial statements as a whole	4.6% (2016 - 4.8%) of Group profit before tax	
Coverage	99% (2016 - 99%) of Group profit before tax	
Risk of material misstatement		**vs 2016**
Recurring risks	Gross Profit recognition on current sites and carrying amount of land held for development and work in progress	◀▶
	Investments in subsidiaries	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters unchanged from 2016 in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Accounts	The risk	Our response
Group: Carrying amount of land held for development and work in progress £2,934 million (2016 – £2,532 million). **Gross profit** £662 million (2016 – £575 million). Refer to page 48 (Audit Committee Report), pages 86 and 89 (accounting policies) and note 13 on page 97 (financial disclosures).	**Subjective estimate:** The gross profit recognised on current sites and the carrying value of land held for development and work in progress is reliant on the Group's forecasts of the future selling price and the build costs, both of which are uncertain and can vary with market conditions.	Our procedures included: – **Control design:** Evaluating the Group's site valuation process upon which the site gross profit margin is based. This includes assessing the frequency of site valuations and assessing the process for authorising and recording incurred costs in the site valuations. – **Control observation:** Attending a selection of site valuation meetings to assess whether divisional senior management sufficiently challenge the latest site valuations. – **Test of details:** For all sites with unit sales during the year, comparing the gross margin recognised in the accounts to the latest site valuation and corroborate any significant differences by checking whether the differences in the margin recognised are supported by changes in valuations. This includes corroborating explanations received from divisional management in respect of undeveloped land and site valuations to underlying planning and legal documents and quantity surveyor assessments where applicable. – **Benchmarking assumptions:** Across all divisions, challenging judgements made by divisional management on site valuations and undeveloped land based on our knowledge of the Group and the industry. – **Historical comparisons:** Comparing budgeted and latest site valuations to assess the Group's ability to accurately forecast. – **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the degree of estimation involved in calculating the gross margin and carrying value of land and work in progress. **Our results** – We found the level of gross profit recognised to be acceptable. – We found the carrying value of land and work in progress to be acceptable.
Parent: Investments in subsidiaries £37 million (2016 - £35 million). Refer to page 86 (accounting policies) and note 11 on pages 95 and 96 (financial disclosures).	**Subjective estimate:** The estimated recoverable amount of investments is subjective due to the inherent uncertainty involved in forecasting the future cash flows of an investment.	– **Comparing valuations:** Evaluating the audit procedures performed over the subsidiaries' net assets, and comparing the carrying value of investments in the parent's accounts to the net assets within the subsidiary accounts; and – **Tests of details:** Inspection of the latest available audited accounts and consideration of the work performed by the Group audit team in respect of current year results. **Our results** – We found the carrying value of investments to be acceptable.

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3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £26 million, determined with reference to a benchmark of Group profit before tax, of which it represents 4.6% (2016 - 4.8%).

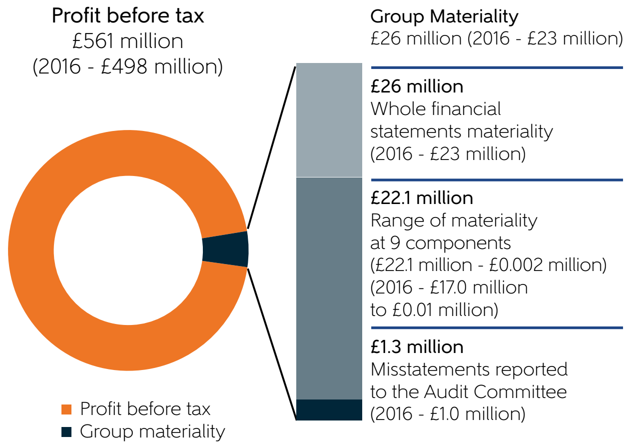
Materiality for the parent Company financial statements as a whole was set at £9.7 million (2016 - £9.7 million), determined with reference to a benchmark of Company total assets, of which it represents 1.5% (2016 - 1.5%).

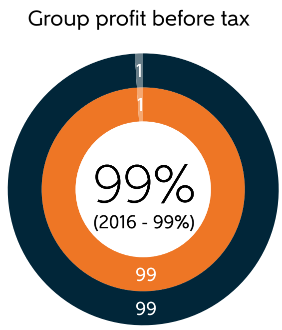
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.3 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

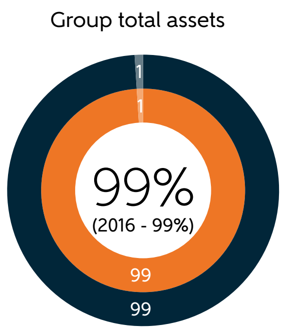
The components within the Group scope of our work accounted for the percentages illustrated opposite.

For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team approved the component materialities, which ranged from £22.1 million to £0.002 million, having regard to the mix of size and risk profile of the Group across the components. The work on all components, including the audit of the parent Company, was performed by the Group team.







Full scope for Group audit purposes 2017
Residual Components 2017
Full scope for Group audit purposes 2016
Residual Components 2016

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement on page 85 on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 21 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Long-Term Viability Statement on page 21 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Risk Management disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Long-Term Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Long-Term Viability Statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- a corporate governance statement has not been prepared by the company.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Based solely on our work on the other information described above:

- with respect to the Chairman's Statement on Corporate Governance disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
  - we have not identified material misstatements therein; and
  - the information therein is consistent with the financial statements; and
- in our opinion, the Chairman's Statement on Corporate Governance has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

6. We have nothing to report on the other matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 74, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; assessing the Group and parent 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 they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Nick Plumb (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Quayside House, 110 Quayside, Newcastle Upon Tyne, NE1 3DX

16 October 2017

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Group Income Statement

for the year ended 31 July 2017

	Notes	2017 Total £000	2016 Pre-exceptional item £000	2016 Exceptional item (note 5) £000	2016 Total £000
Revenue	1	**2,558,561**	2,240,651	–	2,240,651
Cost of sales		**(1,896,977)**	(1,665,892)	–	(1,665,892)
Gross profit		**661,584**	574,759	–	574,759
Administrative expenses		**(90,029)**	(82,751)	–	(82,751)
Operating profit	4	**571,555**	492,008	–	492,008
Profit on disposal of investment in joint venture	5	**–**	–	17,306	17,306
Finance income	2	**1,248**	1,186	–	1,186
Finance expenses	2	**(12,492)**	(12,326)	–	(12,326)
Share of result of joint ventures	11	**412**	(306)	–	(306)
Profit before taxation		**560,723**	480,562	17,306	497,868
Income tax expense	6	**(106,666)**	(94,966)	–	(94,966)
Profit for the year*		**454,057**	385,596	17,306	402,902

* All attributable to equity holders of the parent.

	Notes	2017	2016
Earnings per ordinary share – Basic	8	**370.6p**	328.7p
Earnings per ordinary share – Diluted	8	**369.0p**	328.0p

Statements of Comprehensive Income

for the year ended 31 July 2017

	Notes	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Profit for the period		**454,057**	402,902	**135,000**	173,950
Other comprehensive income/(expense)					
Items that will not be recycled to the income statement:					
Remeasurement gains/(losses) on defined benefit pension plans	24	**3,846**	(1,806)	**–**	–
Income tax on other comprehensive income/(expense)	6	**(730)**	(136)	**–**	–
Other comprehensive income/(expense) for the period, net of income tax		**3,116**	(1,942)	**–**	–
Total comprehensive income for the period*		**457,173**	400,960	**135,000**	173,950

* All attributable to equity holders of the parent.

Statements of Changes in Equity

at 31 July 2017

Group	Notes	Issued capital £000	Share premium £000	Capital redemption reserve £000	Other reserves £000	Retained earnings £000	Total £000	Non-controlling interest £000	Total equity £000
Balance at 1 August 2015		15,314	169,012	20,000	1,492	1,370,160	1,575,978	(66)	1,575,912
Total comprehensive income for the period									
Profit for the period		–	–	–	–	402,902	402,902	–	402,902
Other comprehensive expense*		–	–	–	–	(1,942)	(1,942)	–	(1,942)
Total comprehensive income for the period		–	–	–	–	400,960	400,960	–	400,960
Transactions with shareholders recorded directly in equity:									
Dividends on equity shares	7	–	–	–	–	(105,411)	(105,411)	–	(105,411)
Shares issued	18	21	1,134	–	–	–	1,155	–	1,155
Purchase of own shares	19	–	–	–	–	(6,864)	(6,864)	–	(6,864)
Credit in relation to share options and tax thereon	6, 24	–	–	–	–	1,264	1,264	–	1,264
Total contributions by and distributions to shareholders		21	1,134	–	–	(111,011)	(109,856)	–	(109,856)
Balance at 31 July 2016		15,335	170,146	20,000	1,492	1,660,109	1,867,082	(66)	1,867,016
Total comprehensive income for the period									
Profit for the period		–	–	–	–	454,057	454,057	–	454,057
Other comprehensive income*		–	–	–	–	3,116	3,116	–	3,116
Total comprehensive income for the period		–	–	–	–	457,173	457,173	–	457,173
Transactions with shareholders recorded directly in equity:									
Dividends on equity shares	7	–	–	–	–	(136,556)	(136,556)	–	(136,556)
Shares issued	18	14	1,094	–	–	–	1,108	–	1,108
Credit in relation to share options and tax thereon	6, 24	–	–	–	–	2,599	2,599	–	2,599
Total contributions by and distributions to shareholders		14	1,094	–	–	(133,957)	(132,849)	–	(132,849)
Balance at 31 July 2017		**15,349**	**171,240**	**20,000**	**1,492**	**1,983,325**	**2,191,406**	**(66)**	**2,191,340**

* An additional breakdown is provided in the Statements of Comprehensive Income.

Statements of Changes in Equity continued

at 31 July 2017

Company	Notes	Issued capital £000	Share premium £000	Capital redemption reserve £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at 1 August 2015		15,314	169,012	20,000	2,145	359,578	566,049
Total comprehensive income for the period							
Profit for the period		–	–	–	–	173,950	173,950
Other comprehensive income*		–	–	–	–	–	–
Total comprehensive income for the period		–	–	–	–	173,950	173,950
Transactions with shareholders recorded directly in equity:							
Dividends on equity shares	7	–	–	–	–	(105,411)	(105,411)
Shares issued	18	21	1,134	–	–	–	1,155
Purchase of own shares	19	–	–	–	–	(6,864)	(6,864)
Credit in relation to share options	24	–	–	–	–	1,568	1,568
Total contributions by and distributions to shareholders		21	1,134	–	–	(110,707)	(109,552)
Balance at 31 July 2016		15,335	170,146	20,000	2,145	422,821	630,447
Total comprehensive income for the period							
Profit for the period		–	–	–	–	135,000	135,000
Other comprehensive income*		–	–	–	–	–	–
Total comprehensive income for the period		–	–	–	–	135,000	135,000
Transactions with shareholders recorded directly in equity:							
Dividends on equity shares	7	–	–	–	–	(136,556)	(136,556)
Shares issued	18	14	1,094	–	–	–	1,108
Credit in relation to share options	24	–	–	–	–	2,066	2,066
Total contributions by and distributions to shareholders		14	1,094	–	–	(134,490)	(133,382)
Balance at 31 July 2017		**15,349**	**171,240**	**20,000**	**2,145**	**423,331**	**632,065**

* An additional breakdown is provided in the Statements of Comprehensive Income.

