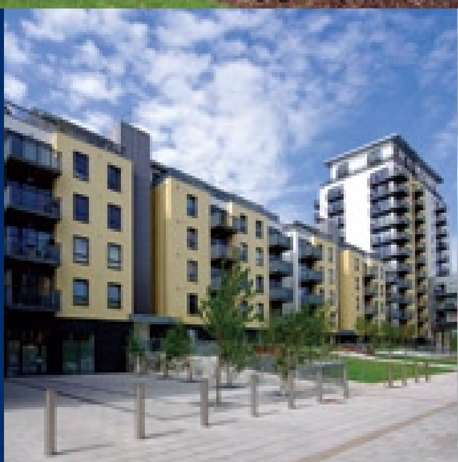
Bellway

Annual Report & Accounts 2009



www.bellway.co.uk

Introduction

Since its formation more than 50 years ago, Bellway has built over 100,000 homes. It is recognised throughout the industry for building quality homes.

Contents

Front cover:

Top left – Aspire, Chelmsford, Essex.
Right – Employee Tanya Davies at The Edge development in Bocking, Essex.
Middle – Rubicon, London Borough of Greenwich.
Bottom left – Blakenhall, Wolverhampton, West Midlands.

Financial Highlights

Completed sales

4,380 homes

(2008 – 6,556)

Average price achieved

£154,005

(2008 – £169,729)

Total Group revenue

£683.8m

(2008 – £1,149.5m)

Profit before taxation

£29.8m*

(2008 – £165.7m)*

Exceptional items

£66.3m

(2008 – £130.9m)

Earnings per ordinary share

17.7p*

(2008 – 104.2p)*

Final dividend for the year

6.0p

(2008 – 6.0p)

Gearing of

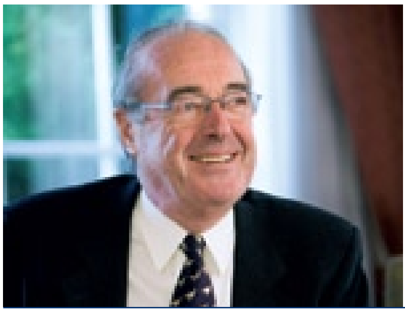
3.8%

having reduced borrowings by £180.9m to £36.8m (excluding preference shares) (2008 – 21.7%)

* Pre-exceptional items (note 5)

Quality

We build homes of quality and character that provide good value for money.



"I am pleased to report that the Group ended the year with net bank borrowings of £36.8 million (2008 – £217.7 million), a £180.9 million reduction."

Strategy

In the summer of 2008 the ghosts of the last major recession loomed large, with a deteriorating economy, low consumer confidence and poor mortgage availability. The primary strategy of the Board, at that time, was simply to repeat the lessons learnt in previous downturns, make cash generation a priority and a target was set to reduce the opening debt position of £217.7 million (excluding the preference share capital of £20 million) by £100 million by the year end. If achieved, this would generate the necessary headroom in relation to our bank facilities of £370 million, providing the Group with a platform for expansion when the housing market returned to more normal conditions. At the same time the Group was also determined to continue, where possible, to sell homes at positive margins throughout the financial year.

I am pleased to report that the Group ended the year with net bank borrowings of £36.8 million (2008 – £217.7 million), a £180.9 million reduction, significantly exceeding the internal target and resulting in gearing of 3.8% at the year end (2008 – 21.7%). The forward order book at 31 July 2009 stood at £368 million (2008 – £370 million) equivalent to 58% of this year's planned output.

The Results

The Group completed the sale of 4,380 homes, a fall of 33% from last year's 6,556 homes. The average selling price was lower at £154,005 (£169,729 in 2008), consequently housing turnover fell by 39% from £1,112.7 million to £674.5 million. Other revenue was £9.3 million (2008 – £36.8 million), giving total revenue for the Group of £683.8 million. Sales incentives had to be used extensively and this contributed significantly in the operating margin (pre-exceptional) reducing from 16.1% to 6.7%.

