

Bellway Homes Limited

**Strategic Report, Directors' Report and
financial statements**

Registered number 670176

31 July 2016



Contents

Strategic report	1
Directors' report	37
Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements	39
Independent auditor's report to the members of Bellway Homes Limited	40
Income Statement	42
Statement of Comprehensive Income	42
Statement of Changes in Equity	43
Balance Sheet	44
Cash Flow Statement	45
Notes	46

Strategic report

Introduction

Bellway Homes Limited ('the Company', 'Bellway') has recorded yet another excellent set of results with new records in respect of volume, operating margin and earnings. The Company is taking advantage of the strong market conditions, continuing its disciplined growth strategy, whilst maintaining a strict focus on return on capital employed.

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, 6 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.

Dividends

The Company paid a dividend of £170.0 million in the year (2015 - £nil).

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 Company, 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.

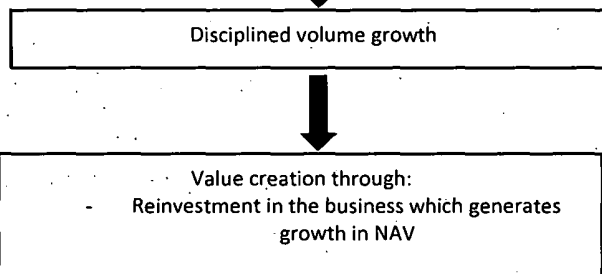
Strategic report *(continued)*

Company strategy

Building on our success

Our strategy for growth

Demand	Supply	Capacity
Customer demand is robust across the country	Good quality land opportunities at attractive rates of return	New 18 th division opened in Coventry during the year and a further division opened on 1 August 2016 in Durham Six new divisions opened since August 2013
Help to Buy extended until 2021 in England and enhanced in London	Positive planning environment supported by Housing Bill	Robust land bank
Competition in mortgage market and low interest rates ensure new homes remain affordable	Labour availability is manageable	Balance sheet capacity provides ability to invest
Household formation rate		



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

Our short and mid-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 our minimum hurdle rates	Proactive balance sheet management	Focus on retention, training and recruitment of people	Ensure sufficient resources are available in our specialist Head Office teams and that robust Company wide systems are in place to support our expanding divisional network in delivering our growth strategy
	Achieve DPP on land	Build the right product	Consistently excellent customer service	

Strategic report *(continued)*

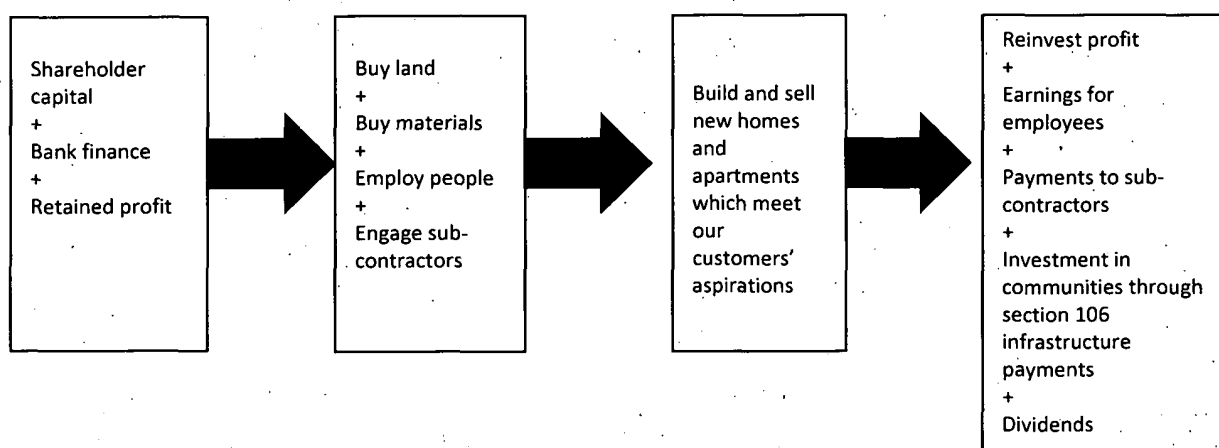
Company strategy *(continued)*

Our operational capacity is currently centred around a nationwide structure of 19 trading divisions. The newest of these divisions are South Midlands which opened in February 2016 and is based in Coventry, and Durham, which was opened in August 2016. In general, most divisions have an optimal operating capacity of between 500 and 750 new homes per annum. Our strategy of volume growth is therefore best achieved through complementing capacity in existing divisions with the expansion of the divisional structure in areas of high demand.

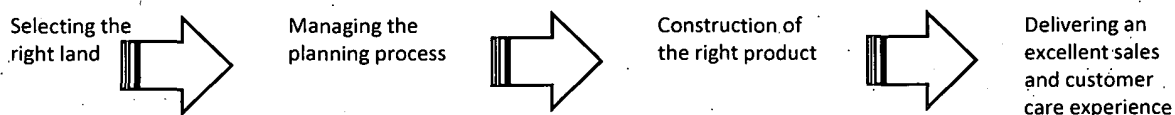
We have significant balance sheet capacity with net assets of £1,251.9 million, which includes net cash of £13.0 million and undrawn bank facilities of £467.5 million. As a result of these factors we have the capacity to invest in land that either meets or exceeds our investment criteria, which include gross margin and ROCE.

Business model

Building homes, building value



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



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

Strategic report *(continued)*

Business model *(continued)*

Selecting the right land

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

Managing the planning process

Work 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.

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

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.

Investing in our people

Providing our employees 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.

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 Company 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 detailed planning permission ('DPP'), typically brownfield sites, and use the expertise of our land teams to obtain a DPP which thereby adds value and enables higher returns.

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.

Strategic report *(continued)*

Business model *(continued)*

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.

The risks we mitigate – see pages 21 to 28 for further information

- 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.

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. 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.

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 on areas of high demand and in sustainable locations.

KPIs

We have selected the following KPIs because 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. 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 forward land bank to meet our growth aspirations.

Strategic report *(continued)*

Business model *(continued)*

All of these KPIs have improved during the year.

- Forward land bank of plots with DPP available for completion in the following financial year to have increased - achieved (2015 – achieved).
- ROCE 28.1% (2015 – 23.5%⁽¹⁾).
- Gross margin 25.7% (2015 – 24.2%⁽¹⁾).

⁽¹⁾ stated before exceptional item.

Managing the planning process

Description

- Our land bank is comprised of three components: 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.

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 need. 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 its 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.

The risks we mitigate

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

Strategic report *(continued)*

Business model *(continued)*

How we performed in 2015/16

- We secured DPP on land during the year sufficient 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.

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 owned to complement the other tiers of the land bank.

KPIs

These KPIs enable us to monitor the number of plots in each tier of our land bank to ensure these 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.

- The number of plots in our owned and controlled land bank with DPP was 24,879 (2015 – 21,411).
- The number of plots that were acquired directly in to our land bank with an implementable DPP in the year was 4,924 (2015 – 2,820).
- The number of plots that were converted from our medium-term 'pipeline' land to owned and controlled with a DPP in the year was 7,265 plots (2015 – 6,909).
- The number of plots in our 'pipeline' land bank fell but remained appropriate at 10,100 (2015 – 14,800). The reduction is due in part to our success at obtaining DPP in the period and also as a result of the disposal of our interest in Barking Riverside Limited.
- The number of plots identified in our strategic land bank with a positive planning status is 6,300 (2015 – 6,000).

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.

