Bellway

Annual Report and Accounts 2016

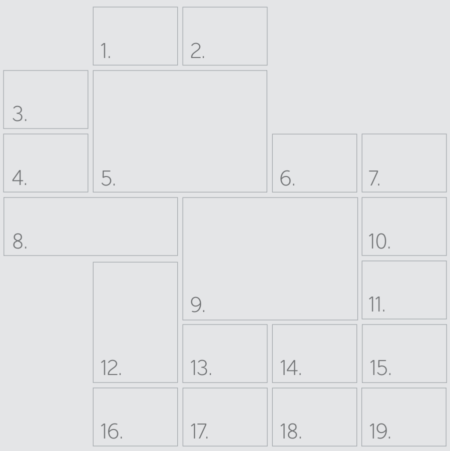
Building Homes,
Building Value

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

During the 2015/16 year we sold 8,721 homes, paid £105.4 million in dividends and employed an average of 2,366 employees.

After another record year, we remain focussed on our long-term growth strategy to help us build on our success in 2016/17 and beyond.

YEARS of QUALITY
SINCE 1946



Front cover images: Developments by each of our operating divisions

1. North East – Cleadon Village, South Shields, South Tyneside.
2. South London – Four Oaks, Hurst Green, Surrey.
3. West Midlands – Dickens Manor, Dickens Heath, Solihull.
4. Northern Home Counties – Studham Rise, Studham, Bedfordshire.
5. Essex – Mascalls Park, Brentwood, Essex.
6. North West – Oak Meadow, Middlewich, Cheshire.
7. Wales – Edenbrook, Ystradowen, Glamorgan.
8. East Midlands – The Maltings, Barleythorpe, Rutland.
9. Scotland – Fardalehill, Kilmarnock, Ayrshire.
10. Manchester – Cotton Meadows, Bolton, Greater Manchester.
11. Yorkshire – Parkside, Leeds, West Yorkshire.
12. Thames Gateway – Hampton Grange, Bromley, Kent.
13. Wessex – The Milldown, Blandford Forum, Dorset.
14. South Midlands – Hathaway Gardens, Stratford-upon-Avon, Warwickshire.
15. South West – Lyde Green, Bristol.
16. North London – Bentley Place, Hammersmith, London Borough of Hammersmith and Fulham.
17. Kent – Imperial Park, Maidstone, Kent.
18. Thames Valley – Great Western Park, Didcot, Oxfordshire.
19. Durham – launch of new division 1 August 2016.

For further details on our business please visit:

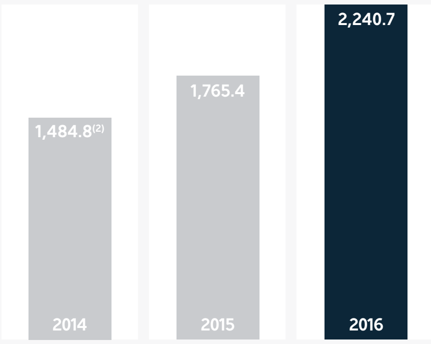
www.bellway.co.uk

Key Highlights

Financial highlights

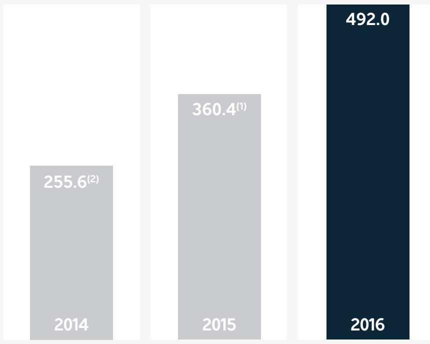
Group revenue (£m)

2,240.7
+26.9%



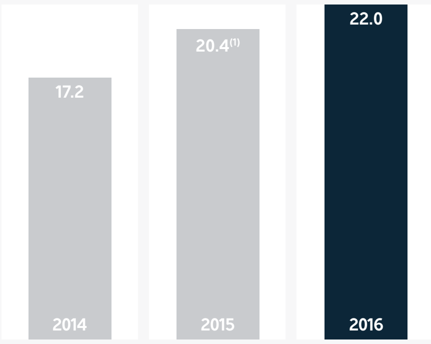
Operating profit (£m)

492.0
+36.5%



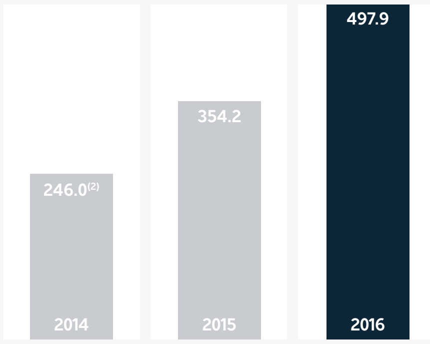
Operating margin (%)

22.0
+160bps



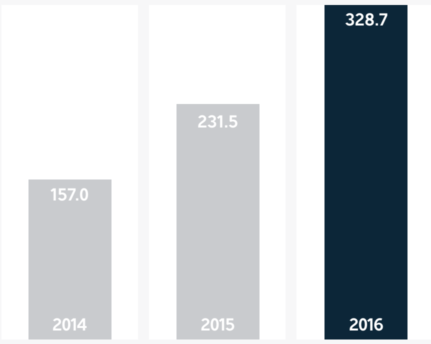
Profit before taxation (£m)

497.9
+40.6%



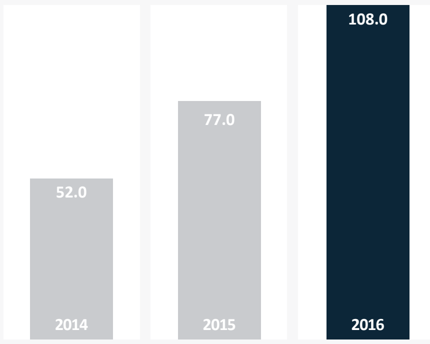
Earnings per ordinary share (p)

328.7
+42.0%



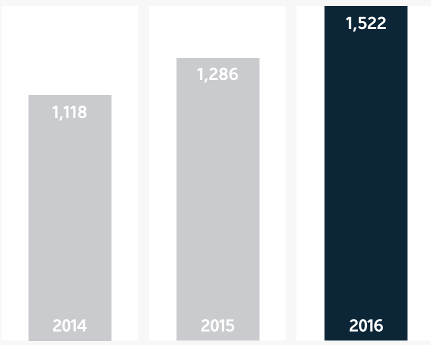
Proposed total dividend per ordinary share (p)

108.0
+40.3%



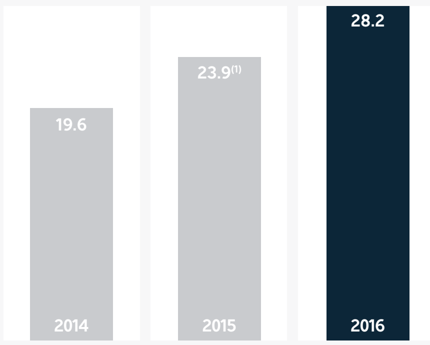
Net asset value per ordinary share (p)

1,522
+18.4%



Return on capital employed (%)

28.2
+430bps



Notes:

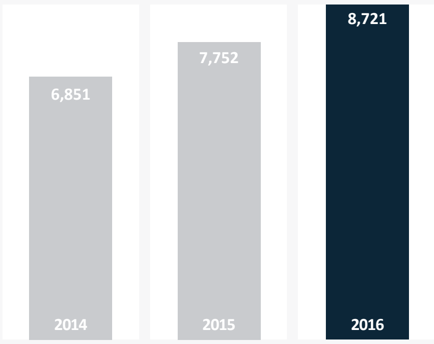
1. Stated before exceptional item (see note 5 to the accounts).
2. Restated following the adoption of IFRS 10 'Consolidated Financial Statements' and IFRS 11 'Joint Arrangements'.

Operational highlights

Completed sales (homes)

8,721

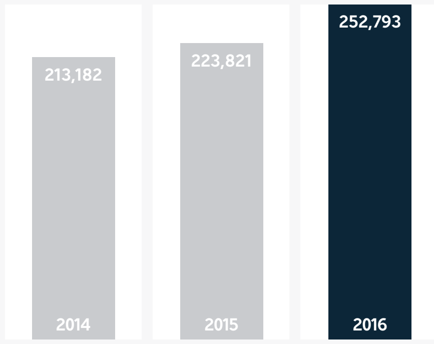
+12.5%



Average selling price (£)

252,793

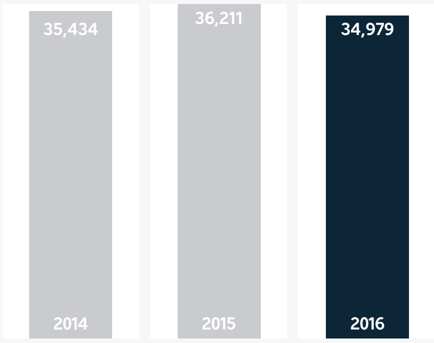
+12.9%



Owned and controlled land bank (plots)

34,979

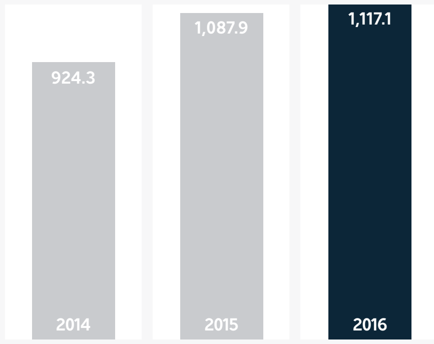
-3.4%



Order book value at 31 July (£m)

1,117.1

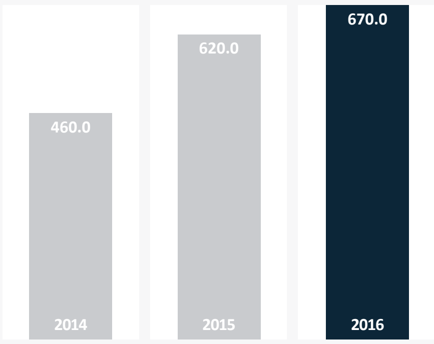
+2.7%



Cash expended on land and land creditors in the year (£m)

670.0

+8.1%



At a Glance

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

We are proud of our headquarters in Newcastle upon Tyne, from where we started 70 years ago and we now operate from 19 trading divisions which are located in the main population centres in England, Scotland and Wales. This structure enables our divisional management teams to use their local knowledge and working relationships to buy land, design, build and sell homes which are attractive to our customers and help to build local communities. The divisional teams are in turn supported by our three Regional Chairmen, who are each responsible for the oversight of a number of divisions, and by our specialist CR, finance, HR, IT, land, legal, planning, sales and technical Head Office teams.

Building value locally – our product and customer mix

We build and sell high quality homes to suit local housing styles and our customers' budgets from one-bedroom apartments up to five-bedroom family homes, as well as providing social housing to housing associations.

Our focus is on providing desirable traditional family housing outside of London and apartments within the London boroughs, predominantly in zone 2 and beyond.

North East – Earsdon View, Shiremoor, North Tyneside.

North London – Westside, Brentford, London Borough of Hounslow.

Building value locally – our geographic spread

Our office locations

1. Head Office
2. Durham (opened 1 August 2016)
3. East Midlands
4. Essex
5. Kent
6. Manchester
7. North East
8. North London
9. North West
10. Northern Home Counties
11. Scotland
12. South London
13. South Midlands (opened February 2016)
14. South West
15. Thames Gateway
16. Thames Valley
17. Wales
18. Wessex
19. West Midlands
20. Yorkshire

Chairman's Statement

"The strong trading performance and resultant increase in earnings has resulted in the NAV of the Group growing by 18.4%."

John Watson
Chairman

Introduction

I am delighted to report yet another excellent set of results for Bellway, with new records in respect of volume, operating margin and earnings. The Group is taking advantage of the strong market conditions, continuing its disciplined growth strategy, whilst maintaining a strict focus on return on capital employed ('ROCE'). In doing so, earnings per share has risen further by 42.0% to 328.7p per share (2015 – 231.5p per share).

Strategy for growth

Notwithstanding the risks to the wider economy following the result of the EU Referendum, the ongoing demand for new homes across the country is strong, supported by a low rate of unemployment and good availability of affordable mortgage finance, with this further enhanced by the government's continuing support through the Help to Buy scheme. Interest rates remain low and the outlook is that this favourable trading environment will continue for the foreseeable future.

Bellway has a strong balance sheet and operational capacity for growth, trading from 19 geographically spread divisions, six of which have been opened over the last three years. Longer-term, there remains a structural shortage of homes within the UK and Bellway, set against this favourable backdrop, is well placed to continue growing its contribution to the supply of new homes.

Long-term value for shareholders

The aim of Bellway's growth strategy is to deliver enhanced long-term value for shareholders through the payment of an increasing dividend, together with an ongoing increase in net asset value ('NAV'), arising from reinvestment of retained earnings in order to secure further growth.

The Group has achieved a 619p growth in NAV since the 903p attained in July 2007, before the onset of the global financial crisis. In addition, Bellway has paid dividends equivalent to 295.28p per share since July 2007, representing total growth in value of 914.28p per share and an accounting return of 101%. Revenue is 65% higher than that achieved in July 2007 and profit after tax is over 2.4 times ahead. The reinvestment of earnings back into the business continues to have a compounding effect on growth and this, together with a flexible dividend policy, is delivering long-term and superior returns for shareholders.

For the year ended 31 July 2016, the strong trading performance and resultant increase in earnings has resulted in the NAV of the Group growing by 18.4% to 1,522p per share (2015 – 1,286p). Furthermore, it has also enabled the Board to recommend a 42.3% increase in the final dividend to 74.0p per share (2015 – 52.0p), increasing the proposed total dividend per share for the year by 40.3% to 108.0p (2015 – 77.0p). If approved the total dividend will be covered by earnings three times (2015 – three times). For the foreseeable future and assuming the opportunity for growth remains unchanged, the Board expects to maintain a dividend cover of around three times earnings.

People and supply chain

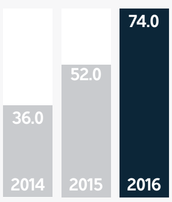
This record set of results could not have been achieved without the outstanding contribution of those who work for and with the Group, enabling Bellway to safely and responsibly increase the number of homes sold for the seventh successive year. I would like to place on record the Board's gratitude to all those who have contributed to this outstanding performance.

John Watson
Chairman

17 October 2016

Proposed final dividend per ordinary share (p)

74.0
+42.3%



Strategy

Building on our success...

Our strategy for growth

Demand

- Customer demand is robust across the country.
- Help to Buy extended until 2021 in England and enhanced in London.
- Competition in mortgage market and low interest rates ensure new homes remain affordable.
- Household formation rate.

Supply

- Good quality land opportunities at attractive rates of return.
- Positive planning environment supported by Housing Bill.
- Labour availability is manageable.

Capacity

- New 18th division opened in Coventry during the year and a further division opened on 1 August 2016 in County Durham.
- Six new divisions opened since August 2013.
- Robust land bank.
- Balance sheet capacity provides ability to invest.

Disciplined volume growth

Value creation for shareholders through:

- Progressive dividend policy
- Reinvestment in the business generating growth in NAV

THE GROWTH WE ACHIEVE THROUGH OUR BUSINESS MODEL IS EXPLAINED ON PAGES 08 – 19

To achieve our overall strategy we employ short and medium-term objectives. Each division and our Head Office teams are aligned behind this common set of objectives.

Our short and medium-term objectives

- **Expand and enhance geographic coverage by opening new divisions principally in conurbations where demand is high and investing further in our existing operational divisional structure.**
- **Continue to invest in land in areas of high demand that meet or exceed our minimum hurdle rates.**
- **Achieve detailed planning permission ('DPP') on land.**
- **Proactive balance sheet management.**
- **Build the right product.**
- **Focus on retention, training and recruitment of people.**
- **Consistently excellent customer experience.**
- **Ensure sufficient resources are available in our specialist Head Office teams and that robust Group-wide systems are in place to support our expanding divisional network in delivering our growth strategy.**

Our operational capacity is currently centred around a nationwide structure of 19 trading divisions. The newest of these divisions is South Midlands which opened in February 2016 and is based in Coventry, and Durham, which opened in August 2016. Our strategy of volume growth is best achieved through complementing capacity in existing divisions with the expansion of the divisional structure in areas of high demand.

We have significant balance sheet capacity with net assets of £1,867.0 million, including net cash of £26.5 million and undrawn bank facilities of £467.5 million as at 31 July 2016. As a result of these factors we have the capacity to invest in land that either meets or exceeds our investment criteria, which include gross margin and ROCE.

Business Model

Building homes, building value

Share capital
+
Retained profit
+
Bank finance

Buy land
+
Buy materials
+
Employ people
+
Engage sub-contractors

Build and sell new homes and apartments which meet our customers' aspirations

Reinvest profit
+
Earnings for employees
+
Payments to sub-contractors and suppliers
+
Investment in communities through section 106 infrastructure payments
+
Dividends

The following timeline demonstrates how we create value from purchasing land to selling homes

Selecting the right land

Managing the planning process

Construction of the right product

Delivering an excellent customer experience

Investing in our people

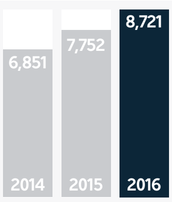
The detailed aspects of the business model are shown on the next few pages, together with recent progress achieved and our future plans. We also report on the key performance indicators ('KPIs') we use to measure our performance against our strategy.

Our principal KPIs

The Group has five principal KPIs and a larger number of secondary KPIs to support them. The principal KPIs are shown below and on page 9.

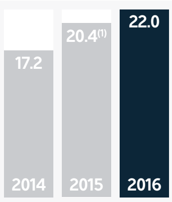
No. of homes sold (homes)

8,721
+12.5%



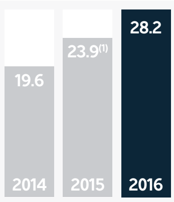
Operating margin (%)

22.0
+160bps



ROCE (%)

28.2
+430bps



Note:

1. Stated before exceptional item (see note 5 to the accounts).

Selecting the right land

Acquiring high quality sustainable sites in areas of high demand that meets or exceeds our financial and non-financial acquisition criteria is key to the success of the business.

For more information see pages 10 – 11

Managing the planning process

Working with local planning authorities and communities in compliance with the National Planning Policy Framework ('NPPF') in order to deliver effective and sufficient planning consents for the business.

For more information see pages 12 – 13

Construction of 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.

For more information see pages 14 – 15

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.

For more information see pages 16 – 17

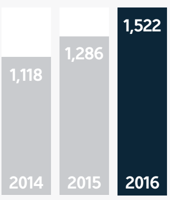
Investing in our people

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.

For more information see pages 18 – 19

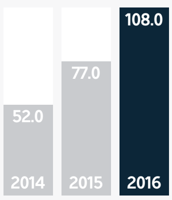
Net asset value per ordinary share (p)

1,522
+18.4%



Proposed total dividend per ordinary share (p)

108.0
+40.3%



Business Model continued

Selecting the right land

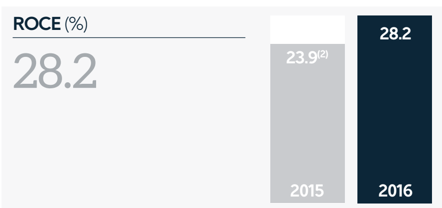
Description

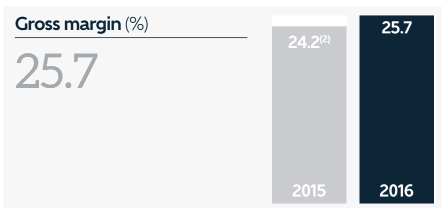
- Land opportunities are identified by our divisional land and planning teams and the strategic land team using their local knowledge and contacts. A viability assessment and appraisal is prepared by the division, which is assessed in detail at regional and then Group level, where the final decision is taken on whether or not 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, such as 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 DPP, typically brownfield sites, and use the expertise of our land teams to obtain a DPP which thereby adds value and enables higher returns.

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[1]. 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.

All of these KPIs have improved during the year.





Note:

1. Link to remuneration. For further information go to pages 54-68.
2. Stated before exceptional item (see note 5 to the accounts).

How we performed in 2015/16

- We strengthened the Head Office land team with the appointment of three regional strategic land directors.
- We increased the number of plots we own and control with DPP by 3,468 plots to 24,879 plots. The number of plots owned and controlled awaiting implementable DPP ('pipeline'), has reduced by 4,700 to 10,100 plots, reflecting our success at obtaining DPP in the period and also as a result of the disposal of our interest in Barking Riverside Limited (see note 5 to the accounts). We have an interest in a number of long-term strategic land holdings, of which 6,300 plots have been identified as benefiting from a positive planning status.
- We only acquired land which met or exceeded our minimum acquisition criteria.

What we rely on

- Where sites require planning consent it may take many months to progress a parcel of land from contract 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.

How this links to strategy

- We need to have an adequate supply of land to meet our volume growth aspirations.
- The proposed land acquisition must meet or exceed our minimum gross margin and ROCE acquisition criteria.

How this links to Corporate Responsibility

- By building homes on 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.

+ **For more information see pages 33-39**

The risk we mitigate

- The inability to source suitable land at our minimum gross margin and ROCE hurdle rates. During the year there has been no change in this risk.

+ **For more information see pages 20-24**

Our plans for 2016/17

- We aim to ensure that plots in our owned and controlled 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.

Business Model continued

Managing the planning process

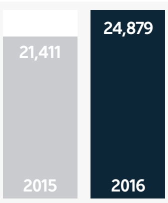
Description

- Our land bank is comprised of three tiers: i) land with DPP;
  ii) medium-term 'pipeline' land;
  iii) strategic long-term land (either owned or under option) which has the benefit of a positive planning status in approved or emerging local plans.
- 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 departments progress a combination of medium-term 'pipeline' land and land from our strategic land bank throughout the planning system.

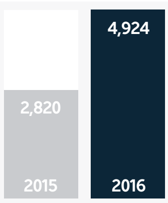
KPIs

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.

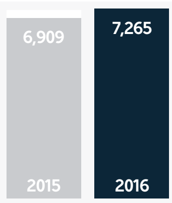
No. of plots in owned and controlled land bank with DPP (plots)



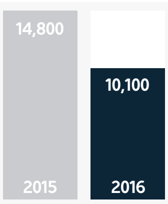
No. of plots acquired with DPP (plots)



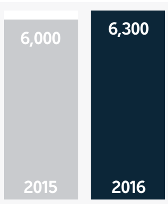
No. of plots converted from medium-term 'pipeline' (plots)



No. of plots in 'pipeline' (plots)



No. of plots in strategic land bank with positive planning status (plots)



How we performed in 2015/16

- We secured DPP on sufficient land during the year to meet our requirements for 2016/17.
- The number of plots that were converted from our medium-term 'pipeline' land bank to land with DPP in 2015/16 was 7,265 plots (2015 – 6,909).
- We invested in sufficient 'pipeline' land to provide plots to progress through the planning process.
- We increased the number of strategic plots with a positive planning status from 6,000 to 6,300 plots.

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 NPPF.

How this links to strategy

- Without sufficient land with DPP we would be unable to achieve our volume growth targets. Furthermore, by not efficiently progressing land through the planning process, capital could be tied up in land for longer than necessary which may result in a reduction in ROCE.
- We continue to focus on acquiring land through our pipeline, often acquiring sites conditionally with a deposit. This approach to land buying helps secure a medium-term land supply, without consuming excessive capital.
- Strategic land helps to augment our land bank and complements our strategy of volume growth.