When house prices continued to fall throughout August to December 2008, it became necessary to further review the net realisable value of land and work in progress at January 2009. From this arose an exceptional charge of £66.3 million. In the second half, whilst fragile, some stability returned to the market and further exceptional write-downs have not been necessary.

As previously stated, in partnership with our banks, the Group's facilities were re-negotiated in April 2008. Low borrowings, significant reductions in overhead and land and work in progress expenditure have resulted in a 24.6% fall in the net interest charged to £8.9 million compared with £11.8 million in 2008. When the technical financing charges are added the net finance charge has fallen from £19.1 million to £15.8 million. The loss before tax for the year after exceptional items is £36.6 million (£34.8 million profit in 2008), giving a basic loss per share of 23.9p (2008 – 23.6p earnings). The net asset value per ordinary share at 31 July 2009 stands at 839p (2008 – 871p).

Share Placing

Whilst the debt reduction programme has been successful, the industry is, nonetheless, cyclical in nature and future earnings growth is dependent upon many factors, most notably opportunistic land acquisition. In the spring of 2009, notwithstanding the fragile economic climate, some early indications of price and volume stability began returning to the housing market, albeit at lower volume levels. The Board took the view that the time may be right to begin selectively acquiring land again, especially in the south of England.

In order to help finance this strategy, 5.7 million shares were placed with existing and new institutional shareholders on 6 August 2009, raising net proceeds of £43.7 million. This additional capital, combined with current banking facilities, ensures that the Group is in an excellent position to enter the land market, as appropriate opportunities arise.

Dividend

In these testing times for the industry, the Board is delighted that it still feels able to pay dividends and is therefore proposing to maintain the final dividend at last year's level of 6.0p, resulting in a total dividend for the year of 9.0p (2008 – 24.1p) per ordinary share. The payment of the dividend takes into account the favourable current forward order position and the strength of the Group's balance sheet.

The dividend will be paid on Wednesday 20 January 2010, to all ordinary shareholders on the Register of Members on Friday 11 December 2009. The ex-dividend date is Wednesday 9 December 2009.

← The Edge, Bocking, Essex.

Chairman's Statement continued

← Fairfield Place, Stowmarket, Suffolk.

↓ Burtons Farm Park, North Solihull, West Midlands (part of the Solihull regeneration project).

"With national coverage, a robust balance sheet and low gearing, the Board believes Bellway is well positioned."

People

Whilst the human cost of the downturn should not be underestimated, looking forward the Board believes the Group's strategy of maintaining a largely autonomous divisional management structure creates the ideal environment for individual talent to flourish and for the divisional teams to respond to local market conditions.
The Board believes it is important to provide appropriate incentives for employees to participate in the recovery that will take place when the market finally shows signs of long–term sustainable improvement.
The Group will continue to utilise incentive based remuneration structures to reward key personnel at all levels for significant contribution to the expansion of the business. This includes the operation of a Save As You Earn Share Scheme which is open to all employees.

Delivering these objectives in difficult market conditions is not easy and the Board would like to sincerely thank all staff, past and present, together with the Group's suppliers and sub-contractors, for their commitment to the business over the past 12 months.

The Board

On behalf of the Board, I would like to thank David Perry for his invaluable contribution to the Group's progress during his ten years of service with Bellway as a non-executive director. David will be retiring at the AGM in January 2010 and we wish him a long and happy retirement. At the same time we welcome on to the Board, in his place, John Cuthbert, a Chartered Accountant, and current Managing Director of Northumbrian Water Group plc, who will be joining the Group as a non-executive director in November 2009.

Looking Forward

Since the beginning of August the market place has remained incentive led but reservations are 58% ahead compared to the same period 12 months ago. At the end of September Bellway had secured 61% of its target output for the year ending July 2010 and a further 440 reservations for 2010/11.

It is the Group's intention to selectively open new outlets, increase work in progress and acquire land, particularly in the south of England, at attractive margins whilst at the same time carefully monitoring the overall strength of the autumn housing market. Since 1 August the Group has contracted or agreed terms in respect of the acquisition of over £120 million of land where there is potential to develop in excess of 3,370 homes.