Balance Sheets

at 31 July 2017

	Notes	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
ASSETS					
Non-current assets					
Property, plant and equipment	9	**11,255**	14,904	**–**	–
Investment property	10	**–**	–	**–**	–
Investments in joint ventures and subsidiaries	11	**34,345**	4,550	**37,285**	35,219
Trade and other receivables	14	**–**	11,406	**–**	–
Deferred tax assets	12	**2,432**	2,490	**–**	–
		48,032	33,350	**37,285**	35,219
Current assets					
Inventories	13	**2,968,184**	2,548,339	**–**	–
Trade and other receivables	14	**85,168**	80,185	**542,318**	542,766
Cash and cash equivalents	21	**45,965**	58,968	**52,751**	52,762
		3,099,317	2,687,492	**595,069**	595,528
Total assets		**3,147,349**	2,720,842	**632,354**	630,747
LIABILITIES					
Non-current liabilities					
Retirement benefit obligations	24	**3,977**	8,036	**–**	–
Trade and other payables	16	**113,743**	87,866	**–**	–
Deferred tax liabilities	12	**686**	314	**–**	–
		118,406	96,216	**–**	–
Current liabilities					
Interest-bearing loans and borrowings	15	**30,000**	32,500	**–**	–
Corporation tax payable		**58,143**	50,500	**–**	–
Trade and other payables	16	**749,460**	674,610	**289**	300
		837,603	757,610	**289**	300
Total liabilities		**956,009**	853,826	**289**	300
Net assets		**2,191,340**	1,867,016	**632,065**	630,447
EQUITY					
Issued capital	18	**15,349**	15,335	**15,349**	15,335
Share premium		**171,240**	170,146	**171,240**	170,146
Capital redemption reserve	19	**20,000**	20,000	**20,000**	20,000
Other reserves		**1,492**	1,492	**2,145**	2,145
Retained earnings		**1,983,325**	1,660,109	**423,331**	422,821
Total equity attributable to equity holders of the parent		**2,191,406**	1,867,082	**632,065**	630,447
Non-controlling interest		**(66)**	(66)	**–**	–
Total equity		**2,191,340**	1,867,016	**632,065**	630,447

Approved by the Board of Directors on 16 October 2017 and signed on its behalf by:

John Watson
Director

Keith Adey
Director

Registered number 1372603

Cash Flow Statements

for the year ended 31 July 2017

	Notes	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Cash flows from operating activities					
Profit for the year		**454,057**	402,902	**135,000**	173,950
Depreciation charge	9	**2,759**	3,044	**–**	–
Exceptional profit	5	**–**	(17,306)	**–**	–
Profit on sale of property, plant and equipment	4	**(162)**	(74)	**–**	–
Loss on sale of investment properties		**–**	187	**–**	–
Finance income	2	**(1,248)**	(1,186)	**–**	–
Finance expenses	2	**12,492**	12,326	**–**	–
Share-based payment expense	24	**2,066**	1,568	**–**	–
Share of post tax result of joint ventures	11	**(412)**	306	**–**	–
Income tax expense	6	**106,666**	94,966	**–**	–
Increase in inventories		**(419,845)**	(413,041)	**–**	–
Decrease/(increase) in trade and other receivables		**7,561**	(68)	**448**	(62,831)
Increase/(decrease) in trade and other payables		**92,581**	165,737	**(11)**	2
Cash from operations		**256,515**	249,361	**135,437**	111,121
Interest paid		**(4,616)**	(4,284)	**–**	–
Income tax paid		**(98,790)**	(82,384)	**–**	–
Net cash inflow from operating activities		**153,109**	162,693	**135,437**	111,121
Cash flows from investing activities					
Acquisition of property, plant and equipment		**(2,109)**	(3,373)	**–**	–
Proceeds from sale of property, plant and equipment		**3,161**	273	**–**	–
Proceeds from sale of investment in joint venture - exceptional item	5	**–**	16,600	**–**	–
Proceeds from sale of investment properties		**–**	1,422	**–**	–
Dividends received		**–**	–	**–**	4,000
Increase in loans to joint ventures	11	**(29,383)**	(1,768)	**–**	–
Interest received		**167**	250	**–**	–
Net cash (outflow)/inflow from investing activities		**(28,164)**	13,404	**–**	4,000
Cash flows from financing activities					
Decrease in bank borrowings		**(2,500)**	(47,500)	**–**	–
Proceeds from the issue of share capital on exercise of share options		**1,108**	1,155	**1,108**	1,155
Purchase of own shares by employee share option plans		**–**	(6,864)	**–**	(6,864)
Dividends paid	7	**(136,556)**	(105,411)	**(136,556)**	(105,411)
Net cash outflow from financing activities		**(137,948)**	(158,620)	**(135,448)**	(111,120)
Net (decrease)/increase in cash and cash equivalents		**(13,003)**	17,477	**(11)**	4,001
Cash and cash equivalents at beginning of year		**58,968**	41,491	**52,762**	48,761
Cash and cash equivalents at end of year	21	**45,965**	58,968	**52,751**	52,762

Accounting Policies

Basis of preparation

Bellway p.l.c. (the 'Company') is a company incorporated in England and Wales.

Both the Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') and have been prepared on the historical cost basis except for assets recognised at fair value through profit or loss which are stated at their fair value. On publishing the Company financial statements here together with the Group financial statements, which were approved for issue on 16 October 2017, the Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

The preparation of the financial statements in conformity with Adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Operating Review on pages 22 to 25. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 26 to 27 and the Report of the Directors on pages 71 to 74. The Risk Management section on pages 16 to 20 sets out the Group's policies and processes for managing its capital, financial risk, and its exposure to credit, liquidity, interest rate and housing market risk.

The Group's activities are financed principally by a combination of ordinary shares and bank borrowings less cash in hand. At 31 July 2017, net cash was £16.0 million having expended cash of £10.5 million during the year. The Group has operated within all of its banking covenants throughout the year. In addition, the Group had bank facilities of £430.0 million, expiring in tranches up to November 2020, with £400.0 million available for drawdown under such facilities at 31 July 2017.

The directors consider that the Group is well placed to manage business and financial risks in the current economic environment and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Judgements made by the directors, in the application of these accounting policies and Adopted IFRSs, 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.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

Effect of new standards and interpretations effective for the first time

The Group adopted IAS 1 'Disclosure Initiative' and Annual Improvements 2012-2014 during the year. The adoption of these has not had a material effect on the Group's profit for the year or equity.

The other standards and interpretations that are applicable for the first time in the Group's financial statements for the year ended 31 July 2017 have had no effect on these financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to 31 July. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of these entities are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Joint arrangements are those entities over whose activities the Group has joint control, established by contractual agreement. A joint arrangement can take two forms:

(i) Joint venture – These entities are consolidated using the equity method of accounting.

(ii) Joint operation – The Group's share of the assets, liabilities and transactions of such entities are consolidated as if they were assets, liabilities and transactions of the Group.

Property, plant and equipment

Items are stated at cost less accumulated depreciation and impairment losses. Depreciation on property, plant and equipment is charged to the income statement on a straight-line basis over their estimated useful lives over the following number of years:

- Plant, fixtures and fittings – 3 to 10 years.
- Freehold buildings – 40 years.

Freehold land is not depreciated.

Investment property

Investment property is initially recognised at cost. Subsequent to recognition, investment property is measured using the cost model and is carried at cost less any accumulated depreciation and accumulated impairment losses.

Depreciation is charged, where material, so as to write off the cost less residual value of the investment properties over their estimated useful lives. The residual values and useful lives of investment properties are reviewed at each financial year end.

The useful life of investment properties has been assessed as being 10 to 100 years.

Land is not depreciated.

Investments in subsidiaries

Interests in subsidiary undertakings are valued at cost less impairment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, in relation to work in progress and showhomes, comprises direct materials and, where applicable, direct labour costs and those overheads, not including any general administrative overheads, that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and overheads.

Land held for development, including land in the course of development until legal completion of the sale of the asset, is initially recorded at cost. Regular reviews are carried out to identify any impairment in the value of the land by comparing the total estimated selling prices less estimated selling expenses against the book cost of the land plus estimated costs to complete. A provision is made for any irrecoverable amounts. Where, through deferred payment terms, the fair value of land purchased differs from the amount that will subsequently be paid in settling the liability, the difference is charged as a finance expense in the income statement over the period to settlement.

Options purchased in respect of land are capitalised initially at cost. Regular reviews are carried out for impairment in the value of these options, and provisions made accordingly to reflect loss of value. The impairment reviews consider the period elapsed since the date of purchase of the option given that the option contract has not been exercised at the review date. Further, the impairment reviews consider the remaining life of the option, taking account of any concerns over whether the remaining time available will allow a successful exercise of the option. The carrying cost of the option at the date of exercise is included within the cost of land purchased as a result of the option exercise.

Investments in land without the benefit of planning consent, either through the purchase of land or non-refundable deposits paid on land purchase contracts subject to planning consent, are included initially at cost. Regular reviews are carried out for impairment in the values of these investments and provision made to reflect any irrecoverable element. The impairment reviews consider the existing use value of the land and assess the likelihood of achieving planning consent and the value thereof.

Trade and other receivables

Trade and other receivables are stated at their fair value at the date of initial recognition and subsequently at amortised cost less allowances for impairment.

Consideration which is contingent on future events is recognised based on the estimated amount if it is probable and can be reliably measured. Any subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents are defined as cash balances in hand and in the bank (including short-term cash deposits). The Group utilises bank overdraft facilities, which are repayable on demand, as part of its cash management policy. As a consequence, bank overdrafts are included as a component of net cash and cash equivalents within the cash flow statement.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are stated at their fair value at the date of initial recognition and subsequently at amortised cost.

Trade and other payables

Trade and other payables on normal terms are not interest-bearing and are stated at their nominal value. Trade and other payables on deferred terms, most notably in relation to land purchases, are recorded initially at their fair value. The discount to nominal value is amortised over the period to settlement and charged to finance expenses.

Dividends

Dividends on equity shares are recognised as a liability in the period in which they are approved by the shareholders. Interim dividends are recognised when paid.

Classification of equity instruments and financial liabilities issued by the Group

Equity instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Grants

Grants are included within work in progress in the balance sheet to the extent that they contribute to construction costs and within deferred income to the extent that they contribute to site income. Grants are credited to the income statement over the life of the developments to which they relate.

Revenue recognition

(a) Private and social (turnkey and plot sale) housing sales and land sales.

Revenue is recognised in the income statement when the significant risks and rewards of ownership have transferred to the purchaser, which is when legal title is transferred.

(b) Social housing properties as part of a land sale and design and build contract.