Strategic report *(continued)*

Business model *(continued)*

- 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.

What we rely on

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

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.

Strategic report *(continued)*

Business model *(continued)*

How we performed in 2015/16

- We have trialled our standard house types and standard construction specification and will use the experience gained from those trials to begin a phased roll out in 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. The Board is regularly updated by external specialists on both its own and the Company's health and safety obligations.
- 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.

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 increasing 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 reduce the number of RIDDOR lost time accidents.

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 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%.

- The effectiveness of health and safety on our sites, as measured using the NHBC incident rate – 0.766 (2015 – 0.936).
- Our construction-based employees have been awarded 43 Pride in the Job Awards (2015 – 33) and 5 NHBC Health and Safety Awards (2015 – 9).

Strategic report *(continued)*

Business model *(continued)*

- Number of RIDDOR lost time accidents per 100,000 site operatives – 445.19 (2015 – 430.75).

Delivering an excellent and 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 sales 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.

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 Company 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 Company 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.

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.

Strategic report *(continued)*

Business model *(continued)*

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.

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 made for every completed customer survey from £5 to £10.

KPIs

We have chosen the following KPIs as they demonstrate progress made by the Company 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.

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

- Assessment of customer care satisfaction by reference to the average of six customer care related questions – 85.7% (2015 – 83.8%).
- The number of legal completions has risen to 8,721 (2015 – 7,752).
- Our forward order book at 31 July 2016 has increased during the year to £1,117.1 million (2015 – £1,087.9 million).
- The reservation rate has increased to 169 per week (2015 – 153).
- HBF/NHBC 4 star housebuilder status (2015 – 4 star housebuilder status).

Strategic report *(continued)*

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.

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.

The risks we mitigate

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

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 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.
- 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.

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.

Strategic report *(continued)*

Business model *(continued)*

- Develop a structured apprenticeship and graduate training programme and increase the number of graduates and apprentices we recruit and develop.

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 Company for ten years or more – 21% (2015 – 18%).
- Graduates and apprentices – 83 (2015 – 73).
- Site Managers and Assistant Site Managers with NVQ Level 6 or above – 48% (2015 – 34%).
- Customer care training during the year – 5,800 hours (2015 – 3,586 hours).
- Employee turnover – 23.4% (2015 – 19.1%).

Operating review

Trading performance

Demand for new homes has remained robust throughout the year, with the Company 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 Company 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.

Strategic report (continued)

Operating review (continued)

Trading performance (continued)

The Company 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 nineteen 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)						Average selling price (£000)					
	Private		Social		Total		Private		Social		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
North	3,651	3,070	536	626	4,187	3,696	220.6	212.0	92.2	87.0	204.2	190.8
South	3,694	3,108	840	948	4,534	4,056	335.6	290.9	131.3	132.5	297.7	253.8
Company	7,345	6,178	1,376	1,574	8,721	7,752	278.4	251.7	116.1	114.4	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 13.0% to £252,793 (2015 – £223,809), 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 Company's completions and 21% (2015 – 24%) of housing revenue.

Strategic report *(continued)*

Operating review *(continued)*

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 Company.

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 Company 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 Company 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 return on capital employed. Accordingly, the Company 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 Company 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%).

The table below analyses the Company'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

Strategic report *(continued)*

Operating review *(continued)*

Planning and improving the land bank *(continued)*

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 Company 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 Company's land 'pipeline' during the year. One such site on which the Company 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 Company 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 onsite 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 Company 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 Company'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 Company 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 Company 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 – 2,162), which is in addition to those engaged indirectly, both through the provision of subcontractor labour and in associated supply chain industries, demonstrating the positive economic contribution arising from the increase in volume output.

Strategic report *(continued)*

Operating review *(continued)*

Developing our people *(continued)*

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 Company 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 Human Resources Director with the remit to further develop the Company'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.

A focus on customer care

Ensuring that our customers enjoy a positive experience when purchasing a new home is a key priority for the Company. 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 Company has ever achieved and an increase of 30% compared to last year.

Strategic report *(continued)*

Operating review *(continued)*

A focus on customer care *(continued)*

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 Company 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.

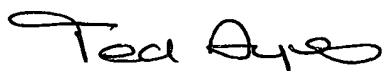
In addition, we are pleased to report that five of the Company's Site Managers have been given NHBC Health and Safety Awards (2015 – nine), with two of these then going on to secure highly commended awards.

Current trading and outlook

Whilst delivering significant volume growth, the Company 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 Company 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 Company 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 Company 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 Company'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
Director

17 October 2016

Strategic report *(continued)*

Financial review

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 – £1,735.0 million).

This, together with other revenue of £36.0 million (2015 – £29.6 million), principally comprising receipts from the usual disposal of the Company's ground rent portfolio, resulted in total revenue for the Company increasing by 27.0% to £2,240.6 million (2015 – £1,764.6 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 industrywide 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 3.8% of revenue (2015 – 4.0%), 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 £83.5 million (2015 – £69.4 million).

A strong trading performance has resulted in the operating margin rising by 170bps to 21.9% (2015 – 20.2%¹), a record for the Company. This has contributed to the 37.6% rise in operating profit which grew to £491.4 million (2015 – £357.1 million⁽¹⁾).

Barking Riverside

In addition to the strong operating performance, the Company recognised an exceptional profit of £7.0 million, arising on disposal of its interest in Barking Riverside Limited (note 7).

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 Company 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 Company with the opportunity to reallocate underperforming capital into higher return land opportunities.

Net finance expense

The net finance expense has fallen slightly to £11.0 million (2015 – £12.7 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 Company's £500 million banking facilities. This has fallen to £3.4 million (2015 – £6.1 million) reflecting the timing of tranche renewals.

Profitability

Profit before taxation has risen by 38.8% to £487.5 million (2015 – £351.3 million) and the Company incurred a corporation tax charge of £94.8 million (2015 – £70.5 million), reflecting an effective tax rate of 19.4% (2015 – 20.1%). The Company'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 39.9% to £392.7 million (2015 – £280.8 million).

Strategic report *(continued)*

Financial review *(continued)*

Cash flow and debt

Bellway remains highly cash generative and produced cash from operations of £307.5 million (2015 – £24.8 million) after increasing the amount of capital invested in land and work in progress, in order to facilitate the future growth of the business.

After expending £82.2 million on tax, paying a dividend of £170.0 million and taking into consideration other minor cash inflows of £8.2 million, the Company ended the year with net bank debt of £19.5 million (2015 – £83.0 million), reflecting gearing of 1.6% (2015 – 8.1%).

Land creditors, which are considered to be a source of longer term debt finance, stood at £304.2 million (2015 – £199.8 million) and continue to be used only when it is cost effective to do so. Including land creditors, total debt stood at £323.7 million (2015 – £282.8 million), representing adjusted gearing of 25.9% (2015 – 27.4%).

Balance sheet

Investment in land has risen by 24.4% to £1,625.1 million (2015 – £1,306.7 million) as the Company 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 £835.9 million (2015 – £763.5 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 return on capital employed rising by 460bps to 28.1% (2015 – 23.5%⁽¹⁾). Notwithstanding a conservative approach to debt and a lowly geared balance sheet, post-tax return on equity has risen by 190bps to 33.7% (2015 – 31.8%).

Keith Adey
Director

17 October 2016



Note:

⁽¹⁾ Before exceptional item (see note 7).

Strategic report *(continued)*

Risk Management

We have a long-established and effective framework for managing risk. It is the responsibility of management across the Company to implement the Board's policies on risk and internal control.