How this links to Corporate Responsibility

- 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 Community Infrastructure Levy ('CIL') payments.

For more information see page 33-39

The risk we mitigate

- Delays and increasing complexity in the planning process. During the year there has been no change in the risk.

For more information see page 20-24

Our plans for 2016/17

- We aim to have sufficient plots with DPP at 31 July 2017 to meet our 2017/18 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.

Business Model continued

Construction of the right product

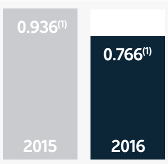
Description

- We construct a wide range of homes to suit a variety of budgets and lifestyles. Our homes are built to specific building, technical, health and safety regulations and other regulatory requirements as well as to our own quality standards.
- We take very seriously the health and safety of our employees and sub-contractors who work on our sites and that of visitors to our sites.
- 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.

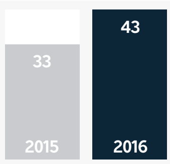
KPIs

The health and safety of our employees, sub-contractors and visitors on site is paramount. We therefore include a health and safety target 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. Unfortunately the number of RIDDOR lost time accidents rose by 3%.

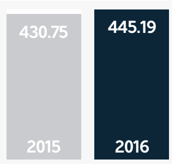
NHBC health and safety incident rate



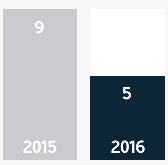
No. of Pride in the Job Awards (awards)



No. of RIDDOR lost time accidents per 100,000 site operatives (no.)



No. of NHBC Health and Safety Awards (awards)



Note:

1. Link to remuneration. For further information go to pages 54-68.

How we performed in 2015/16

- We have trialled our standard house types and construction specification and will use the experience gained from those trials to begin a phased roll out across part of England. This standardisation will help us to control build cost and the quality of our homes.
- We have reviewed all of our standard contracts and trained our key employees in their use to help reduce the risk of cost escalation and claims during construction.
- Our construction programmes have benefited from certainty of materials' supply through good forward planning and supplier relationships. A good example of this is that the shortages of blockwork across the industry in 2016 was well managed by our team and did not hold up our production schedule.
- The Board continues to pay close attention to our health and safety performance at each Board meeting by monitoring performance against pre-determined targets and objectives.
- Our sites were regularly inspected by both internal and external specialists to ensure that high standards of health and safety compliance were maintained.
- We have recruited an additional health and safety manager dedicated to our more complex London schemes.

What we rely on

Experienced construction people, strong relationships with skilled sub-contractors and 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.

How this links to strategy

- The homes we design and build must meet our customers' needs and expectations and we use customer feedback to monitor this.
- Good quality homes enhance customer satisfaction and ultimately our reputation, which aids our ability to sell the homes we build. This in turn helps us achieve our strategy of volume growth.
- Having suitable materials at competitive prices (controlled through Group purchasing arrangements) enables us to meet our growth aspirations, helps support our returns and gives us better control over our cost base.
- It is important to have high standards of health and safety on our sites to create the appropriate working environment to deliver a good quality product and protect the well-being of our employees and sub-contractors and that of visitors to our sites.
- Ensuring we build the type of homes our customers want to buy and matching our build rates to our sales rates reduces the amount of capital tied up in work in progress and unsold finished properties, which could have an adverse impact on our ROCE.

How this links to Corporate Responsibility

- The health and safety of everyone who works on and visits our sites 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 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 page 33-39**

The risks we mitigate

- Shortage of appropriately skilled construction people and sub-contractors. During the year this risk has increased in certain areas of the country.
- Shortage of building materials at competitive prices. During the year there has been no change in this risk.
- There are significant health and safety risks inherent in the construction process. During the year there has been no change in this risk.

+ **For more information see page 20-24**

Our plans for 2016/17

- A phased roll out of the new standard house type range across part of England.
- We will review and refresh our supplier arrangements to ensure we continue to achieve certainty of supply at a good price whilst further improving our controls on quality and compliance.
- We will target improvements during the year through improved design, construction processes and training.
- The Board will continue to monitor the health and safety performance against targets 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 focussed site briefings this year on how to reduce slips, trips and falls to try to reduce the number of RIDDOR lost time accidents.

Business Model continued

Delivering an excellent customer experience

Description

- We aspire to sell homes that are desirable and affordable for our customers. The satisfaction of our customers is paramount 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 construction teams.

KPIs

We have chosen the following KPIs as they demonstrate progress made by the Group in delivering its 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[1].

All of these KPIs have improved during the year, apart from our 4 star housebuilder status, which has remained the same.

KPI	2015	2016
Customer care satisfaction (%)	83.8[1]	85.7[1]
No. of homes sold (homes)	7,752	8,721
Forward order book at 31 July (£m)	1,087.9	1,117.1
Reservation rate (no.)	153	169
HBF/NHBC housebuilder status (star)	4	4

Note:
1. Link to remuneration. For further information go to pages 54-68.

How we performed in 2015/16

- Our expanding national network of divisions, together with the development of attractive, affordable homes ranging from apartments to traditional five-bedroom homes has helped increase the number of homes sold and the average selling price.
- 48% of our apartments sold in the year were in the London boroughs.
- We have continued to train customer-facing employees throughout the year and are pleased to report that our independent net customer satisfaction score has increased slightly to 85.7%.
- We successfully opened one new division during the financial year which will help to augment our sales performance.

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.
- Site Managers who are responsible for, and take genuine pride in, the quality of each finished home that we build.

How this links to strategy

- It is important to have sufficient demand and mortgage finance availability for the homes we construct to ensure the Group is able to meet its volume growth targets.
- Ensuring that our customers have an excellent experience is something we aim to deliver at all times. It also helps to perpetuate a positive reputation for the Group and assists in generating further sales through personal recommendation and brand awareness. We monitor customer satisfaction using feedback from our customers.

How this links to Corporate Responsibility

- We continue to improve the energy efficiency of the homes we build by building homes which are on average more energy efficient than that required by building regulations.
- Customer handover folders now 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.

+ **For more information see page 33-39**

The risks we mitigate

- Mortgage availability.
- Interest rate changes.
- Government housing policy.

During the year there were no material changes in these risks although interest rates have fallen which has improved mortgage affordability.

- Market uncertainty following the EU Referendum. This is a new risk identified during the year.

+ **For more information see page 20-24**

Our plans for 2016/17

- 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 revisit and refresh our training for all customer-facing employees.
- We aim to increase the number of new homes we bring to the market and thereby increase the number of homes we sell.
- We will seek to regain our HBF/NHBC 5 star housebuilder status.
- We have opened another operating division, based in County Durham, on 1 August 2016.
- We will increase the charitable donation for every completed customer survey from £5 to £10.

Business Model continued

Investing in our people

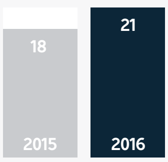
Description

→ Our people are key to the success of our business and we aim to provide them with a rewarding and fulfilling career.

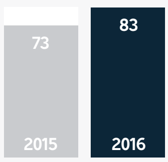
KPIs

We use the following KPIs as indicators of how successful we have been during the year in managing our people. Employee turnover and the proportion of our people who have worked with us for more than ten years indicate how good we are at retention. During the year employee turnover increased as a result of a general skills shortage in our sector, however, the proportion of our people who have ten or more years' service also increased. The other KPIs demonstrate our progress against training for our existing workforce and our success in recruiting new entrants to the industry.

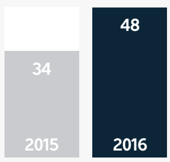
Employees who have worked for the Group for ten years or more (%)



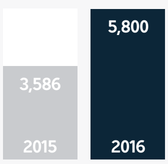
Graduates and apprentices (no.)



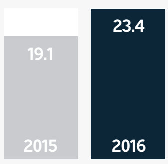
Site Managers and Assistant Site Managers with NVQ Level 6 or above (%)



Customer care training (hours)



Employee turnover (%)



How we performed in 2015/16

- We have increased the number of graduates and apprentices we recruit and train by 14%.
- Work continues on developing our Human Resources strategy, which is now led by a newly appointed Group Human Resources Director.
- We continue to increase the level of training provided to employees involved with sales, customer care and health and safety.
- The percentage of our Site Managers and Assistant Site Managers who have now achieved NVQ Level 6 qualifications or above has increased by 140bps.
- We increased the minimum employer and employee pension contributions for all employees from 3% to 4% of basic pay respectively.
- In June we launched the Bellway Learning Hub, an online learning platform which provides e-learning courses and online resources for new and existing employees.

What we rely on

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

How this links to strategy

- Our employees are essential to the delivery of our strategy through the value they add at all stages of our operations.

How this links to Corporate Responsibility

- Further improvements in training and development.
- Increase in the minimum employer matched pension contribution rate to 4% of salary.

For more information see page 33-39

The risk we mitigate

- The inability to attract and retain appropriate people. During the year this risk has not changed.

For more information see page 20-24

Our plans for 2016/17

- Develop a structured induction programme.
- Create a suite of mandatory and developmental e-learning courses.
- Develop and implement management development training, tools and guidance.
- Review and develop a succession planning framework.
- Develop a structured apprenticeship and graduate training programme and increase the number of graduates and apprentices we recruit and develop.

Risk Management

We have a long-established and effective framework for managing risks. It is the responsibility of management across the Group to implement the Board's policies on risk 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 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 so as to ensure that risks 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

Risk management is the responsibility of every employee. In undertaking their individual roles and responsibilities, employees are assisting in managing risk. Specific to our detailed risk management policy and processes, roles and responsibilities are:

Risk management process

Management maintains a comprehensive risk register of all identified risks, including operational, financial, compliance and strategic risks. The risk management processes have been set up in such a way so as to ensure all aspects of the business are considered, from strategy through to business execution. Specifically, 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 risks is determined based on a defined scoring system assessing risk impact and likelihood.

Derived from the comprehensive risk register is a summary of principal risks specifically reserved for review by the Board. This is mainly, but not exclusively comprised of risks, after mitigation, which score above a certain threshold. This summary is reviewed by the Board 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 operating effectively.

More information on risk management and internal controls is included within the Audit Committee Report on pages 49 to 53.

Risk Management continued

WE HAVE IDENTIFIED, EVALUATED AND PUT IN PLACE MEASURES TO MITIGATE THE PRINCIPAL RISKS FACED BY THE BUSINESS, AS SHOWN BELOW.

Risk and description	Relevance to strategy	KPIs	Mitigation	Change in year
Land				
Inability to source suitable land at appropriate gross margins and ROCE.	• Failure to buy land at the right margin would have a detrimental effect on future returns. • Insufficient land would affect our volume growth targets.	• EPS. • ROCE. • Land bank with DPP. • Gross margin.	• We prepare thorough pre-purchase due diligence and pre-purchase viabilities on all of our proposed land purchases. These are kept under regular review to ensure capital is invested appropriately. • Authorisation of all land purchases (regardless of value) in accordance with Group procedures at Head Office.	↔ The land market remained competitive during the year. We have strengthened our land teams, both through new appointments and new regional roles.
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.	↔ Despite complexity in the planning process, this risk has continued to be well managed in the year, with the number of planning permissions granted increasing.
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.	• EPS. • Employee turnover. • Number of homes sold.	• Systems are in place to select, appoint, monitor and manage sub-contractors. • Competitive rates are in place for sub-contractors. • Group purchasing arrangements are in place. • Continued review of forward planning and key supplier performance. • We build long-term relationships with sub-contractors and always aim to treat them fairly and pay promptly.	↑ This risk has increased slightly during the year due to increased competitive pressure in the sub-contractor labour market and as a result of uncertainties following the EU Referendum.
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 benchmark. • NHBC Health and Safety Awards.	• 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.	↔ There have been no changes to this risk during the year.

Risk and description	Relevance to strategy	KPIs	Mitigation	Change in year
Environment				
The impact of our operations on the environment must be managed in a responsible and sustainable manner.	• Ineffective management of environmental matters would lead to financial loss, reputational damage and a potential inability to build and sell homes.	• Percentage of compounds with energy saving devices. • Energy efficiency of our homes. • Waste diversion rates.	• We have a range of procedures in place to address issues around ecology, biodiversity, resource use, waste management and sustainable sourcing, with the objective that a development should create an attractive and sustainable environment.	↔ There have been no changes to this risk during the year.
Sales				
There are a number of external factors that could affect our ability to generate sales: • market uncertainty following the EU Referendum; • access to credit facilities; • mortgage availability; • interest rate changes; and • government housing policy.	• The ultimate impact of these external factors would be on the ability to sell homes and apartments and on returns.	• EPS. • ROCE. • Number of homes sold. • Forward order book. • Reservations rate. • Customer care satisfaction.	• Ongoing monitoring of key business metrics such as reservation rates, cancellation rates and customer care scores. • Action plans developed from monitoring of metrics. • Active management of construction rates to match with sales rates. • 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.	↑ This risk has increased slightly during the year due to uncertainties following the EU Referendum but partially offset by reducing interest rates.
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.	• EPS. • Employee turnover. • People who have worked for the Group for ten years or more. • Graduates and apprentices. • Number of homes sold.	• We have appointed a new Group Human Resources Director who will oversee the development of our people strategy. • Competitive salary and benefits packages which are regularly reviewed. • Succession plans in place and key person dependencies identified. • Graduate and apprentice training programmes in place.	↔ This risk has not changed during the year as the labour market has remained competitive.
Information technology				
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.	↔ There have been no changes to this risk during the year.
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 and Technical functions advise and support divisions on compliance and regulatory matters. • Group-wide policies, procedures and training for key regulatory matters.	↔ There have been no changes to this risk during the year.

Risk Management continued

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.

The Company's only financial instruments are cash, other receivables and amounts owed by Group undertakings.

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 reinvested profits, bank borrowings, cash in hand and the management of working capital.

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, 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 (see note 15 to the accounts). 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 £27.430 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 reinvested 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 18 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 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 (see note 17 to the accounts). No other security is held against any other financial assets of the Group.

Interest rate risk

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.

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.

During the year ended 31 July 2016, it is estimated that an increase of 1% in interest rates applying for the full year would decrease the Group's profit before taxation by £0.986 million (2015 – £1.399 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.

EU Referendum

Although there has been volatility in Bellway's share price and that of other listed UK housebuilders since the result of the EU Referendum, the uncertainty around the UK's decision to leave the EU has not translated into a decline in demand for our homes nor any change in the willingness of lenders to provide mortgage finance. We continue to monitor the situation carefully and the economic environment generally and are confident that given our strong balance sheet and disciplined approach to land buying, together with the demand for new homes, that Bellway is well placed to continue its long-term growth strategy.

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 the next three years. For this reason, they continue to adopt the going concern basis in preparing the accounts as discussed further on page 81.

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 2020. In advance of these facilities expiring, a review is 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 seven consecutive financial years achieved year on year growth in legal completions, revenue and operating margin.

Having considered all 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.

Chief Executive's Operating Review

"Demand for new homes has remained robust throughout the year…the land market continues to produce attractive opportunities at good rates of return."

Ted Ayres
Chief Executive

Trading performance

Demand for new homes has remained robust throughout the year, with the Group taking an average of 169 reservations per week (2015 – 153), an increase of over 10% compared to last year. Interest in new sites has been encouraging, with overall visitor numbers ahead of the prior financial year, whilst monthly 'hits' to the Bellway website continued to grow. Customer confidence is robust and the cancellation rate for the year remained low at only 11% (2015 – 11%).

More recently, the result of the EU Referendum on 24 June has cast some uncertainty with regards to the wider economic outlook. Reassuringly, reservations net of cancellations, since that date until 31 July, were 13% ahead of the same period in the prior year. The Bank of England's monetary policy response should help to at least maintain the favourable conditions in which customers are able to purchase a new home.

Throughout the year, the pricing environment has remained positive and sales prices achieved on reservations have generally been at, or slightly ahead of the assumptions made when sites were initially acquired. Incentives have been utilised sparingly with their use low by historical standards. One of the main selling incentives continues to be part-exchange on selected developments, with this inducement being used in 7% (2015 – 8%) of reservations.

Help to Buy continues to be an important government stimulus and has been used in 32% (2015 – 27%) of reservations. In England, the extension of Help to Buy until 2021 has created additional visibility with regards to the ongoing availability of affordable, higher loan to value mortgage finance. This further supports long-term demand, aiding the Group when making investment decisions.

In London, the increase in the maximum Help to Buy equity loan percentage to 40% on 1 February has helped widen access to mortgage finance for potential purchasers, further underpinning the investment in our London business. Since the higher equity share loan was introduced, the use of Help to Buy in the Capital has risen to 39% of reservations.

The Group opened a new South Midlands division, located in Coventry in February 2016 and latterly it has opened a further division, located in County Durham, on 1 August 2016. Bellway now has 19 operating divisions, six of which have been opened in the three years since 1 August 2013. The more established new divisions are all performing well and the newest divisions in Coventry and County Durham should make a positive contribution to completions and profitability in the year ahead.

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

Homes sold (number)

	Private		Social		Total	
	2016	2015	**2016**	2015	**2016**	2015
North	**3,651**	3,070	**536**	626	**4,187**	3,696
South	**3,694**	3,108	**840**	948	**4,534**	4,056
Group total	**7,345**	6,178	**1,376**	1,574	**8,721**	7,752

Average selling price (£000)

	Private		Social		Total	
	2016	2015	**2016**	2015	**2016**	2015
North	**220.6**	212.0	**92.2**	87.2	**204.2**	190.9
South	**335.6**	290.9	**131.3**	132.5	**297.7**	253.8
Group average	**278.4**	251.7	**116.1**	114.5	**252.8**	223.8

The total number of completions has risen by almost 13% to 8,721 (2015 – 7,752) and has been positively influenced by the number of private homes sold rising by 18.9% to 7,345 (2015 – 6,178), representing 84% (2015 – 80%) of the total.

Our northern divisions have performed well, benefiting from significant investment in high quality land and work in progress over recent years. This, together with strong market conditions, has contributed to notable volume growth in divisions such as West and East Midlands, which completed the sale of 780 and 744 homes respectively. Our new Manchester division, opened in August 2013, has also performed well, delivering 360 new homes, an increase of 100 compared to the prior year. In the south, the market is also strong, with divisions such as Thames Gateway, North London and Essex all delivering in excess of 700 homes, resulting in record profits in each of these regions.

The average selling price has risen by 12.9% to £252,793 (2015 – £223,821), with the improvement driven by a higher proportion of private homes sold, continued investment in higher value locations, together with a modest benefit arising from house price inflation. This focus on higher value areas has aided divisions such as West Midlands, Essex and Northern Home Counties to deliver increases in their average selling price in excess of 14%.

In London, demand remains strongest in more affordable locations, which is principally where Bellway continues to focus its activities. Our average selling price in London has risen by 30.7% to £377,118 (2015 – £288,514), firmly within the scope of Help to Buy. The rise in average selling price has been influenced by an unusually low proportion of social completions, which represented only 4% (2015 – 14%) of homes sold in the Capital. In addition, there has been a positive effect arising from the completion of a number of higher value apartments, at sites in locations such as Greenwich, Brentford and Park Royal. Overall, London accounted for 14% (2015 – 19%) of the Group's completions and 21% (2015 – 24%) of housing revenue.

Construction and material costs

There is still some upward pressure with regards to labour costs, particularly in the South East, where the availability of certain trades, predominantly ground workers, brick layers and scaffolders is most restricted. These pressures are, however, manageable in the context of the growth of the Group.

Material cost increases have largely abated and whilst there still remains occasional availability issues, longer lead in times have been factored into build programmes and strong relationships with suppliers are helping to ensure that construction timetables are being met.

The Group does not directly import any materials from overseas and despite the volatility following the outcome of the EU Referendum, the overall cost of any adverse currency fluctuations is expected to be minimal when considered as part of the overall cost of constructing a new home.

Planning and improving the land bank

The land market continues to produce attractive opportunities at good rates of return. The planning environment is supportive and is generally favourable towards land buying, with the number of new planning permissions granted continuing to exceed national housing output. There are, however, a large number of local authorities that still do not have adopted local plans in place. In addition, the conclusion of planning obligation agreements and the satisfaction of pre-commencement conditions, in the context of a complex planning environment, can often add cost and cause delay to site starts. We await the detail of the amended Housing and Planning Act and in particular the obligations surrounding the provision of Starter Homes, but welcome the government's initiative to assist first-time buyers to get onto the housing ladder.

Against this backdrop, the Group has continued its controlled investment in land, identifying and acquiring sites that meet or exceed its minimum hurdle rates in respect of both gross margin and ROCE. Accordingly, the Group has expended a record £670 million on land and land creditors (2015 – £620 million) and has contracted to acquire 9,555 plots (2015 – 9,128 plots) across 88 sites (2015 – 88 sites), thereby ensuring it is well positioned to deliver further volume growth in the years ahead. The Group has a disciplined approach towards land buying, assigning capital to opportunities in areas where demand is strongest and where returns are most attractive. This has led to a geographically balanced approach to investment, with 46% of plots contracted in the north (2015 – 49%) and 54% in the south (2015 – 51%).

Chief Executive's Operating Review continued

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

	2016	2015
Owned and controlled plots	**34,979**	36,211
Comprising:		
DPP: plots with implementable detailed planning permission	24,879	21,411
'Pipeline': plots pending an implementable DPP	10,100	14,800
Strategic plots with a positive planning status	**6,300**	6,000

The number of plots with an implementable detailed planning permission ('DPP') has risen by 16% to 24,879 (2015 – 21,411), representing 2.9 years' supply (2015 – 2.8 years) at current rates of output. The Group has all of its land in place with the benefit of DPP in order to meet this current year's planned growth target. The increase in the number of plots with DPP reflects the success of our land and planning teams, both in acquiring new land and also in obtaining a planning permission on already owned or contracted land, with some 7,265 plots having been converted from the Group's land 'pipeline' during the year. One such site on which the Group obtained DPP was Copenhagen Place in Limehouse, London, a small brownfield redevelopment opportunity acquired for £5 million in summer 2015. This site was bought without any planning status, but our experience and strong knowledge of this local area helped secure DPP for 45 homes.

The number of plots within the land pipeline has reduced to 10,100 (2015 – 14,800), with these plots defined as those which either benefit from an outline planning permission, or are assessed as likely to obtain the benefit of a DPP within the next three years. The reduction in the number of pipeline plots is in part attributable to our success in obtaining DPP on the 7,265 plots converted from the pipeline land bank during the year. In addition, the Group disposed of its interest in Barking Riverside Limited, its joint venture company with the Greater London Authority, to London & Quadrant New Homes Limited. As part of the disposal, Bellway entered into a new pre-emption agreement, which based on the existing outline planning permission, entitles it to purchase around 2,600 development plots on attractive commercial terms. This represents some 2,100 fewer plots compared to the previous entitlement, which would have been available for purchase over the estimated remaining twenty year life of the scheme, provided Bellway made a significant, long-term capital contribution to the on-site infrastructure costs. The reduction in plots has been shown as a decrease in the pipeline land bank, resulting in a more concentrated residual land pipeline, accessible over a shorter time period and requiring less initial capital outlay.

The Group still continues to focus on acquiring land through its pipeline, often acquiring sites conditionally with a deposit. This approach to land buying helps secure a medium-term land supply, without consuming excessive capital. Contracting land in this manner typically results in the acquisition of higher return, brownfield opportunities, where the planning prognosis is often positive and is supported by the government's presumption in favour of brownfield development.