Revenue is recognised in the income statement when the significant risks and rewards of ownership have transferred to the purchaser, which is when the homes are build complete and all material contractual obligations have been fulfilled.

Incentives

Sales incentives are substantially cash in nature but include part-exchange costs which mainly relate to amounts written down, where the part-exchange allowance given to the purchaser of the new home is greater than the valuation of the part-exchange property. Incentives are accounted for by reducing the housebuild revenue by the cost to the Group of providing the incentive.

Rental income

Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

Part-exchange properties

The purchase and subsequent sale of part-exchange properties is an activity undertaken in order to achieve the sale of a new property. As such, the activity is regarded as a mechanism for selling. Impairments and gains or losses on the sale of part-exchange properties are classified as a cost of sale.

Contingent liabilities

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Taxation

The charge for taxation is based on the result for the year and takes into account current and deferred taxation. The charge is recognised in the income statement except to the extent that it relates to items recognised in equity in which case it is recognised in equity.

Deferred taxation is provided for all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Employee benefits – retirement benefit costs

The defined benefit scheme liability is the present value of the defined benefit obligation less the fair value of scheme assets, both at the balance sheet date. The calculation is performed by a qualified actuary using the projected unit credit method. All remeasurement gains and losses are recognised immediately in the Statement of Comprehensive Income ('SOCI'). Net interest cost is calculated on the defined benefit liability for the period by applying the discount rate used to measure the defined benefit liability at the start of the year. Return on plan assets in excess of the amounts included in the net interest cost are recognised in the SOCI.

Further details of the scheme and the valuation methods applied may be found in note 24 to the accounts.

Defined contribution pension costs are charged to the income statement in the period for which contributions are payable.

Employee benefits – share-based payments

The fair value of equity settled share options granted 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 is only amended if vesting does not take place due to non-market conditions not being met. Various option pricing models are used according to the terms of the option scheme under which the options were granted. The fair value is spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of options that vest. At the balance sheet 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.

With respect to share-based payments, a deferred tax asset is recognised on the relevant tax base. The tax base is then compared to the cumulative share-based payment expense recognised in the income statement. Deferred tax arising on the excess of the tax base over the cumulative share-based payment expense recognised in the income statement has been recognised directly in equity outside the SOCI as share-based payments are considered to be transactions with shareholders.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity settled share-based payment charge recognised in its consolidated financial statements, with the corresponding credit being recognised in equity.

Own shares held by ESOP trust

Transactions of the Company-sponsored ESOP trust are included in both the Group financial statements and the Company's own financial statements. The purchase of shares in the Company by the trust are charged directly to equity.

Operating leases

Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease.

Finance income and expenses

Finance income includes interest receivable on bank deposits.

Finance expenses includes interest on bank borrowings. The discounting of the deferred payments for land purchases produces a notional interest payable amount and this is also charged to finance expenses.

Exceptional items

Exceptional items are those which, in the opinion of the Board, are material by size or nature, non-recurring, and of such significance that they require separate disclosure on the face of the income statement.

Accounting estimates and judgements

Management considers the key estimates and judgements made in the financial statements to be related to:

Valuation of work in progress and land held for development

Inventories are carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price (in the ordinary course of business) less all estimated costs of completion and overheads. Valuations of site/phase work in progress are carried out at regular intervals and estimates of the cost to complete a site/phase and estimates of anticipated revenues are required to enable a development profit to be determined. Management are required to employ considerable judgement in estimating the profitability of a site/phase and in assessing any impairment provisions which may be required.

For both financial years, a full review of inventories has been performed and write-downs have been made where cost exceeds net realisable value. Estimated selling prices have been reviewed on a site by site/phase by phase basis and have been amended based on local management and the Board's assessment of current market conditions. For the years ended 31 July 2017 and 31 July 2016 no exceptional charge has resulted from the review.

Gross profit recognition

Gross profit for completed house sales is recognised based on the latest whole site/phase gross margin which is an output of the site/phase valuation. These valuations, which are updated at frequent intervals throughout the life of the site/phase, use actual and forecast selling prices, land costs and construction costs and are sensitive to future movements in both the estimated cost to complete and expected selling prices. Forecast selling prices are inherently uncertain due to changes in market conditions.

Standards and interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following relevant standards which have not been applied in these financial statements were in issue and endorsed by the EU but not yet effective:

- IFRS 9 'Financial Instruments'. This standard will replace IAS 39 'Financial Instruments: Recognition and Measurement' and will affect both the measurement and disclosures of financial instruments. This is effective for the period beginning on 1 August 2018. The Group is still assessing the full effect of this standard.
- IFRS 15 'Revenue from contracts with customers'. This is a converged standard from the IASB and FASB on revenue recognition to assist with comparability of revenue globally. This is effective for the period beginning on 1 August 2018. It is expected that this standard will result in presentational changes to the income statement to gross up part-exchange revenue and expenses within operating profit which are currently recognised on a net basis within cost of sales. It is not anticipated that the adoption of this standard will effect either the balance sheet or cash flow statement.

Of the other IFRSs that are available for early adoption, none are expected to have a material effect on the financial statements.

The following standard, which is expected to effect the financial statements of the Group, has not been applied in these financial statements, but was in issue although not yet endorsed by the EU:

- IFRS 16 'Leases'. This standard replaces the existing standard, IAS 17 'Leases', where lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. This is effective for the period beginning on 1 August 2019, with earlier adoption permitted if IFRS 15 'Revenue from contracts with customers' is also applied. This is likely to affect the timing of the recognition of the lease costs within the income statement and the split between operating profit and finance expenses.

Notes to the Accounts

1 Segmental analysis

The executive Board (the Chief Operating Decision Maker as defined in IFRS 8) regularly reviews the Group's performance and balance sheet position at both a consolidated and divisional level. Each division is an operating segment as defined by IFRS 8 in that the executive Board assess performance and allocates resources at this level. All of the divisions have been aggregated in to one reporting segment on the basis that they share similar economic characteristics, including:

- national supply agreements are in place for key inputs including materials.
- debt is raised centrally and the cost of capital is the same at each division.
- sales demand at each division is subject to the same macroeconomic factors, such as mortgage availability and government policy.

Additional information on average selling prices and the unit sales split between north, south, private and social has been included in the Operating Review on pages 22 to 25. The Board does not, however, consider these categories to be separate reportable segments as they review the entire operations at a consolidated and divisional level when assessing performance and making decisions about the allocation of resources.

2 Finance income and expenses

	2017 £000	2016 £000
Interest receivable on bank deposits	**154**	211
Interest on fair value through profit or loss	**1,054**	533
Other interest income	**40**	442
Finance income	**1,248**	1,186
Interest payable on bank loans and overdrafts	**4,642**	4,497
Interest on deferred term land payables	**7,662**	7,589
Interest element of movement in pension scheme deficit	**188**	240
Finance expenses	**12,492**	12,326

3 Employee information

Group employment costs, including directors, comprised:

	2017 £000	2016 £000
Wages and salaries	**128,880**	117,215
Social security	**13,580**	11,615
Pension costs (note 24)	**4,068**	3,867
Share-based payments (note 24)	**2,066**	1,568
	148,594	134,265

The average number of persons employed by the Group during the year was 2,544 (2016 – 2,366) comprising 887 (2016 – 810) administrative and 1,657 (2016 – 1,556) production and others employed in housebuilding and associated trading activities.

The executive directors and the Group General Counsel and Company Secretary are the only employees of the Company and the emoluments of the executive directors are disclosed in the Report of the Board on Directors' Remuneration on pages 51 to 70.

Key management personnel remuneration, including directors, comprised:

	2017 £000	2016 £000
Salaries and fees	**2,633**	2,506
Taxable benefits	**132**	125
Annual bonus – cash	**2,056**	2,054
Pension costs	**107**	141
Share-based payments	**1,109**	995
	6,037	5,821

Key management personnel, as disclosed under IAS 24: 'Related party disclosures', comprises the directors and other senior operational management.

4 Operating profit

	2017 £000	2016 £000
Operating profit is stated after charging/(crediting):		
Staff costs (note 3)	**148,594**	134,265
Profit on sale of property, plant and equipment	**(162)**	(74)
Depreciation of property, plant and equipment	**2,759**	3,044
Hire of plant and machinery	**15,568**	13,844
Operating lease charges for land and buildings	**1,618**	1,407
Auditor's remuneration:		
Audit of these financial statements	**30**	30
Amounts receivable by the auditor and its associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**163**	154
Other services relating to taxation	**–**	15
Pension scheme audit	**5**	4
Other assurance services	**5**	–

Amounts paid to the Company's auditor and their associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis. The relevant proportion of amounts paid to the auditor for the audit of financial statements of joint ventures is £0.016 million (2016 – £0.016 million).

5 Exceptional item

Exceptional items are those which, in the opinion of the Board, are material by size or nature, non-recurring, and of such significance that they require separate disclosure on the face of the income statement.

On 7 March 2016, the Group disposed of its entire interest in Barking Riverside Limited, its joint venture company with the Greater London Authority, to L&Q New Homes Limited. Bellway will receive total consideration with a fair value of £43.5 million over the three years from the date of disposal, including £17.0 million received in March 2016 on completion. The deferred consideration is recognised as a 'fair value through profit or loss' (note 17) financial asset. In addition to the disposal proceeds, the Group was relieved from its substantial funding obligations with regards to the ongoing remediation and infrastructure requirements of this long-term, capital intensive site. The profit of £17.3 million, arising on disposal, was treated as an exceptional item during the year ended 31 July 2016.

6 Income tax expense

	2017 £000	2016 £000
Current tax expense:		
UK corporation tax	**108,413**	95,770
Adjustments in respect of prior years	**(1,980)**	(616)
	106,433	95,154
Deferred tax expense/(income):		
Origination and reversal of temporary differences	**236**	91
Reduction in tax rate	**(13)**	(298)
Adjustments in respect of prior years	**10**	19
	233	(188)
Total income tax expense in income statement	**106,666**	94,966

	2017 %	2017 £000	2016 %	2016 £000
Reconciliation of effective tax rate:				
Profit before taxation		**560,723**		497,868
Tax calculated at UK corporation tax rate	**19.7**	**110,462**	20.0	99,574
Enhanced deductions and non-taxable income	**(0.3)**	**(1,826)**	(0.8)	(4,011)
Adjustments in respect of prior years – current tax	**(0.4)**	**(1,980)**	(0.1)	(616)
– deferred tax	**–**	**10**	–	19
Effective tax rate and tax expense for the year	**19.0**	**106,666**	19.1	94,966

The corporation tax rate reduced to 20% with effect from 1 April 2015 and 19% with effect from 1 April 2017.

The deferred tax assets/(liabilities) held by the Group at the start of the comparative year were revalued at the substantively enacted corporation tax rate that will be effective when they are expected to be realised. Reductions in the UK corporation tax rate to 19% from April 2017 and to 18% from April 2020 have been announced and were substantively enacted at 31 July 2016.

The deferred tax assets/(liabilities) held by the Group at the start of the current year that were expected to be realised after 31 March 2020 have been revalued at 17%, the substantively enacted corporation tax rate that will be effective when they are expected to be realised.