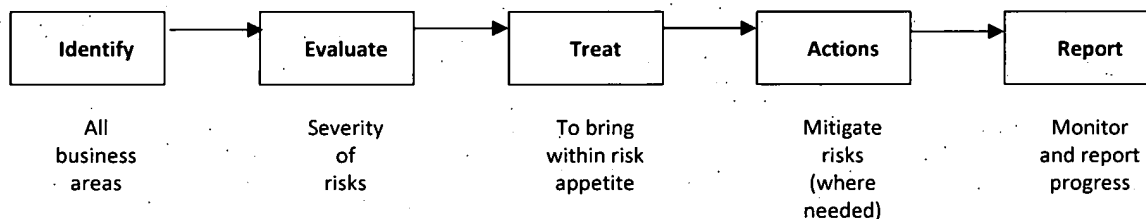
Our risk management objectives are to:

- 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.

Strategic report *(continued)*

Risk Management *(continued)*

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.

The Company has 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.	<ul style="list-style-type: none"> Failure to buy land at the right margin would have a detrimental effect on future returns. Insufficient land would affect our volume growth targets. 	<ul style="list-style-type: none"> EPS. ROCE. Land bank with DPP. Gross margin. 	<ul style="list-style-type: none"> 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 Company procedures at Head Office. 	<p style="text-align: center;">↔</p> <p>The land market remained competitive during the year. We have strengthened our land teams, both through new appointments and new regional roles.</p>

Strategic report (continued)

Risk management process (continued)

Risk and Description	Relevance to Strategy	KPIs	Mitigation	Change in year
PLANNING Delays and complexity in the planning process.	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<p>↔</p> <p>Despite complexity in the planning process, this risk has continued to be well managed in the year, the number of planning permissions granted increasing.</p>
CONSTRUCTION RESOURCES Shortage of appropriately skilled sub-contractors and shortages of building materials at competitive prices	<ul style="list-style-type: none"> Failure to secure required resources causes delays in construction, impacting the ability to deliver volume growth targets. Pricing pressure would impact returns. 	<ul style="list-style-type: none"> EPS. Employee turnover. Number of homes sold. 	<ul style="list-style-type: none"> Systems are in place to select, appoint, monitor and manage sub-contractors. Competitive rates are in place for sub-contractors. Company 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. 	<p>↑</p> <p>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.</p>

Strategic report (continued)

Risk Management (continued)

Risk and Description	Relevance to Strategy	KPIs	Mitigation	Change in year
HEALTH AND SAFETY There are significant health and safety risks inherent in the construction process.	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Number of RIDDOR seven-day lost time accidents. NHBC health and safety benchmark. NHBC Health and Safety Awards. 	<ul style="list-style-type: none"> 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. 	<p style="text-align: center;">↔</p> <p>There have been no changes to this risk during the year.</p>
ENVIRONMENT The impact of our operations on the environment must be managed in a responsible and sustainable manner.	<ul style="list-style-type: none"> Ineffective management of environmental matters would lead to financial loss, reputational damage and a potential inability to build and sell homes. 	<ul style="list-style-type: none"> Percentage of compounds with energy saving devices. Energy efficiency of our homes. Waste diversion rates. 	<ul style="list-style-type: none"> 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. 	<p style="text-align: center;">↔</p> <p>There have been no changes to this risk during the year.</p>

Strategic report (continued)

Risk Management (continued)

Risk and Description	Relevance to Strategy	KPIs	Mitigation	Change in year
<p>SALES</p> <p>There are a number of external factors that could affect our ability to generate sales:</p> <ul style="list-style-type: none"> Market uncertainty following the EU Referendum. Access to credit facilities. Mortgage availability. Interest rate changes. Government housing policy. 	<ul style="list-style-type: none"> The ultimate impact of these external factors would be on the ability to sell homes and apartments and on returns. 	<ul style="list-style-type: none"> EPS. ROCE. Number of homes sold. Forward order book. Reservations rate. Customer care satisfaction. 	<ul style="list-style-type: none"> 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. 	<p>↑</p> <p>This risk has increased slightly during the year due to uncertainties following the EU Referendum but partially offset by reducing interest rates.</p>

Strategic report (continued)

Risk Management (continued)

Risk and Description	Relevance to Strategy	KPIs	Mitigation	Change in year
HUMAN RESOURCES Inability to attract and retain appropriate people.	<ul style="list-style-type: none"> Failure to attract and retain people with appropriate skills will affect our ability to perform and deliver our volume growth target. 	<ul style="list-style-type: none"> EPS. Employee turnover. People who have worked for the Company for ten years or more. Graduates and apprentices. Number of homes sold. 	<ul style="list-style-type: none"> We have appointed a new 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. 	<p style="text-align: center;">↔</p> <p>This risk has not changed during the year as the labour market has remained competitive.</p>
INFORMATION TECHNOLOGY Failure to have suitable systems in place and appropriate back up, contingency plans and security policies.	<ul style="list-style-type: none"> Poor performance of our systems would affect operational efficiency, profitability and our control environment. 	<ul style="list-style-type: none"> EPS. 	<ul style="list-style-type: none"> Company-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. 	<p style="text-align: center;">↔</p> <p>There have been no changes to this risk during the year.</p>

Strategic report (continued)

Risk Management (continued)

Risk and Description	Relevance to Strategy	KPIs	Mitigation	Change in year
LEGAL AND REGULATORY COMPLIANCE Failure to comply with legislation and regulatory requirements.	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Volume growth. EPS. 	<ul style="list-style-type: none"> Central Secretariat, Legal and Technical functions advise and support divisions on compliance and regulatory matters. Company-wide policies, procedures and training for key regulatory matters. 	<p style="text-align: center;">↔</p> <p>There have been no changes to this risk during the year.</p>

Financial risk management

The Company's financial instruments comprise cash, bank loans and overdrafts, various items such as trade receivables and trade payables that arise directly from its operations and amounts owed to other Group undertakings. The main objective of the Company's policy towards financial instruments is to maximise returns on the Company's cash balances, manage the Company's working capital requirements and finance the Company's ongoing operations.

Capital management

The Board's policy is to maintain a strong capital base to underpin the future development of the business in order to deliver value to shareholders. The Company finances its operations through reinvested profits, bank borrowings, cash in hand, amounts owed to Group undertakings and the management of working capital.

Management of financial risk

The main risks associated with the Company'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 Company's exposure to credit risk is largely mitigated as the vast majority of the Company'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 Company's management through using both previous experience and knowledge of the current position. In managing risk, the Company assesses the credit risk of its counterparties before entering into a transaction. As part of the disposal of the Company's interest in Barking Riverside Limited, as set out in note 7 to the accounts, the Company 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 Company does not anticipate any losses from non-performance by these counterparties.

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

Directors' report *(continued)*

Financial risk management *(continued)*

Liquidity risk

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

The Company's Treasury Policy has, as its principal objective, the maintenance of flexible bank facilities in order to meet anticipated borrowing requirements. The Company's banking arrangements outlined in note 18 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 Company 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 Company's liquidity risk to be mitigated.

In relation to land payables, certain payables are secured on the respective land asset held (see note 13). No other security is held against any other financial assets of the Company.

Interest rate risk

The Company'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 Company's exposure to fluctuations in interest rates. The risk arises because the Company'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 Company's profit before taxation by £0.991 million (2015 – £1.350 million).