In total, the Group's owned and controlled land bank, comprising land with DPP and land in the pipeline, consists of 34,979 plots (2015 – 36,211 plots), with brownfield land representing approximately 61% of these plots (2015 – 66%).

In addition to the owned and controlled land bank, the Group recognises that greenfield strategic land can be a valuable source of supply, more so as Bellway continues to expand and therefore requires a wide variety of land sources in order to meet the growth demands of the future. The Group has therefore appointed three regional strategic land directors whose remit is to identify and acquire longer-term land, further complementing the approximate 6% of additions in the year to the top tier of the land bank that have historically originated from strategic land assets.

Strategic land holdings have increased to 6,300 plots (2015 – 6,000 plots), with those reported representing only those plots that have a positive planning prognosis, being either identified for residential development in an emerging local plan or subject to a current planning application.

Developing our people

The average number of people employed has risen by 9% to 2,366 (2015 – 2,164), which is in addition to those engaged indirectly, both through the provision of sub-contractor labour and in associated supply chain industries, demonstrating the positive economic contribution arising from the increase in volume output.

Identifying, recruiting and retaining experienced, high calibre individuals remains the greatest constraint to long-term growth for the wider industry. Upward pressure with regards to salary costs has remained a feature over the past year, particularly in London and the South East, where the demand for skilled individuals is most pronounced.

The Group recognises its responsibility to contribute to reducing the industry wide skills shortage and also the importance of its people in delivering this outstanding set of results. Accordingly, Bellway has increased the number of apprentices and graduates within the business by 14% to 83 people (2015 – 73) and has also continued to develop and invest in our Site Managers and Assistant Site Managers, with 48% (2015 – 34%) of these individuals now having achieved NVQ Level 6 or higher. Ongoing training is also important across the wider organisation, ensuring that Bellway continues to meet high standards in all aspects of its business activities. This is reflected by the number of training hours undertaken by our employees increasing by 36% to 12,514 (2015 – 9,234).

Bellway has appointed a new Group Human Resources Director with the remit to further develop the Group's people strategy, initially focusing on attraction, development and retention of talent across the business.

Bellway4Good

Whilst growing the business, we wish to do so in a sustainable and ethical manner and accordingly, Bellway has for the second year in succession continued to set and monitor performance against a number of objectives under the banner of Bellway4Good, its corporate responsibility function. This focuses on the principal areas of environment, construction, society and economy.

Key achievements during the year include increasing the percentage of construction compounds fitted with energy saving devices to 84% (2015 – 52%), exceeding the minimum energy efficiency requirement on our new homes by 6%, as measured by the Dwelling Emission Rate, improving waste diversion rates to 95.9% (2015 – 92.9%) and providing customer handover folders to home purchasers containing information on sustainable travel, local recycling centres and energy efficiency advice.

Bellway has also taken a proactive approach to the way in which it manages charitable engagement, undertaking a range of initiatives to support a number of different charities and in particular, its two chosen national charity partners, being British Heart Foundation and Construction Youth Trust. We are pleased to report that our total charitable donations, made through a combination of employee fundraising, matched funding and direct donations amounted to £284,704 (2015 – £183,540), of which £74,704 (2015 – £37,530) was donated by employees.

Tyler Monk started working for us in November 2014 as an apprentice at our East Midlands division and has won several awards for his carpentry skills, academic studies and project based work, including Apprentice of the Year and Student of the Year at West Nottingham College.

Chief Executive's Operating Review continued

A focus on customer care

Ensuring that our customers enjoy a positive experience when purchasing a new home is a key priority for the Group. We offer a wide range of product to suit individuals and families, with varying budgets at different stages of their lives.

We strive to ensure that our product is built to a high standard, thus helping to reduce the expense of costly remedial work and minimise subsequent disruption for our customers. We continue to focus on build quality and the efforts of our Site Managers have been rewarded, with 43 of them receiving NHBC Pride in the Job Awards (2015 – 33), the highest the Group has ever achieved and an increase of 30% compared to last year.

Customer feedback is important to us so that we can identify areas for improvement and build these into our future processes. We invite all of our customers to participate in a survey, obtaining feedback across a number of key areas. In order to obtain a true representation of where we can improve, we focus on six key questions, covering build quality, standard of finish and home condition, amongst other topics. We use the results of these surveys to calculate an average overall customer care score which has risen by 190bps to 85.7% (2015 – 83.8%).

In order to further improve our customer care processes, we have also invested in a Group Customer Care Manager, supplementing our existing divisional resources.

Building new homes safely

Ensuring the health and safety of all of our site operatives is of utmost importance and we therefore undertake regular onsite training for all of our Site Managers. In addition to a focus on reducing accident rates, during the year we have placed added emphasis on dust suppression in an attempt to mitigate the risk to those individuals working on our sites.

We conduct regular health and safety inspections on all our sites using a combination of both in-house health and safety managers and externally appointed consultants. During these inspections, each site is appraised against a number of criteria and appropriate action is taken where improvements can be made. As a result of this approach, our NHBC health and safety incident rate has fallen again to 0.766 (2015 – 0.936), with a low score representing a lower incidence of health and safety contraventions. This low score compares favourably when benchmarking against those companies that adopt a similar scoring metric.

In addition, we are pleased to report that five of the Group's Site Managers have been given NHBC Health and Safety Awards (2015 – nine), with two of these then going on to secure highly commended awards.

Current trading and outlook

Whilst delivering significant volume growth, the Group ended the year with an increased order book comprising 4,644 homes (2015 – 4,568 homes), with a value of £1,117.1 million (2015 – £1,087.9 million). In the nine weeks since 1 August, the Group has taken an average of 162 reservations per week (2015 – 149), an increase of 9% compared to the same time last year. As a result, as at 2 October the order book has grown further to 4,701 homes (4 October 2015 – 4,432 homes), with a value of £1,159.3 million (4 October 2015 – £1,032.9 million). Sales prices on reservations taken during this period have continued to be in line with or slightly ahead of expectations.

From its structure of 19 operating divisions, the Group has the capacity to deliver around 11,000 new homes per annum and is well placed to increase this capacity, through the opening of further new divisions, should market conditions remain robust. Given this capacity, the strong order book and encouraging start to trading, the Group should be able to deliver further, but more moderate growth in volume in the current financial year and beyond. The extent of volume growth this year will depend on whether customer confidence is maintained and strong sales rates continue throughout the autumn and subsequent spring selling seasons.

The strength of the Group's balance sheet and divisional structure mean that Bellway is well placed to deliver its strategy of further volume growth over the longer-term and this, together with a disciplined focus on ROCE, should result in additional value creation for shareholders.

Ted Ayres
Chief Executive

17 October 2016

Group Finance Director's Review

"The strong trading performance, together with a focus on balance sheet efficiency, has resulted in ROCE rising by 430bps to 28.2%(2)."

Keith Adey
Group Finance Director

Operating performance

Ongoing delivery of the growth strategy with another year of significant volume growth, together with further improvement in the average selling price, has resulted in housing revenue growing substantially, by 27.1% to a record £2,204.6 million (2015 – £1,735.1 million).

This, together with other revenue of £36.1 million (2015 – £30.3 million), principally comprising receipts from the usual disposal of the Group's ground rent portfolio, resulted in total revenue for the Group increasing by 26.9% to £2,240.7 million (2015 – £1,765.4 million).

The gross margin has risen to a record 25.7% (2015 – 24.2%[1]), with the acquisition of good quality land contributing to this improvement. The positive effects of house price inflation, net of inevitable industry-wide build cost increases over recent years, has also contributed to this improvement.

Increased output has helped improve the absorption of the administrative overhead base, which has fallen slightly to 3.7% of revenue (2015 – 3.8%), a reflection of a continued emphasis towards cost control. This comparatively low ratio has been achieved notwithstanding the investment in resource in order to deliver ongoing growth. In addition, there has been some upward pressure on salary costs, reflecting the continuing demand for good quality individuals. The total administrative overhead has risen to £82.8 million (2015 – £67.5 million), with the prior year benefiting from a one-off profit of £2.8 million, principally arising from the disposal of a non-core residential estate maintenance business.

A strong trading performance has resulted in the operating margin rising by 160bps to 22.0% (2015 – 20.4%[1]), a record for the Group. This has contributed to the 36.5% rise in operating profit which grew to £492.0 million (2015 – £360.4 million[1]).

Barking Riverside

In addition to the strong operating performance, the Group recognised an exceptional profit of £17.3 million, arising on disposal of its interest in Barking Riverside Limited (see note 5 to the accounts).

The disposal of Barking Riverside will result in a net cash inflow with a fair value of £43.5 million and will also relieve the Group from its substantial funding obligations with regards to the ongoing remediation and infrastructure requirements of this long-term, capital intensive site. The disposal provides the Group with the opportunity to reallocate underperforming capital into higher return land opportunities.

Net finance expense

The net finance expense has fallen slightly to £11.1 million (2015 – £13.1 million) and is mainly made up of imputed interest arising on land acquired on deferred terms, which has risen to £7.6 million (2015 – £6.6 million). The remaining net interest expense principally relates to bank interest, comprising interest on drawn monies, commitment fees and refinancing costs on the Group's £500 million banking facilities. This has fallen to £4.3 million (2015 – £6.5 million) reflecting the timing of tranche renewals.

Profitability

Profit before taxation has risen by 40.6% to £497.9 million (2015 – £354.2 million) and the Group incurred a corporation tax charge of £95.0 million (2015 – £71.1 million), reflecting an effective tax rate of 19.1% (2015 – 20.1%). The Group's effective tax rate is below the standard rate of corporation tax of 20% (2015 – 20.7%), primarily as a result of the non-taxable disposal of Barking Riverside Limited, together with the benefit of an enhanced tax deduction for remediating previously developed, brownfield land.

Overall, profit after taxation has risen by 42.3% to £402.9 million (2015 – £283.1 million), resulting in EPS growing by 42.0% to 328.7p (2015 – 231.5p).

Cash flow and debt

Bellway remains highly cash generative and produced cash from operations of £650.5 million (2015 – £426.5 million) before increasing the amount of capital invested in land and work in progress, in order to facilitate the future growth of the business. After taking this into consideration, the Group generated £249.4 million from operations (2015 – £98.1 million).

After expending £82.4 million on tax, paying a dividend of £105.4 million and taking into consideration other minor cash inflows of £3.4 million, the Group ended the year with net cash of £26.5 million (2015 – net bank debt of £38.5 million), reflecting an ungeared balance sheet (2015 – gearing of 2.4%).

Land creditors, which are considered to be a source of longer-term debt finance, stood at £304.2 million (2015 – £192.6 million) and continue to be used only when it is cost effective to do so. Including land creditors, total debt stood at £277.7 million (2015 – £231.1 million), representing adjusted gearing of 14.9% (2015 – 14.7%).

Group Finance Director's Review continued

Balance sheet

Investment in land has risen by 25.3% to £1,625.6 million (2015 – £1,297.0 million) as the Group continues to invest in order to secure future growth. The amount invested in land with a detailed planning permission has increased by 31.9% to £1,373.1 million (2015 – £1,040.9 million) and is represented by 24,879 plots (2015 – 21,411 plots), reflecting the success of our land teams in acquiring or progressing land through the planning system.

Work in progress has risen to £836.1 million (2015 – £763.7 million) as significant investment has been made in order to meet the ongoing demand for new homes. Bellway now has 9,621 plots under construction (2015 – 7,923 plots), including developments in the early stages of production on a number of London schemes, where completions are expected in later years.

There is a modest pension scheme deficit of £8.0 million (2015 – £7.5 million), which comprises assets of £51.9 million (2015 – £47.3 million), less liabilities of £59.9 million (2015 – £54.8 million). The increase in the deficit is principally attributable to the reduction in corporate bond rates.

Delivering enhanced shareholder returns

The strong trading performance, together with a focus on balance sheet efficiency, has resulted in ROCE rising by 430bps to 28.2%[2] (2015 – 23.9%[1],[2]). Notwithstanding a conservative approach to debt and a lowly geared balance sheet, post-tax return on equity has risen by 410bps to 23.5% (2015 – 19.4%). This has led to an 18.5% rise in net assets to £1,867.0 million (2015 – £1,575.9 million), after accounting for the cash dividend payment of £105.4 million (2015 – £74.6 million). The NAV per share has risen by 18.4% to 1,522p (2015 – 1,286p), which together with the total proposed dividend of 108.0p (2015 – 77.0p), demonstrates another year of significant value creation for shareholders.

Keith Adey
Finance Director

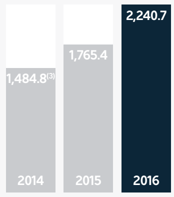
17 October 2016

Notes:

1. Stated before exceptional item (see note 5 to the accounts).
2. Calculated as pre-exceptional operating profit, divided by average capital employed. Capital employed is equity and net bank debt.
3. Restated following the adoption of IFRS 10 'Consolidated Financial Statements' and IFRS 11 'Joint Arrangements'.

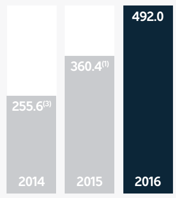
Group revenue (£m)

2,240.7
+26.9%



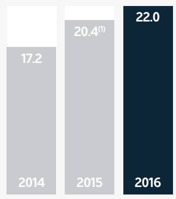
Operating profit (£m)

492.0
+36.5%



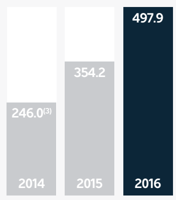
Operating margin (%)

22.0
+160bps



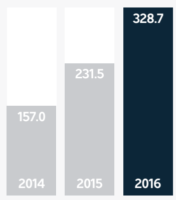
Profit before taxation (£m)

497.9
+40.6%



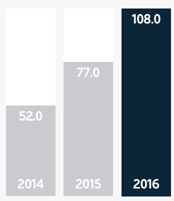
Earnings per ordinary share (p)

328.7
+42%



Proposed total dividend per ordinary share (p)

108.0
+40.3%



Corporate Responsibility

Our priority as a housebuilder is to provide high quality new homes in desirable surroundings and in doing so deliver benefits to our shareholders, customers, employees and other stakeholders. We believe we can fulfil these aims whilst at the same time operating our business in a socially responsible, ethical and sustainable way; a way that isn't just beneficial for the environment and wider society, but one which also makes commercial sense.

We brand our approach to Corporate Responsibility ('CR') as Bellway4Good and while our Chief Executive is ultimately responsible for delivering the overall CR programme, the Head of Sustainability and functional heads meet on a quarterly basis to review progress within a steering group convened by the Group Finance Director. The Head of Sustainability has helped develop a more strategic and robust approach to CR and provides support to our national network of divisions on CR matters.

We concentrate our efforts on three core CR 'pillars', each with its own clear areas of focus and commitments to ensure we consider the interests of our diverse stakeholder groups and make positive social, environmental and economic contributions across our business.

Our key achievements in 2015/16

We have made progress against targets relating to each of these three pillars. Some of our key achievements are outlined below:

Environment

- Increased the percentage of construction compounds fitted with energy saving devices to 84.3% (2015 – 51.9%).
- The energy efficiency of our homes, measured by the Dwelling Emission Rate, was on average 5.7% better than that required by building regulations.
- Customer handover folders now contain information on sustainable travel, local recycling centres and energy efficiency advice.

Construction

- Improved waste diversion rates to 95.9% (2015 – 92.9%).
- Increased section 106 and CIL payments to £147.9 million (2015 - £79.0 million).

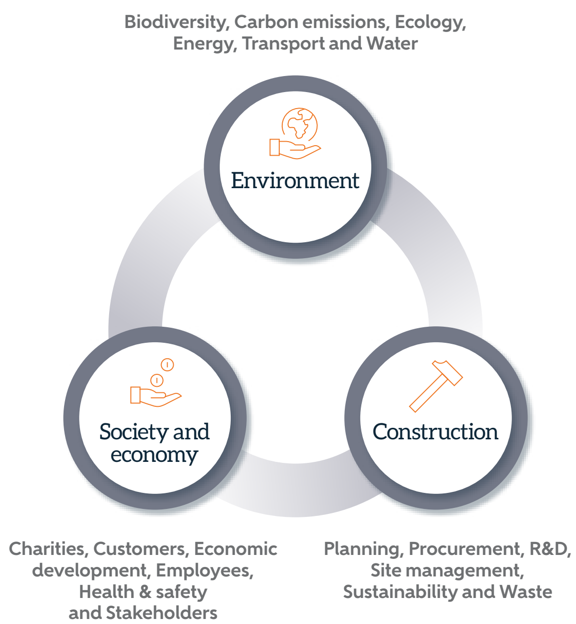
Society and Economy

- Increased the minimum employer matched pension contribution rate to 4%.
- Achieved an improved overall customer satisfaction score by reference to the average of six customer care related questions of 85.7%.
- Achieved an improved NHBC health and safety incident rate of 0.766 (2015 – 0.936).
- Donated £159,228 to our national charity partners.
- Matched and topped-up employees' fundraising to a total of £111,220.

In total we set ourselves 17 targets for the year, covering a wide range of CR focus areas. A summary of our performance is set out below with more detail available on our web site www.bellway.co.uk/corporate-responsibility.

- 13 targets were achieved.
- 1 target is progressing and will be rolled-over into 2016/17.
- 3 targets were missed.

In addition we continue to be a constituent of the FTSE4Good Index Series and we participate in the annual Carbon Disclosure Project for 'Climate Change' and 'Forests'. In November 2015 we received a score of 91% for disclosure and performance band D under 'Climate Change' (2014 – 81% / C) whilst in our first participating year of the 'Forests' programme we were graded 'Management – B', the third highest grade available (out of seven grades).



Corporate Responsibility continued

Environment

Climate change and the protection of the environment are two significant challenges for both industry and society as a whole. We aim to minimise the deleterious effect our sites have on these two important aspects through adopting a sustainable approach to our operations.

Biodiversity and ecology

We undertake thorough risk assessments, including ecological surveys, to understand the potential impact our developments may have on the local area. Where necessary, appropriate mitigation work is undertaken prior to, or during construction and we contribute financially to help safeguard Special Protection Areas.

In accordance with the NPPF, which places greater emphasis on sustainable development, we have continued to invest in brownfield sites. In 2016 62% (2015 – 74%) of our new homes were built on brownfield land which, along with the planting of around 195,400 (2015 – 203,900) trees and shrubs, has helped improve the environment and ecological biodiversity of local areas.

Energy

We have continued our work on energy efficiency and all new construction compounds in 2015/16 were fitted with energy saving technology to reduce usage. The percentage of construction compounds fitted with energy saving devices is now 84.3% (2015 – 51.9%). We have also introduced a temperature limit on thermostat heating in our showhomes to avoid wasteful energy consumption and reduce bills.

Our customers also benefit from our work. The energy efficiency of our news homes continues to be better than the relevant building regulations, with Dwelling Emission Rates in 2015/16 on average 5.7% better than that required by building regulations. In addition, our house type standardisation work will deliver increased controllability of heating systems, all leading to reduced energy bills.

We also provide 'Go Green' energy efficiency information for new homeowners, setting out how customers can further reduce their energy bills, while information on sustainable travel options and local recycling centres is also included in customers' welcome packs.

Northern Home Counties – Estone Grange, Aston Clinton, Buckinghamshire.

Scotland – Hallside Farm, Cambuslang, South Lanarkshire.

Carbon reporting

In accordance with the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, we are reporting 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 2015 to 31 July 2016, and the previous year's figures have been provided as comparators.

Our overall carbon emissions have increased by 49% to 22,334 tonnes CO_2e (2015 – 14,992), driven by a number of factors:

- Improved data capture and reporting – this year our emissions include gas and electricity consumption from our inventory of completed homes (prior to handover to customers) and an estimate of consumption for offices where utilities are included in a building service charge. Together these elements represent over 53% of the increase.
- Increased construction activity – the number of legal completions has increased by 12.5% to 8,721 (2015 – 7,752).

On a like-for-like comparison (excluding carbon from our inventory of completed homes and offices with a utility recharge) our carbon emissions have increased by 26% to 18,895 (2015 – 14,992). On this same basis carbon emissions per home sold have increased by 16% to 2.2 (2015 – 1.9) and carbon emissions per employee have risen by 16% to 8.0 (2015 – 6.9).

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 sources of emissions 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.

Both the 2014/15 and 2015/16 emissions have been externally verified by Zeco Energy to a 'reasonable assurance level' as part of a review of our carbon footprint.

2016 saw the appointment of a third party company to help manage our utility portfolio, delivering improvements in the accuracy and collection of carbon data. This has given greater visibility to the areas of significant energy consumption across the business. Along with a move to internal quarterly reporting, this will enable us to consider carbon reduction targets in future years.

Greenhouse Gas Emissions (tonnes of CO_2e)[1]

	2016		2015	
	Excl. inventory plots/office recharged utilities	**Incl. inventory plots/office recharged utilities[2]**	Excl. inventory plots/office recharged utilities	Incl. inventory plots[3]/office recharged utilities[2]
Scope 1 – Combustion of fuel & operation of facilities (including diesel and petrol used on-site and in company cars on Group business)	**13,845**	**16,362**	10,634	13,223
Scope 2 – Electricity purchased for our own use[4]	**5,050**	**5,972**	4,358	5,174
Total Emissions	**18,895**	**22,334**	14,992	18,397
Emissions Intensity:				
tCO_2e per home sold[5]	**2.2**	**2.6**	1.9	2.4
tCO_2e per employee[6]	**8.0**	**9.4**	6.9	8.5

Notes:

1. Carbon dioxide equivalent as per the meaning given in section 93(2) of the Climate Change Act 2008.
2. Carbon impact for offices with landlord recharged utilities is estimated based on average consumption per square metre for offices with billed utilities.
3. Carbon impact of inventory plots is estimated from known consumption data for c. 60% of plots, extrapolated across all plots for the year.
4. Scope 2 emissions have been reported using a location based emission factor.
5. Based on number of legal completions.
6. Based on the average number of employees during the year.

Corporate Responsibility continued

Construction

We take a partnership approach to the construction of our developments. Working closely with suppliers, sub-contractors, local authorities and local communities, we aim to create new, attractive and sustainable communities and developments.

Communities

Creating sustainable communities is something we are passionate about. In order to succeed, developments must meet the needs not only of potential customers, but also of existing residents in already established, neighbouring communities. To this end, for all new developments of 50 homes or more, we undertake two way consultation and dialogue with local communities, including communication through information leaflets, public exhibitions and meetings, workshops and websites. We take on board feedback we receive and, where appropriate, make changes thereby ensuring local people have the opportunity to help shape developments within their community.

Our contribution to local communities extends beyond the creation of new developments. Each year, as part of securing planning permission for our developments, we enter into planning obligations via section 106 agreements and provide affordable housing contributions and Community Infrastructure Levy ('CIL') payments for the provision and enhancement of such things as education facilities, healthcare, sports facilities, transport improvements, ecology and biodiversity and recreation space. In 2015/16 we made section 106 CIL payments totalling £147.9 million, almost double our payments last year (2015 – £79.0 million).

Our East Midlands division sponsors AFC Chellaston girls' football team.

Waste

Our primary objective remains to reduce the amount of waste produced, beginning with the planning and design process, filtering down through the management of the construction process and across the lifetime of the development. Our work on standardisation of house types will deliver further savings on waste and materials as they are rolled out across our divisions.

Waste however is an inevitable by-product of what we do and accordingly we continue to re-use and recycle waste where we can. Our waste diversion rate improved to 95.9% this year (2015 – 92.9%), leading to a 36% reduction in tonnes of waste sent to landfill. We continue to work with our key waste contractors to improve waste management, reduce costs and control reporting.