The effective income tax expense is 19.0% of profit before taxation (2016 – 19.1%) and compares favourably to the Group's standard tax rate for the year of 19.7% (2016 – 20.0%). The lower effective tax rate in the current year is principally due to enhanced tax deductions received by the Group in relation to land remediation relief and a credit following the finalisation of the prior year corporation tax returns.

	2017 £000	2016 £000
Deferred tax recognised directly in equity:		
Credit/(charge) relating to equity-settled transactions	**533**	(304)
Charge relating to remeasurements on the defined benefit pension scheme	**(730)**	(136)

7 Dividends on equity shares

	2017 £000	2016 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 July 2016 of 74.0p per share (2015 – 52.0p)	**90,589**	63,712
Interim dividend for the year ended 31 July 2017 of 37.5p per share (2016 – 34.0p)	**45,980**	41,709
Dividends forfeited	**(13)**	(10)
	136,556	105,411
Proposed final dividend for the year ended 31 July 2017 of 84.5p per share (2016 – 74.0p)	**103,608**	90,787

The 2017 proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 13 December 2017 and, in accordance with IAS 10 'Events after the Reporting Period', has not been included as a liability in these financial statements. At the record date for the final dividend for the year ended 31 July 2016 shares were held by the Bellway Employee Share Trust (1992) (the 'Trust') (note 19) on which dividends had been waived.

The level of distributable reserves are sufficient in comparison to the proposed dividend.

8 Earnings per ordinary share

Basic earnings per ordinary share is calculated by dividing earnings by the weighted average number of ordinary shares in issue during the year (excluding the weighted average number of ordinary shares held by the Trust which are treated as cancelled).

Diluted earnings per ordinary share uses the same earnings figure as the basic calculation. The weighted average number of shares has been adjusted to reflect the dilutive effect of outstanding share options allocated under employee share schemes where the market value exceeds the option price. Diluted earnings per ordinary share is calculated by dividing earnings by the diluted weighted average number of ordinary shares.

Reconciliations of the earnings and weighted average number of shares used in the calculations are outlined below:

	Earnings 2017 £000	Weighted average number of ordinary shares 2017 Number	Earnings per share 2017 p	Earnings 2016 £000	Weighted average number of ordinary shares 2016 Number	Earnings per share 2016 p
For basic earnings per ordinary share	**454,057**	**122,511,626**	**370.6**	402,902	122,558,261	328.7
Dilutive effect of options and awards		**536,577**	**(1.6)**		291,845	(0.7)
For diluted earnings per ordinary share	**454,057**	**123,048,203**	**369.0**	402,902	122,850,106	328.0

9 Property, plant and equipment

Group	Land and property £000	Plant, fixtures and fittings £000	Total £000
Cost			
At 1 August 2015	9,259	17,909	27,168
Additions	165	3,208	3,373
Disposals	–	(1,892)	(1,892)
At 1 August 2016	9,424	19,225	28,649
Additions	124	1,985	2,109
Disposals	–	(7,396)	(7,396)
At 31 July 2017	**9,548**	**13,814**	**23,362**
Depreciation			
At 1 August 2015	1,748	10,646	12,394
Charge for year	208	2,836	3,044
On disposals	–	(1,693)	(1,693)
At 1 August 2016	1,956	11,789	13,745
Charge for year	209	2,550	2,759
On disposals	–	(4,397)	(4,397)
At 31 July 2017	**2,165**	**9,942**	**12,107**
Net book value			
At 31 July 2017	**7,383**	**3,872**	**11,255**
At 31 July 2016	7,468	7,436	14,904
At 31 July 2015	7,511	7,263	14,774

The Company has no property, plant and equipment.

10 Investment property

Group	Total £000
Cost	
At 1 August 2015	2,257
Disposals	(1,834)
At 1 August 2016	423
Disposals	–
At 31 July 2017	**423**
Depreciation	
At 1 August 2015	648
On disposals	(225)
At 1 August 2016	423
On disposals	–
At 31 July 2017	**423**
Net book value	
At 31 July 2017	**–**
At 31 July 2016	–
At 31 July 2015	1,609

Investment properties represent homes which have been sold under a shared ownership scheme and where Bellway has retained an equity stake. They are valued under the cost model and are held at cost less accumulated depreciation and accumulated impairment losses. A formal internal valuation of investment properties was carried out at the end of the financial year. The fair value of the investment properties was assessed at £nil (2016 – £nil).

Investment properties are held at cost and categorised as level 3 within the hierarchical classification of IFRS 7 (as defined within the standard). The fair value is the estimated amount receivable by the Group, discounted to present day values. The fair value of future anticipated cash receipts takes into account the directors' view of significant unobservable inputs including future house price movements, the expected timing of receipts and the likelihood that a purchaser defaults on a repayment. The directors revisited the future anticipated cash receipts from the assets at the end of each reporting period. See note 17 for further details.

The Company has no investment properties.

11 Investments in subsidiaries and joint ventures

The Group and Company have the following investments in subsidiaries and joint ventures:

Subsidiary undertakings	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Interest in subsidiary undertakings' shares at cost	**–**	–	**37,285**	35,219
Investments accounted for using equity method				
Interest in joint ventures – loan	**33,940**	4,557	**–**	–
Interest in joint ventures – equity	**405**	(7)	**–**	–
	34,345	4,550	**–**	–
	34,345	4,550	**37,285**	35,219

The subsidiary undertakings and joint arrangements in which the Group has interests are incorporated in England and Wales. In each case their principal activity is related to housebuilding. The Group is made up of 58 subsidiaries and 8 joint arrangements. Further details are included in note 26.

Where Bellway owns 100% of the voting rights of a business, the company is considered to be controlled by Bellway and is treated as a subsidiary.

11 Investments in subsidiaries and joint ventures continued

North Solihull Partnership LP, Cramlington Developments Limited and Leebell Developments Limited are classified as joint operations as the shareholders have substantially all of the economic benefit of the assets and fund the liabilities of the entities.

Ponton Road LLP, Fradley Residential LLP and Barking Riverside Limited (until it was classified as held for sale during the year ended 31 July 2016) are classified as joint ventures as the Group has rights to the net assets of the arrangements rather than the individual assets and liabilities.

The movement on the investment in the joint ventures during the year is as follows:

	2017 £000	2016 £000
At the start of the year	**4,550**	28,997
Net increase in loans	**29,383**	2,050
Transfer to assets held for sale	**–**	(26,191)
Share of results	**412**	(306)
At the end of the year	**34,345**	4,550

The Group's share of the joint ventures' net assets/(liabilities) and income/(expenses) is made up as follows:

	2017 £000	2016 £000
Non-current assets	**19**	24
Current assets	**40,046**	8,599
Current liabilities	**(36,832)**	(8,099)
Non-current liabilities	**(2,828)**	–
Share of net assets/(liabilities) of joint ventures	**405**	524
Revenue	**2,623**	4,204
Costs	**(2,055)**	(4,191)
Operating profit	**568**	13
Interest	**(156)**	(319)
Share of results of joint ventures	**412**	(306)

Guarantees relating to the overdrafts of the joint ventures have been given by the Company (note 22).

On 31 January 2016 the Group reclassified its investment in Barking Riverside Limited from investments in joint ventures to assets held for sale. On 7 March 2016 the Group disposed of its entire interest in Barking Riverside Limited for consideration with a fair value of £43.5 million (note 5).

12 Deferred taxation

The following are the deferred tax assets and liabilities recognised by the Group and the movements thereon during the current and prior year:

Group	Capital allowances £000	Retirement benefit obligations £000	Share-based payments £000	Other temporary differences £000	**Total £000**
At 1 August 2015	(144)	1,492	1,269	(189)	**2,428**
Income statement credit/(charge)	49	92	77	(30)	**188**
Charge to statement of comprehensive income	–	(136)	–	–	**(136)**
Charge to equity	–	–	(304)	–	**(304)**
At 31 July 2016	(95)	1,448	1,042	(219)	**2,176**
Income statement credit/(charge)	123	(40)	151	(467)	**(233)**
Charge to statement of comprehensive income	–	(730)	–	–	**(730)**
Credit to equity	–	–	533	–	**533**
At 31 July 2017	**28**	**678**	**1,726**	**(686)**	**1,746**

The following is an analysis of the deferred tax balances for financial reporting purposes:

	2017 £000	2016 £000
Retirement benefit obligations	**678**	1,448
Capital allowances	**28**	–
Share-based payments	**1,726**	1,042
Deferred tax assets	**2,432**	2,490
Capital allowances	**–**	(95)
Other temporary differences	**(686)**	(219)
Deferred tax liabilities	**(686)**	(314)
Net deferred tax asset	**1,746**	2,176

The carrying amount of the deferred tax asset is reviewed at each balance sheet date and is recognised to the extent that there will be sufficient taxable profits to allow the asset to be recovered.

There are no deferred tax balances in respect of the Company.

13 Inventories

Group	2017 £000	2016 £000
Land	**1,838,190**	1,625,619
Work in progress	**1,017,693**	836,080
Showhomes	**78,224**	70,357
Part-exchange properties	**34,077**	16,283
	2,968,184	2,548,339

Inventories of £1,854.3 million were expensed in the year (2016 – £1,630.8 million).

In the ordinary course of business inventories have been written back by a net £8.1 million (2016 – £9.4 million) in the year.

Land with a carrying value of £202.0 million (2016 – £109.9 million) was used as security for land payables (note 16).

The directors consider all inventories to be essentially current in nature although the Group's operational cycle is such that a proportion of inventories will not be realised within 12 months. It is not possible to determine with accuracy when specific inventory will be realised as this is subject to a number of factors including consumer demand and planning permission delays.

The Company has no inventory.

14 Trade and other receivables

Current receivables

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Trade receivables	**34,075**	24,383	**–**	–
Other receivables	**46,626**	51,833	**–**	–
Amounts owed by Group undertakings	**–**	–	**542,318**	542,766
Prepayments and accrued income	**4,467**	3,969	**–**	–
	85,168	80,185	**542,318**	542,766

The Group assesses the ageing of trade receivables in terms of whether amounts are receivable in less than one year or more than one year. None of the trade receivables are past their due dates (2016 – nil).

Other receivables includes £21.169 million (2016 – £22.172 million) in relation to VAT recoverable.

14 Trade and other receivables continued

Non-current receivables

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Other receivables	–	11,406	–	–

15 Interest-bearing loans and borrowings

Current liabilities

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Bank loans	30,000	32,500	–	–

16 Trade and other payables

Non-current liabilities

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Land payables	111,750	82,959	–	–
Other payables	1,993	4,907	–	–
	113,743	87,866	–	–

Land payables of £77.883 million (2016 – £16.448 million) are secured on the land to which they relate.

The carrying value of the land used for security is £76.342 million (2016 – £16.183 million).

Current liabilities

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Trade payables	272,767	216,335	–	–
Land payables	255,023	221,201	–	–
Social security and other taxes	5,702	4,051	–	–
Other payables	2,089	2,576	289	300
Accrued expenses and deferred income	112,464	82,547	–	–
Payments on account	101,415	147,900	–	–
	749,460	674,610	289	300

Land payables of £127.628 million (2016 – £95.400 million) are secured on the land to which they relate.