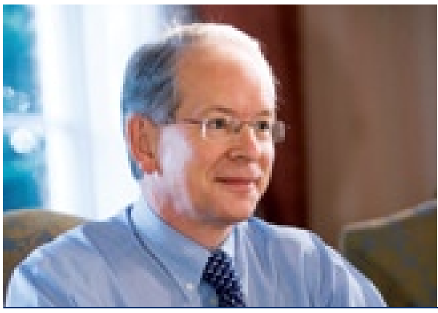
The pace of economic recovery is still uncertain with lack of mortgage availability, especially for first time buyers, potential unemployment and political uncertainty all remaining a threat to consumer confidence. However, with national coverage, a robust balance sheet and low gearing, the Board believes Bellway is well positioned should any or all of these uncertainties prove not to be an issue in the coming months.

Howard C Dawe

Chairman
12 October 2009

Choice

We create homes that people want, designed to meet local requirements.



"The beginning of 2009 brought a welcome change for most of our divisions. Visitor levels increased and, more importantly, the weekly reservation rate effectively doubled. This improved market continued through to 31 July as tentative signs of stabilisation emerged."

Introduction

Bellway commenced the financial year with a reduced structure of 13 trading divisions. At the start of the year, mortgage approvals had dropped to around 33,000 per month, the lowest number since records began in 1993. This receding tide of finance, coupled with low consumer confidence, dictated strategy and meant that the Group was about to enter what can be described as a period of partial hibernation.

The Housing Market

The weekly sales rates and the market in general had started to deteriorate in spring 2008 and continued through to December 2008. During this time visitor levels across all outlets were extremely low with some sites seeing as few as five visitors per week and this, combined with cancellation rates running at an all time high of 26%, resulted in the level of reservations being around 50% below the prior year at an average of just 56 sales per week at that time. However, the beginning of 2009 brought a welcome change for most of our divisions. Visitor levels increased and, more importantly, the weekly reservation rate effectively doubled. This improved market continued through to 31 July as tentative signs of stabilisation emerged.

Against this background the Group legally completed the sale of 4,380 homes compared with 6,556 in 2008. The average selling price reduced to £154,005 from £169,729 in 2008.

To achieve this, our sales teams used a variety of incentives on virtually every home to attract buyers. For example, first time buyers require increased deposits as a result of lenders' tightening mortgage criteria and as a consequence the Group's shared equity scheme "Opening Doors" became attractive to this type of buyer. Whilst typically we receive only 75% of the selling price on legal completion, the balance is owed to the Company and is repaid when the client ultimately sells or re-mortgages. The 25% stake is viewed as a deposit by lenders. This scheme was used in almost 14% of sales and a similar scheme "HomeBuy Direct" has now been initiated by the government through the Homes & Communities Agency.

Whilst private investors found access to the mortgage market increasingly difficult the Group found an appetite, especially from southern housing associations to acquire properties over and above the section 106 planning requirement. The Thames Gateway division has been particularly active in this area and on several occasions during the year sold 100% of a development to a housing association.

When combined with normal section 106 planning obligations, sales to housing associations represented some 34% of total output or 1,484 homes. Part exchange conversely was used to a lesser extent by the sales teams in only 7% of transactions as buyers found the lenders' lower valuations more difficult to overcome. Consequently our part exchange stock of £40.6 million at 1 August 2008 had reduced to £8.0 million by the year end.

Divisional Performance

The six northern divisions sold 1,833 homes, a decrease of 45% from the previous year's 3,348 homes, with the average selling price falling by 14.7% to £134,200 (2008 – £157,300). As the economy in this region receded more quickly especially in Scotland, Yorkshire and the North West, consumer demand eroded rapidly in these locations. In the East and West Midlands divisions we have been able to access the funding provided by the various government initiatives and as a consequence some 30% of completions in these two divisions were sold to housing associations.

The seven southern divisions sold 2,547 homes (2008 – 3,208), a stronger performance than the North and only 21% below the previous year's volumes. The average selling price in the region fell by only 7.9% to £168,300 (2008 – £182,700). The Essex and South East divisions actually increased output compared to 2008, the only divisions to do so. Generally developments in and around London, whether they be apartments or more traditional housing, have proved more resilient compared to other parts of the country. This factor is strongly influencing the Group's land buying policy at the present time.