Housing market risk

The Company 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 Company to fully mitigate housing market risk on a national macroeconomic basis, the Company 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

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 statement

After conducting a full review, the directors have a reasonable expectation that the Company 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.

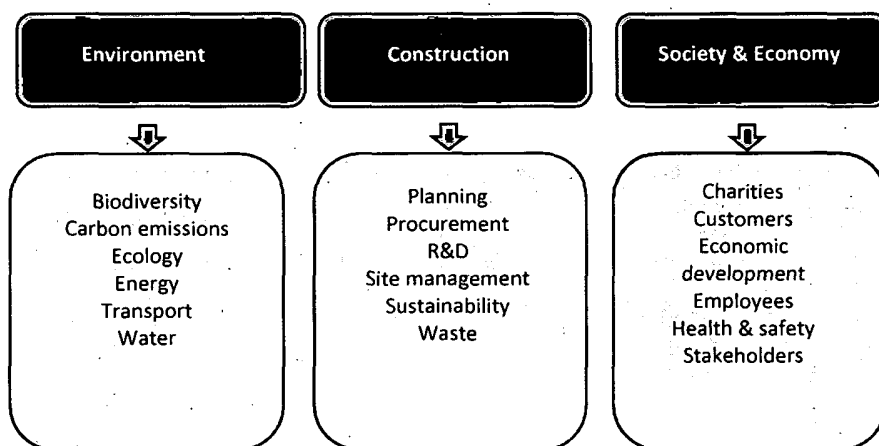
Strategic report *(continued)*

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 Group 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 Company 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 the 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 Company's 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:

- 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.
- Improved waste diversion rates to 95.9% (2015 - 92.9%).
- 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%.
- Delivered a 12.5% increase in the number of homes sold.

Strategic report *(continued)*

Corporate Responsibility *(continued)*

- Achieved an improved National House Building Council safety score 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).

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 2016 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 new homes continues to be better than the relevant building regulations, with Dwelling Emission Rates in 2016 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 for customers.

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.

Strategic report *(continued)*

Corporate Responsibility *(continued)*

Carbon reporting

We are reporting on the Group's 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 CO₂e (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 charges. 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 Group's Greenhouse Gas Emission (tonnes of CO ₂ e) ⁽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 Company 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 ₂ e per home sold ⁽⁵⁾	2.2	2.6	1.9	2.4
tCO ₂ e 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. Based on number of legal completions.
5. Based on the average number of employees during the year.
6. Based on the average number of employees during the year.

Strategic report *(continued)*

Corporate Responsibility *(continued)*

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 2015 and 2016 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.

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 payments for the provision and enhancement of such things as education facilities, healthcare, sports facilities, transport improvements, ecology and biodiversity and recreation space. In 2016 we made section 106 payments totalling £147.9 million, almost double our payments last year (2015 – £79.0 million).

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 reuse 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.

Strategic report *(continued)*

Corporate Responsibility *(continued)*

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 Company 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.

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 below), we are extremely proud of this external recognition, reflecting the quality and high standards our employees are encouraged and supported to achieve.

ECONOMY

The UK housebuilding industry is a key component of the national economy and its contribution to social and economic sustainability has been highlighted in a report commissioned by the Home Builders Federation (HBF)⁽³⁾. 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 has an important role in delivering these added-value benefits.

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 this year, we achieved the highest score of the 4 star developers who completed more than 2,000 plots within the year. We also 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.

¹ The Programme for the Endorsement of Forest Certification (PEFC) is an international non-profit, non-governmental organization 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 organization established in 1993 to promote responsible management of the world's forests.

³ 'The Economic Footprint of UK House Building' (March 2015), prepared by the independent planning, design and economics consultancy Nathaniel Litchfield & Partners.

Strategic report *(continued)*

Corporate Responsibility *(continued)*

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 2016 our average selling price was £252,793 (2015 - £223,809) 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 also 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 Human Resources Director and a 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 Company.

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 - 2,162), 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.

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 Learning and Development Manager will improve the monitoring and delivery of training across the Company and help to ensure all employees remain in compliance with our training matrix.

Strategic report *(continued)*

Corporate Responsibility *(continued)*

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 safety incident rate of 0.766 (2015 - 0.936), where a lower score 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 4 years, to 445.19 accidents per 100,000 site operatives (2015 - 430.75), 3% up on 2015. '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.

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 employees.

In total 2015/16 saw £284,704 (2015 – £183,540) donated to charities, community Companies 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.

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

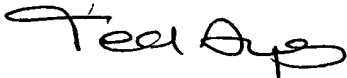
In summary, this has been a successful year in the development of the Bellway4Good strategy and we remain committed to the principles of operating our business in a socially responsible and sustainable way. We have delivered a strong performance against our 2015/16 CR targets and we look forward to making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

Strategic report *(continued)*

Corporate Responsibility *(continued)*

Approval of the Strategic Report

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



Ted Ayres
Director

17 October 2016

Directors' report

Bellway Homes Limited is a wholly owned subsidiary of Bellway p.l.c. The principal activity of the company is housebuilding.

Directors

The directors who held office during the year and up to the date of this report were as follows:

JK Watson
EK Ayres
KD Adey

Whistleblowing arrangements

Throughout the year, the Company has operated a 'whistleblowing' arrangement whereby all employees of the Company are able, via either the Group Company Secretary and Legal Counsel or, alternatively, an independent external third party, to report, confidentially, any malpractice or matters of concern they have regarding the actions of management and employees. This facility is also available for employees to report any breaches of the Company's Anti-Bribery Policy. The Group Audit Committee and the Board regularly review the effectiveness of this arrangement.

Employees

Bellway is an equal opportunities employer. It is the Company's policy to develop and apply, throughout the Company, procedures and practices which are designed to ensure that equal opportunities are provided to all employees of Bellway, or those who seek employment with the Company, 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 Company policy to give full and fair consideration to the employment needs of disabled persons (and persons who become disabled whilst employed by the Company) 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. 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 Company's pension arrangements. In addition, the Company operates a savings related share option scheme. The Company also provides life assurance cover to all staff and offers a private medical scheme, childcare vouchers and personal accident insurance arrangements.

Environmental issues

The Board recognises the importance of environmental issues and when carrying out its business endeavours to make a positive contribution to the quality of life, both for the present and the future. An Environmental Policy, approved by the Board, has been adopted by all trading entities within the Company, which is available on the Company's website, along with the Company's other corporate responsibility policies. Environmental issues are addressed in the Corporate Responsibility section of the Strategic Report on page 29 and on the Company's website at www.bellway.co.uk/corporate-responsibility.

Health and safety at work

The Company promotes all aspects of health and safety throughout its operations in the interests of employees, sub-contractors, visitors to its sites and premises and the general public. Health and safety issues are considered at each Board meeting and are addressed in the Strategic Report and on the Company's website at www.bellway.co.uk/corporate-responsibility.

Directors' report *(continued)*

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 Company considers to be critical to the performance of the business.

Directors' and officers' liability insurance and indemnification of directors

The Company carries appropriate insurance cover in respect of possible legal action being taken against its directors and senior employees. The Articles provide the directors 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.

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.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board



Simon Scougall
Secretary

Seaton Burn House
Dudley Lane
Seaton Burn
Newcastle upon Tyne
NE13 6BE

17 October 2016

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these 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 company will continue in business.

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



KPMG LLP

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditor's report to the members of Bellway Homes Limited

We have audited the financial statements of Bellway Homes Limited for the year ended 31 July 2016 set out on pages 42 to 73. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 39, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 July 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Bellway Homes Limited (*continued*)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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 explanation we require for our audit.