The carrying value of the land used for security is £125.663 million (2016 – £93.696 million).

17 Financial instruments

Land purchased on deferred terms

The Group sometimes acquires land on deferred payment terms. In accordance with IAS 39 'Financial Instruments: Recognition and Measurement', the creditor is initially recorded at fair value, being the price paid for the land discounted to present day, and subsequently at amortised cost. The difference between the nominal value and the initial fair value is amortised over the deferred term to finance expenses, increasing the land creditor to its full cash settlement value on the payment date.

The maturity profile of the total contracted cash payments in respect of amounts due on land creditors at the balance sheet date is as follows:

	Balance at 31 July £000	Total contracted cash payment £000	Within 1 year or on demand £000	1–2 years £000	2–5 years £000	More than 5 years £000
At 31 July 2017	**366,773**	**373,574**	**256,832**	**82,953**	**33,789**	**–**
At 31 July 2016	304,160	310,271	223,016	52,563	34,692	–

The maturity profile of the total contracted payments in respect of financial liabilities (excluding amounts due on land creditors shown separately above) is as follows:

	Balance at 31 July £000	Total contracted cash payment £000	Within 1 year or on demand £000	1–2 years £000	2–5 years £000	More than 5 years £000
Bank loans – floating rates	30,000	30,012	30,012	–	–	–
Trade and other payables	282,551	282,551	280,558	–	–	1,993
At 31 July 2017	**312,551**	**312,563**	**310,570**	**–**	**–**	**1,993**
Bank loans – floating rates	32,500	32,526	32,526	–	–	–
Trade and other payables	227,869	227,869	222,962	–	–	4,907
At 31 July 2016	260,369	260,395	255,488	–	–	4,907

The imputed interest rate on land payables reflects market interest rates available to the Group on floating rate bank loans at the time of acquiring the land.

At the year end, the Group had £400.0 million (2016 – £467.5 million) of undrawn bank facilities available.

Cash and cash equivalents

This comprises cash held by the Group and short-term bank deposits with a maturity date of less than one month.

The amounts of cash and cash equivalents for the years ended 31 July 2017 and 31 July 2016 for both the Group and the Company are shown in note 21.

At 31 July 2017 the average interest rate earned on the temporary closing cash balance, excluding joint ventures, was 0.24% (2016 – 0.46%).

Fair values

The carrying values of financial assets and liabilities reasonably approximate their fair values.

Financial assets and liabilities by category

	Group 2017 £000	Group 2016 £000	**Company 2017 £000**	Company 2016 £000
Loans and receivables	**68,717**	60,192	**542,318**	542,766
Fair value through profit or loss	**11,984**	27,430	**–**	–
Cash and cash equivalents	**45,965**	58,968	**52,751**	52,762
Financial liabilities at amortised cost	**(673,622)**	(560,478)	**(289)**	(300)
	(546,956)	(413,888)	**594,780**	595,228

The fair value through profit or loss asset is categorised as level 3 within the hierarchical classification of IFRS 7 Revised. This asset is recorded at fair value, being the estimated amount receivable by the Group, discounted to present day values and is included in other receivables (note 14).

17 Financial instruments continued

Bank facilities

The Group has bank facilities of £430.0 million (2016 – £500.0 million) which expire during the course of the following financial years:

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
By 31 July 2017	**–**	70,000	**–**	–
By 31 July 2018	**50,000**	50,000	**–**	–
By 31 July 2019	**125,000**	125,000	**–**	–
By 31 July 2020	**175,000**	175,000	**–**	–
By 31 July 2021	**80,000**	80,000	**–**	–
	430,000	500,000	**–**	–

Capital management

The Group is financed through the proceeds of issued ordinary shares, re-invested profits and bank borrowings less cash in hand. The following table analyses the capital structure:

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Equity	**2,191,340**	1,867,016	**632,065**	630,447
Net bank debt	**–**	–	**–**	–
Capital employed	**2,191,340**	1,867,016	**632,065**	630,447

Risks

Details of the risks relating to financial instruments are set out in the Risk Management section on page 20.

18 Issued capital

Group and Company	2017 Number 000	2017 £000	2016 Number 000	2016 £000
Allotted, called up and fully paid 12.5p ordinary shares				
At start of year	**122,686**	**15,335**	122,522	15,314
Issued on exercise of options	**112**	**14**	164	21
At end of year	**122,798**	**15,349**	122,686	15,335

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share options

At 31 July 2017 all outstanding options to purchase ordinary shares in Bellway p.l.c., in accordance with the terms of the applicable schemes, were as follows:

Grant date	Number of shares	Exercise prices (p)	Dates from which exercisable		Expiry date
(a) Bellway p.l.c. (2003) Savings Related Share Option Scheme					
16 November 2012	14,474	805.6	1 February 2018	to	31 July 2018
	14,474				
(b) Bellway p.l.c. (2013) Savings Related Share Option Scheme					
15 November 2013	25,103	1,218.4	1 February 2019	to	31 July 2019
17 November 2014	167,542	1,378.0	1 February 2018	to	31 July 2018
17 November 2014	33,834	1,378.0	1 February 2020	to	31 July 2020
16 November 2015	99,777	2,048.8	1 February 2019	to	31 July 2019
16 November 2015	13,312	2,048.8	1 February 2021	to	31 July 2021
29 November 2016	168,152	1,892.8	1 February 2020	to	31 July 2020
29 November 2016	20,704	1,892.8	1 February 2022	to	31 July 2022
	528,424				
Total	**542,898**				

Details of directors' share options are contained within the Report of the Board on Directors' Remuneration on pages 51 to 70.

19 Reserves

Own shares held

The Group and Company holds shares within the Bellway Employee Share Trust (1992) (the 'Trust') for participants of certain share-based payment schemes as outlined in note 24. During the period the Trust made a market purchase of nil shares (2016 – 342,143 shares at an average price of 2,006p) and transferred 119,733 (2016 – 55,823) shares to employees and directors. The number of shares held within the Trust, and on which dividends have been waived, at 31 July 2017 was 184,403 (2016 – 304,136). These shares are held within the financial statements at a cost of £3.421 million (2016 – £5.908 million). The market value of these shares at 31 July 2017 was £5.882 million (2016 – £6.375 million).

Capital redemption reserve

On 7 April 2014 the Company redeemed 20,000,000 £1 preference shares, being all of the preference shares in issue. An amount of £20 million, equivalent to the nominal value of the shares redeemed, was transferred to a capital redemption reserve on the same date.

Income statement

As permitted by section 408 of the Companies Act 2006, the Company's income statement has not been included in these financial statements. The Company's profit for the financial year was £135.000 million (2016 – £173.950 million).

20 Reconciliation of net cash flow to net cash/(debt)

Group	**2017 £000**	2016 £000
(Decrease)/increase in net cash and cash equivalents	**(13,003)**	17,477
Decrease in bank borrowings	**2,500**	47,500
Decrease in net (cash)/debt from cash flows	**(10,503)**	64,977
Net cash/(debt) at 1 August	**26,468**	(38,509)
Net cash at 31 July	**15,965**	26,468

20 Reconciliation of net cash flow to net cash/(debt) continued

Company	2017 £000	2016 £000
(Decrease)/increase in net cash and cash equivalents	**(11)**	4,001
(Decrease)/increase in net cash from cash flows	**(11)**	4,001
Net cash at 1 August	**52,762**	48,761
Net cash at 31 July	**52,751**	52,762

21 Analysis of net cash

Group	At 1 August 2016 £000	Cash flows £000	At 31 July 2017 £000
Cash and cash equivalents	58,968	(13,003)	**45,965**
Bank loans	(32,500)	2,500	**(30,000)**
Net cash	26,468	(10,503)	**15,965**

Company	At 1 August 2016 £000	Cash flows £000	At 31 July 2017 £000
Cash and cash equivalents	52,762	(11)	**52,751**
Net cash	52,762	(11)	**52,751**

22 Contingent liabilities

The Company is liable, jointly and severally with other members of the Group, under guarantees given to the Group's bankers in respect of overdrawn balances on certain Group bank accounts and in respect of other overdrafts, loans and guarantees given by the banks to or on behalf of other Group undertakings.

At 31 July 2017 there were bank overdrafts of £nil (2016 – £nil) and loans of £30.0 million (2016 – £32.5 million). The Company has given performance and other trade guarantees on behalf of subsidiary undertakings. The Company has guaranteed the overdrafts of joint arrangements up to a maximum of £0.3 million (2016 – £0.3 million). It is the directors' expectation that the possibility of cash outflow on these liabilities is considered minimal and no provision is required.

23 Commitments

Group	2017 £000	2016 £000
Capital commitments		
Contracted not provided	**–**	200
Authorised not contracted	**798**	–

Operating leases

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which expire as follows:

	2017 £000	2016 £000
Expiring within one year	**311**	84
Expiring within two to five years	**4,890**	2,111
Expiring in more than five years	**3,886**	3,117
	9,087	5,312

Operating lease payments principally relate to rents payable by the Group for office premises and motor vehicles. The office premises leases are subject to periodic rent reviews.

Company

The commitments of the Company were £nil (2016 – £nil).

24 Employee benefits

(a) Retirement benefit obligations

The Group sponsors the Bellway plc 1972 Pension Scheme (the 'Scheme') which has a funded defined benefit arrangement which is closed to new members and to future service accrual. The Group also sponsors the Bellway plc 2008 Group Self Invested Personal Pension Plan ('GSIPP') which is a defined contribution contract-based arrangement.

Contributions of £4.068 million (2016 – £3.867 million) were charged to the income statement for the GSIPP.

Defined contributions have been excluded from the assets and liabilities.

Role of Trustees

The Scheme is managed by the Trustees, who are appointed by either the Company or the members. The role of the Trustees is to manage the Scheme in line with the Scheme trust deed and rules, to act prudently, responsibly, honestly, impartially and in the interests of all beneficiaries. The main responsibilities of the Trustees are to agree with the employer the level of contributions to the Scheme, to make sure these contributions are paid, to decide how the Scheme's assets are invested so the Scheme is able to meet its liabilities and to oversee that the payment of benefits, record keeping and administration of the Scheme complies with the Scheme trust deed and rules and legislation.

Funding

UK legislation requires that pension schemes are funded prudently (i.e. to a level in excess of the current expected cost of providing benefits). The last full actuarial valuation of the Scheme was carried out by a qualified independent actuary as at 31 July 2014 and updated on an approximate basis to 31 July 2017.

With regard to the Scheme, regular contributions made by the employer over the financial year were £nil (2016 – £1.21 million). The employer paid no special contributions (2016 – £nil) and reimbursed the pension fund £0.40 million (2016 – £0.25 million) for expenses incurred by the fund.

The Group is expected to make no regular contributions during the year ending 31 July 2018.