Business Focus

With uncertainty in both the housing market and the wider economy generally, the Board decided to attempt to place the Group in a sound financial position to protect shareholder value in the downturn and create an opportunity for growth in the long term. A target was set at the beginning of the financial year to further reduce borrowings by £100 million to pursue the following objectives:-

For more information visit our website **www.bellway.co.uk**

← Customer Samantha Allen at Prospect Place, Grangetown, Cardiff, loved the fact she could choose from a large range of options to personalise her new home.

Chief Executive's Operating Review continued

← Phoenix Park, Letchworth, Hertfordshire.

↓ An interior view at our development at Millbank, Greenfield, Greater Manchester.

"The Group has around 33,260 plots at its disposal within its short and medium-term land holdings. This is equivalent to over seven years' supply at current output and excludes long-term or strategic land which amounts to around 3,900 plots, typically made up of greenfield land held under option and brownfield regeneration opportunities."

Restricting Work in Progress and Site Openings

The carry forward position at the beginning of the year stood at £370 million and the majority of these homes had to be legally completed in the financial year. However, work in progress on existing outlets, wherever possible, was restricted and on new sites only those with forward sales and low infrastructure costs were opened. During the course of the year new construction was restricted to 2,900 homes (2008 – 6,600) and by the end of July 2009, 27 sites remained mothballed. With regard to the latter, layouts are being re-drawn to accelerate the development of the housing association element and, where possible, we are also looking to introduce a larger percentage of two storey housing.

As a result of the foregoing, the number of sales outlets fell during the year from last year's average of 210 down to 170 and the number of stock units reduced from 1,380 at the beginning of the year to 650 at the year end. We feel that a certain level of stock in this market has advantages and therefore further reductions are not envisaged.

Cost Base

The lower activity levels were an opportunity not only to re-design layouts, if possible, but more importantly to reduce the cost base. With the workload drying up many sub-contract orders were re-tendered and with material and labour prices softening it is estimated that around £5,000 to £6,000 was saved on a typical family home of say 1,000 square feet over the course of the year. Of course there are cost pressures in the shape of higher planning fees, Home Information Packs and the delivery of the new Code Levels 3 and 4 of the government's Code for Sustainable Homes. However, notwithstanding these pressures it is hoped that lower costs will persist for some time thereby offsetting in part any further sales incentives that may need to be offered to conclude reservations.

Land

The control of land expenditure was also a key component in reducing debt levels and therefore another cautious approach throughout the year was maintained. Land owners and their advisers are adjusting to lower land values and the operating divisions were instructed wherever possible to withdraw from conditional contracts and options that were considered to be no longer viable. Consequently, our land expenditure fell to only £93.3 million compared with £275 million in the previous year.

During the period only 1,580 plots were acquired, and as a result, land held with planning permission has reduced to some 19,260 plots. Land owned, contracted or held under option currently awaiting planning permission has stabilised and stands at 14,000 plots. Combined, therefore, the Group has around 33,260 plots at its disposal within its short and medium-term land holdings. This is equivalent to over seven years' supply at current output and excludes long-term or strategic land which amounts to around 3,900 plots, typically made up of greenfield land held under option and brownfield regeneration opportunities.

Service

We are committed to providing a high level of personal service from reservation to completion and after sales service.

← Century Fields, West Malling, Kent.

← ← Customers Jonathan and Clare Turner in front of their new Bellway home at Ham Stone Court, Stalbridge, Dorset.

The holding cost of land and work in progress was reviewed throughout the year. During the first half, house prices continued to fall and an exercise was carried out in January 2009 which resulted in a land and work in progress write-down of £58.9 million. Together with a further write-down in relation to part exchange stock and land without planning consent of £7.4 million this produced a total exceptional charge of £66.3 million. In the second half, whilst fragile, some stability returned to the market and further exceptional write-downs were considered unnecessary.