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

Income Statement
for the year ended 31 July 2016

	<i>Note</i>	2016 Pre- exceptional item £000	2016 Exceptional item (note 7) £000	2016 Total £000	2015 Pre- exceptional item £000	2015 Exceptional item (note 7) £000	2015 Total £000
Revenue	1, 2	2,240,612	-	2,240,612	1,764,640	-	1,764,640
Cost of sales		(1,665,615)	-	(1,665,615)	(1,338,116)	6,865	(1,331,251)
Gross profit		574,997	-	574,997	426,524	6,865	433,389
Administrative expenses		(83,549)	-	(83,549)	(69,419)	-	(69,419)
Operating profit	3	491,448	-	491,448	357,105	6,865	363,970
Profit on disposal of investment in joint venture		-	7,041	7,041	-	-	-
Finance income	6	1,300	-	1,300	1,066	-	1,066
Finance expenses	6	(12,326)	-	(12,326)	(13,719)	-	(13,719)
Profit before taxation		480,422	7,041	487,463	344,452	6,865	351,317
Income tax expense	8	(94,768)	-	(94,768)	(69,117)	(1,421)	(70,538)
Profit for the year		385,654	7,041	392,695	275,335	5,444	280,779

All of the operations were continuing in the current and prior year.

Statement of Comprehensive Income
for the year ended 31 July 2016

	<i>Note</i>	2016 £000	2015 £000
Profit for the year		392,695	280,779
Other comprehensive expense			
Items that will not be recycled to the income statement:			
Remeasurement losses on defined benefit pension plans	24	(1,806)	(3,239)
Income tax on other comprehensive expense	8	(136)	648
Other comprehensive expense for the period, net of income tax		(1,942)	(2,591)
Total comprehensive income for the period		390,753	278,188

Statement of Changes in Equity
at 31 July 2016

	<i>Note</i>	Share capital £000	Retained earnings £000	Total equity £000
At 1 August 2014		800	749,127	749,927
Total comprehensive income for the period				
Profit for the period		-	280,779	280,779
Other comprehensive expense*		-	(2,591)	(2,591)
		<hr/>	<hr/>	<hr/>
Total comprehensive income for the period		-	278,188	278,188
Transactions with shareholders recorded directly in equity:				
Credit in relation to share options and tax thereon	8, 24	-	1,796	1,796
		<hr/>	<hr/>	<hr/>
Total contributions by and distributions to shareholders		-	1,796	1,796
		<hr/>	<hr/>	<hr/>
Balance at 31 July 2015		800	1,029,111	1,029,911
Total comprehensive income for the period				
Profit for the period		-	392,695	392,695
Other comprehensive expense*		-	(1,942)	(1,942)
		<hr/>	<hr/>	<hr/>
Total comprehensive income for the period		-	390,753	390,753
Transactions with shareholders recorded directly in equity:				
Dividends on equity shares		-	(170,000)	(170,000)
Credit in relation to share options and tax thereon	8, 24	-	1,264	1,264
		<hr/>	<hr/>	<hr/>
Total contributions by and distributions to shareholders		-	(168,736)	(168,736)
		<hr/>	<hr/>	<hr/>
Balance at 31 July 2016		800	1,251,128	1,251,928

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

Balance Sheet
at 31 July 2016

	<i>Notes</i>	2016 £000	2015 £000
ASSETS			
Non-current assets			
Property, plant and equipment	9	10,333	10,058
Investment property	10	-	-
Investments in subsidiaries and joint arrangements	11	4,599	39,005
Trade and other receivables	15	11,406	-
Deferred tax assets	12	2,403	2,626
		<hr/>	<hr/>
		28,741	51,689
Current assets			
Inventories	13	2,547,686	2,144,835
Trade and other receivables	15	78,462	59,679
Cash and cash equivalents	21	16,214	10,803
		<hr/>	<hr/>
		2,642,362	2,215,317
		<hr/>	<hr/>
Total assets		2,671,103	2,267,006
		<hr/>	<hr/>
LIABILITIES			
Non-current liabilities			
Retirement benefit obligations	24	8,036	7,452
Trade and other payables	17	82,959	49,897
		<hr/>	<hr/>
		90,995	57,349
Current liabilities			
Interest bearing loans and borrowings	16, 21	35,682	93,753
Corporation tax payable		50,401	37,629
Trade and other payables	17	1,242,097	1,048,364
		<hr/>	<hr/>
		1,328,180	1,179,746
		<hr/>	<hr/>
Total liabilities		1,419,175	1,237,095
		<hr/>	<hr/>
Net assets		1,251,928	1,029,911
		<hr/>	<hr/>
EQUITY			
Share capital	19	800	800
Retained earnings		1,251,128	1,029,111
		<hr/>	<hr/>
Total equity		1,251,928	1,029,911
		<hr/>	<hr/>

These financial statements were approved by the Board of Directors on 17 October 2016 and were signed on its behalf by:



Keith Adey
Director

Registered number: 670176

Cash Flow Statement
for the year ended 31 July 2016

	Note	2016 £000	2015 £000
Cash flows from operating activities			
Profit for the year		392,695	280,779
Depreciation charge	9	2,900	2,633
Exceptional profit	7	(7,041)	(6,865)
Profit on sale of property, plant and equipment	3	(152)	(247)
Loss/(profit) on sale of investment property	3	148	(1,116)
Finance income	6	(1,300)	(1,066)
Finance expenses	6	12,326	13,719
Share-based payment expense	24	1,568	1,544
Income tax expense	8	94,768	70,538
Increase in inventories		(402,851)	(348,617)
(Increase)/decrease in trade and other receivables		(26,031)	9,275
Increase/(decrease) in trade and other payables		240,464	(28,250)
Proceeds from sale of available for sale portfolio – exceptional item	7	-	32,462
Cash from operations		307,494	24,789
Interest paid		(4,281)	(6,778)
Income tax paid		(82,213)	(61,600)
Net cash inflow/(outflow) from operating activities		221,000	(43,589)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(3,374)	(5,404)
Proceeds from sale of property, plant and equipment		351	374
Proceeds from sale of investment property		442	6,199
Proceeds from sale of investment in joint venture – exceptional item		16,600	-
Increase in loans to joint arrangements		(1,768)	(2,790)
Interest received		231	818
Net cash inflow/(outflow) from investing activities		12,482	(803)
Cash flows from financing activities			
(Decrease)/increase in bank borrowings		(47,500)	50,000
Dividends paid		(170,000)	-
Net cash (outflow)/inflow from financing activities		(217,500)	50,000
Net increase in cash and cash equivalents	20	15,982	5,608
Cash and cash equivalents at beginning of year	21	(2,950)	(8,558)
Cash and cash equivalents at end of year	21	13,032	(2,950)

Notes

1 Accounting policies

Basis of preparation

Bellway Homes Limited (the 'Company') is a company incorporated in England and Wales.

The Company's 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.

The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its Group. These financial statements were approved for issue on 17 October 2016.

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 carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Operating Review on pages 13 to 18. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 19 to 20. The Company's policies and processes for managing its capital, financial risk, and its exposures to credit, liquidity, interest rate and housing market risk are described in the Risk Management section of the Strategic Report.

The Company is subject to a cross guarantee banking arrangement with its ultimate parent undertaking, Bellway p.l.c. and certain other Group undertakings. Detailed information regarding the financial position of the Group headed by Bellway p.l.c., its cash flows, liquidity position and borrowing facilities are included in the financial statements of Bellway p.l.c., which can be obtained from the address given in note 26.