Supply chain

Our aim is to be the preferred partner for our suppliers and sub-contractors through the development of long-term relationships. We operate a range of group contracts for key raw materials, providing security of supply, quality consistency and costs benefits to our business. We are also committed to supporting the local economy where we operate and our divisions source their remaining material requirements from a range of local suppliers, as well as employing local sub-contractors to undertake work on our developments.

Wherever possible we purchase our materials from sustainable sources, with all our solid timber sourced from managed stewardship forests accredited to PEFC[1] or FSCC[2] standards. We continue to be a signatory of the Prompt Payment Code and are committed to paying our sub-contractors and suppliers within clearly defined terms.

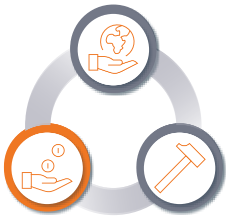
George Carty, Site Manager, Scotland division.

Quality

We are pleased to report that a record 43 Site Managers were awarded NHBC Pride in the Job Awards this year, a 30% increase on last year (2015 – 33). Along with the success of our Site Managers in the NHBC's safety awards (see page 30), we are extremely proud of this external recognition, reflecting the quality and high standards our employees are encouraged and supported to achieve.

Notes:

1. The Programme for the Endorsement of Forest Certification (PEFC) is an international non-profit, non-governmental organisation dedicated to promoting Sustainable Forest Management through independent third-party certification.
2. The Forest Stewardship Council (FSC) is an international not-for-profit, multi-stakeholder organisation established in 1993 to promote responsible management of the world's forests.



Society and economy

The UK housebuilding industry is a key component of the national economy.

Economy

The contribution of the UK housebuilding industry to social and economic sustainability has been highlighted in a report commissioned by the Home Builders Federation ('HBF')[1]. Headline figures for the industry from the 2014 year include:

- → £12.5 billion invested in land and building for homes.
- → £5.5 billion spent in the supply chain, 90% of which stayed in the UK.
- → More than 600,000 jobs created.
- → £2 billion contribution to public services through tax paid and infrastructure improvements.
- → £3 billion investment in affordable housing.
- → £131 million invested in open spaces, community, sports and leisure facilities.
- → £3.8 billion spent in the local economy by residents of new homes.

As the UK's fourth largest housebuilder by volume, we are committed to helping satisfy the supply/demand imbalance in the UK housing market and have an important role in delivering these added-value benefits.

Note:

1. 'The Economic Footprint of UK House Building' (March 2015), prepared by the independent planning, design and economics consultancy Nathanial Litchfield & Partners.

Customers

We continue to focus on providing excellent service to our customers and the appointment of a Group Customer Care Manager this year has provided additional resource in this area as we continue to grow. Although we narrowly missed out on regaining our 5 star status from the HBF, we exceeded our internal customer care target which is measured by reference to the average of six customer care related questions across quality and service, and scored an average of 85.7% against a target of 83.8%. Increased training on quality and service levels ensures that we continue to push hard to regain our 5 star status in the coming year.

Affordability

Affordability is often an obstacle for customers wishing to get onto the property ladder and/or moving up to larger properties as their needs change. The extension of the government's Help to Buy Scheme in England and the introduction of the London scheme in February has proved to be a huge help to all prospective purchasers and 2,626 of our customers purchased their home using Help to Buy in 2015/16.

A varied range of houses and apartments is important to enable customers to identify the right home for their needs and budget. In 2015/16 our average selling price was £252,793 (2015 – £223,821) with 11% of our homes being sold to unassisted first-time buyers. We also continue to provide a part-exchange service for existing home owners, a facility that can help remove some of the uncertainties surrounding home buying chains, and in 2015/16 7% of our customers took advantage of this service.

Our continued commitment to building sustainable communities saw us deliver 1,376 social homes in 2016 (2015 – 1,574). This represents 16% (2015 – 20%) of our legal completions and helps to support social inclusion within the developments and communities we create.

Employees

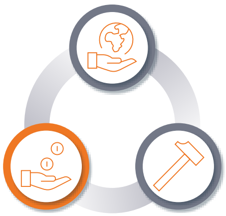
Our employees are key to the success of our business and we are committed to ensuring that they, and our contractors, are treated with fairness, consideration and respect. We have policies and procedures in place to ensure that equal opportunities exist for all, with no discrimination based on age, colour, disability, ethnic origin, gender, marital status, nationality, parental status, race, religion, belief or sexual orientation. We also operate policies covering bribery, bullying or harassment and whistleblowing, ensuring we operate in accordance with the highest standards of honesty and integrity. We act in accordance with the Modern Slavery Act 2015 and we will be publishing a slavery and human trafficking statement for the financial year to 31 July 2016 on our website.

We aim to provide all employees with a rewarding and fulfilling career and this year saw further steps taken, including the appointment of a Group Human Resources Director and a Group Learning and Development Manager. Training hours have increased by around 36% and 48% of Site Managers and Assistant Site Managers now have their NVQ Level 6 or higher qualification (2015 – 34%). We also launched the Bellway Learning Hub, an online learning platform that will allow us to deliver a wide range of mandatory and developmental training across the entire Group.

Continued growth in legal completions and new divisions has seen employee numbers rise by around 9% to an average of 2,366 across the year (2015 – 2,164), although the continuing industry-wide skills shortage has seen employee turnover increase to 23.4% (2015 – 19.1%). We have however increased the number of apprentices and graduates within the business by 14% to 83 (2015 – 73) and we improved the minimum employer matched pension contribution rate from 3% to 4%, helping employees invest for their retirement.

Christel Winch, Sales Advisor, South West division.

Corporate Responsibility continued



Society and economy continued

Director and employee profile

The following table shows the gender split in the Group as at 31 July 2016:

	Male no.	Male %	Female no.	Female %	Total no.	Workforce %
Board of directors	6	86	1	14	7	<1
Senior managers	103	87	16	13	119	5
Other employees	1,616	71	645	29	2,261	95
Total	**1,725**	**72**	**662**	**28**	**2,387**	**100**

Safety

We remain committed to ensuring all our developments operate in a safe manner and that employees, sub-contractors, suppliers, customers and members of the public are not put at risk.

We understand that training plays an important role in maintaining high standards of health and safety. The appointment of a Group Learning and Development Manager will improve the monitoring and delivery of training across the Group and help to ensure all employees remain in compliance with our training matrix.

We are proud that we continue to be recognised as amongst the best and safest in the industry with our Site Managers winning five awards in the 2016 NHBC Health and Safety Awards, two of whom went on to achieve Highly Commended awards. Our health and safety and site management teams have continued their excellent work over the past year and our NHBC health and safety incident rate of 0.766 (2015 – 0.936), where a lower incident rate reflects fewer reportable health and safety issues raised, has fallen for the third year running.

It is therefore disappointing that our RIDDOR incident rate rose for the first time in four years, to 445.19 accidents per 100,000 site operatives (2015 – 430.75), 3% up on 2015/16. 'Slips, trips and falls' were the most frequent reason for reportable incidents in 2015/16 and increased focus will be given to this area in the coming year, with a specific target to deliver site briefings on this issue at 100% of sites.

Award-winning Site Managers from our East Midlands division.

Charitable engagement

As a responsible business, part of our ethos is to support both the local communities where we build as well as those sections of society less fortunate than ourselves. The past two years have seen a marked change in the way we manage our charitable engagement with focus now split across three key areas:

- Supporting national charities – each year we enter into partnership with charities who benefit from direct donations and employee fundraising.
- Supporting our divisions – each operating division (and Head Office) manages a separate budget to support local charitable and community causes.
- Supporting our employees – we 'match' fundraising for our national charity and 'top-up' employee fundraising undertaken for their chosen causes.

In 2015/16 our national charities were again the British Heart Foundation and the Construction Youth Trust. We are very proud to report that through a combination of employee fundraising, matched funding and direct donations, we successfully donated £159,228 to these two great causes in 2015/16, bringing the total donated since the start of the partnerships in January 2015 to £265,117. In the coming financial year we begin a new partnership with Cancer Research UK and with the continued help of our generous employees we hope to raise a similar amount for this charity which is close to the hearts of many of our people.

In total 2015/16 saw £284,704 (2015 – £183,540) donated to charities, community groups and local good causes, an increase of 55.1% on last year. Our donations totalled £210,000 (2015 – £146,010), up 43.8% on last year, while employees raised £74,704 (2015 – £37,530), up 99.1% on last year.

Employees from our Thames Valley division took part in the Race for Life to raise funds for Cancer Research UK.

Looking forward to 2016/17

A new set of 15 targets for the 2016/17 financial year are now in place covering a range of focus areas, with five targets allocated to each of our three CR 'pillars' (Environment; Construction; Society and Economy). A few examples of the new targets are listed below:

- We will limit the engine size of fork lift trucks to 55 watts on all sites by 2019, delivering fuel and carbon savings.
- We will maintain the proportion of waste diverted from landfill on construction sites at 95% or above.
- We will deliver 'slips, trips and falls' site briefings at 100% of sites to aid a reduction in our RIDDOR incident rate.

All 15 targets for 2016/17 can be viewed on our website, along with details on our performance against our 2015/16 targets and more information on activities in each of our CR 'pillars': www.bellway.co.uk/corporate-responsibility

In summary, this has been a successful year in the development of the Bellway4Good strategy and we remain committed to the principles of operating our business in a socially responsible and sustainable way. We have delivered a strong performance against our 2015/16 CR targets and we look forward to making further progress in the coming year.

Approval of the Strategic Report

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

Ted Ayres
Chief Executive

17 October 2016

Board of Directors and Group General Counsel and Company Secretary

John Watson

Chairman (non-executive)

Committee N

Appointed to the Board in 1995, becoming Chairman on 1 February 2013

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.

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 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.

University of York – council member.

St Giles Trust – Trustee.

Eversheds LLP – partner.

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 a non-executive director and Chairman of the Audit Committee of Pendragon PLC and Redrow plc.

Other appointments

Clipper Logistics plc – senior independent non-executive director and Chairman of the Audit Committee.

Grafton Group plc – non-executive director and 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.

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

Chairman's Statement on Corporate Governance

"The Board believes that instilling high standards of corporate governance throughout all areas of our operations will help to deliver our strategy."

John Watson
Chairman

Dear Shareholder

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. As Chairman of the Board it is my responsibility to lead the Board, to shape and measure culture and to promote the highest standards of integrity, probity and corporate governance throughout the Group and particularly at Board level.

Compliance with the UK Corporate Governance Code

I am pleased to confirm that the Board considers that it has complied with the detailed provisions of the UK Corporate Governance Code (the 'Code') published in September 2014 throughout the year. The Company is required to comply with the 2016 revision of the Code from 1 August 2016 and I anticipate that the Board will be able to report its compliance with the 2016 version of the Code in next year's report. The Code is available, free of charge, from the Financial Reporting Council, online at www.frc.org.uk or by telephoning 020 7492 2300.

Main activities of the Board during the year

The Board met formally seven times and other times informally during the year, considering strategy, performance, risk, major land acquisitions, potential conflicts of interest and reports from senior employees and external advisers at each Board meeting. One meeting a year is usually devoted almost entirely to the consideration of strategy. However as this year's meeting was scheduled to take place in July 2016, shortly after the EU Referendum vote, it was decided to postpone the strategy meeting until later in the calendar year at which stage the directors would have a clearer insight into any short- to medium-term impact the decision to leave the EU may be having on the business. That delayed strategy meeting will be held in November 2016. Throughout the year the directors independently visited divisions and collectively visited at least two regions. In addition, the executive directors and Group General Counsel and Company Secretary meet regularly with the Regional Chairmen, divisional boards, and Head Office senior management team, which gives an appropriate level of oversight and direction to the business.

Board effectiveness

The Board comprises seven directors and the balance of non-executive and executive directors continues to work well. There were no changes to the Board during the year although a new company secretary was appointed in February 2016 with the combined role of Group General Counsel and Company Secretary.

The areas highlighted for improvement in last year's Board evaluation were:

- more time and resources to be devoted to the consideration of risk;
- below Board level succession planning; and
- further improvements to the nature and quality of information reported to the Board.

A Head of Risk has therefore been appointed who will help the Board to deliver and embed best practice on risk identification and management throughout the Group. As a result, the risk register has been enhanced and further developed during the year. The recent appointment of a Group Human Resources Director will permit greater focus to be given to the development of people below Board level, which will enable the Board to have more robust succession planning in place for those below Board level positions. The format and content of Board papers and minutes have been revised during the year to provide greater consistency and more focussed content.
All of these areas continue to be monitored and improved.

Every year the Board conducts a Board evaluation pursuant to the requirements of the Code. This evaluation is externally facilitated every three years with internal evaluations being carried out in the intervening years. The next external Board evaluation will take place in the 2016/17 financial year. This year's Board evaluation, which was internally facilitated by me and the Group General Counsel and Company Secretary, concluded that the Board and Committees were well run and continued to be operating effectively. The following areas were highlighted for further development and improvement:

- greater prominence and discussion in relation to KPIs;
- further evolution in relation to the management of risk;
- board papers/agendas to be more forward-looking and strategy focussed;
- greater clarity on the Group's culture; and
- succession planning at and below Board level.

As a result 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 progress made will be reported on in next year's report.

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. I am pleased to report that during the year three women have been appointed to senior Head Office positions. Our female employees make up 28% (2015 – 27%) of our total workforce, while 14% (2015 – 14%) of the Board and 13% (2015 – 14%) of our senior management are women.

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.

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 four trading updates. The whole Board is available for questions at the Annual General Meeting ('AGM') in December, 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 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 Other Information section of this report on pages 109 to 111 and also on our website at www.bellwaycorporate.com.

John Watson
Chairman

17 October 2016

Corporate Governance Report

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.

We have applied the Principles of Good Governance, including both the Main Principles and the Supporting Principles, by complying with the UK Corporate Governance (the 'Code'). Further explanations of how the Main Principles and Supporting Principles have been applied are set out below and in connection with the remuneration of the directors, in the Report of the Board on Directors' Remuneration.

Main Principles of the UK Corporate Governance Code

- Leadership
- Effectiveness
- Accountability
- Remuneration
- Relations with shareholders

01 John Watson
02 Simon Scougall
03 Keith Adey
04 Paul Hampden Smith
05 Denise Jagger
06 Mike Toms
07 Ted Ayres
08 John Cuthbert OBE DL

Leadership

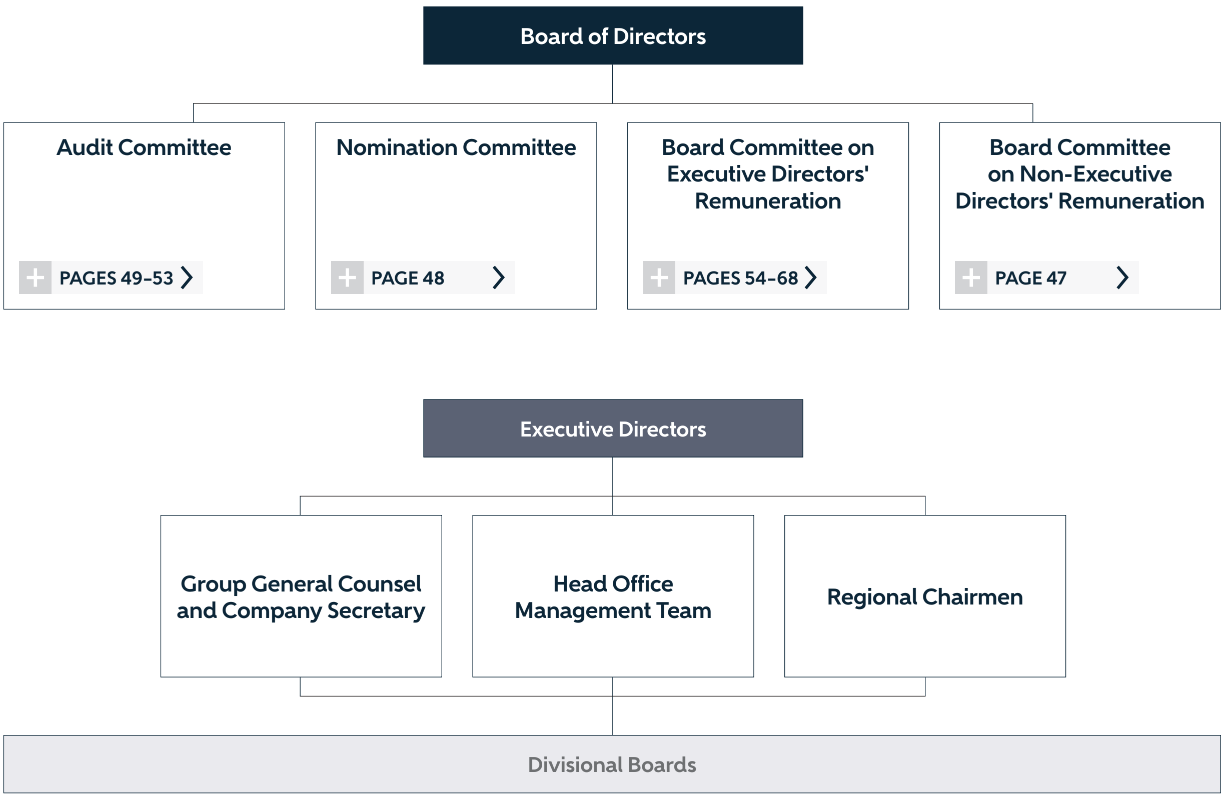
At the date of this report the Board consists of seven directors whose names, responsibilities and other details appear on pages 40 to 41. Two of the directors are executive and five of the directors, including the Chairman, are non-executive.

The Board sets the strategic aims, ensures that the necessary 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 agreed clearly defined roles for the Chief Executive and the Chairman, and the non-executive directors challenge management and contribute to the development of strategy. The Group Finance Director is responsible for devising and implementing the financial strategy and policies and the Group General Counsel and Company Secretary supports the Chairman and Chief Executive in fulfilling their duties and keeping the Board regularly updated on corporate governance matters and ensuring policies and procedures are maintained and updated on a regular basis.

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 enables risk to be assessed and managed.

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, contracts and agreements, communication, Board membership and other appointments, remuneration, delegation of authority, corporate governance matters, 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.



Corporate Governance Report continued

Board effectiveness

All directors have access to the advice and services of the Group General Counsel and Company Secretary and 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 retire from the Board and offer themselves for re-election at the forthcoming AGM. None of the executive directors hold external directorships.

The Board, its Committees and 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 there are no conflicts of interest.

The Chairman is responsible for leading the Board and ensuring it operates effectively. In this regard it pays due cognisance to the FRC's document entitled 'Guidance on Board Effectiveness', dated March 2011. 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, six 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.

Mike Toms was unable to attend one Board meeting during the year due to illness and there were no other absences from any other Board or Committee meetings.

Board activity during the year

The Board visited both the North East and Essex divisions which provided the non-executive directors with the opportunity to see at first hand the work of the divisions and to meet with construction and sales people on site and other members of the divisional teams. The Board has a programme of matters which it considers at each Board meeting and also an annual programme of presentations and reports from senior Head Office, regional and divisional management and external advisers. In between Board meetings the directors receive interim papers to keep them updated on the Group's performance.

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

- Strategy.
- Risk and internal control.
- Approval of the revised Anti-Bribery and Corruption Policy.
- 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.
- Regular reports on health and safety matters from the Chief Executive and a review of procedures and Board training by outside consultants.
- Approval of major land purchases.
- Board evaluation.
- Approval of the sale of the Group's interest in Barking Riverside Limited.
- Approval for the opening of the new South Midlands division in February 2016 and approval for the opening of a further new division in County Durham on 1 August 2016.
- Appointment of Simon Scougall as Group General Counsel and Company Secretary from 1 February 2016 following Kevin Wrightson's retirement as Group Company Secretary.
- Corporate responsibility progress against targets.
- Approval of the renewal of existing bank facilities and the extension of existing and new bank facilities.
- Presentations from each of the three Regional Chairmen on the performance of the divisions under their responsibility.
- Presentation on progress with the development and roll out of standard house types.
- Presentations from sales, technical, IT and CR Head Office departments.
- Approval of revised terms of reference for Board Committees.
- Approval of IT expenditure.
- Review and update of the whistleblowing procedure.
- Approval of Annual Report and Accounts for 2014/15.
- Approval of preliminary announcement, interim results and trading updates.
- Recommending the final dividend for 2014/15 to be approved by shareholders and approval of the interim dividend for 2015/16.

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 and also received a presentation from an external adviser on current developments in the UK and London housing markets. Non-executive directors regularly attend external training sessions designed specifically for non-executives and members of Board committees.

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, its committees and individual directors, was again conducted internally. Each director completed a questionnaire in relation to the performance of the Board and any committees of which they were a member which was followed by the Chairman meeting individually with each director 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 as part of that process. The Chairman evaluated the performance and effectiveness of each of the directors. Each committee chairman reviewed and discussed the committee questionnaires with the committee members before reaching their conclusions on how the committees had performed during the year and finally 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 required from time to time.

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. It 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.

Progress against actions from the 2015/16 review

Action	Progress
More time and resources to be devoted to the consideration of risk at Board meetings.	A Group Head of Risk has been appointed who will help the Board to deliver and embed best practice on risk identification and management throughout the Group. The risk register has been enhanced and further developed.
Below Board level succession planning.	The recent appointment of a Group Human Resources Director will permit greater focus to be given to the development of people below Board level, which will enable the Board to have more robust succession planning in place for those below Board level positions.
Further improvement to the nature and quality of information reported to the Board.	The format and content of Board papers and minutes have been revised during the year to provide greater consistency and more focussed content.

Nomination Committee Report

"The main area of focus for the Committee in 2016/17 will be to further develop the Board succession plan and, with support from the Group Human Resources Director, the plan for those immediately below Board level."

John Cuthbert
Chairman of the Nomination Committee

Nomination Committee Report

Membership

Director	Date appointed to Committee
John Cuthbert (Chairman)	1 November 2009, appointed Chairman on 1 February 2013
Mike Toms	1 February 2009
John Watson	1 February 2013
Paul Hampden Smith	1 August 2013
Denise Jagger	1 August 2013

Main focus in 2015/16

→ Approval of the Nomination Committee report for inclusion in the 2014/15 annual report.

→ Board succession focussing on changes in the composition of the Board over the next two to three years.

→ Recommending the re-appointment to the Board of Paul Hampden Smith and Denise Jagger.

→ To oversee the appointment of the Group General Counsel and Company Secretary and other senior appointments.

→ Performance evaluation of the Committee.

Focus areas for 2016/17

→ To further develop the Board succession plan.

→ To further develop, with support from the Group Human Resources Director, the succession plan for those immediately below Board level.

The main areas of the Nomination Committee's (the 'Committee') responsibility 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 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. The 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 and 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 on the left.

Activities during 2015/16

The Committee met on three occasions during 2015/16.

The main activities of the Committee during the year were:

- To approve the Nomination Committee report for inclusion in the 2014/15 annual report.
- To initiate preliminary discussions on Board succession with a specific focus on the changes in the composition of the Board over the next two to three years as existing non-executive directors reach the end of their terms of appointment.
- To recommend to the Board that Paul Hampden Smith and Denise Jagger be re-appointed as non-executive directors for a three-year period from 1 August 2016. The Committee concluded that they each continued to be independent of character and judgement and make a valuable contribution both to the work of the Board and its committees to which they are appointed. They were not present when discussions regarding their own re-appointments took place.
- Oversaw the appointment of the Group General Counsel and Company Secretary and other senior appointments.
- To carry out an evaluation of the performance of the Committee.