Regulation

The UK pensions market is regulated by the Pensions Regulator whose key statutory objectives in relation to UK defined benefit plans are:

- to protect the benefits of members of occupational pension schemes.
- to promote, and to improve understanding of the good administration of work-based pension schemes.
- to reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund.
- to maximise employer compliance with employer duties and the employment safeguards introduced by the Pensions Act 2008.

Risk

The Scheme exposes the Group to a number of risks, the most significant are:

Risk	Description
Asset volatility	The Scheme's defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields. However, a significant proportion of the Scheme's assets are invested in growth assets, such as equities, that would be expected to outperform corporate bonds in the long-term but create volatility and risk in the short-term.
Inflation risk	A significant proportion of the Scheme's defined benefit obligation is linked to inflation, with higher inflation increasing the liabilities. However, there are caps of either a 3% or 5% p.a. increase in place to limit the effect of higher inflation.
Life expectancy	The majority of the Scheme's liabilities are to provide a pension for the life of the member, with any increase in life expectancy also increasing the Scheme's defined benefit obligation.

24 Employee benefits continued

(a) Retirement benefit obligations continued

Movements in net defined benefit obligations

	Defined benefit obligation		Fair value of Scheme assets		Net defined benefit liability	
	2017 £000	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000
Balance at 1 August	**(59,909)**	(54,721)	**51,873**	47,269	**(8,036)**	(7,452)
Included in the income statement						
Interest (cost)/income	**(1,418)**	(1,924)	**1,230**	1,684	**(188)**	(240)
	(1,418)	(1,924)	**1,230**	1,684	**(188)**	(240)
Included in other comprehensive income/ (expense)						
Remeasurement gain/(loss) arising from:						
– Change in demographic and financial assumptions	**1,142**	(6,834)	**–**	–	**1,142**	(6,834)
– Experience adjustments	**379**	1,018	**–**	–	**379**	1,018
Return on plan assets excluding interest income	**–**	–	**2,325**	4,010	**2,325**	4,010
	1,521	(5,816)	**2,325**	4,010	**3,846**	(1,806)
Other						
Contributions paid by the employer	**–**	–	**401**	1,462	**401**	1,462
Benefits paid	**1,630**	2,552	**(1,630)**	(2,552)	**–**	–
	1,630	2,552	**(1,229)**	(1,090)	**401**	1,462
Balance at 31 July	**(58,176)**	(59,909)	**54,199**	51,873	**(3,977)**	(8,036)

The weighted average duration of the defined benefit obligation at the end of the reporting period is 17 years (2016 – 17 years).

Scheme assets

The fair value of the Scheme assets is:

	2017 £000	2016 £000
Diversified growth fund	**29,718**	–
Equity instruments	**16,079**	25,933
Corporate bonds	**2,666**	24,072
Liability driven instruments	**5,526**	–
Cash and cash equivalents	**210**	1,868
Total	**54,199**	51,873

All of the Scheme assets, with the exception of cash and cash equivalents, are considered to be level 2.

Diversified growth funds are pooled funds invested across a diversified range of assets with the aim of giving long-term investment growth with lower short-term volatility than equities.

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date:

	2017 % per annum	2016 % per annum
Discount rate	**2.55**	2.40
Future salary increases	**3.70**	3.50
Allowance for pension in payment increases of RPI or 5% p.a. if less	**3.10**	2.90
Allowance for deferred pension increases of CPI or 5% p.a. if less	**2.20**	2.00
Allowance for commutation of pension for cash at retirement	**50% of maximum**	50% of maximum

The mortality assumptions adopted at 31 July 2017 are based on the S2PxA tables and allow for future improvement in mortality. The tables used imply the following life expectancies at age 65:

Male retiring at age 65 in 2017	23.0 years
Female retiring at age 65 in 2017	24.9 years
Male retiring at age 65 in 2037	24.8 years
Female retiring at age 65 in 2037	26.7 years

Sensitivities

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises the effect on the defined benefit obligation at the end of the reporting period if different assumptions were used:

Assumption	Change in assumption	Change in liabilities (%)
Discount rate	+0.1% p.a.	Decrease by 1.7%
Future salary increases	+0.1% p.a.	Increase by 0.1%
Inflation – RPI	+0.1% p.a.	Increase by 1.4%
Mortality	+1 year life expectancy	Increase by 3.0%

The calculations for the sensitivity analysis are not as accurate as a full valuation carried out using these assumptions. Each assumption change is considered in isolation, which in practice is unlikely to occur, as changes in some of the assumptions are correlated.

(b) Share-based payments

The Group operates a long-term incentive plan ('LTIP'), a share matching plan ('SMP'), deferred bonus plans ('DBP' and '2003 DBP'), an employee share option scheme ('ESOS') and Savings Related Share Option Schemes ('SRSOS'), all of which are detailed below.

Awards under the LTIP and SMP have been made to executive directors, the Group General Counsel and Company Secretary, and senior employees, with awards under the 2003 DBP also made to senior employees. The awards take the form of ordinary shares in the Company.

The Bellway p.l.c. (2014) Employee Share Option Scheme ('2014 ESOS') is an approved discretionary scheme which provides for the grant of options over ordinary shares to employees and executive directors. It is, however, the current intention that no executive directors of the Company should be granted options under this scheme. Awards will be available to vest after three years, subject to objective performance targets. As at 31 July 2017 no options had been granted under this scheme.

Options issued under the SRSOS are offered to all employees including the executive directors.

An outline of the performance conditions in relation to the LTIP and the SMP is detailed under the long-term incentive scheme section on pages 65 to 68 within the Report of the Board on Directors' Remuneration.

Various small share option awards have been made to employees at divisional management level under the terms of the 2003 DBP. Awards will be available to vest after three years, subject to objective performance targets. There are no DBP awards outstanding.

Share-based payments have been valued by an external third party using various models detailed below, based on publicly available market data at the time of the grant, which the directors consider to be the most appropriate method of determining their fair value.

24 Employee benefits continued

(b) Share-based payments continued

The number and weighted average exercise price of share-based payments is as follows:

LTIP, SMP and DBP

	2017 Number of options	2016 Number of options
Outstanding at the beginning of the year	**304,136**	303,744
Granted during the year	**121,560**	90,969
Lapsed during the year	**–**	(34,754)
Exercised during the year	**(119,733)**	(55,823)
Outstanding at the end of the year	**305,963**	304,136
Exercisable at the end of the year	**–**	–

The options outstanding at 31 July 2017 have a weighted average contractual life of 1.3 years (2016 – 1.3 years).

1996, 2005 and 2007 ESOS and SRSOS

	2017 Number of options	2016 Number of options
Outstanding at the beginning of the year	**507,795**	561,387
Granted during the year	**200,669**	153,473
Forfeited during the year	**(53,594)**	(42,994)
Exercised during the year	**(111,972)**	(164,071)
Outstanding at the end of the year	**542,898**	507,795
Exercisable at the end of the year	**–**	781

The options outstanding at 31 July 2017 have an exercise price in the range of 805.6p to 2,048.8p (2016 – 556.0p to 2,048.8p) and have a weighted average contractual life of 2.2 years (2016 – 2.3 years). The weighted average share price at the date of exercise for share options exercised during the year was 2,530.3p (2016 – 2,656.1p).

Valuation methodology

For LTIP and SMP options, half of the performance criteria is based on TSR against comparator companies with the other half based on TSR measured against the FTSE 250 Index (excluding investment trusts and financial service companies). A simplified Monte Carlo simulation method has been used to determine the Group's TSR performance against the FTSE 250 Index (excluding investment trusts and financial service companies).

In the case of the DBP, a simplified Black Scholes method is applied with an exercise price and dividend yield of zero. This is because no performance conditions attach to the award and no dividends are credited to the individual. The result is that the fair value equates to the face value of the award.

The Black Scholes method is used for the SRSOS due to the relatively short exercise window of six months.

For the 1996, 2005 and 2007 ESOSs, a lattice method is used which enables early exercise behaviour to be modelled in a more sophisticated manner than under Black Scholes.

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. The inputs into the models for the various grants in the current and previous year were as follows:

	2017				2016				
	November 2016	**November 2016**	**November 2016**	**December 2015**	November 2015	January 2016	November 2015	November 2015	December 2015
Scheme description	**LTIP**	**3 Year SRSOS**	**5 Year SRSOS**	**DBP**	LTIP	LTIP	3 Year SRSOS	5 Year SRSOS	DBP
Grant date	**09-Nov-16**	**29-Nov-16**	**29-Nov-16**	**01-Dec-16**	12-Nov-15	20-Jan-16	16-Nov-15	16-Nov-15	15-Dec-15
Risk free interest rate	**0.0%**	**0.3%**	**0.7%**	**0.0%**	0.0%	0.0%	0.9%	1.4%	0.0%
Exercise price	**–**	**1,892.8p**	**1,892.8p**	**–**	–	–	2,048.8p	2,048.8p	–
Share price at date of grant	**2,426.0p**	**2,490.0p**	**2,490.0p**	**2,388.0p**	2,382.0p	2,558.0p	2,406.0p	2,406.0p	2,772.0p
Expected dividend yield	**4.50%**	**4.50%**	**4.50%**	**N/A**	3.00%	3.00%	3.00%	3.00%	N/A
Expected life	**3 years**	**3 years 2 months**	**5 years 2 months**	**3 years**	3 years	3 years	3 years 2 months	5 years 2 months	3 years
Vesting date	**09-Nov-19**	**01-Feb-20**	**01-Feb-22**	**01-Dec-19**	12-Nov-18	20-Jan-19	01-Feb-19	01-Feb-21	15-Dec-18
Expected volatility	**35%**	**35%**	**30%**	**N/A**	25%	25%	25%	30%	N/A
Fair value of option	**1,220.5p**	**655.0p**	**590.0p**	**2,388.0p**	1,267.0p	1,701.0p	481.0p	617.0p	2,772.0p

The expected volatility for all models was determined by considering the volatility levels historically for the Group. Volatility levels for more recent years were considered to have more relevance than earlier years for the period reviewed.

The Group recognised total expenses of £2.066 million (2016 – £1.568 million) in relation to equity-settled share-based payment transactions.

25 Related party transactions

The Board and certain members of senior management are related parties within the definition of IAS 24 'Related Party Disclosures'. Summary information of the transactions with key management personnel is provided in note 3. Detailed disclosure of individual remuneration of Board members is included in the Report of the Board on Directors' Remuneration on pages 51 to 70.

Following shareholder approval at last year's AGM, the Chief Executive legally completed the purchase of a property for £390,995 from Bellway Homes Limited at one of the Group's developments using shareholder discount. The purchase price was calculated on an arm's length basis using prices already achieved for similar properties on the same development.