The Group's activities are financed principally by a combination of ordinary shares, and bank borrowings less cash in hand. At 31 July 2016, the net debt was £19.5 million having generated cash of £63.5 million during the year. The Group has operated within all of its banking covenants throughout the year. In addition, the Group had bank facilities of £500.0 million, expiring in tranches up to November 2020, with £467.5 million available for drawdowns under such facilities at 31 July 2016.

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

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 financial statements.

Effect of new standards and interpretations effective for the first time

During the year the Company adopted various standards and interpretations that were applicable for the first time in the Company's financial statements for the year ended 31 July 2016. These standards and interpretations have not had a material effect on these financial statements.

The Company 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 Company's profit for the period or equity;

Notes (continued)

1 Accounting policies (continued)

Effect of new standards and interpretation effective for the first time (continued)

The Company has 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 Company's profit for the period or equity.

The other standards and interpretations that are applicable for the first time in the Company's financial statements for the year ended 31 July 2016 have had no effect on these financial statements.

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 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.

Notes (continued)

1 Accounting policies (continued)

Inventories (continued)

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 Company 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 on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Other dividends 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 Company

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

- (a) they include no contractual obligations upon the Company 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; and

Notes (continued)

1 Accounting policies (continued)

Classification of equity instruments and financial liabilities issued by the Company (continued)

- (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 Company of providing the incentive.

Rental income

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

Part-exchange properties

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

Contingent liabilities

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Company, 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.

Notes (continued)

1 Accounting policies (continued)

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

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

Employee benefits - share-based payment

Where the Company's parent company, Bellway p.l.c., has granted share options over its shares to employees of the Company in accordance with IFRS 2 'Share-based Payments', the fair value of equity-settled share options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured as at the date the options are granted and the charge is only amended if vesting does not take place due to non-market conditions not being met. Various option pricing models are used according to the terms of the option scheme under which the options were granted. The fair value is spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of options that vest. At the balance sheet date, if it is expected that non-market conditions will not be satisfied, the cumulative expense recognised in relation to the relevant options is reversed.

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

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.

Notes (continued)

1 Accounting policies (continued)

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 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 directors' 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.

The following standards, which are expected to effect the financial statements of the Company, 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 Company 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 (continued)

2 Segmental analysis

The Board (the Chief Operating Decision Maker as defined in IFRS 8) regularly reviews the Company'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 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 and certain overheads.
- 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 Operating Review on pages 13 to 18. 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.

3 Expenses and auditor's remuneration

	2016 £000	2015 £000
<i>Included in operating profit are the following:</i>		
Profit on sale of property, plant and equipment	(152)	(247)
(Loss)/profit on sale of investment properties	148	(1,116)
Exceptional profit (note 7)	(7,041)	(6,865)
Depreciation of property, plant and machinery	2,900	2,633
Hire of plant and machinery	13,844	12,755
Operating lease charges for land and buildings	2,154	1,609
	<hr/>	<hr/>
<i>Auditor's remuneration:</i>		
Audit of these financial statements	154	149
Other services relating to taxation	15	42
Pension scheme audits	4	4
	<hr/>	<hr/>
	173	195
	<hr/>	<hr/>

4 Employee information

The average number of persons employed by the Company during the year was 2,366 (2015 - 2,162) comprising 810 (2015-706) administrative and 1,556 (2015-1,456) production and others employed in housebuilding and associated trading activities.

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	117,215	101,868
Social security	11,615	9,575
Pension costs (note 24)	4,514	3,882
Share-based payments (note 24)	1,568	1,544
	<hr/>	<hr/>
	134,912	116,869
	<hr/>	<hr/>

Notes (continued)

4 Employee information (continued)

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
	<u>5,821</u>	<u>5,381</u>

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

5 Directors' remuneration

	2016 £000	2015 £000
Directors' emoluments	<u>2,555</u>	<u>2,403</u>

The aggregate of emoluments of the highest paid director was £1,482,511 (2015 - £1,387,238) including a payment in lieu of pension scheme of £103,232 (2015 - £63,180) made by the Company.

All of the directors are also directors of the Company's holding company, Bellway p.l.c. The emoluments above relate to their services to the Group as a whole and not just to Bellway Homes Limited.

Full details of the emoluments of these directors are disclosed in the financial statements of Bellway p.l.c., which can be obtained from the address given in note 26.

	Number of directors 2016	2015
Number of directors who exercised share options in Bellway p.l.c. during the year	<u>2</u>	<u>2</u>

Notes (continued)

6 Finance income and expenses

	2016 £000	2015 £000
Interest receivable on bank deposits	274	427
Interest on fair value through profit or loss	533	-
Other interest income	493	639
	<hr/>	<hr/>
Finance income	1,300	1,066
	<hr/>	<hr/>
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
	<hr/>	<hr/>
Finance expenses	12,326	13,719
	<hr/>	<hr/>

7 Exceptional items

Exceptional items are those which, in the opinion of the Directors, 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 at fair value through profit or loss (note 18). 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 £7.0 million, arising on disposal, has been treated as an exceptional item during the year ended 31 July 2016.

On 22 May 2015 the Company 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. This was treated as an exceptional item in the prior year.

8 Income tax expense

Recognised in the income statement

	2016 £000	2015 £000
<i>Current tax expense:</i>		
UK corporation tax	95,577	70,205
Adjustment in respect of prior years	(592)	(566)
	<hr/>	<hr/>
	94,985	69,639
	<hr/>	<hr/>
<i>Deferred tax income/(expense):</i>		
Origination and reversal of temporary differences	43	820
Reduction in tax rate	(278)	-
Adjustments in respect of prior years	18	79
	<hr/>	<hr/>
	(217)	899
	<hr/>	<hr/>
Total income tax expense in income statement	94,768	70,538
	<hr/>	<hr/>

Notes (continued)

8 Income tax expense (continued)

Reconciliation of effective tax rate:

	2016 %	2016 £000	2015 %	2015 £000
Profit before taxation		487,463		351,317
Tax calculated at UK corporation tax rate	20.0	97,493	20.7	72,723
Enhanced deductions and non-taxable deductions	(0.5)	(2,151)	(0.5)	(1,698)
Adjustments in respect of prior years - current tax	(0.1)	(592)	(0.1)	(566)
- deferred tax	-	18	-	79
Effective tax rate and tax expense for the year	19.4	94,768	20.1	70,538

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 Company 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 realised.

The deferred tax assets/(liabilities) held by the Company 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.