The main area of focus for the Committee in 2016/17 will be to further develop the Board succession plan and, with support from the Group Human Resources Director, the plan for those immediately below Board level.

John Cuthbert
Chairman of the Nomination Committee

17 October 2016

Audit Committee Report

"The Committee is an important component of the governance framework of the Group, focussed on financial reporting, risk management and internal and external audit."

Paul Hampden Smith
Chairman of the Audit Committee

Audit Committee Report

Membership

Director	Date appointed to Committee
Paul Hampden Smith (Chairman)	1 August 2013, appointed Chairman on 1 February 2014
Mike Toms	1 February 2009
John Cuthbert	15 January 2010
Denise Jagger	1 August 2013

Main focus in 2015/16

- → Reviewed annual report and accounts
- → Reviewed and assessed systems and controls in place to assess the significant financial reporting judgements
- → Reviewed and assessed internal controls and risk management systems
- → Oversaw creation of risk and internal audit function
- → Updated the Bribery Act Policy and Procedure
- → Updated the Whistleblowing Procedure
- → Monitored performance and independence of external auditor

Focus areas for 2016/17

- → Review annual report and accounts
- → Review and assess systems and controls in place to assess the significant financial reporting judgements
- → Review and assess risk and internal controls
- → Monitor performance and independence of external auditor
- → Review the effect of adopting IFRS 15 'Revenue from contracts with customers' and IFRS 16 'Leases' on the Group's financial statements

Introduction

I am pleased to present the Audit Committee (the 'Committee') report for the year ended 31 July 2016. The Committee is an important component of the governance framework of the Group, with its principal activities focussed 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 four independent non-executive directors and I confirm that between them they have an appropriate and relevant combination of experience and knowledge. Furthermore 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 Chairman 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 40 to 41.

In line with the Terms of Reference, there were three scheduled meetings of the Committee during the year and all members were in attendance at each meeting.

The Group Finance Director and Group Finance Manager attend meetings by invitation and were present at all meetings during the year. The Committee is supported by the Group General Counsel and 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 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:

1. 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 preliminary and interim announcements 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 position and performance, business model and strategy.

Audit Committee Report continued

Responsibilities and terms of reference continued

2. Internal control and risk management

- 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 or 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.

3. 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 the AGM 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 dœs 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 our 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:

1. 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 2016 Interim Announcement.
- Obtained an update on the Group's progress in determining the likely new revenue recognition accounting policy in relation to the adoption of IFRS 15 'Revenue from contracts with customers'.
- The Committee confirmed that they believe the significant financial reporting judgements during the year continued to be:
  - profit recognition; and
  - the carrying value of 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:

Profit recognition	The carrying value of land and work in progress
Matters considered	
Gross profit of £574.8 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 2016 had a book value of £2,532.1 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, that 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 operating 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 Revenue and Gross 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 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 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 land and work in progress and that the carrying value of these assets in the financial statements is appropriate.

2. 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 has been reviewed and updated by management. This review included ensuring the completeness of risks, assessing their likelihood, impact and the control effectiveness. 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 processes only reduce the risk of material misstatement or loss, and do 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.

Our principal risks, which are described in the Strategic Report on pages 22 to 23, are regularly reviewed and cover all aspects of our operations including land acquisition, planning, construction, health and safety, sales, legal and human resources.

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. The key areas of control are as follows:

- The Board has agreed the principal risks, which 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 Group General Counsel and Company Secretary or the executive directors (depending upon value) 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, including 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 and Group General Counsel and Company Secretary attend certain divisional board meetings on a regular basis during the year and this is supplemented with main Board visits to divisions.

Audit Committee Report continued

Main activities during the year continued

2. Internal control and risk management continued

- Site/phase valuations are produced periodically throughout the life of a site/phase, with 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 are undertaken 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 that optimum financing is obtained for the Group as a whole.
- A number of our key functions are dealt with centrally. These include taxation, pensions, insurance, information technology, legal, health and safety, human resources 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.

During the year, as required by the Code, the Committee considered the need for a specific risk and internal audit function. Notwithstanding the robust systems and controls that we have in place, we decided to create a risk and internal audit function during the year given the significant growth experienced by the Group over recent years. A Head of Risk has been recruited who has a direct reporting line into both the Group Finance Director and the Chairman of the Audit Committee.

The focus of the risk and internal audit function has been designed to consider both areas of risk within the Group and how they can be better mitigated, as well as the overall control environment of the Group thereby providing assurance to the Committee on the robustness of controls in place. A rolling risk and internal audit plan is being developed to ensure all aspects of Group activities are considered on an on going basis.

The results of all risk and internal audit work will be presented to the Committee at each of their meetings, with control recommendations being made as part of each piece of work. When necessary, and as agreed by management and the Committee, the Head of Risk will utilise specialists from within relevant functions to assist in delivering the plan.

3. External audit

Audit effectiveness and re-appointment

KPMG is the external auditor and their performance is monitored by the Committee and the Board. The Committee reviewed the performance of KPMG during the year utilising the guidance note titled 'Audit Quality' produced by the Financial Reporting Council.

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 2014/15 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.
- Gaining an understanding of the findings of the Audit Quality Review ('AQR') team of the Financial Reporting Council following their inspection of audit firms including KPMG. This included understanding whether any of the findings would have affected the 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 2014/15 financial year, the most recent fully completed audit cycle, and their interaction with the Committee during the process.
- Considering how KPMG have added value and demonstrated proactivity.

The outcome of the review was that 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 p.l.c. was listed and the audit has not been tendered in the intervening period. Nick Plumb is the lead audit partner and has just completed his third year out of a maximum of five years in this role. We are aware of the Order of the Competition and Markets Authority in relation to FTSE 350 companies which will require us to change our external auditor by the date of the AGM prior to June 2020 and intend to tender the audit in the next three years.

Auditor independence and non-audit fees

During the year the Committee reviewed the Group Independent Auditor Policy which seeks to preserve the independence of the external auditor by defining those non-audit services the external auditor may and may not provide. There are clearly defined levels of approval depending on the value of the work to be provided. Where fees exceed £100,000 or where total non-audit fees equate to 100% of audit fees, Board approval is required. In relation to any material project with fees in excess of £200,000 where the auditor is considered for the provision of services, this would be subject to a competitive tendering process.

The external auditor would not be engaged for any of the following non-audit related services:

- bookkeeping or other services related to the accounting records or financial statements;
- financial information system design and implementation;
- appraisal or valuation services, fairness opinions, or contributions in kind reports;
- actuarial services;
- internal audit services;
- management functions or human resources;
- broker or dealer, investment adviser or investment banking services;
- legal services and expert services unrelated to the audit; and
- 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 tax compliance and ad hoc tax advisory work and the audit of the final salary pension scheme. The ratio of non-audit fees for the year to the external audit fee was 9.4%.

KPMG have also provided written confirmation that they remain independent.

The Group's Independent Auditor Policy has been updated following the year-end to reflect the implementation of the EU Audit Directive and Regulation that became effective in June 2016. As a result tax services are no longer provided by KPMG.

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 completed. I reviewed the results and no issues were raised.

Whistleblowing

The Group's Whistleblowing Procedure is well publicised at all locations and allows all employees to raise concerns in confidence to either the Group General Counsel and Company Secretary or Deputy Group Company Secretary or alternatively, an independent third party. The Committee reviewed the Whistleblowing Procedure and updated it to adhere to best practice.

Bribery Act

The Group's Anti-Bribery and Corruption Policy and procedures are circulated throughout the Group and are included on our intranet. This already robust Policy and procedures were further strengthened by management and external advisers during the year, with these amendments being approved by the Committee. The Group General Counsel and Company Secretary presented specific sections of the revised Policy to Regional Chairmen, Managing Directors and Land Directors to further emphasise the importance of compliance with the Policy and an on-line training module is currently being devised for all employees for 2016/17.

Paul Hampden Smith
Chairman of the Audit Committee

17 October 2016

Report of the Board on Directors' Remuneration

"The Committee considers that the three main components of the remuneration paid to the executive directors fairly reflects both Group and individual performance during the 12-month and three-year period to 31 July 2016."

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

Annual Statement

I am pleased to present the Report of the Board on Directors' Remuneration for the 2015/16 financial year. This has been a year in which the Group has made significant progress which is reflected in this report.

The Board Committee on Executive Directors' Remuneration (the 'Committee') considers that the use of targets based on annual profitability and non-financial metrics provide a rounded assessment of performance, and that a focus on total shareholder return provides an appropriate link with our aim of generating long-term returns for our shareholders. The remuneration policy is structured so that a significant proportion of the executive directors' total remuneration comprises performance-linked bonuses and long-term share awards. The Committee also considers that the current policy, which has been approved by shareholders, continues to reward appropriately the directors for delivering the strategy of building shareholder value through disciplined volume growth. As we enter the third and final year of our current policy, the Committee will review it during this year and a new policy will be put forward for shareholder approval at the 2017 AGM.

How the remuneration policy was applied in 2015/16

The basic salaries of the executive directors were increased by 3% in line with the average increases awarded to the rest of the workforce generally.

The annual bonus payments are linked to KPIs which require the directors to deliver improved operating profit as well as meeting non-financial targets all of which the Committee considers aligns the directors' interests with those of shareholders, by building shareholder value. Progress made during the year on those targets is set out briefly below and in more detail on pages 62 to 63.

- Pre-exceptional operating profit increased by 36.5% from £360.4 million to £492.0 million.
- Short-term land bank of plots available for construction with planning permission increased by 8.4%.
- NHBC health and safety incident rate improved from 0.936 to 0.766.
- Customer care score improved from 83.8% to 85.7%.

These results reflect performance over a broader range of performance indicators that demonstrate the management's success in delivering the strategy. As a result the directors earned a total bonus of 115% out of a maximum of 120% of salary, which the Committee believes has been fully justified by the progress made by the Group. It will be payable in November 2016.

Looking forward, we have a strong order book and are prudently financed to withstand any turbulence in the market.

Long-term incentive awards made in 2013 to Ted Ayres and Keith Adey were subject to three-year performance conditions based on relative total shareholder return ('TSR'), which were tested at the end of 2015/16. For 50% of these awards, the Company's TSR was compared to the companies within the FTSE 250 (excluding financial services companies and investment trusts). Bellway's TSR of 90.6% ranked it within the upper quartile and therefore this part of the award vested in full. The TSR condition relating to the other 50% was measured against a group of other listed housebuilders and Bellway's TSR outperformed the median by more than 7.5% p.a. and this part of the award also vested in full.

The three-year TSR performance reflects a period in which we have consistently and significantly improved our performance compared with other companies. Since 2013, completions have increased by 54.3%, operating margin has increased from 13.6% to 22.0% and operating profit has increased by £340.9 million. This growth has been achieved while maintaining robust finances. In addition, during the year ROCE has risen by 430bps to 28.2% (2015 – 23.9%) and the NAV has increased by 18.4% to 1,522p (2015 – 1,286p).

The Committee considers that the three main components of the remuneration paid to the executive directors fairly reflects both the Group and individual performance during the 12-month and three-year period to 31 July 2016.

How we will implement the remuneration policy in 2016/17

From 1 August 2016 the directors have been awarded salary increases which are consistent with the average general workforce increase of around 3%.

The bonus structure and opportunity remains as before (the maximum annual bonus potential is 120% of salary, with 90% of salary based on operating profit and 30% of salary based on non-financial performance measures). Long-term incentive award levels are set at 130% of basic salary and executive directors are required to retain shares which vest (net of any shares required to be sold to settle the relevant taxes), for a period of at least two years from vesting and in any event, to a level of at least one year's basic salary.

Shortly after the year-end we received the GC100 and Investor Group Directors' Reporting Remuneration Guidance. The Committee believes that its policies, practices and procedures reflect best practice but it will take into account this guidance in its deliberations in future.

At the last AGM over 99% of our shareholders who cast their votes, voted in favour of the Report of the Board on Directors' Remuneration (which consists of this Annual Statement and the Annual Report on Remuneration). Shareholders will be asked to give their support again by voting in favour of the Report of the Board on Directors' Remuneration at this year's AGM. Further information on this resolution is set out in the Notice of Meeting of the AGM to be held on Tuesday 13 December 2016.

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

17 October 2016

This part of the remuneration report, the Directors' Remuneration Policy, was approved by shareholders at the AGM on 12 December 2014. Although not required by the regulations, the substantive terms of the policy are reproduced here for ease of reference. Any details, however, that were specific to 2015/16 (for example, the application of remuneration policy chart) have been updated, where applicable, to reflect the current position. As no changes are being made to the policy, there will be no vote on the remuneration policy at the 2016 AGM. The policy will be reviewed during the coming year, including consultation with stakeholders in advance of a shareholder vote at the 2017 AGM.

Directors' Remuneration Policy

The remuneration policy has been developed taking into account the principles of the UK Corporate Governance Code published in 2014, the views of the Company's major shareholders and the Investment Association ('IA') and Institutional Shareholder Services Inc. ('ISS') guidelines on remuneration.

Objectives of remuneration policy

The aim of the Committee is to ensure that the Company has competitive remuneration packages in place in order to recruit, retain 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 at around the mid-market level of 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 low number of 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. Normally, the salaries of the directors are increased in accordance with the general pay increase awarded to the workforce and it is the intention of the Committee to revert to this practice now that the executive directors' salaries have reached mid-market levels[1]. All 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 policy, the Committee consulted with major shareholders, the IA and ISS in 2013/14 on the proposed salary increases for the executive directors to bring them in line with their peers, the proposed changes to the non-financial annual bonus performance measures and long-term incentive provision going forward.

Note:

1. Since 2015, salary increases have been in accordance with the general pay increase awarded to the workforce.

Report of the Board on Directors' Remuneration continued

Policy table

This section of the report describes the key components of the remuneration arrangements for each element of remuneration for executive and non-executive directors which, having been approved by shareholders, has been in operation since the 2014 AGM:

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 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 individual performance and experience. Where salaries of new executive directors are positioned below market levels, the Committee's policy is to progress these over time as experience is gained, subject to performance.	No prescribed maximum. Increases normally in line with the average for the workforce generally. Increases may be below or above this e.g. due to promotion or role change or a significant change in the size and scope of the Company. Salaries for 2016/17 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 November following the year end on 31 July, subject to the achievement of performance targets that were set at the start of the year on 1 August. The Company operates a clawback mechanism which allows the Company, in exceptional circumstances, to clawback some or all of the payments made under the variable components of an individual's remuneration.	120% of basic salary maximum.	The bonus is based on a combination of financial and non-financial 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 over the short to medium term. Details of the performance targets for the forthcoming year are set out in the Annual Report on Remuneration.
LONG-TERM INCENTIVES (PERFORMANCE SHARE PLAN ('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. The Company operates a clawback mechanism which allows the Company, in exceptional circumstances, to clawback some or all of the payments made. A post-vesting minimum holding period of two years applies to awards granted from 2014 onwards.	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[1]. 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. 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.	20% of salary.	Not applicable.
BENEFITS			
To provide a range and value that is market competitive.	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.

Component and link to strategy	Operation	Maximum opportunity	Framework to assess performance
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 (with the exception of the Chairman's outstanding PSP awards which he retained when he left his role as Chief Executive[(2)]) 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.
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 100% 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.

Notes:

1. 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.
2. For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority has been 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 will 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. The Chairman's PSP awards which were outstanding when he left his role as Chief Executive have now all been exercised and details were provided in the Annual Report and Accounts for the financial years in which the exercises took place.
3. The executive directors may also participate in any all-employee plan operated by the Company up to prevailing HMRC limits.

Report of the Board on Directors' Remuneration continued

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 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.
Bonus	In accordance with existing schemes.	Specific 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.
Other share awards	The Committee may make an incentive award 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 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.

Element	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 offset 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, up to 12 months' basic salary, benefits and pension, less any period of notice worked. Payments may be phased and subject to offset 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 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 at the discretion of the Committee.
PSP (and SMP awards granted to the current executive directors 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

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.

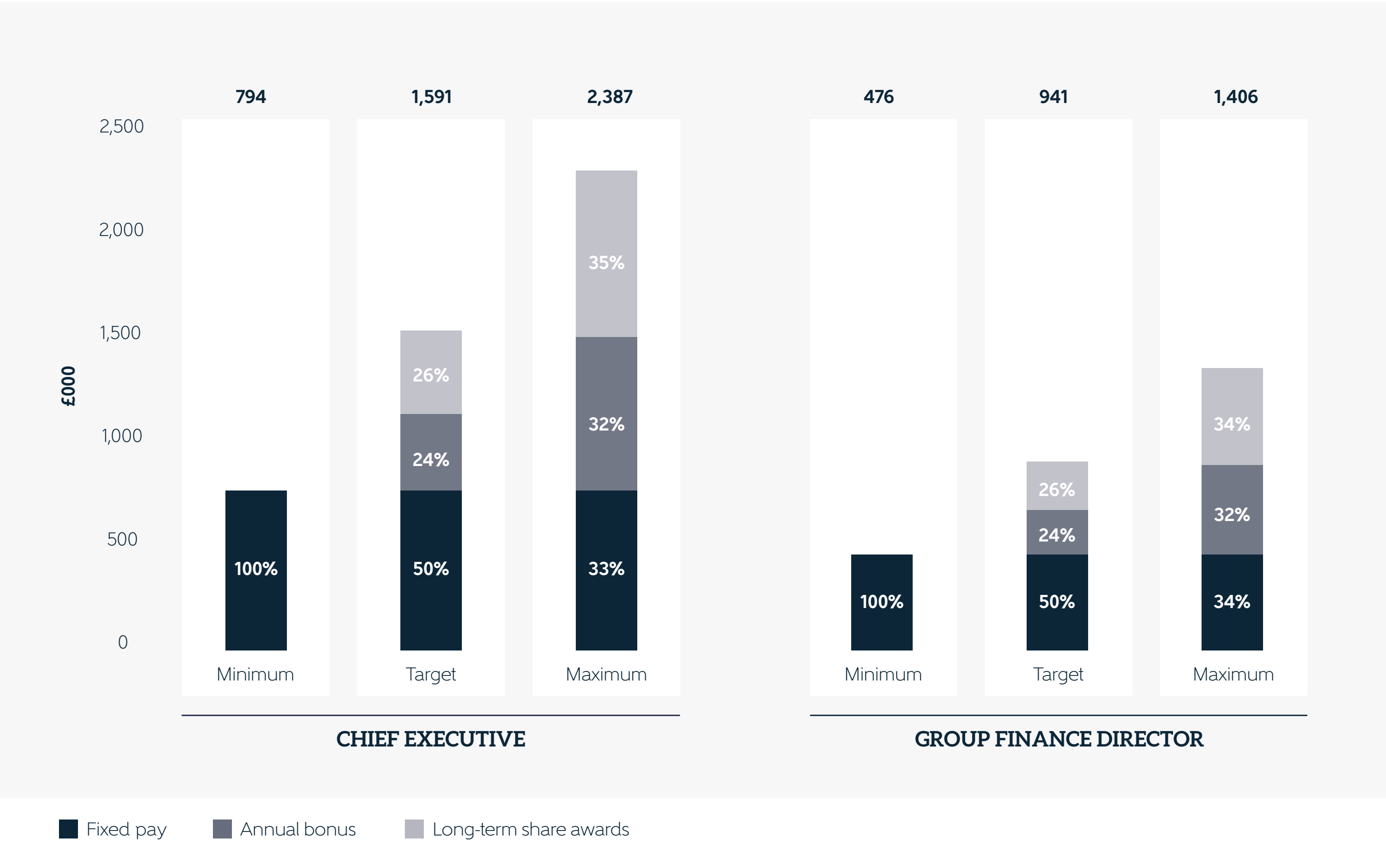
Report of the Board on Directors' Remuneration continued

All non-executive directors have letters of appointment with the Company of 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

Illustrations of application of 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, which has been based on the simplified long-term incentive policy applying from 2015 onwards (i.e. PSP awards at 130% of salary with the SMP no longer operated), is indicative, as share price movement and dividend accrual have been excluded.



Note:

1. Chart labels show proportion of total package comprised of each element.

Assumptions

Minimum – fixed pay only (salary + benefits + pension/pay in lieu of pension), salary is actual for 2016/17, benefits are based on the value of actual benefits received in 2015/16 and pension/pay in lieu of pension is based on policy of 20% of salary applied to the 2016/17 salary.

Target – fixed pay plus 50% of maximum bonus payout plus PSP award of 130% of salary with 50% of the award vesting.

Maximum – fixed pay plus 100% of maximum bonus payout plus PSP award of 130% of salary with 100% of the award vesting.

Annual Report on Remuneration

The Board Committee on Executive Directors' Remuneration

The Board Committee on Executive Directors' Remuneration (the 'Committee') comprises Mike Toms (Chairman), John Cuthbert, Paul Hampden Smith and Denise Jagger, who were members of the Committee throughout the year.

Director	Date appointed to the Committee
Mike Toms (Chairman)	1 February 2009 and appointed as Committee Chairman 1 February 2014
John Cuthbert	1 November 2009
Paul Hampden Smith	1 August 2014
Denise Jagger	1 August 2014

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.

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

Activities during 2015/16

The Committee met six times during the year to conduct the following:

- To approve the bonus payments and long-term incentive awards vesting levels for the 2014/15 year.
- To approve the 2014/15 Report of the Board on Directors' Remuneration.
- To set the bonus targets for the 2016/17 year.
- To make awards under the long-term incentive scheme.
- To amend its terms of reference to include the remuneration of the Group General Counsel and Company Secretary and to agree his remuneration on appointment on 1 February 2016.
- To review and determine the remuneration packages for the executive directors and the Group General Counsel and Company Secretary.
- To review and determine the fee payable to the Chairman.
- To review current market practice and future trends in executive remuneration.
- To 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 £57,245. The Committee also benefited from advice received from the former Group Company Secretary until his retirement on 31 January 2016 and from 1 February 2016 onwards from the Group General Counsel and Company Secretary on issues other than those relating to their 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.

Report of the Board on Directors' Remuneration continued

Implementation of remuneration policy in 2015/16

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	**2016**	**200,000**	**827**	**–**	**–**	**200,827**	**–**	**–**	**200,827**
	2015	195,000	672	–	–	195,672	–	–	195,672
Executive directors									
Ted Ayres	**2016**	**618,000**	**30,211**	**123,600**	**710,700**	**1,482,511**	**1,174,642**	**–**	**2,657,153**
	2015	600,000	28,238	120,000	639,000	1,387,238	568,117	4,499	1,959,854
Keith Adey	**2016**	**354,197[1]**	**30,091**	**72,200**	**415,150**	**871,638**	**696,401**	**2,233**	**1,570,272**
	2015	350,000	27,969	70,000	372,750	820,719	355,407	3,786	1,179,912
Non-executive directors									
Mike Toms	**2016**	**59,941**	**–**	**–**	**–**	**59,941**	**–**	**–**	**59,941**
	2015	58,195	–	–	–	58,195	–	–	58,195
John Cuthbert	**2016**	**62,593**	**–**	**–**	**–**	**62,593**	**–**	**–**	**62,593**
	2015	60,770	–	–	–	60,770	–	–	60,770
Paul Hampden Smith	**2016**	**59,941**	**–**	**–**	**–**	**59,941**	**–**	**–**	**59,941**
	2015	58,195	–	–	–	58,195	–	–	58,195
Denise Jagger	**2016**	**54,636**	**–**	**–**	**–**	**54,636**	**–**	**–**	**54,636**
	2015	53,045	–	–	–	53,045	–	–	53,045
	2016	**1,409,308**	**61,129**	**195,800**	**1,125,850**	**2,792,087**	**1,871,043**	**2,233**	**4,665,363**
Totals	2015	1,375,205	56,879	190,000	1,011,750	2,633,834	923,524	8,285	3,565,643

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 or car allowance and health insurance.
3. Pension includes both payments in lieu of pension of £145,890 and contributions to a defined contribution scheme of £49,910. 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 2016 reflects the vesting of the 2013 PSP awards, which will be exercisable from 18 December 2016 and the vesting of the 2013 SMP awards which will be exercisable from 28 November 2016, including additional shares in lieu of dividends accrued from the date of the 2013 SMP award to vesting. The value shown is based on a share price of £23.33, being the average share price for the last quarter of the financial year i.e. 1 May – 31 July 2016 as a proxy for the share price at vesting. The 2015 figures have been restated to reflect the actual share prices at the dates of vesting of the partially vested 2012 PSP and SMP awards, which took place after the publication of last year's report.
5. Other items refer to the discount on the awards, during the year, under the Group's savings related share option scheme.