Transactions between fellow subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

Group

During the year the Group entered into the following related party transactions with its joint arrangements:

	2017 £000	2016 £000
Invoiced to joint arrangements in respect of accounting, management fees, interest on loans, land purchases and infrastructure works	**4,623**	1,104
Invoiced from joint arrangements in respect of fees, land purchases and infrastructure works	**(2,822)**	(5,156)
Amounts owed to joint arrangements in respect of land purchases and management fees at the year end	**(5,118)**	(5,267)
Amounts owed by joint arrangements in respect of accounting, management fees, interest, land purchases and infrastructure works	**42,765**	10,076

25 Related party transactions continued

Company

During the year the Company entered into the following related party transactions with its subsidiaries and joint arrangements:

	2017 £000	2016 £000
Amounts received in the year from subsidiaries for share options exercised by subsidiary company employees and dividends received	**136,108**	171,155
Amounts paid in the year by subsidiaries on behalf of the Company in respect of dividends, finance expenses and share purchases, and receivable from subsidiaries on disposal of investments	**(136,556)**	(112,318)
Amounts owed by subsidiaries in respect of dividends and shares issued net of amounts paid on behalf of the Company	**542,318**	542,766
Investments in subsidiaries and joint ventures	**37,285**	35,219

The Company has suffered no expense in respect of bad or doubtful debts of subsidiary undertakings in the year (2016 – £nil).

26 Group undertakings

The directors set out below information relating to the Group undertakings as at 31 July 2017. All of these companies are registered in England and Wales, apart from Bellway (Scotland) Limited which is registered in Scotland. They are engaged in housebuilding and associated activities, have coterminous year ends with the Group, 100% of their ordinary share capital is held by the Company and the registered address is the same as the Company (unless otherwise stated).

Subsidiaries – trading

Bellway Financial Services Limited
Bellway Homes (North Solihull G P) Limited
Bellway Homes Limited
Bellway Housing Trust Limited
Bellway Properties Limited
Bellway (Services) Limited
Litrose Investments Limited
The Victoria Dock Company Limited (60% owned)*

Subsidiaries – dormant^

Ashberry Homes Limited
B.C.P. (Transport) Limited
Bellway (Builders) Limited
Bellway (North East) Limited
Bellway (Scotland) Limited(3)
Bellway City Solutions Limited
Bellway Conversions Limited
Bellway Homes (Anglia) Limited
Bellway Homes (Barking Reach) Limited
Bellway Homes (Cupernham Lane) Limited
Bellway Homes (Hertfordshire) Limited
Bellway Homes (North Solihull) Limited
Bellway Homes (Social Housing) Limited
Bellway Homes (Wales) Limited
Bellway Homes (West Midlands) Limited
Bellway Housebuilders Limited
Bellway I Limited
Bellway Marine Limited
Bellway Residential Limited
Bellway Trustee Company Limited
Bellway Urban Renewals (Contracts) Limited
Bellway Urban Renewals Limited
Bulldog Premium Growth I Limited
Bulldog Premium Growth II Limited
Commercials Limited
D. F. W. Golding (Southern) Limited
D. F. W. Golding Limited
Dymock Properties Limited
George Blackett Limited
Heron Electrical Contractors Limited
Homes2Let Limited
J. T. B. (Chapel Farm) Estates Limited
J. T. B. Estates Limited
John T Bell & Sons (1976) Limited
Mansions Limited
Metier Properties Limited
Moorfield Investments Limited
Nixons Kitchens Limited
Seaton GR SPV 6 Limited
Seaton GR SPV 7 Limited
Seaton GR SPV 8 Limited
Seaton GR SPV 9 Limited
Seaton GR SPV 10 Limited
Seaton GR SPV 11 Limited
Seaton GR SPV 12 Limited
Seaton GR SPV 13 Limited
Telvec Investments Limited
Terraces Limited
The Barking Reach Company Limited
Tyneside Land & Property Company Limited

Joint arrangements

Angst Limited (50% owned)^
Cramlington Developments Limited (50% owned, year end of 30 June)*(1)
Easel Leeds Limited (50% owned)^
Fradley Residential LLP (50% owned)*
Leebell Developments Limited (50% owned, year end of 30 June)*(1)
North Solihull (GP) Limited (25% owned, year end of 31 March)^*(2)
North Solihull Partnership LP (49.8% owned, year end of 31 March)*(2)
Ponton Road LLP (50% owned)*

Other entities

HBF Insurance PCC Limited(4)
MI New Home Insurance PCC Limited(4)

Notes:

^ Dormant.
* These shares are held indirectly.
1. Registered address is Persimmon House, Fulford, York, YO19 4FE.
2. Registered address is Council House, Manor Square, Solihull, West Midlands, B91 3QB.
3. Registered address is Bothwell House, Hamilton Business Park, Caird Street, Hamilton, ML3 0QA.
4. Registered address is Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 4EY.

Five Year Record

	2013 £m	2014 Restated £m	2015 £m	2016 £m	**2017** **£m**
Income statement					
Revenue	1,110.7	1,484.8	1,765.4	2,240.7	**2,558.6**
Operating profit	151.1	255.6	360.5[1]	492.0	**571.6**
Net finance expenses	(10.2)	(9.9)	(13.1)	(11.1)	**(11.3)**
Share of results of joint ventures	–	0.3	(0.1)	(0.3)	**0.4**
Profit before taxation	140.9	246.0	347.3[1]	480.6[1]	**560.7**
Income tax expense	(32.3)	(54.6)	(69.6)[1]	(95.0)	**(106.6)**
Profit for the year (all attributable to equity holders of the parent)	108.6	191.4	277.7[1]	385.6[1]	**454.1**

Balance sheet					
ASSETS					
Non-current assets	56.7	80.4	48.1	33.3	**48.0**
Current assets	1,594.9	1,882.0	2,241.2	2,687.5	**3,099.3**
LIABILITIES					
Non-current liabilities	(54.1)	(74.3)	(60.3)	(96.2)	**(118.4)**
Current liabilities	(378.7)	(522.0)	(653.1)	(757.6)	**(837.6)**
EQUITY					
Total equity	1,218.8	1,366.1	1,575.9	1,867.0	**2,191.3**

Statistics					
Number of homes sold	5,652	6,851	7,752	8,721	**9,644**
Average price of new homes	£193.0k	£213.2k	£223.8k	£252.8k	**£260.4k**
Pre-exceptional gross margin[~]	18.3%	21.3%	24.2%[1]	25.7%	**25.9%**
Gross margin	18.3%	21.3%	24.6%	25.7%	**25.9%**
Pre-exceptional operating margin[~]	13.6%	17.2%	20.4%[1]	22.0%	**22.3%**
Operating margin	13.6%	17.2%	20.8%	22.0%	**22.3%**
Basic earnings per ordinary share	89.3p	157.0p	231.5p	328.7p	**370.6p**
Dividend per ordinary share	30.0p	52.0p	77.0p	108.0p	**122.0p**
Pre-exceptional return on capital employed[~]	12.3%	19.6%	23.9%[1]	28.2%	**27.6%**
Return on capital employed[~]	12.3%	19.6%	24.4%	28.2%	**27.6%**
Gearing (including preference shares)[~]	2.1%	–	2.4%	–	**–**
Net asset value per ordinary share[~]	1,001p	1,118p	1,286p	1,522p	**1,785p**
Land portfolio – plots with planning permission	18,991	19,434	21,411	24,879	**25,655**
Weighted average no. of ordinary shares	121,572,688	121,919,049	122,315,198	122,558,261	**122,511,626**
No. of ordinary shares in issue at end of year	121,772,058	122,191,378	122,521,915	122,685,986	**122,797,958**

Note:
1. Stated before exceptional item (note 5).

Alternative Performance Measures

Bellway uses a variety of alternative performance measures ('APM') which, although financial measures of either historical or future performance, financial position or cash flows, are not defined or specified by IFRSs. The directors use a combination of APMs and IFRS measures when reviewing the performance, position and cash of the Group.

The APMs used by the Group are defined below:

- **Pre-exceptional gross profit and pre-exceptional operating profit** – Both of these measures are reconciled to total gross profit and total operating profit on the face of the consolidated income statement. The directors consider that the removal of exceptional items provide a better understanding of the underlying performance of the Group.
- **Pre-exceptional gross profit margin** – Pre-exceptional gross profit margin is the pre-exceptional gross profit divided by total revenue. The directors consider this to be an important indicator of the underlying trading performance of the Group.
- **Administrative expenses as a percentage of revenue** – This is calculated as the total administrative overheads divided by total revenue. The directors consider this to be an important indicator of how efficiently the Group is managing its administrative overhead base.
- **Pre-exceptional operating profit margin** – Pre-exceptional operating profit margin is the pre-exceptional operating profit divided by total revenue. The directors consider this to be an important indicator of the operating performance of the Group.
- **Net finance expense** – This is finance expenses less finance income. The directors consider this to be an important measure when assessing whether the Group is using the most cost effective source of finance.
- **Dividend cover** – This is calculated as earnings per ordinary share for the period divided by the dividend per ordinary share relating to that period. At the half year the dividend per ordinary share is the proposed interim ordinary dividend, and for the full year it is the interim dividend paid plus the proposed final dividend. The directors consider this an important indicator of the proportion of earnings paid to shareholders and re-invested in the business.
- **Capital invested in land, net of land creditors, and work in progress** – This is calculated as shown in the table below. The directors consider this as an indicator of the net investment by the Group in the period to achieve future growth.

Per balance sheet	2017 £m	2016 £m	Mvt £m	2016 £m	2015 £m	Mvt £m
Land	**1,838.2**	**1,625.6**	**212.6**	1,625.6	1,297.0	328.6
Work in progress	**1,017.7**	**836.1**	**181.6**	836.1	763.7	72.4
Increase in capital invested in land and work in progress in the year			**394.2**			401.0
Land creditors	**(366.8)**	**(304.2)**	**(62.6)**	(304.2)	(192.6)	(111.6)
Increase in capital invested in land, net of land creditors, and work in progress in the year			**331.6**			289.4

- **Net asset value per ordinary share ('NAV')** – This is calculated as total net assets divided by the number of ordinary shares in issue at the end of each period (note 18). The directors consider this to be a proxy when reviewing whether value, on a share by share basis, has increased or decreased in the period.
- **Capital employed** – Capital employed is defined as the total of equity and net bank debt. Equity is not adjusted where the Group has net cash. The directors consider this to be an important indicator of the operating efficiency and performance of the Group.
- **Return on capital employed ('RoCE')** – This is calculated as operating profit divided by the average capital employed. Average capital employed is calculated based on opening, half year and closing capital employed. The calculation is shown in the table below. The directors consider this to be an important indicator of whether the Group is achieving a sufficient return on its investments.

	2017 Capital employed £m	2017 Land creditors £m	2017 Capital employed including land creditors £m	2016 Capital employed £m	2016 Land creditors £m	2016 Capital employed including land creditors £m
Operating profit	**571.6**		**571.6**	492.0		492.0
Capital employed/land creditors:						
Opening	**1,867.0**	**304.2**	**2,171.2**	1,614.4	192.6	1,807.0
Half year	**2,152.4**	**301.7**	**2,454.1**	1,753.8	275.7	2,029.5
Closing	**2,191.3**	**366.8**	**2,558.1**	1,867.0	304.2	2,172.2
Average	**2,070.2**	**324.2**	**2,394.4**	1,745.1	257.5	2,002.6
Return on capital employed	**27.6%**		**23.9%**	28.2%		24.6%

- **Post tax return on equity** – This is calculated as profit for the year divided by the average of the opening, half year and closing net assets. The directors consider this to be a good indicator of the operating efficiency of the Group.