Reduction in the UK corporation tax to 19% from April 2017 and to 18% from April 2020 have been announced, and were substantively enacted at the balance sheet date, so these changes are not reflected in these financial statements. 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 charge is 19.4% of profit before taxation (2015 – 20.1%) and compares favourably to the Company's standard tax rate for the year of 20% (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 Company's investment in Barking Riverside Limited (note 7) and enhanced tax deductions received by the Company 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 measurements on the defined benefit pension scheme	(136)	648

Notes *(continued)*

9 Property, plant and equipment

	Freehold land and building £000	Plant, fixtures and fittings £000	Total £000
<i>Cost</i>			
At 1 August 2014	1,985	16,654	18,639
Additions	1,297	4,107	5,404
Disposals	-	(3,008)	(3,008)
	<hr/>	<hr/>	<hr/>
At 1 August 2015	3,282	17,753	21,035
Additions	166	3,208	3,374
Disposals	-	(1,892)	(1,892)
	<hr/>	<hr/>	<hr/>
At 31 July 2016	3,448	19,069	22,517
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Depreciation</i>			
At 1 August 2014	438	10,787	11,225
Charge for year	48	2,585	2,633
On disposals	-	(2,881)	(2,881)
	<hr/>	<hr/>	<hr/>
At 1 August 2015	486	10,491	10,977
Charge for year	65	2,835	2,900
On disposals	-	(1,693)	(1,693)
	<hr/>	<hr/>	<hr/>
At 31 July 2016	551	11,633	12,184
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Net book value</i>			
At 31 July 2016	2,897	7,436	10,333
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 July 2015	2,796	7,262	10,058
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 July 2014	1,547	5,867	7,414
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

10 Investment property

	Total £000
Cost	
At 1 August 2014	-
Additions	5,083
Disposals	(5,083)
	<hr/>
At 1 August 2015	-
Additions	590
Disposals	(590)
	<hr/>
At 31 July 2016	-
	<hr/> <hr/>
Depreciation	
At 1 August 2014, 1 August 2015 and 31 July 2016	-
	<hr/> <hr/>
Net book value	
At 31 July 2014, 31 July 2015 and 31 July 2016	-
	<hr/> <hr/>

11 Investments in subsidiaries and joint arrangements

The Company has the following investments in subsidiaries and joint arrangements:

Name	Country of incorporation	Class of share held	Ownership	
			2016	2015
Subsidiaries				
The Victoria Dock Company Limited	England and Wales	Ordinary	60%	60%
Joint arrangements				
Barking Riverside Limited	England and Wales	Ordinary	-	51%
Cramlington Developments Limited	England and Wales	Ordinary	50%	50%
Fradley Residential LLP	England and Wales	Ordinary	50%	-
Leebell Developments Limited	England and Wales	Ordinary	50%	50%
Ponton Road LLP	England and Wales	Ordinary	50%	50%
Other entities				
HBF Insurance PCC Limited				
MI New Home Insurance PCC Limited				

Notes (continued)

11 Investments in subsidiaries and joint arrangements (continued)

In addition the Company owns 25% - 50% of the ordinary share capital of several smaller entities which are not considered to be significant.

	Loans to joint arrangements £000	Shares in group undertakings £000	Total £000
Cost			
At 1 August 2014	35,632	4,369	40,001
Additions	3,331	157	3,488
	<hr/>	<hr/>	<hr/>
At 1 August 2015	38,963	4,526	43,489
Additions	2,050	(3)	2,047
Disposals	(36,456)	-	(36,456)
	<hr/>	<hr/>	<hr/>
At 31 July 2016	4,557	4,523	9,080
	<hr/>	<hr/>	<hr/>
Provisions			
At 1 August 2014	-	4,327	4,327
Charge for year	-	157	157
	<hr/>	<hr/>	<hr/>
At 1 August 2015	-	4,484	4,484
Credit for year	-	(3)	(3)
	<hr/>	<hr/>	<hr/>
At 31 July 2016	-	4,481	4,481
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 July 2016	4,557	42	4,599
	<hr/>	<hr/>	<hr/>
At 31 July 2015	38,963	42	39,005
	<hr/>	<hr/>	<hr/>
At 31 July 2014	35,632	42	35,674
	<hr/>	<hr/>	<hr/>

Notes (continued)

12 Deferred taxation

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

	Capital allowances £000	Retirement benefit obligations £000	Share- based payment £000	Total £000
At 1 August 2014	69	1,586	970	2,625
Income statement (charge)/credit	(203)	(743)	47	(899)
Credit to statement of comprehensive income	-	648	-	648
Credit to equity	-	-	252	252
At 31 July 2015	(134)	1,491	1,269	2,626
Income statement credit	49	92	76	217
Charge to statement of comprehensive income	-	(136)	-	(136)
Charge to equity	-	-	(304)	(304)
At 31 July 2016	(85)	1,447	1,041	2,403

13 Inventories

	2016 £000	2015 £000
Land	1,625,131	1,306,670
Work in progress	835,915	763,507
Showhomes	70,357	57,491
Part-exchange properties	16,283	17,167
	<u>2,547,686</u>	<u>2,144,835</u>

Inventories of £1,630.3 million were expensed in the year (2015 - £1,306.3 million).

In the ordinary course of business inventories have been written back by a net £9.2 million (2015 - £10.7 million) in the year.

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

The directors consider all inventories to be essentially current in nature although the Company'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.

Notes (continued)

14 Other financial assets

	2016 £000	2015 £000
At 1 August	-	28,393
Additions	-	3,484
Redemptions	-	(31,793)
Imputed interest	-	(84)
	<hr/>	<hr/>
At 31 July	<hr/>	<hr/>

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 Company sold its remaining interest in shared equity assets (note 7).

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 Company, discounted to present day values.

The fair value of future anticipated cash receipts takes into account the directors' view, of significant unobservable inputs including future house price movements, the expected timing of receipts and the likelihood that a purchaser defaults on a repayment. The directors revisited the future anticipated cash receipts from the assets at the end of each reporting period.

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 £0.084 million.

Credit risk, which the directors currently 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 rate at 22 May 2015, the date of disposal, and accordingly did not recognise any movements directly within the Statement of Comprehensive Income.

Notes *(continued)*

15 Trade and other receivables

	2016 £000	2015 £000
Current receivables		
Trade receivables	24,332	26,723
Other receivables	49,347	28,046
Prepayments and accrued income	3,927	4,054
Amounts owed by related parties (note 25)	856	856
	<u>78,462</u>	<u>59,679</u>
	2016 £000	2015 £000
Non-current receivables		
Other receivables	11,406	-
	<u>11,406</u>	<u>-</u>

The Company 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 due within one year include £22.219 million (2015 - £18.754 million) in relation to VAT recoverable.

16 Interest bearing loans and borrowings

	2016 £000	2015 £000
Current liabilities		
Bank loans	32,500	80,000
Bank overdrafts	3,182	13,753
	<u>35,682</u>	<u>93,753</u>

Notes (continued)

17 Trade and other payables

	2016 £000	2015 £000
Non-current liabilities		
Land payables	82,959	49,897

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).

	2016 £000	2015 £000
Current liabilities		
Trade payables	215,756	209,161
Land payables	221,201	149,897
Social security and other taxes	4,051	3,836
Other payables	2,278	3,837
Amounts owed to Group undertakings (note 25)	573,495	514,290
Accrued expenses and deferred income	77,416	68,581
Payments on account	147,900	98,762
	1,242,097	1,048,364

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 risk management

Land purchased on deferred terms

The Company sometimes acquires land on deferred payment terms. In accordance with IAS 39 'Financial Instruments: Recognition and Measurement' the creditor is 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 financial 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	199,794	203,845	151,372	45,644	6,829	-

Notes (continued)

18 Financial risk management (continued)

Land purchased on deferred terms (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 (excluding amounts owed to Group companies)	222,085	222,085	222,085	-	-	-
At 31 July 2016	254,585	254,611	254,611	-	-	-
Bank loans – floating rates	80,000	80,163	80,163	-	-	-
Trade and other payables (excluding amounts owed to Group Companies)	216,834	216,834	216,834	-	-	-
At 31 July 2015	296,834	296,997	296,997	-	-	-

The imputed interest rate on land payables reflects market interest rates available to the Company on floating rate bank loans at the time of acquiring the land.

At the year end, the Company had £467.5 million (2015 - £320.0 million) of undrawn bank facilities available.