Annual bonus for the year ended 31 July 2016

The annual bonus is payable in November 2016 for performance during the year ended 31 July 2016. The performance targets for the 2015/16 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	Target	Maximum value	Actual	Payment (% of maximum)	Payment (% of salary)
Operating profit (pre-exceptional)	90%	£415.0 million	£437.0 million	£445.0 million	£492.0 million	100%	90%

The actual operating profit exceeded the maximum value forecast by the directors, shareholders and analysts at the start of the year. This was the result of the success of management in acquiring land and constructing and selling more homes at higher prices, in a very favourable business environment, whilst at the same time controlling construction costs and maintaining a high level of financial prudence.

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	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 2016 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 8.4% during the year which exceeded the threshold required for a partial payment but did not reach the target for a maximum payment.	Partially achieved – 10% 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 very significantly better than other housebuilders. The target for a maximum payment in 2016 was 0.986. The actual rate was 0.766, which exceeded the target for a maximum payment.	Achieved – 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 2016 was 85.7% compared with 83.8% in 2015.	Achieved – 7.5% of salary awarded

Overall, the Committee is satisfied that the resulting bonus payment of 115% 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 2016

The SMP and PSP awards granted in 2013 which will vest in November and December 2016 respectively, were based on a three-year TSR performance for the period to 31 July 2016. 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: 25% of this part of an award vests at the Index, increasing, pro-rata, to full vesting at Index + 7.5% p.a.	22.0% TSR (Index)	29.5% TSR (Index + 7.5% p.a.)	30.2% 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.	83 rank (median)	41.5 rank (upper quartile)	22 Bellway rank	50%
Total					**100%**

An underpin also applied to the 2013 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 SMP and PSP awards are expected to be exercisable on 28 November and 18 December 2016 respectively.

		Number of shares at grant	Guaranteed number of shares to vest	Estimated value at vesting[1] (£000)
Ted Ayres	SMP	14,501	14,501[2]	338.3
	PSP	34,506	34,506	805.0
Keith Adey	SMP	9,320	9,320[2]	217.4
	PSP	19,668	19,668	458.9

Notes:

1. Based on a share price of £23.33, being the average share price for the last quarter of the financial year i.e. 1 May – 31 July 2016 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 2013 SMP award to vesting in respect of each director as follows: Ted Ayres 1,342 shares and Keith Adey 862 shares.

Report of the Board on Directors' Remuneration continued

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 2015	Granted/ awarded during the year	Lapsed during the year	Exercised during the year	**Awards/options held at 31 July 2016**	Exercise price/ market price at date of award (p)	Date of grant/award	Exercisable/ capable of vesting from
PSP(1)	30,960	–	(15,480)	(15,480)	**–**	2,415.0	13.11.2012	13.11.2015
PSP(2)	34,506	–	–	–	**34,506**	1,449.0	18.12.2013	18.12.2016
PSP(3)	35,842	–	–	–	**35,842**	1,674.0	10.11.2014	10.11.2017
PSP(4)	–	33,727	–	–	**33,727**	2,382.0	13.11.2015	13.11.2018
SMP(1)	15,504	–	(7,752)	(7,752)	**–**	2,473.0	23.11.2012	23.11.2015
SMP(2)	14,501	–	–	–	**14,501**	1,448.0	28.11.2013	28.11.2016
SMP(3)	14,562	–	–	–	**14,562**	1,918.0	4.12.2014	4.12.2017
2013 SRSOS(7)	1,306	–	–	–	**1,306**	1,378.0	17.11.2014	1.2.2018
Totals	147,181	33,727	(23,232)	(23,232)	**134,444**			

Keith Adey

Scheme	Awards/options held at 1 August 2015	Granted/ awarded during the year	Lapsed during the year	Exercised during the year	**Awards/options held at 31 July 2016**	Exercise price/ market price at date of award (p)	Date of grant/award	Exercisable/ capable of vesting from
PSP(1)	23,220	–	(11,610)	(11,610)	**–**	2,365.0	13.11.2012	13.11.2015
PSP(2)	19,668	–	–	–	**19,668**	1,449.0	18.12.2013	18.12.2016
PSP(3)	20,908	–	–	–	**20,908**	1,674.0	10.11.2014	10.11.2017
PSP(4)	–	19,701	–	–	**19,701**	2,382.0	13.11.2015	13.11.2018
SMP(1)	6,204	–	(3,102)	(3,102)	**–**	2,405.0	23.11.2012	23.11.2015
SMP(2)	9,320	–	–	–	**9,320**	1,448.0	28.11.2013	28.11.2016
SMP(3)	8,298	–	–	–	**8,298**	1,918.0	4.12.2014	4.12.2017
2003 SRSOS(6),(7)	3,463	–	–	(3,463)	**–**	439.6	12.11.2010	1.2.2016
2013 SRSOS(7)	1,099	–	–	–	**1,099**	1,378.0	17.11.2014	1.2.2020
2013 SRSOS(7)	–	439	–	–	**439**	2,048.80	16.11.2015	1.2.2019
Totals	92,180	20,140	(14,712)	(18,175)	**79,433**			

Notes:

1. The performance period was 1 August 2012 – 31 July 2015. 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, Persimmon plc, Redrow plc and Taylor Wimpey plc. 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. The first part of the performance condition was not met and the second part was met in full so only the 50% of these awards which were linked to the FTSE 250 Index TSR performance condition vested, and the remaining 50% lapsed.
2. Details of the vesting of these awards which will take place in November and December 2016 is set out in full under the heading 'Long-term incentives vesting in respect of performance period ended 31 July 2016' above.
3. The performance period is 1 August 2014 – 31 July 2017. The awards are subject to the same TSR performance condition set out in note 1 above except that the UK housebuilders group also includes Crest Nicholson Holdings plc, and these awards are also subject to clawback provisions.
4. On 13 November 2015 awards of performance shares under the 2013 PSP were made to Ted Ayres and Keith Adey. The awards were in the form of nil cost options. The face value of awards granted were equal to 130% of their respective salaries, which is in line with the Committee's prevailing grant policy. Ted Ayres was granted an award over 33,727 shares with a face value, on grant, of £803,400 and Keith Adey's award was over 19,701 shares with a face value, on grant, of £469,300. 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 except that the UK housebuilders group also includes Crest Nicholson Holdings plc, and these awards are also subject to clawback provisions.
5. All of the above options set out in notes 1–4 were granted for nil consideration.
6. The gross gain made by Keith Adey on the exercise of the 2003 SRSOS award in the year was £73,221 (the total gain made by Ted Ayres and Keith Adey on the exercise of share options in 2015 was £106,402). 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 2016/17, are shown in the single figure of total remuneration table on page 62.
7. Further details of the 2003 and 2013 SRSOS are shown in the summary of outstanding share options in note 19 to the accounts.
8. The market price of the ordinary shares at 31 July 2016 was 2,096p and the closing range during the year was 1,689p to 2,848p.

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 2016 the Trust held 304,136 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 ABI guidance on dilution limits and the position as at 31 July 2016 was:

Limit of 5% in any 10 years under all executive share plans	Actual 0.02%
Limit of 10% in any 10 years under all share plans	Actual 1.58%

Statement of directors' shareholdings and share interests

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

Director	**Beneficially owned at 31 July 2016**	Beneficially owned at 31 July 2015	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**	425,535	N/A	N/A	N/A	N/A	N/A
Ted Ayres	**52,498**	41,920	104,075	29,063	1,306	–	–
Keith Adey	**18,526**	7,158	60,277	17,618	1,538	–	3,463
Mike Toms	**2,000**	1,500	N/A	N/A	N/A	N/A	N/A
John Cuthbert	**6,000**	6,000	N/A	N/A	N/A	N/A	N/A
Paul Hampden Smith	**12,548**	8,196	N/A	N/A	N/A	N/A	N/A
Denise Jagger	**1,250**	1,000	N/A	N/A	N/A	N/A	N/A

Notes:

1. There has been no change in any of the above interests between 31 July 2016 and the date of this report.
2. A share ownership guideline is in place requiring executive directors to build up a holding of 100% of their basic salary. Both Ted Ayres and Keith Adey meet this guideline. Further details on the guideline are set out in the remuneration policy above.

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

Implementation of remuneration policy in 2016/17

This section sets out how the Company will implement the remuneration policy for the 2016/17 financial year.

Basic salaries

The Committee has awarded salary increases in line with the increases given to the general workforce of around 3% for 2016/17. Accordingly, from 1 August 2016, the Chief Executive's salary was increased to £637,000 p.a. and the Group Finance Director's salary was increased to £372,000 p.a.

Annual bonus

For the 2016/17 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 non-financial performance measures which provide a maximum bonus opportunity of 30% of basic salary.

Non-financial 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 2017 to ensure our growth aspirations are not frustrated by land shortages in future years.	Maximum – 15% of salary
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
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 – 7.5% of salary

For each non-financial 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.

Report of the Board on Directors' Remuneration continued

Long-term incentives

The Company anticipates making a grant under the PSP in November 2016 with a face value equivalent to 130% 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. The PSP award granted in 2016/17 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).

Awards will also only vest subject to the achievement of an underpin, which requires an improvement in the underlying financial performance of the Company over the performance period. A two-year minimum holding period for any shares which vest after allowing for tax will apply. This will increase the alignment of directors' interests with the longer-term interests of shareholders.

Chairman and non-executive director fees

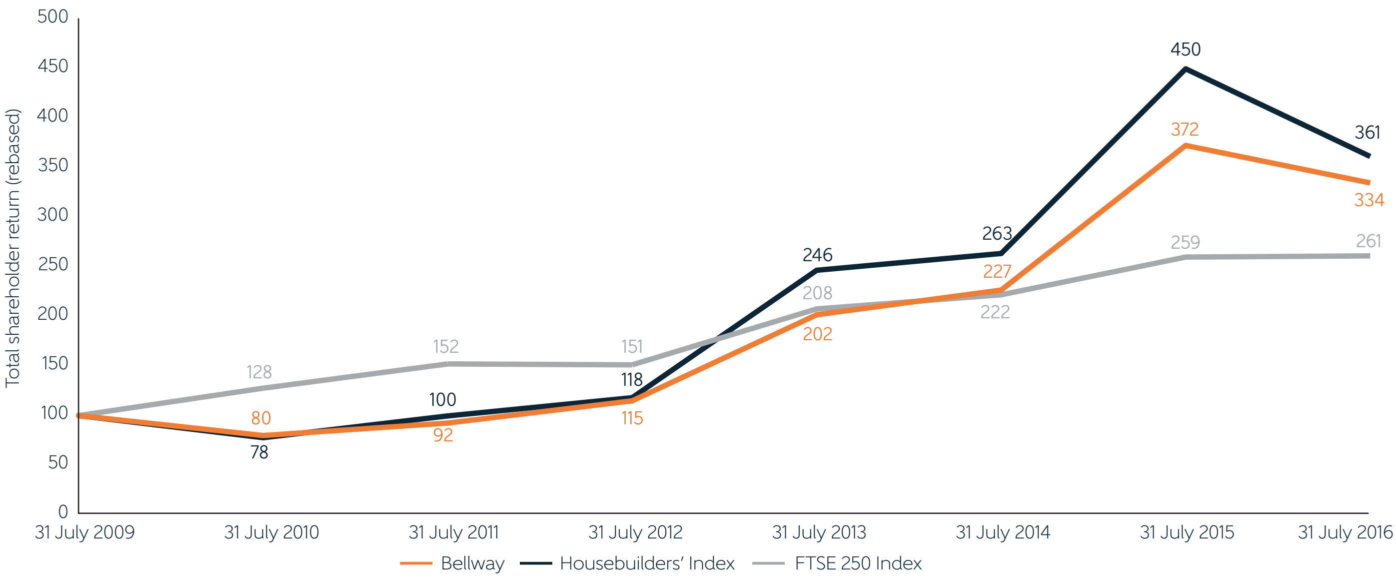
From 1 August 2016 the Chairman's fee increased by 3% from £200,000 p.a. to £206,000 p.a. The base fee for non-executive directors increased by 2.5% from £54,636 to £56,000 while the fees for chairing the Audit Committee and the Board Committee on Executive Directors' Remuneration have increased from £5,305 to £8,000 (providing an overall increase of 6.8%) and the additional fee for the senior independent non-executive director has increased from £7,957 to £8,000 in each case to reflect the mid-market level of remuneration of a peer group of similar UK housebuilding businesses.

Performance graph and table

The graph below shows the TSR performance over the past seven years of the Company, the FTSE 250 Index and the bespoke Housebuilders' Index (as defined in note 1 on page 64). 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 and 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 2016, 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 seven-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**
Total remuneration (£000)	1,532	1,899	1,396	1,243(1)	1,450	1,960(2)	**2,657**
Annual bonus paid (as % of maximum)	76.9%	100.0%	99.3%	100.0%	91.6%	88.8%	**95.8%**
PSP vesting (as % of maximum)	48.3%	99.6%	0.0%	0.0%	50.0%	50.0%	**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 62.

Percentage change in remuneration of the Chief Executive

The table below shows the percentage change over the prior 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	+7
	All other employees	+2
Annual bonus	Chief Executive	+11
	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 Community Infrastructure Levy ('CIL') payments, together with the percentage change in each, for the financial years ended 31 July 2015 and 31 July 2016. 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.

	2016 £000	2015 £000	% change
Employee costs(1)	**118,899**	103,423	+15
Dividends(2)	**132,486**	94,330	+40
Section 106 and CIL payments(3)	**147,900**	79,000	+87

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 to the accounts).
3. The section 106 and CIL payments figures are calculated from invoices received for these payments.

Report of the Board on Directors' Remuneration continued

Statement of voting at AGMs

The votes cast by proxy at AGMs in relation to resolutions regarding director 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 11 December 2015)	
	Number of votes	% of votes cast	Number of votes	% of votes cast
Votes cast in favour	89,575,994	97.67	91,626,703	99.85
Votes cast against	2,136,039	2.33	139,435	0.15
Total votes cast	91,712,033	100.00	91,766,138	100.00
Votes withheld	1,132,868	N/A	1,633,131	N/A

This report will be put to an advisory vote of the Company's shareholders at the AGM on 13 December 2016.

On behalf of the Board

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

17 October 2016

Report of the Directors

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 at note 27 to the accounts.

The following table sets out where information can be found which is required to be reported on in the directors' report 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 Directors' Report has been included in the Strategic Report reference is made to the Strategic Report in the table below:

Topic	Page number
Directors	40–41
Appointment and replacement of directors	46 and in the Articles
Directors' interests	65
Future developments	30
Group undertakings	105
Environmental issues	33–39
Greenhouse gas emissions	35 of the Strategic Report
Whistleblowing	53
Financial risk management	24 of the Strategic Report
Going concern	25

Results and dividends

The profit for the year attributable to equity holders of the parent company amounts to £402.9 million (2015 – £283.1 million).

The directors have proposed a final ordinary dividend for the year ended 31 July 2016 of 74.0p per share. 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 11 January 2017 to shareholders on the Register of Members at the close of business on Friday 2 December 2016.

Dividends paid during the year comprise a final dividend of 52.0p per share in respect of the year ended 31 July 2015, together with an interim dividend in respect of the year ended 31 July 2016 of 34.0p 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.

Report of the Directors continued

Major interests in shares

As at 31 July 2016 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 2016		As at 17 October 2016	
	Number of shares with voting rights	**% total voting rights**	Number of shares with voting rights	% total voting rights
Standard Life Investment Limited	**12,323,067**	**10.04**	13,365,105	10.89
Fidelity International Ltd/FMR Corp	**6,829,274**	**5.57**	6,547,274	5.33
BlackRock Inc	**6,510,966**	**5.30**	6,510,966	5.30
MFS Investment Management	**5,996,308**	**4.89**	5,996,308	4.89
JP Morgan Chase & Co	**5,715,902**	**4.66**	5,715,902	4.66
AXA Framlington Investment Management	**5,603,638**	**4.57**	5,603,638	4.57
Credit Suisse Securities (Europe) Limited	**3,890,282**	**3.17**	3,890,282	3.17
Norges Bank	**N/A**	**Below 3%**	3,706,270	3.02

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 2016, consisted of 122,685,986 ordinary shares of 12.5p each. Further details of the issued capital of the Company can be found in note 19 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 addition, 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, 164,071 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 Tuesday 13 December 2016.

Purchase of the Company's own shares

The Company was given authority at the AGM on 11 December 2015 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, to be held on Tuesday 13 December 2016.

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 25, 25 and 72 respectively.

The Audit Committee, whose role is detailed on pages 49 to 53, has meetings at least twice a year with the Company's auditor, KPMG LLP.

People

The important role 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 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 their full potential and the talents and resources of the workforce are fully utilised to maximise the efficiency of the organisation.

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. Training at each division is planned and monitored through an annual training plan.

The importance of good communications with employees is recognised by the directors and senior management team. A newsletter is issued to all 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 our employees and offer a private medical scheme (depending on seniority) and 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 also 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.

Report of the Directors continued

AGM – special business

Seven resolutions will be proposed as special business at the AGM to be held on Tuesday 13 December 2016. 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 Accounts

The directors are responsible for preparing the Annual Report and Accounts 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 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 and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

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 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; and
- 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

17 October 2016

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

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Bellway p.l.c. for the year ended 31 July 2016 set out on pages 76 to 105. 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 2016 and of the Group's profit for the year then ended;
- the 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.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Profit recognition on current sites and the carrying amount of land held for development and work in progress (gross profit £574.8 million; land held for development and work in progress £2,532.1 million). Risk vs 2015: ↔

Refer to pages 50 to 51 (Audit Committee Report), pages 82 and 85 (Accounting Policies) and note 13 on page 93 (financial disclosures).

The risk – Profit recognition on current sites and the net realisable value of land held for development and work in progress are both reliant on the Group's forecast of future selling prices and build costs, both of which are uncertain. Forecast selling prices are inherently uncertain due to challenges in assessing market conditions. Build costs, and in particular sub-contractor costs, can vary with market conditions and may also be incorrectly forecast due to unforeseen events during construction.

Gross profit is recognised on house sales based on the latest whole site gross margin which is an output of the site valuations prepared by the Group's divisional technical teams. These valuations use actual and forecast selling prices and build costs and are sensitive to inaccuracies in recording actual costs incurred, forecast costs to complete and expected selling prices.

Land held for development and work in progress are held at the lower of cost and net realisable value (i.e. the forecast selling price less the remaining costs to build and sell). An assessment of the net realisable value of land held for development and work in progress is carried out at each balance sheet date and is dependent on the Group's estimates of future selling prices and build costs, together with the likelihood of receiving planning permission for land held for development. Planning permission is dependent on local and national policies and without planning permission sites cannot be developed.

A change in the Group's estimate of sales price and build cost could have a material impact on the carrying value of land held for development and work in progress and the level of profit recognition in the Group's financial statements.

Our response – our audit procedures included:

- Inspecting a sample of land additions to evaluate the terms of the transaction and checking to the amounts recorded in the financial statements, including re-performing the calculation of fair value for a sample of land acquired on deferred payment terms.
- Assessing a sample of land not currently being developed to confirm that the Group still intended to develop this site by reference to confirmed planning permission
- Testing the Group's controls over the authorisation and recording of costs, including agreeing a sample of costs incurred to date from job cost reports to invoice and/or payment, including verifying that they relate to the site against which they have been allocated.
- Testing the performance of the Group's controls over the production of site valuations, including the reconciliation of actual costs incurred and included in work in progress to date to job costs reports.
- Attendance at a selection of site valuation meetings, where incurred costs and revenues were reviewed against budgets and estimates of future cost and selling prices were discussed, challenged and updated, to check that senior operational, commercial and financial management were effectively challenging the forecast margins utilised to recognise profit.
- We used a variety of quantitative and qualitative factors to select those sites with a higher risk of material misstatement and conducted detailed site reviews for these sites to understand the associated risks and ascertain whether these risks had been factored into the site valuations. The site reviews included the following procedures, among others, where relevant, i) making inquiries of senior operational, commercial and financial management about their assessment of risks for these sites; ii) reviewing site plans to gain an understanding of progress made and problems arising on the site; iii) comparing actual and budgeted unit sales and average selling prices to date to identify potential build or sale issues; and iv) for a sample of costs, agreeing total estimated costs to purchase orders/sub-contractor agreements (including variations from initial estimates).
- For all active sites and sites completed in the year we performed a comparison of budgeted and latest forecast margin at July 2016 in order to assess the Group's ability to forecast accurately.

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

2 Our assessment of risks of material misstatement continued

- On a site by site basis, we compared the gross margin recognised in the financial statements with the latest site valuations to determine whether the margin recognised was appropriate.
- We developed an expectation, based on our attendance at site valuation meetings, our detailed site reviews and other procedures, including inquiries and reviews of divisional board reports, of sites to be included in the Group's net realisable value provision. We obtained the Group's net realisable value provision and compared land held for development and work in progress sites included to our expectations and, with reference to site valuations, determined whether amounts included had been calculated appropriately for these sites.
- For a sample of developments completed in the year, we compared the cost to complete accrual created to the latest site valuation and obtained confirmation for significant differences.
- Challenging the adequacy of the Group's disclosures in relation to areas of judgement and estimation in relation to these balances by performing sensitivity analysis on key assumptions.

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

The materiality for the Group financial statements as a whole was set at £23 million determined with reference to a benchmark of profit before tax adjusted for the removal of exceptional items, of which it represents 4.8%. In the prior year materiality was set at £21 million, also determined with reference to a benchmark of profit before tax, of which it represented 5.9%.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group audit team performed the audits of the Group's principal components which covered 100% of total Group revenue, 99% of total Group profit before taxation and 99% of total Group assets.

The audit undertaken for Group reporting purposes at the Group's main trading subsidiary was performed to a materiality level of £17 million, as set by the Group audit team.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 50 to 52 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures ('the specified Corporate Governance information') is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report, the Directors' Report and the Corporate Governance Statement:

- we have not identified material misstatements in the Strategic Report, the Directors' Report, or the specified Corporate Governance information;
- in our opinion, the Strategic Report and the Directors' Report have been prepared in accordance with the Companies Act 2006; and
- in our opinion, the Corporate Governance Statement has been prepared in accordance with rules 7.2.2, 7.2.3, 7.2.5, 7.2.6 and 7.2.7 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority.