Environmental Issues

The efficient management of construction waste benefits the environment whilst at the same time improves cost control. Site waste management plans on all sites have contributed to almost 14,000 tonnes of demolition material being re-used and all plasterboard off-cuts being recycled. Furthermore, around 1,025 homes were completed during the year using timber frame construction techniques. Using timber from accredited managed sources not only reduces waste going to landfill but, because there are approximately 50 to 60 cubic feet of additional timber in a typical 1,000 square foot home, reduces the amount of masonry used. This produces savings of around four tonnes of CO_2 for every home constructed (Source – UK Timber Frame Association).

The government's Code for Sustainable Homes will require all new private homes to achieve the new Code Level 3 Energy Efficiency Standards from October 2010. In moving towards these new requirements the Group has delivered 428 homes to these new standards in the financial year (2008 – 48).

In a Code Level 3 home, for example, we calculate that water-saving devices such as flow restrictors, mixer taps and dual flushing WCs will result in water consumption savings of around 103 litres per person per day.

Whilst the Group has concluded significantly fewer planning agreements during the course of the year, we calculate, nevertheless, that they will contribute over £2 million in total towards community benefits in areas such as new education facilities and healthcare.

Putting the Customer First

The Group has continued to improve the quality and standard of finish of its new homes. In an independent survey of 300 respondents returned at the end of March 2009, 89% (2008 – 80%) would recommend a friend to purchase a Bellway home. However, conversely 50% of respondents found between one to five problems with their new home after moving in. This is an area where we will be specifically concentrating in the coming months.

The quality of construction and presentation of a new home is a reflection of the way a site is organised and run. During the year 56 sites were registered under the Considerate Constructors Scheme whereby additional site inspections are undertaken by third parties. In addition, despite having fewer outlets, we have retained an in-house team of four health and safety professionals who, on a systematic basis, carry out regular detailed audits on all the Group's developments. It is anticipated that this, together with constant training of site management, will lead to a long-term improvement in construction standards and therefore greater levels of customer satisfaction.

Looking Forward

The cash generated as a result of the partial hibernation policy greatly exceeded our expectations and the Group ended the year with only £36.8 million of net bank debt, a reduction of £180.9 million during the year. Mortgage valuations are beginning to stabilise and indeed the Council of Mortgage Lenders has recently announced a further monthly rise in gross lending in July, albeit some 42% below the previous year. This stability, whilst still fragile, is extremely welcome and, consequently, the Group is now looking to selectively increase both work in progress expenditure and the number of outlets.

In addition, the Group intends to selectively increase its land bank predominantly focusing on the southern divisions provided current market and general economic conditions prevail and, since the year end, Bellway has contracted new land at attractive margins. On 6 August we announced a placing of 5.7 million new ordinary shares with new and existing shareholders, realising £43.7 million net of expenses. This enhances the Group's balance sheet and puts Bellway in an even stronger position to expand as and when the market shows tangible signs of recovery.

John K Watson

Chief Executive
12 October 2009

← We undertake to provide our customers with the best possible service. In our latest survey, 89% of our customers would recommend a friend to purchase a Bellway home.

Commitment

Through sustainable building we aim to create new communities and lasting environments for people now and in the future.

Bellway believes that its reputation is critical to the creation of long-term value for its shareholders. We recognise that financial success is reinforced by our behaviour beyond the balance sheet. Protecting and enhancing our reputation and social licence to operate is a significant element of sustained financial success.

At Bellway, the term Corporate Responsibility describes how we manage the environmental, social and economic effects of our business and how these affect our employees, customers, shareholders, suppliers, the communities where we work and the environment that we operate in, and goes beyond our legal or regulatory obligations. This policy sets out how we will operate and drives the Group's corporate responsibility activity.

Through Bellway's commitment to corporate responsibility we will:

- engage and respond to stakeholders, including shareholders, employees, customers, government and communities that we affect.
- comply with all relevant legislation as a minimum standard.
- work towards recognised good practice in sustainability and corporate responsibility.
- treat all employees fairly and invest in training for the long term to bring out the best in our people.
- provide a healthy and safe environment in which to work through an effective health and safety management system.
- demonstrate continual improvement in our approach to sustainable developments (in both design and practice).
- recognise and respond to the challenges and opportunities that are presented by climate change.
- invest in the communities we develop in a way that contributes to local community needs.
- manage our environmental footprint and aim to enhance our performance in areas where we operate, particularly in relation to energy and waste.
- consider and respond to the social and environmental effects of the homes we develop and communities that we create.
- improve internal and external awareness of our corporate responsibility programmes and initiatives.
- report regularly to the Board and external stakeholders on performance using sustainability indicators.