Cash and cash equivalents

This comprises cash held by the Company 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 are shown in note 21.

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

Fair values

The carrying values of financial assets reasonably approximate their fair value.

Financial assets and liabilities by category

	2016 £000	2015 £000
Fair value through profit or loss	27,430	-
Loans and receivables	47,105	55,625
Financial liabilities at amortised cost	(1,131,371)	(1,020,835)
	(1,056,836)	(965,210)

Notes (continued)

18 Financial risk management (continued)

Capital management and bank facilities

The Company is financed through the proceeds of issued ordinary shares, re-invested profits, bank borrowings less cash in hand and amounts owed to Group undertakings. The following table analyses the Company's capital structure:

	2016	2015
	£million	£million
Equity	1,251.9	1,029.9
Net bank debt	19.5	82.9
Amounts owed to Group undertakings	573.5	514.3
Capital employed	1,844.9	1,627.1

The Company has a strong balance sheet and with bank facilities of £500 million, Bellway is well positioned to deliver further growth if market conditions will allow. The Company's banking facilities provide flexibility and expire during the course of the following financial years:

	2016	2015
	£million	£million
By 31 July 2016	-	80
By 31 July 2017	70	70
By 31 July 2018	50	50
By 31 July 2019	125	25
By 31 July 2020	175	175
By 31 July 2021	80	-
Total	500	400

19 Share capital

	2016	2015
	£000	£000
<i>Allotted, called up and fully paid</i>		
800,000 Ordinary shares of £1 each	800	800

Notes (continued)

20 Reconciliation of net cash flow to net debt

	2016 £000	2015 £000
Increase in net cash and cash equivalents	15,982	5,608
Decrease/(increase) in bank borrowings	47,500	(50,000)
	<u>63,482</u>	<u>(44,392)</u>
Decrease in net debt/(cash) from cash flows	63,482	(44,392)
Net debt at 1 August	(82,950)	(38,558)
	<u>(19,468)</u>	<u>(82,950)</u>
Net debt at 31 July	<u>(19,468)</u>	<u>(82,950)</u>

21 Analysis of net debt

	At 1 August 2015 £000	Cash flows £000	At 31 July 2016 £000
Cash and cash equivalents	10,803	5,411	16,214
Bank overdraft	(13,753)	10,571	(3,182)
	<u>(2,950)</u>	<u>15,982</u>	<u>13,032</u>
Net cash and cash equivalents	(2,950)	15,982	13,032
Bank loans	(80,000)	47,500	(32,500)
	<u>(82,950)</u>	<u>63,482</u>	<u>(19,468)</u>
Net debt	<u>(82,950)</u>	<u>63,482</u>	<u>(19,468)</u>

22 Contingent liabilities

The Company is liable, jointly and severally with other members of the Group, under guarantees given by the banks to or on behalf of other Group undertakings. At 31 July 2016 there were Group 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 outflows on these liabilities is considered minimal and no provision is required.

Notes (continued)

23 Commitments

	2016 £000	2015 £000
Capital commitments		
Contracted not provided	200	67
Authorised not contracted	-	-

Operating leases

At the balance sheet date, the Company 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	36	31
Expiring within the second to fifth years	1,186	1,383
Expiring in more than five years	2,315	-
	<u>3,537</u>	<u>1,414</u>

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

24 Employee benefits

a) Retirement benefit obligations

The Company 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 Company 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 - £3.882 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.

Notes (continued)

24 Employee benefits (continued)

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

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 Company 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.

Notes (continued)

24 Employee benefits (continued)

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).

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 governments and are AA minus rated (2015: AAA minus rated).

Notes (continued)

24 Employee benefits (continued)

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% pa if less	2.90	3.40
Allowance for deferred pension increases of CPI or 5% pa 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% pa	Increase by 4.3%
Future salary increases	+0.25% pa	Increase by 0.2%
Inflation – RPI	+ 0.25% pa	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.

b) Share-based payments

The Company 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 General Counsel and 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 parent Company.

Notes (continued)

24 Employee benefits (continued)

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 in the Bellway p.l.c. 2016 Annual Report and Accounts.

Various small share option awards were made for years 2003 through to 2007 to employees, mainly at divisional management level, under the term 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 overleaf, 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)
	<hr/>	<hr/>
Outstanding at the end of the year	304,136	303,744
	<hr/>	<hr/>
Exercisable at the end of the year	-	-
	<hr/>	<hr/>

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

Notes (continued)

24 Employee benefits (continued)

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)
	<hr/>	<hr/>
Outstanding at the end of the year	507,795	561,387
	<hr/>	<hr/>
Exercisable at the end of the year	781	14,000
	<hr/>	<hr/>

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).

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	4 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	1 Feb 19	1 Feb 21	15 Dec 18	10 Nov 17	1 Feb 18	1 Feb 20	4 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

Notes (continued)

24 Employee benefits (continued)

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 Company recognised total expenses of £1.568 million (2015 - £1.544 million) in relation to equity-settled share-based payment transactions.

25 Related party transactions

Key management personnel comprises of the directors and other senior operational management (see note 4).

Bellway Homes Limited is a subsidiary undertaking of Bellway p.l.c. which is the ultimate parent company. During the year the Company entered into the following related party transactions with associated group undertakings.

	Purchases/expenses		Sales/income		Amounts payable to related parties		Amounts receivable from related parties	
	2016	2015	2016	2015	2016	2015	2016	2015
	£000	£000	£000	£000	£000	£000	£000	£000
Transactions with Group undertakings								
Sale of new homes	-	-	-	130	-	-	-	-
Purchase of investment properties	590	5,083	-	-	5,673	5,083	-	-
Purchase of other financial assets	-	3,484	-	-	3,484	3,484	-	-
Administrative fees paid in respect of part-exchange properties	2,534	2,505	-	-	335	480	-	-
Rent paid for office premises	1,085	758	-	-	-	-	-	-
Other balances	-	-	-	-	21,237	21,314	856	856
Transactions with joint arrangements								
Interest received on loan	-	-	94	558	-	-	-	-
Loan to joint arrangements	-	-	-	-	-	-	4,557	38,963
Land purchase	5,156	5,672	-	-	-	-	-	-
Management fee	-	-	165	228	-	-	-	-
Transactions with parent company								
Net amounts owed in respect of dividends, share issues and finance expenses	112,324	72,178	-	-	542,766	483,929	-	-
Total	121,689	89,680	259	916	573,495	514,290	5,413	39,819

Analysed as:

Trade and other receivables (note 15)
Investments (note 11)

856	856
4,557	38,963
5,413	39,819

Notes *(continued)*

25 Related party transactions *(continued)*

In addition the Company had net other payables of £18,591 million (2015 - £18,591 million) in respect of historical balances with other Group undertakings.

The Company has entered into guarantees over bank loans and borrowings of other group companies. The total value of such borrowings was £0.3 million (2015 - £0.3 million).

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

26 Ultimate parent company and parent undertaking of larger group

The Company is a subsidiary undertaking of Bellway p.l.c. which is the ultimate parent company incorporated in the UK. The ultimate controlling party is Bellway p.l.c.

The largest group in which the results of the Company are consolidated is that headed by Bellway p.l.c. No other Group financial statements include the results of the Company. The consolidated financial statements of Bellway p.l.c. are available to the public and may be obtained from the Group Company Secretary and Legal Counsel, Bellway p.l.c. Seaton Burn House, Dudley Lane, Seaton Burn, Newcastle upon Tyne, NE13 6BE.