5 We have nothing to report on the disclosures of principal risks

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

- the directors' Long-Term Viability Statement on page 25, concerning the principal risks, their management and, based on that, the directors' assessment and expectations of the Group's continuing in operation over the three years to 2019; or
- the disclosures in the 'Accounting Policies' section of the financial statements concerning the use of the going concern basis of accounting.

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our 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 Audit Committee's Report dœs not appropriately address matters communicated by us to the Audit Committee.

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; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statements, set out on page 25, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 44 to 68 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 72, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

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

17 October 2016

Group Income Statement

for the year ended 31 July 2016

	Notes	2016 Pre-exceptional item £000	2016 Exceptional item (note 5) £000	2016 Total £000	2015 Pre-exceptional item £000	2015 Exceptional item (note 5) £000	2015 Total £000
Revenue	1	**2,240,651**	**–**	**2,240,651**	1,765,405	–	1,765,405
Cost of sales	5	**(1,665,892)**	**–**	**(1,665,892)**	(1,337,464)	6,865	(1,330,599)
Gross profit		**574,759**	**–**	**574,759**	427,941	6,865	434,806
Administrative expenses		**(82,751)**	**–**	**(82,751)**	(67,489)	–	(67,489)
Operating profit	4	**492,008**	**–**	**492,008**	360,452	6,865	367,317
Profit on disposal of investment in joint venture	5	**–**	**17,306**	**17,306**	–	–	–
Finance income	2	**1,186**	**–**	**1,186**	643	–	643
Finance expenses	2	**(12,326)**	**–**	**(12,326)**	(13,719)	–	(13,719)
Share of result of joint ventures	11	**(306)**	**–**	**(306)**	(50)	–	(50)
Profit before taxation		**480,562**	**17,306**	**497,868**	347,326	6,865	354,191
Income tax expense	6	**(94,966)**	**–**	**(94,966)**	(69,621)	(1,421)	(71,042)
Profit for the year*		**385,596**	**17,306**	**402,902**	277,705	5,444	283,149

* All attributable to equity holders of the parent.

	Notes	2016 Total	2015 Total
Earnings per ordinary share – Basic	8	**328.7p**	231.5p
Earnings per ordinary share – Diluted	8	**328.0p**	230.8p

Statements of Comprehensive Income

for the year ended 31 July 2016

	Notes	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Profit for the period		**402,902**	283,149	**173,950**	300
Other comprehensive expense					
Items that will not be recycled to the income statement:					
Remeasurement losses on defined benefit pension plans	25	**(1,806)**	(3,239)	**–**	–
Income tax on other comprehensive expense	6	**(136)**	648	**–**	–
Other comprehensive expense for the period, net of income tax		**(1,942)**	(2,591)	**–**	–
Total comprehensive income for the period*		**400,960**	280,558	**173,950**	300

* All attributable to equity holders of the parent.

Statements of Changes in Equity

at 31 July 2016

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 2014		15,273	166,945	20,000	1,492	1,162,420	1,366,130	(66)	1,366,064
Total comprehensive income for the period									
Profit for the period		–	–	–	–	283,149	283,149	–	283,149
Other comprehensive expense*		–	–	–	–	(2,591)	(2,591)	–	(2,591)
Total comprehensive income for the period		–	–	–	–	280,558	280,558	–	280,558
Transactions with shareholders recorded directly in equity:									
Dividends on equity shares	7	–	–	–	–	(74,614)	(74,614)	–	(74,614)
Shares issued	19	41	2,067	–	–	–	2,108	–	2,108
Credit in relation to share options and tax thereon	6, 25	–	–	–	–	1,796	1,796	–	1,796
Total contributions by and distributions to shareholders		41	2,067	–	–	(72,818)	(70,710)	–	(70,710)
Balance at 31 July 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	19	21	1,134	–	–	–	1,155	–	1,155
Purchase of own shares	20	–	–	–	–	(6,864)	(6,864)	–	(6,864)
Credit in relation to share options and tax thereon	6, 25	–	–	–	–	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**

* Additional breakdown is provided in the Statements of Comprehensive Income.

Statements of Changes in Equity continued
at 31 July 2016

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 2014		15,273	166,945	20,000	2,145	432,348	636,711
Total comprehensive income for the period							
Profit for the period		–	–	–	–	300	300
Other comprehensive income*		–	–	–	–	–	–
Total comprehensive income for the period		–	–	–	–	300	300
Transactions with shareholders recorded directly in equity:							
Dividends on equity shares	7	–	–	–	–	(74,614)	(74,614)
Shares issued	19	41	2,067	–	–	–	2,108
Credit in relation to share options	25	–	–	–	–	1,544	1,544
Total contributions by and distributions to shareholders		41	2,067	–	–	(73,070)	(70,962)
Balance at 31 July 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	19	21	1,134	–	–	–	1,155
Purchase of own shares	20	–	–	–	–	(6,864)	(6,864)
Credit in relation to share options	25	–	–	–	–	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**

* Additional breakdown is provided in the Statements of Comprehensive Income.

Balance Sheets

at 31 July 2016

	Notes	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
ASSETS					
Non-current assets					
Property, plant and equipment	9	**14,904**	14,774	**–**	–
Investment property	10	**–**	1,609	**–**	–
Investments in joint ventures and subsidiaries	11	**4,550**	28,997	**35,219**	33,651
Other financial assets	14	**–**	–	**–**	–
Trade and other receivables	15	**11,406**	–	**–**	–
Deferred tax assets	12	**2,490**	2,761	**–**	–
		33,350	48,141	**35,219**	33,651
Current assets					
Inventories	13	**2,548,339**	2,135,298	**–**	–
Trade and other receivables	15	**80,185**	64,454	**542,766**	483,935
Cash and cash equivalents	22	**58,968**	41,491	**52,762**	48,761
		2,687,492	2,241,243	**595,528**	532,696
Total assets		**2,720,842**	2,289,384	**630,747**	566,347
LIABILITIES					
Non-current liabilities					
Retirement benefit obligations	25	**8,036**	7,452	**–**	–
Trade and other payables	17	**87,866**	52,561	**–**	–
Deferred tax liabilities	12	**314**	333	**–**	–
		96,216	60,346	**–**	–
Current liabilities					
Interest-bearing loans and borrowings	16	**32,500**	80,000	**–**	–
Corporation tax payable		**50,500**	37,730	**–**	–
Trade and other payables	17	**674,610**	535,396	**300**	298
		757,610	653,126	**300**	298
Total liabilities		**853,826**	713,472	**300**	298
Net assets		**1,867,016**	1,575,912	**630,447**	566,049
EQUITY					
Issued capital	19	**15,335**	15,314	**15,335**	15,314
Share premium		**170,146**	169,012	**170,146**	169,012
Capital redemption reserve	20	**20,000**	20,000	**20,000**	20,000
Other reserves		**1,492**	1,492	**2,145**	2,145
Retained earnings		**1,660,109**	1,370,160	**422,821**	359,578
Total equity attributable to equity holders of the parent		**1,867,082**	1,575,978	**630,447**	566,049
Non-controlling interest		**(66)**	(66)	**–**	–
Total equity		**1,867,016**	1,575,912	**630,447**	566,049

Approved by the Board of Directors on 17 October 2016 and signed on its behalf by:

John Watson
Director

Keith Adey
Director

Registered number 1372603

Cash Flow Statements

for the year ended 31 July 2016

	Notes	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Cash flows from operating activities					
Profit for the year		**402,902**	283,149	**173,950**	300
Depreciation charge	9	**3,044**	2,776	**–**	–
Exceptional profit	5	**(17,306)**	(6,865)	**–**	–
Profit on sale of property, plant and equipment	4	**(74)**	(247)	**–**	–
Loss/(profit) on sale of investment properties		**187**	(1,980)	**–**	–
Finance income	2	**(1,186)**	(643)	**–**	–
Finance expenses	2	**12,326**	13,719	**–**	–
Share-based payment expense	25	**1,568**	1,544	**–**	–
Share of post tax result of joint ventures		**306**	50	**–**	–
Income tax expense	6	**94,966**	71,042	**–**	–
Increase in inventories		**(413,041)**	(338,691)	**–**	–
(Increase)/decrease in trade and other receivables		**(68)**	(6,141)	**(62,831)**	72,207
Increase in trade and other payables		**165,737**	47,940	**2**	12
Proceeds from sale of available-for-sale portfolio – exceptional item	5	**–**	32,462	**–**	–
Cash from operations		**249,361**	98,115	**111,121**	72,519
Interest paid		**(4,284)**	(6,783)	**–**	–
Income tax paid		**(82,384)**	(61,895)	**–**	–
Net cash inflow from operating activities		**162,693**	29,437	**111,121**	72,519
Cash flows from investing activities					
Acquisition of property, plant and equipment		**(3,373)**	(5,402)	**–**	–
Proceeds from sale of property, plant and equipment		**273**	403	**–**	–
Proceeds from sale of investment in joint venture – exceptional item	5	**16,600**	–	**–**	–
Proceeds from sale of investment properties		**1,422**	6,742	**–**	–
Dividends received		**–**	–	**4,000**	–
Increase in loans to joint ventures		**(1,768)**	(1,190)	**–**	–
Interest received		**250**	404	**–**	–
Net cash inflow from investing activities		**13,404**	957	**4,000**	–
Cash flows from financing activities					
(Decrease)/increase in bank borrowings		**(47,500)**	50,000	**–**	–
Proceeds from the issue of share capital on exercise of share options		**1,155**	2,108	**1,155**	2,108
Purchase of own shares by employee share option plans		**(6,864)**	–	**(6,864)**	–
Dividends paid	7	**(105,411)**	(74,614)	**(105,411)**	(74,614)
Net cash outflow from financing activities		**(158,620)**	(22,506)	**(111,120)**	(72,506)
Net increase in cash and cash equivalents		**17,477**	7,888	**4,001**	13
Cash and cash equivalents at beginning of year		**41,491**	33,603	**48,761**	48,748
Cash and cash equivalents at end of year	22	**58,968**	41,491	**52,762**	48,761

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 and other financial assets, 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 17 October 2016, 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 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 Chief Executive's Operating Review on pages 26 to 30. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Finance Director's Review on pages 31 to 32 and the Director's Report on page 69, The Risk Management section on pages 20 to 24 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 2016, net cash was £26.5 million having generated cash of £65.0 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 £500.0 million, expiring in tranches up to November 2020, with £467.5 million available for drawdown under such facilities at 31 July 2016.

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 the following amendment during the current financial year:

- IAS 19 'Defined Benefit Plans: Employee Contributions'. The amendment simplifies the accounting for contributions that are independent of the number of years of employee service. The adoption of this amendment has not had any effect on the Group's profit for the period or equity.

The Group also adopted Annual Improvements 2010–2012 and Annual Improvements 2011–2013 during the current financial year. The adoption of these has not had a material effect on the Group's profit for the period 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 2016 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.

Accounting Policies continued

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: 10 – 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. 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 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.

Other financial assets

Other financial assets are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity within retained earnings, except for impairment losses and changes in future cash flows, which are recognised directly in the income statement. When these investments are de-recognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement.

A description of the valuation technique is given in note 14.

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 payables on normal terms are not interest-bearing and are stated at their nominal value. Trade 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.

Accounting Policies continued

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 at the balance sheet date less the fair value of scheme assets. 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 25 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 payment

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. Other financial assets relate to the deferred element of revenues receivable from the sale of homes under shared equity schemes. The discounting of these other financial assets produces a notional interest receivable amount and this is credited to cost of sales.

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 the years ended 31 July 2016 and 31 July 2015, 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 2016 and 31 July 2015 no exceptional charge has resulted from the review.

Gross profit recognition

Gross profit is recognised for completed house sales 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 amendments which have not been applied in these financial statements, were in issue and endorsed by the EU but not yet effective:

- IAS 1 'Disclosure Initiative'. The amendment explores opportunities to see how those applying IFRS can improve and simplify disclosures within existing disclosure requirements. This is effective for the period beginning on 1 August 2016.
- Annual Improvements to IFRSs 2012 – 2014 Cycle. This is effective for the period beginning on 1 August 2016.

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

The following standards, which are expected to effect the financial statements of the Group, have not been applied in these financial statements, but were in issue although not yet endorsed by the EU:

- 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 presentation changes to the income statement to show part-exchange revenue and expenses separately between gross profit and operating profit. They are currently recognised on a net basis within cost of sales.
- 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. The Group has not yet assessed the full effect of this standard.

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

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 macro economic 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 Chief Executive's Operating Review on pages 26 to 30. 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

	2016 £000	2015 £000
Interest receivable on bank deposits	**211**	340
Interest on fair value through profit or loss	**533**	–
Other interest income	**442**	303
Finance income	**1,186**	643
Interest payable on bank loans and overdrafts	**4,497**	6,888
Interest on deferred term land payables	**7,589**	6,580
Interest element of movement in pension scheme deficit	**240**	251
Finance expenses	**12,326**	13,719

3 Employee information

Group employment costs, including directors, comprised:

	2016 £000	2015 £000
Wages and salaries	**117,215**	101,954
Social security	**11,615**	9,584
Pension costs (note 25)	**4,514**	3,889
Share-based payments (note 25)	**1,568**	1,544
	134,912	116,971

The average number of persons employed by the Group during the year was 2,366 (2015 – 2,164) comprising 810 (2015 – 708) administrative and 1,556 (2015 – 1,456) 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 54 to 68.

Key management personnel remuneration, including directors, comprised:

	2016 £000	2015 £000
Salaries and fees	**2,506**	2,392
Taxable benefits	**125**	129
Annual bonus – cash	**2,054**	1,899
Pension costs	**141**	158
Share-based payments	**995**	803
	5,821	5,381

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

4 Operating profit

	2016 £000	2015 £000
Operating profit is stated after charging/(crediting):		
Staff costs (note 3)	**134,912**	116,971
Profit on sale of property, plant and equipment	**(74)**	(247)
Exceptional item (note 5)	**–**	(6,865)
Depreciation of property, plant and equipment	**3,044**	2,776
Hire of plant and machinery	**13,844**	12,755
Operating lease charges for land and buildings	**1,407**	1,171
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	**154**	152
Other services relating to taxation	**15**	42
Pension scheme audit	**4**	4

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 (2015 – £0.007 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 next three years, including £17.0 million received in March on completion. The deferred consideration is recognised as a 'fair value through profit or loss' (note 18) financial asset. In addition to the disposal proceeds, the Group will be 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, has been treated as an exceptional item during the year ended 31 July 2016.

On 22 May 2015 the Group sold its remaining shared interest assets (note 14) for cash consideration of £32.462 million. This resulted in a profit on disposal of £6.865 million during the year ended 31 July 2015. This was treated as an exceptional item.

Notes to the Accounts continued

6 Income tax expense

	2016 £000	2015 £000
Current tax expense:		
UK corporation tax	**95,770**	70,435
Adjustments in respect of prior years	**(616)**	(562)
	95,154	69,873
Deferred tax (income)/expense:		
Origination and reversal of temporary differences	**91**	1,090
Reduction in tax rate	**(298)**	–
Adjustments in respect of prior years	**19**	79
	(188)	1,169
Total income tax expense in income statement	**94,966**	71,042

	2016 %	2016 £000	2015 %	2015 £000
Reconciliation of effective tax rate:				
Profit before taxation		**497,868**		354,191
Tax calculated at UK corporation tax rate	**20.0**	**99,574**	20.7	73,318
Enhanced deductions and non-taxable income	**(0.8)**	**(4,011)**	(0.5)	(1,793)
Adjustments in respect of prior years – current tax	**(0.1)**	**(616)**	(0.1)	(562)
– deferred tax	**–**	**19**	–	79
Effective tax rate and tax expense for the year	**19.1**	**94,966**	20.1	71,042

The corporation tax rate reduced to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015.

The deferred tax assets/(liabilities) held by the Group at the start of the comparative year that were expected to be realised after 31 March 2015 were valued at 20%, the substantively enacted tax rate that will be effective when they are expected to be realised.

The deferred tax assets/(liabilities) held by the Group at the start of the current year have been 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 the balance sheet date. A further reduction in the UK corporation tax rate, from the aforementioned April 2020 rate of 18%, to 17% has been announced but was not substantively enacted at the balance sheet date.

The effective income tax expense is 19.1% of profit before taxation (2015 – 20.1%) and compares favourably to the Group's standard tax rate for the year of 20.0% (2015 – 20.7%). The lower effective tax rate in the current year is principally due to the non-taxable exceptional profit arising on the disposal of the Group's investment in Barking Riverside Limited (note 5 to the accounts) and enhanced tax deductions received by the Group in relation to land remediation relief.

	2016 £000	2015 £000
Deferred tax recognised directly in equity:		
(Charge)/credit relating to equity-settled transactions	**(304)**	252
(Charge)/credit relating to remeasurements on the defined benefit pension scheme	**(136)**	648

7 Dividends on equity shares

	2016 £000	2015 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 July 2015 of 52.0p per share (2014 – 36.0p)	**63,712**	43,996
Interim dividend for the year ended 31 July 2016 of 34.0p per share (2015 – 25.0p)	**41,709**	30,625
Dividends forfeited	**(10)**	(7)
	105,411	74,614
Proposed final dividend for the year ended 31 July 2016 of 74.0p per share (2015 – 52.0p)	**90,787**	63,712

The 2016 proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 13 December 2016 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 2015 shares were held by the Trust (note 20) 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 Bellway Employee Share Trust (1992) 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 2016 £000	Weighted average number of ordinary shares 2016 Number	Earnings per share 2016 p	Earnings 2015 £000	Weighted average number of ordinary shares 2015 Number	Earnings per share 2015 p
For basic earnings per ordinary share	**402,902**	**122,558,261**	**328.7**	283,149	122,315,198	231.5
Dilutive effect of options and awards		**291,845**	**(0.7)**		380,546	(0.7)
For diluted earnings per ordinary share	**402,902**	**122,850,106**	**328.0**	283,149	122,695,744	230.8

Notes to the Accounts continued

9 Property, plant and equipment

Group	Land and property £000	Plant, fixtures and fittings £000	Total £000
Cost			
At 1 August 2014	7,993	16,812	24,805
Additions	1,296	4,106	5,402
Disposals	(30)	(3,009)	(3,039)
At 1 August 2015	9,259	17,909	27,168
Additions	165	3,208	3,373
Disposals	–	(1,892)	(1,892)
At 31 July 2016	**9,424**	**19,225**	**28,649**
Depreciation			
At 1 August 2014	1,557	10,944	12,501
Charge for year	191	2,585	2,776
On disposals	–	(2,883)	(2,883)
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 31 July 2016	**1,956**	**11,789**	**13,745**
Net book value			
At 31 July 2016	**7,468**	**7,436**	**14,904**
At 31 July 2015	7,511	7,263	14,774
At 31 July 2014	6,436	5,868	12,304

The Company has no property, plant and equipment.

10 Investment property

Group	Total £000
Cost	
At 1 August 2014	7,297
Disposals	(5,040)
At 1 August 2015	2,257
Disposals	(1,834)
At 31 July 2016	**423**
Depreciation	
At 1 August 2014	926
On disposals	(278)
At 1 August 2015	648
On disposals	(225)
At 31 July 2016	**423**
Net book value	
At 31 July 2016	**–**
At 31 July 2015	1,609
At 31 July 2014	6,371

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 million (2015 – £1.991 million).

Investment properties are held at cost and categorised as level 3 within the hierarchical classification of IFRS 7 Revised (as defined within the standard). The fair value is calculated on the same basis as other financial assets (see notes 14 and 18).

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 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Interest in subsidiary undertakings' shares at cost	**–**	–	**35,219**	33,651
Investments accounted for using equity method				
Interest in joint ventures – loan	**4,557**	31,060	**–**	–
Interest in joint ventures – equity	**(7)**	(2,063)	**–**	–
	4,550	28,997	**–**	–
	4,550	28,997	**35,219**	33,651

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 27.

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.

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) were classified as joint ventures as the Group has rights to the net assets of the arrangements rather than the individual assets and liabilities.

Notes to the Accounts continued

11 Investments in subsidiaries and joint ventures continued

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

	2016 £000	2015 £000
At the start of the year	**28,997**	26,794
Net increase in loans	**2,050**	1,246
Transfer to assets held for sale	**(26,191)**	–
Disposal of joint venture	**–**	1,007
Share of results	**(306)**	(50)
At the end of the year	**4,550**	28,997

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

	2016 £000	2015 £000
Non-current assets	**24**	156
Current assets	**8,599**	43,052
Current liabilities	**(8,099)**	(42,836)
Non-current liabilities	**–**	(2,435)
Share of net assets/(liabilities) of joint ventures	**524**	(2,063)
Revenue	**4,204**	1,498
Costs	**(4,191)**	(1,201)
Operating profit	**13**	297
Interest	**(319)**	(347)
Share of results of joint ventures	**(306)**	(50)

Guarantees relating to the overdrafts of the joint ventures have been given by the Company (see note 23).

On 31 January 2016 the Group reclassified its investment in Barking Riverside Limited from investment 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.

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 2014	59	1,587	970	81	**2,697**
Income statement (charge)/credit	(203)	(743)	47	(270)	**(1,169)**
Credit to statement of comprehensive income	–	648	–	–	**648**
Credit to equity	–	–	252	–	**252**
At 31 July 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**

12 Deferred taxation continued

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

	2016 £000	2015 £000
Retirement benefit obligations	**1,448**	1,492
Share-based payments	**1,042**	1,269
Deferred tax assets	**2,490**	2,761
Capital allowances	**(95)**	(144)
Other temporary differences	**(219)**	(189)
Deferred tax liabilities	**(314)**	(333)
Net deferred tax asset	**2,176**	2,428

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	2016 £000	2015 £000
Land	**1,625,619**	1,296,976
Work in progress	**836,080**	763,664
Showhomes	**70,357**	57,491
Part-exchange properties	**16,283**	17,167
	2,548,339	2,135,298

Inventories of £1,630.8 million were expensed in the year (2015 – £1,305.8 million).

In the ordinary course of business inventories have been written back by a net £9.4 million (2015 – £11.2 million) in the year.

Land with a carrying value of £109.9 million (2015 – £83.2 million) was used as security for land payables (see note 17).

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 issues including consumer demand and planning permission delays.

The Company has no inventory.

14 Other financial assets

Group	2016 £000	2015 £000
At 1 August	**–**	32,186
Redemptions	**–**	(32,317)
Imputed interest	**–**	131
At 31 July	**–**	–

Other financial assets carried at fair value are categorised as level 3 within the hierarchical classification of IFRS 7 Revised (as defined within the standard). On 22 May 2015 the Group sold its remaining interest in shared equity assets (see note 5).

Other financial assets previously comprised loans, largely with non fixed repayment dates and variable repayment amounts, provided as part of sales transactions that are secured by way of a second legal charge on the related property. The assets were recorded at fair value, being the estimated amount receivable by the Group, discounted to present day values.

Notes to the Accounts continued

14 Other financial assets continued

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.

The difference between the anticipated future receipt and the initial fair value was charged over the estimated deferred term to cost of sales, with the financial asset increasing to its full expected cash settlement value on the anticipated receipt date. The imputed interest credited to cost of sales for the year ended 31 July 2015 was £0.131 million.

Credit risk, which the directors considered to be largely mitigated through holding a second legal charge over the assets, was used in determining present values. The directors review the financial assets for impairment at the end of each reporting period.