The following structure has been put in place to achieve these commitments:

- the Chief Executive is responsible for this policy and advises the Board on all corporate responsibility matters.
- the Chief Executive is supported by the Sustainability Management Working Group which includes senior employees from across the Group who are responsible for the development and review of this policy.
- the financial directors or managers of each regional division are responsible for implementation and reporting on performance.

Bellway is committed to reporting annually on its approach to corporate responsibility and has established key performance indicators to enable others to judge our performance. This policy does not replace existing policies on environment, health and safety and wood procurement, but has been developed to work in conjunction with them. All policies are available on the Bellway website www.bellway.co.uk and are reviewed annually.

→ The Retreat, Mildenhall, Suffolk.

→ Rubicon, London Borough of Greenwich.

→ → Prospectus, Chelmsford, Essex.

↓ This year we have re-used 13,843 tonnes of demolition material on our sites.

As one of the largest developers of new homes in the UK we realise that Bellway has a significant role to play in combating climate change and reducing greenhouse gas emissions.

Climate change is one of the biggest challenges facing society today. It is clear that the way we manage our businesses and live our lives will have a profound affect on future generations. Managing the energy used in our homes and the way they are constructed will play a significant role in limiting greenhouse gas emissions.

As one of the largest developers of new homes in the UK we realise that Bellway has a significant role to play in combating climate change and reducing greenhouse gas emissions.

Recognising our responsibilities we have developed the following five strategic principles that steward our day-to-day activities:

- protection of the environment in which we are working.
- prudent use of natural resources.
- creating environments that have the potential to add to economic growth and employment opportunities.
- social considerations that recognise the needs for a changing and advancing population.
- the development of communities that will endure and where people will aspire to live.

The construction industry was one of the first sectors to be affected by the tightening of credit markets, and for Bellway, this year has been one of consolidation.

Notwithstanding this, we have continued to make good progress in delivering more homes that meet higher sustainability standards. In line with our Climate Change Policy, we have delivered 428 homes to Code Level 3, which represents an increase of 380 over the corresponding period of 2008.

The Code measures the sustainability of a home against nine specific design criteria including the use of renewable energy, the inclusion of water conservation systems and the promotion of greener transport options. It is intended to minimise the environmental effects of the construction process and help combat climate change and has been geared to improve the environmental credentials of homes over the long term. In meeting the Code's requirements we have installed 242 solar panels and 23 heat pumps. Water-saving devices in a typical Bellway home will save 103 litres per person per day.

For several years Bellway has built a large percentage of its production in timber frame. Timber is a renewable material and we estimate that for every timber frame home we build we save about four tonnes of CO_2 (about the same amount produced by driving 14,000 miles).

In addition to energy savings in the home, when planning new sites we take into account transport considerations and, where possible, offer alternative options such as car clubs and cycling to work schemes. This year 174 of our sites have been developed within 500 metres of a transport node and over 2,211 homes have access to a cycle store.

The careful management of waste can result in significant benefits to the environment as well as cost savings. Bellway recognised some time ago the importance of managing waste efficiently and has steadily been making improvements to the way we manage our site waste. This is particularly important as the current landfill tax will rise from £40 per tonne to £73 per tonne by 2013.

All Bellway sites operate Site Waste Management Plans. These plans help to reduce the amount of waste produced which means less waste is sent to landfill, less energy is used in transporting waste and more materials are recycled. This year we have saved more than £550,000 in landfill tax by re-using 13,843 tonnes of demolition material on our sites.

We measure our improvements in waste management in terms of skips used per home sold. Last year we reported that 4.3 skips had been used per home sold, this year we have improved upon that measure and have reduced the figure to 3.6 skips per home sold. In addition to managing site waste, all our offices recycle ink cartridges and segregate waste paper.