	2017 £m	2016 £m
Profit for the year	**454.1**	402.9
Net assets:		
Opening	**1,867.0**	1,575.9
Half year	**1,977.3**	1,694.9
Closing	**2,191.3**	1,867.0
Average	**2,011.9**	1,712.6
Post tax return on equity	**22.6%**	23.5%

- **Total growth in value per ordinary share** – The directors use this as a proxy for the increase in shareholder value since 31 July 2014.

Net asset value per ordinary share:		
At 31 July 2017	1,785p	
At 31 July 2014	1,118p	
Net asset value growth per ordinary share		667.0p
Dividend paid per ordinary share:		
Year ended 31 July 2017	111.5p	
Year ended 31 July 2016	86.0p	
Year ended 31 July 2015	61.0p	
Cumulative dividends paid per ordinary share		258.5p
Total growth in value per ordinary share		925.5p

- **Annualised accounting return in NAV and dividends paid since 31 July 2014** – This is calculated as the annualised increase in net asset value per ordinary share plus cumulative ordinary dividends paid per ordinary share since 31 July 2014 (as detailed above) divided by the net asset value per ordinary share at 31 July 2014. The directors use this as a proxy for the increase in shareholder value since 31 July 2014.

Net asset growth per ordinary share	667.0p
Dividend paid per ordinary share	258.5p
Total growth in value per ordinary share	925.5p
Net asset value per ordinary share at 31 July 2014	1,118.0p
Total value per ordinary share	2,043.5p
Annualised accounting return = $(2{,}043.5/1{,}118.0)^{1/3}-1$	22.3%

- **Net cash** – This is the cash and cash equivalents less bank debt. The directors consider this to be a good indicator of the financing position of the Group. This is reconciled in note 21.

- **Cash generated from operations before investment in land, net of land creditors, and work in progress** – This is calculated as shown in the table below. The directors consider this as an indicator of whether the Group is generating cash before investing in land and work in progress to achieve future growth.

	2017 £m	2016 £m
Cash from operations	**256.5**	249.4
Add: increase in capital invested in land, net of land creditors, and work in progress (as described above)	**331.6**	289.4
Cash generated from operations before investment in land, net of land creditors, and work in progress	**558.1**	538.8

- **Gearing** – This is calculated as net bank debt divided by total equity. The directors consider this to be a good indicator of the financial stability of the Group.

- **Adjusted gearing** – This is calculated as the total of net bank debt/cash and land creditors divided by total equity. The directors believe that land creditors are a source of long-term finance so this provides an alternative indicator of the financial stability of the Group.

Glossary

See also Alternative Performance Measures section on pages 111 to 113.

Affordable Housing
Social rented and intermediate housing provided to specified eligible households whose needs are not met by the market, at a cost low enough for them to afford, determined with regard to local incomes and local house prices.

Average Selling Price
Calculated by dividing the total price of homes sold by the number of homes sold.

Brownfield
Land which has been previously used for other purposes.

Cancellation Rate
The rate at which customers withdraw from a house purchase after paying the reservation fee, but before contracts are exchanged, usually due to difficulties in obtaining mortgage finance. Reservation fees are refunded in accordance with the Consumer Code for Home Builders.

Community Infrastructure Levy ('CIL')
The CIL is a tool for local authorities in England and Wales to help deliver infrastructure to support the development of the area.

Earnings per Share ('EPS')
Profit attributable to ordinary equity shareholders divided by the weighted average number of ordinary shares in issue during the financial year excluding the weighted average number of ordinary shares held by the Bellway Employee Trust (1992) which are treated as cancelled.

Home Builders Federation ('HBF')
The HBF is an industry body, representing the home building industry in England and Wales. It represents member interests on a national and regional level to create the best possible environment in which to deliver new homes.

Help to Buy
The Help to Buy equity loan scheme is a government scheme which provides equity loans to both first-time buyers and home movers on newly constructed homes worth up to £600,000 in England. Buyers have to contribute at least 5% of the property price as a deposit and obtain a mortgage of up to 75% and the government provides a loan for up to 20% of the price.

The Help to Buy mortgage guarantee scheme helps people to buy a home worth up to £600,000 in the UK with a 5% deposit to obtain a 95% mortgage. The government gives a guarantee to the lender of up to 15% of the value of the property.

Land Bank
The land bank is comprised of three tiers: i) owned or unconditionally contracted land with an implementable detailed planning permission ('DPP'); ii) medium-term 'pipeline' land owned or controlled by the Group, pending an implementable DPP; iii) strategic long-term plots which currently have a positive planning status and are typically held under option.

National Planning Policy Framework ('NPPF')
The NPPF sets out the government's planning policies for England and how these are expected to be applied. It provides a framework within which local people and their accountable councils can produce their own distinctive local and neighbourhood plans, which reflect the needs and priorities of their communities.

National House Building Council ('NHBC')
The NHBC is the leading warranty insurance provider and body responsible for setting standards of construction for UK housebuilding for new and newly converted homes.

New Homes Bonus ('NHB')
The NHB was introduced in 2011 by the coalition government with the aim of encouraging local authorities in England to grant planning permissions for the building of new houses in return for additional revenue. Under the scheme, the government has been matching the Council Tax raised on each new home built in England for a period of six years.

Pipeline

Plots which are either owned or contracted by the Group, often conditionally, pending an implementable detailed planning permission.

Planning Permission

Usually granted by the local planning authority, this permission allows a plot of land to be built on, change its use or, for an existing building, be redeveloped or altered. Permission is either 'outline' when detailed plans are still to be approved, or 'detailed' when detailed plans have been approved.

RIDDOR

RIDDOR refers to the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013. The regulations require an employer to report any absence by an employee of seven days or more caused by an accident at work to the Health and Safety Executive.

Section 106 Planning Agreements

These are legally-binding agreements or planning obligations entered into between a landowner and a local planning authority, under section 106 of the Town and Country Planning Act 1990. These agreements are a way of delivering or addressing matters that are necessary to make a development acceptable in planning terms. They are increasingly used to support the provision of services and infrastructure, such as highways, recreational facilities, education, health and affordable housing.

Site/phase

A site is a concise area of land on which homes are being constructed. Larger sites may be divided into a number of phases which are developed at different times.

Social Housing

Housing that is let at low rents and on a secure basis to people in housing need. It is generally provided by councils and not-for-profit organisations such as housing associations.

Shareholder Information

Ordinary shareholders by size of holding at 31 July 2017

	Holdings		Shares	
	Number	%	Holding	%
0 – 2,000	1,854	67.97	1,022,874	0.83
2,001 – 10,000	419	15.36	1,855,990	1.51
10,001 – 50,000	226	8.28	5,362,876	4.37
50,001 and over	229	8.39	114,556,218	93.29
Total	2,728	100.0	122,797,958	100.00

Dividend Re-Investment Plan ('DRIP')

Shareholders may agree to participate in the Company's DRIP to receive dividends in the form of shares in Bellway p.l.c. instead of in cash. The DRIP is provided by Capita Asset Services, a trading name of Capita IRG Trustees Limited which is authorised and regulated by the Financial Conduct Authority. For more information please call 0371 664 0381 (calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open 9.00 am – 5.30 pm, Monday to Friday (excluding public holidays in England and Wales). Alternatively you can e-mail shares@capita.co.uk or log on to www.signalshares.com.

Non-sterling bank account

If you live outside the UK, or have a non-sterling bank account, Capita can provide you with a service that will convert your sterling dividend into your local currency and send you the funds by currency draft, or pay them straight into your overseas bank account. You can register for this service on the Share Portal (by clicking on 'your dividend options' and following the on-screen instructions) or by contacting the Customer Support Centre. For further information e-mail ips@capita.co.uk or call 0871 664 0300 (calls cost 12p per minute plus your phone company's access charge. From overseas call +44 371 644 0300, calls outside the UK will be charged at the applicable international rate. Lines are open 9.00 am – 5.30 pm Monday to Friday (excluding public holidays in England and Wales).

Share dealing service

The Company's registrars, Capita Asset Services, provide a share dealing service to existing shareholders to buy or sell the Company's shares. Online and telephone dealing facilities provide an easy to access and simple to use service.

For further information on this service, or to buy or sell shares, please contact www.capitadeal.com for online dealing, or telephone 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open 9.00 am – 5.30 pm, Monday to Friday (excluding public holidays in England and Wales).

Please note that the directors of the Company are not seeking to encourage shareholders to either buy or sell their shares in the Company. Shareholders in any doubt as to what action to take are recommended to seek financial advice from an independent financial adviser, authorised under the terms of the Financial Services and Markets Act 2000.

Discount to shareholders

The following discount arrangement is currently available to shareholders. N.B. This discount will be withdrawn from 1 August 2018. The last date on which a reservation may be made using shareholder discount will be 31 July 2018.

Should you intend to purchase a new Bellway home, you will be entitled to a discount of £2,000 per £25,000, or pro-rata on part thereof, of the purchase price provided that:

(a) you have been the registered holder of at least 2,000 ordinary shares for a minimum period of 12 months prior to the reservation of your new home; and

(b) you inform our sales representative on the relevant site when reserving your property that you are claiming shareholder discount.

This discount arrangement is only available to shareholders on the Company's Register of Members. Employees of investing companies or members of investing institutions would not therefore be eligible. Underlying beneficial shareholders would be entitled to benefit from the arrangements by providing proof of ownership.

For further details please contact the Group General Counsel and Company Secretary, Bellway p.l.c., Seaton Burn House, Dudley Lane, Seaton Burn, Newcastle upon Tyne NE13 6BE, telephone 0191 217 0717 or e-mail investor.relations@bellway.co.uk.

Beneficial owners of shares with 'Information Rights'

Beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's registrar or to the Company directly.

Corporate responsibility reporting

Further reporting on the Company's corporate responsibility activities is available to view on our website at www.bellway.co.uk/corporate-responsibility.

Advisers and Group General Counsel and Company Secretary

Group General Counsel and Company Secretary and Registered Office

Simon Scougall

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Financial Adviser

N M Rothschild & Sons Limited

Stockbrokers

Citigroup Global Markets Limited
Numis Securities Limited

Bankers

Barclays Bank PLC
Lloyds Banking Group plc
Royal Bank of Scotland Group plc

Auditor

KPMG LLP

Solicitor

Slaughter and May

Financial Calendar

Announcement of results and dividends	
Half year	March
Full year	October
Dividend payments	
Interim	July
Final	January
Annual Report published	November
Final 16/17 dividend – ex-dividend date	30 November 2017
Final 16/17 dividend – record date	1 December 2017
AGM	13 December 2017
DRIP election date for final 16/17 dividend	16 December 2017
Final 16/17 dividend – payment date	10 January 2018

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Bellway p.l.c. are committed to caring for the environment and looking for sustainable ways to minimise our impact on it.

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ISO 14001. A pattern of control for an environmental management system against which an organisation can be accredited by a third party

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