At initial recognition, the fair value of the assets is calculated using a discount rate, appropriate to the class of assets, which reflects market conditions at the date of entering into the transaction. The directors considered at the end of each reporting period whether the initial market discount rate still reflects up to date market conditions. If a revision is required, the fair value of the asset is re-measured at the present value of the revised future cash flows using this revised discount rate; the difference between this value and the carrying value of the asset is recorded against the carrying value of the asset and recognised directly in the Statement of Comprehensive Income.

The directors considered that there was no material difference between the initial market discount rate and the market discount rate at 22 May 2015, the date of disposal, and accordingly did not recognise any movements directly within the Statement of Comprehensive Income.

The Company has no other financial assets.

15 Trade and other receivables

Current receivables

	Group 2016 £000	Group 2015 £000	**Company 2016 £000**	Company 2015 £000
Trade receivables	**24,383**	26,743	**–**	–
Other receivables	**51,833**	30,629	**–**	6
Amounts owed by Group undertakings	**–**	–	**542,766**	483,929
Prepayments and accrued income	**3,969**	7,082	**–**	–
	80,185	64,454	**542,766**	483,935

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 (2015 – nil).

Other receivables includes £22.172 million (2015 – £18.699 million) in relation to VAT recoverable.

Non-current receivables

	Group 2016 £000	Group 2015 £000	**Company 2016 £000**	Company 2015 £000
Other receivables	**11,406**	–	**–**	–
	11,406	–	**–**	–

16 Interest-bearing loans and borrowings

Current liabilities

	Group 2016 £000	Group 2015 £000	**Company 2016 £000**	Company 2015 £000
Bank loans	**32,500**	80,000	**–**	–
	32,500	80,000	**–**	–

17 Trade and other payables

Non-current liabilities

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Land payables	**82,959**	47,897	**–**	–
Other payables	**4,907**	4,664	**–**	–
	87,866	52,561	**–**	–

Land payables of £16.448 million (2015 – £26.798 million) are secured on the land to which they relate.

The carrying value of the land used for security is £16.183 million (2015 – £24.462 million).

Current liabilities

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Trade payables	**216,335**	209,868	**–**	–
Land payables	**221,201**	144,745	**–**	–
Social security and other taxes	**4,051**	3,836	**–**	–
Other payables	**2,576**	4,157	**300**	298
Accrued expenses and deferred income	**82,547**	74,028	**–**	–
Payments on account	**147,900**	98,762	**–**	–
	674,610	535,396	**300**	298

Land payables of £95.400 million (2015 – £60.465 million) are secured on the land to which they relate.

The carrying value of the land used for security is £93.696 million (2015 – £58.745 million).

18 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 expense, 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 one year or on demand £000	1–2 years £000	2–5 years £000	More than 5 years £000
At 31 July 2016	**304,160**	**310,271**	**223,016**	**52,563**	**34,692**	**–**
At 31 July 2015	192,642	196,693	146,220	43,644	6,829	–

Notes to the Accounts continued

18 Financial instruments continued

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 one year or on demand £000	1–2 years £000	2–5 years £000	More than 5 years £000
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**
Bank loans – floating rates	80,000	80,163	80,163	–	–	–
Trade and other payables	222,525	222,525	217,861	–	–	4,664
At 31 July 2015	302,525	302,688	298,024	–	–	4,664

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 £467.5 million (2015 – £320.0 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 2016 and 31 July 2015 for both the Group and the Company are shown in note 22.

At 31 July 2016 the average interest rate earned on the temporary closing cash balance, excluding joint ventures, was 0.46% (2015 – 0.50%).

Fair values

The carrying values of financial assets and liabilities reasonably approximate their fair values.

Financial assets and liabilities by category

	Group 2016 £000	Group 2015 £000	**Company 2016 £000**	Company 2015 £000
Loans and receivables	**60,192**	57,372	**542,766**	483,935
Fair value through profit or loss	**27,430**	–	**–**	–
Cash and cash equivalents	**58,968**	41,491	**52,762**	48,761
Financial liabilities at amortised cost	**(560,478)**	(491,331)	**(300)**	(298)
	(413,888)	(392,468)	**595,228**	532,398

Bank facilities

The Group has bank facilities of £500 million which expire during the course of the following financial years:

	Group 2016 £000	Group 2015 £000	**Company 2016 £000**	Company 2015 £000
By 31 July 2016	**–**	80,000	**–**	–
By 31 July 2017	**70,000**	70,000	**–**	–
By 31 July 2018	**50,000**	50,000	**–**	–
By 31 July 2019	**125,000**	25,000	**–**	–
By 31 July 2020	**175,000**	175,000	**–**	–
By 31 July 2021	**80,000**	–	**–**	–
	500,000	400,000	**–**	–

18 Financial instruments continued

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 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Equity	**1,867,016**	1,575,912	**630,447**	566,049
Net bank debt	**–**	38,509	**–**	–
Capital employed	**1,867,016**	1,614,421	**630,447**	566,049

19 Issued capital

Group and Company	**2016 Number 000**	**2016 £000**	2015 Number 000	2015 £000
Allotted, called up and fully paid 12.5p ordinary shares				
At start of year	**122,522**	**15,314**	122,191	15,273
Issued on exercise of options	**164**	**21**	331	41
At end of year	**122,686**	**15,335**	122,522	15,314

Share options

At 31 July 2016 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					
14 November 2011	38,832	556.00	1 February 2017	to	31 July 2017
16 November 2012	781	805.60	1 February 2016	to	31 July 2016
16 November 2012	15,366	805.60	1 February 2018	to	31 July 2018
15 November 2013	70,253	1,218.40	1 February 2017	to	31 July 2017
15 November 2013	26,579	1,218.40	1 February 2019	to	31 July 2019
	151,811				
(b) Bellway p.l.c. (2013) Savings Related Share Option Scheme					
17 November 2014	176,252	1,378.00	1 February 2018	to	31 July 2018
17 November 2014	37,019	1,378.00	1 February 2020	to	31 July 2020
16 November 2015	124,503	2,048.80	1 February 2019	to	31 July 2019
16 November 2015	18,210	2,048.80	1 February 2021	to	31 July 2021
	355,984				
Total	**507,795**				

Details of directors' share options are contained within the Report of the Board on Directors' Remuneration on pages 54 to 68.

Notes to the Accounts continued

20 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 25. During the period the Trust made a market purchase of 342,143 shares (2015 – nil) at an average price of 2,006p (2015 – nil) and transferred 55,823 (2015 – 70,627) shares to employees and directors. The number of shares held within the Trust, and on which dividends have been waived, at 31 July 2016 was 304,136 (2015 – 17,816). These shares are held within the financial statements at a cost of £5.908 million (2015 – £0.273 million). The market value of these shares at 31 July 2016 was £6.375 million (2015 – £0.430 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 £173.950 million (2015 – £0.300 million).

21 Reconciliation of net cash flow to net cash/(debt)

Group	**2016 £000**	2015 £000
Increase in net cash and cash equivalents	**17,477**	7,888
Decrease/(increase) in bank borrowings	**47,500**	(50,000)
Decrease in net debt/(cash) from cash flows	**64,977**	(42,112)
Net (debt)/cash at 1 August	**(38,509)**	3,603
Net cash/(debt) at 31 July	**26,468**	(38,509)

Company	**2016 £000**	2015 £000
Increase in net cash and cash equivalents	**4,001**	13
Increase in net cash from cash flows	**4,001**	13
Net cash at 1 August	**48,761**	48,748
Net cash at 31 July	**52,762**	48,761

22 Analysis of net (debt)/cash

Group	At 1 August 2015 £000	Cash flows £000	**At 31 July 2016 £000**
Cash and cash equivalents	41,491	17,477	**58,968**
Bank loans	(80,000)	47,500	**(32,500)**
Net (debt)/cash	(38,509)	64,977	**26,468**

Company	At 1 August 2015 £000	Cash flows £000	**At 31 July 2016 £000**
Cash and cash equivalents	48,761	4,001	**52,762**
Net cash	48,761	4,001	**52,762**

23 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 2016 there were bank overdrafts of £nil (2015 – £nil) and loans of £32.5 million (2015 – £80.0 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 (2015 – £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.

24 Commitments

Group	**2016 £000**	2015 £000
Capital commitments		
Contracted not provided	**200**	67
Authorised not contracted	**–**	–

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:

	2016 £000	2015 £000
Expiring within one year	**84**	31
Expiring within the second to fifth years	**2,111**	2,586
Expiring in more than five years	**3,117**	909
	5,312	3,526

Operating lease payments principally relate to rents payable by the Group for office premises. These leases are subject to periodic rent reviews.

Company

The commitments of the Company were £nil (2015 – £nil).

25 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 £4.514 million (2015 – £3.889 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 and 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 and to make sure these 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 2016.

With regard to the Scheme, regular contributions made by the employer over the financial year were £1.21 million (2015 – £0.77 million). The employer paid no special contributions (2015 – £3.20 million) and reimbursed the pension fund £0.25 million (2015 – £nil million) for expenses incurred by the fund.

The Group is expected to make regular contributions of £nil million during the year ending 31 July 2017.

Notes to the Accounts continued

25 Employee benefits continued

(a) Retirement benefit obligations continued

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, and
- 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% p.a. 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.

Movements in net defined benefit obligations

	Defined benefit obligation		Fair value of Scheme assets		Net defined benefit liability	
	2016 £000	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000
Balance at 1 August	**(54,721)**	(50,364)	**47,269**	42,432	**(7,452)**	(7,932)
Included in the income statement						
Interest (cost)/income	**(1,924)**	(2,080)	**1,684**	1,829	**(240)**	(251)
	(1,924)	(2,080)	**1,684**	1,829	**(240)**	(251)
Included in other comprehensive expense						
Remeasurement (loss)/gain arising from:						
– Change in demographic and financial assumptions	**(6,834)**	(4,461)	**–**	–	**(6,834)**	(4,461)
– Experience adjustments	**1,018**	478	**–**	–	**1,018**	478
Return on plan assets excluding interest income	**–**	–	**4,010**	744	**4,010**	744
	(5,816)	(3,983)	**4,010**	744	**(1,806)**	(3,239)
Other						
Contributions paid by the employer	**–**	–	**1,462**	3,970	**1,462**	3,970
Benefits paid	**2,552**	1,706	**(2,552)**	(1,706)	**–**	–
	2,552	1,706	**(1,090)**	2,264	**1,462**	3,970
Balance at 31 July	**(59,909)**	(54,721)	**51,873**	47,269	**(8,036)**	(7,452)

The weighted average duration of the defined benefit obligation at the end of the reporting period is 17 years (2015 – 17 years).

25 Employee benefits continued

(a) Retirement benefit obligations continued

Scheme assets

The fair value of the Scheme assets is:

	2016 £000	2015 £000
Equity instruments – quoted	**25,933**	28,007
Corporate bonds	**10,456**	16,431
Government bonds	**13,616**	2,432
Cash and cash equivalents	**1,868**	399
Total	**51,873**	47,269

Equity instruments and government bonds have quoted prices in active markets. Other plan assets are not quoted in active markets. All government bonds are issued by the UK government and are AA minus rated (2015 – AAA minus).

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date:

	2016 % per annum	2015 % per annum
Discount rate	**2.40**	3.60
Future salary increases	**3.50**	3.90
Allowance for pension in payment increases of RPI or 5% p.a. if less	**2.90**	3.40
Allowance for deferred pension increases of CPI or 5% p.a. if less	**2.00**	2.40
Allowance for commutation of pension for cash at retirement	**50% of maximum**	50% of maximum

The mortality assumptions adopted at 31 July 2016 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 2016	23.3 years
Female retiring at age 65 in 2016	25.3 years
Male retiring at age 65 in 2036	25.5 years
Female retiring at age 65 in 2036	27.7 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	-0.25% p.a.	Increase by 4.3%
Future salary increases	+0.25% p.a.	Increase by 0.2%
Inflation – RPI	+0.25% p.a.	Increase by 3.7%
Mortality	+1 year life expectancy	Increase by 3.1%

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.

Notes to the Accounts continued

25 Employee benefits continued

(b) Share-based payments

The Group operates a long-term incentive plan 'LTIP' a share matching plan ('SMP'), a deferred bonus plan ('DBP'), employee share option schemes ('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 Company Secretary, and senior employees, with awards under the DBP also made to senior employees. The awards take the form of ordinary shares in the Company.

Share options issued under the Bellway p.l.c. (1995) Employee Share Option Scheme ('1995 ESOS') have been granted to employees at all levels as well as to executive directors. The last tranche of shares was awarded to directors in October 2003. No further options may be granted under this scheme. Options issued under the Bellway p.l.c. (1996) Employee Share Option Scheme ('1996 ESOS') have been granted to employees at all levels as well as to executive directors. The last tranche of shares was awarded to employees in May 2006. No further options may be granted under this scheme. The Bellway p.l.c. (2005) Employee Share Option Scheme ('2005 ESOS') replaces the 1995 ESOS. Awards may be granted on a discretionary basis to employees at all levels as well as to executive directors and are subject to performance conditions. The Bellway p.l.c. (2007) Employee Share Option Scheme ('2007 ESOS') replaces the 1996 ESOS. It is an unapproved 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 these schemes. Awards will be available to vest after three years, subject to objective performance targets.

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 61 to 64 within the Report of the Board on Directors' Remuneration.

Various small share option awards were made for years 2003 through to 2007 to employees, mainly at divisional management level, under the terms of the DBP. These shares are held in the Bellway Employee Share Trust (1992) normally for three years. The shares can then be transferred into the employee's name.

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.

The number and weighted average exercise price of share-based payments is as follows:

LTIP, SMP and DBP

	2016 Number of options	2015 Number of options
Outstanding at the beginning of the year	**303,744**	294,402
Granted during the year	**90,969**	117,458
Lapsed during the year	**(34,754)**	(37,489)
Exercised during the year	**(55,823)**	(70,627)
Outstanding at the end of the year	**304,136**	303,744
Exercisable at the end of the year	**–**	–

The options outstanding at 31 July 2016 have a weighted average contractual life of 1.3 years (2015 – 1.5 years).

1995, 1996, 2005 and 2007 ESOS and SRSOS

	2016 Number of options	2015 Number of options
Outstanding at the beginning of the year	**561,387**	731,582
Granted during the year	**153,473**	250,405
Lapsed during the year	**–**	(44,302)
Forfeited during the year	**(42,994)**	(45,761)
Exercised during the year	**(164,071)**	(330,537)
Outstanding at the end of the year	**507,795**	561,387
Exercisable at the end of the year	**781**	14,000

The options outstanding at 31 July 2016 have an exercise price in the range of 556.0p to 2,048.8p (2015 – 439.6p to 1,470.0p) and have a weighted average contractual life of 2.3 years (2015 – 2.4 years). The weighted average share price at the date of exercise for share options exercised during the year was 2,656.1p (2015 – 1,842.2p).

25 Employee benefits continued

(b) Share-based payments continued

Valuation methodology

For LTIP and SMP options granted after 24 October 2011 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 1995, 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:

	2016					2015				
	November 2015	**January 2016**	**November 2015**	**November 2015**	**December 2015**	November 2014	November 2014	November 2014	December 2014	December 2014
Scheme description	**LTIP**	**LTIP**	**3 Year SRSOS**	**5 Year SRSOS**	**DBP**	LTIP	3 Year SRSOS	5 Year SRSOS	SMP	DBP
Grant date	**12-Nov-15**	**20-Jan-16**	**16-Nov-15**	**16-Nov-15**	**15-Dec-15**	10-Nov-14	17-Nov-14	17-Nov-14	04-Dec-14	22-Dec-14
Risk free interest rate	**0.0%**	**0.0%**	**0.9%**	**1.4%**	**0.0%**	0.0%	1.0%	1.5%	0.0%	0.0%
Exercise price	**–**	**–**	**2,048.8p**	**2,048.8p**	**–**	–	1,378.0p	1,378.0p	–	–
Share price at date of grant	**2,382.0p**	**2,558.0p**	**2,406.0p**	**2,406.0p**	**2,772.0p**	1,674.0p	1,783.0p	1,783.0p	1,919.0p	1,935.0p
Expected dividend yield	**3.00%**	**3.00%**	**3.00%**	**3.00%**	**n/a**	3.00%	3.00%	3.00%	n/a	n/a
Expected life	**3 years**	**3 years**	**3 years 2 months**	**5 years 2 months**	**3 years**	3 years	3 years 2 months	5 years 2 months	3 years	3 years
Vesting date	**12-Nov-18**	**20-Jan-19**	**01-Feb-19**	**01-Feb-21**	**15-Dec-18**	10-Nov-17	01-Feb-18	01-Feb-20	04-Dec-17	22-Dec-17
Expected volatility	**25%**	**25%**	**25%**	**30%**	**n/a**	30%	30%	30%	30%	n/a
Fair value of option	**1,267p**	**1,701p**	**481p**	**617p**	**2,772p**	950p	480p	517p	1,296p	1,935p

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 £1.568 million (2015 – £1.544 million) in relation to equity-settled share-based payment transactions.

Notes to the Accounts continued

26 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 54 to 68.

The Chief Executive has conditionally contracted a property for £390,995, subject to shareholder approval, at one of the Group's developments using shareholder discount. The reservation price was calculated on an arm's length basis using prices already achieved for similar properties on the same development. If shareholder approval is given, Ted Ayres will purchase the property from Bellway Homes Limited.

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:

	2016 £000	2015 £000
Invoiced to joint arrangements in respect of accounting, management fees, interest on loans, land purchases and infrastructure works	**1,104**	1,312
Invoiced from joint arrangements in respect of fees, land purchases and infrastructure works	**(5,156)**	(6,723)
Amounts owed to joint arrangements in respect of land purchases and management fees at the year end	**(5,267)**	(5,417)
Amounts owed by joint arrangements in respect of accounting, management fees, interest, land purchases and infrastructure works	**10,076**	45,496

Company

During the year the Company entered into the following related party transactions with its subsidiaries and joint arrangements:

	2016 £000	2015 £000
Amounts received in the year from subsidiaries for share options exercised by subsidiary company employees and dividends received	**171,155**	2,136
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	**(112,318)**	(74,314)
Amounts owed by subsidiaries in respect of dividends and shares issued net of amounts paid on behalf of the Company	**542,766**	483,929
Investments in subsidiaries and joint ventures	**35,219**	33,651

The Company has suffered no expense in respect of bad or doubtful debts of subsidiary undertakings in the year (2015 – £nil).

27 Group undertakings

The directors set out below information relating to the Group undertakings as at 31 July 2016. All of these companies are registered in England and Wales, 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(4)
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 4 Limited
Seaton GR SPV 5 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
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(5)
MI New Home Insurance PCC Limited(5)

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 1 St James' Gate, Newcastle upon Tyne, NE99 1YQ.
5. Registered address is Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 4EY.

Five Year Record

	2012 £m	2013 £m	2014 Restated £m	2015 £m	**2016** **£m**
Income statement					
Revenue	1,004.2	1,110.7	1,484.8	1,765.4	**2,240.7**
Operating profit	114.6	151.1	255.6	360.5*	**492.0**
Net finance expenses	(9.3)	(10.2)	(9.9)	(13.1)	**(11.1)**
Share of results of joint ventures	–	–	0.3	(0.1)	**(0.3)**
Profit before taxation	105.3	140.9	246.0	347.3*	**480.6***
Income tax expense	(26.0)	(32.3)	(54.6)	(69.6)*	**(95.0)**
Profit for the year (all attributable to equity holders of the parent)	79.3	108.6	191.4	277.7*	**385.6***
Balance sheet					
ASSETS					
Non-current assets	59.4	56.7	80.4	48.1	**33.3**
Current assets	1,492.4	1,594.9	1,882.0	2,241.2	**2,687.5**
LIABILITIES					
Non-current liabilities	(69.4)	(54.1)	(74.3)	(60.3)	**(96.2)**
Current liabilities	(349.3)	(378.7)	(522.0)	(653.1)	**(757.6)**
EQUITY					
Total equity	1,133.1	1,218.8	1,366.1	1,575.9	**1,867.0**

Statistics					
Number of homes sold	5,226	5,652	6,851	7,752	**8,721**
Average price of new homes	£186.6k	£193.0k	£213.2k	£223.8k	**£252.8k**
Gross margin	16.1%	18.3%	21.3%	24.2%*	**25.7%**
Operating margin	11.4%	13.6%	17.2%	20.4%*	**22.0%**
Basic earnings per ordinary share	65.5p	89.3p	157.0p	231.5p	**328.7p**
Dividend per ordinary share	20.0p	30.0p	52.0p	77.0p	**108.0p**
Return on capital employed	10.1%	12.3%	19.6%	23.9%*	**28.2%**
Gearing (including preference shares)	5.3%	2.1%	–	2.4%	**–**
Net assets per ordinary share	933p	1,001p	1,118p	1,286p	**1,522p**
Land portfolio – plots with planning permission	17,636	18,991	19,434	21,411	**24,879**
Weighted average no. of ordinary shares	121,036,846	121,572,688	121,919,049	122,315,198	**122,558,261**
No. of ordinary shares in issue at end of year	121,450,797	121,772,058	122,191,378	122,521,915	**122,685,986**

* Stated before exceptional item (see note 5 to the accounts).

Glossary

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.

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) land with an implementable detailed planning permission ('DPP'); ii) medium-term 'pipeline' land, pending an implementable DPP; iii) strategic long-term land which we have an interest in, which may often have the benefit of a positive planning status in approved or emerging local plans.

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.

Pipeline
Plots which are either owned or contracted, 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.

Return on Capital Employed ('ROCE')
Calculated as pre-exceptional operating profit, divided by average capital employed. Capital employed is equity and net bank debt.

Glossary continued

Return on Equity
Profit after tax as a percentage of opening and closing net assets.

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 2016

	Holdings		Shares	
	Number	%	Holding	%
0 – 2,000	**2,016**	**69.33**	**1,146,376**	**0.93**
2,001 – 10,000	**419**	**14.41**	**1,821,852**	**1.49**
10,001 – 50,000	**212**	**7.29**	**5,001,281**	**4.08**
50,001 and over	**261**	**8.97**	**114,716,477**	**93.50**
Total	**2,908**	**100.00**	**122,685,986**	**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 0871 664 0381 (calls to this number cost 10p per minute plus network extras) or, if calling from overseas, +44 20 8639 3402. Lines are open from 9.00 am to 5.30 pm on Monday to Friday (excluding bank holidays). Alternatively you can e-mail shares@capita.co.uk or log on to www.capitashareportal.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 0385 (UK calls cost 10p per minute plus network extras) or, from overseas, call +44 20 8639 3405. Lines are open from 9.00 am to 5.30 pm on Monday to Friday (excluding bank holidays).

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 0871 664 0454 for telephone dealing.

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.

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 Company Secretary

Group General Counsel and Company Secretary and Registered Office

Simon Scougall

Bellway p.l.c.
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Dudley Lane
Seaton Burn
Newcastle upon Tyne
NE13 6BE

Registered number 1372603

Registrars and Transfer Office

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Kent
BR3 4TU

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

Financial Calendar

Announcement of results and ordinary dividends	
Half year	March
Full year	October
Ordinary share dividend payments	
Interim	July
Final	January
Annual Report posted to shareholders	November
Final ordinary dividend – ex-dividend date	1 December 2016
Final ordinary dividend – record date	2 December 2016
AGM and trading update	13 December 2016
DRIP election date for final (15/16) dividend	17 December 2016
Final ordinary dividend – payment date	11 January 2017

Notes

Designed and produced by Radley Yeldar www.ry.com

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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Building Value

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