The general public are becoming increasingly aware of the need to reduce waste and, in some sites, we have been able to introduce waste segregation facilities in kitchens or communal recycling facilities in apartment schemes.

In 2004 we introduced our "Don't let your home get away with it" campaign and sent all our customers good practice guidelines detailing simple household management practices they could follow that would benefit the environment. This campaign is still running today with all Bellway hand-over packs containing a list of good practice guidelines which we encourage our buyers to follow.

2009 Corporate Responsibility Statement continued

A donation from Bellway supported the Great North Air Ambulance.

Aldington Meadow, Aldington, Kent.

This year 84% of the land we developed was brownfield, and over many years we have built a successful track record for our regenerative capabilities. Working in some of the most challenging environments we have returned derelict and deprived problem areas back to the community. Where we are working in North Solihull the physical regeneration aims to improve the entire area through the provision of new housing. The business plan with our partners is shaped so that the land receipts are recycled and money is ploughed back into the community which benefits local residents.

We are particularly pleased to have received the "Major Housebuilder of the Year" award this year. The award is judged by peers of the industry and takes account of our approach to customer satisfaction, design, sustainability, planning and health and safety awareness.

The health and safety of our staff, sub-contractors, and those visiting our developments is of the utmost importance to us. During the year we have instigated a number of awareness campaigns to improve site safety. We are pleased to report that we have had no injuries on site involving broken bones, as a consequence of regular tool box talks, focusing on ladder campaigns to eliminate the risk of falls from height and working with the Health and Safety Executive to bring greater awareness to working with quick hitch buckets on excavators. Our overall performance has improved for the fourth consecutive year – lost time accidents totalled 20, as opposed to 45 last year.

This year we have registered one in three of our sites with the Considerate Constructors Scheme. The Site Code of Considerate Practice commits us to ensure that during the build process we are considerate and respectful good neighbours. The scheme is monitored independently taking into account site cleanliness, safety, environmental awareness and ensures that we are accountable and responsible in the manner in which we steward our site operations.

During the year we have also engaged our employees in a local initiative and offered them a cycle to work scheme enabling them to make substantial savings on the purchase of a new bicycle. For employees with young children we have also provided childcare vouchers which can be used towards the cost of childcare, saving an employee around £900 per year.

Bellway employees make a very real difference to the communities in which they work and we are proud of the contribution our own staff make to many voluntary organisations around the country. Regular initiatives such as dress down days, raffles and staff sponsorships result in valuable funding for a variety of charitable causes throughout the country.

The building industry provides an important source of employment across a broad range of specialist trades. Despite the very difficult economic environment we have sought to maintain our base of skilled craftsmen including 30 apprentice positions. We have also now started to recruit workers on a limited scale and hope to continue building our workforce as the economic climate improves.

Considerate Constructors Scheme
The Considerate Constructors Scheme is the national initiative set up by the construction industry to improve its image.

Sites and companies that register with the Scheme sign up to and are monitored against a Code of Considerate Practice, designed to encourage best practice beyond statutory requirements.

Major Housebuilder of the Year
Bellway Homes was named "Major Housebuilder of the Year" at the Building Awards 2009.

Key Performance Indicators

We use these KPIs to help us measure our performance against our objectives.

Key Performance Indicators	Financial year ended 31 July 2005	2006	2007	2008	**2009**
Commercial					
Total number of homes sold	7,001	7,117	7,638	6,556	**4,380**
Number of homes sold to Registered Social Landlords	828	790	900	1,337	**980**
Number of plots with planning permission	22,500	22,600	23,500	22,500	**19,260**
Number of sites registered with the Considerate Constructors Scheme	–	–	–	–	**56**
Environmental					
Percentage of homes developed on brownfield sites	78%	81%	81%	79%	**84%**
Density of homes per hectare (number of homes)	69	69	66	63	**67**
Number of EcoHomes with at least "Very Good" rating	224	263	326	1,194	**786**
Number of homes built to Code Level 3[(1)]	–	–	–	48	**428**
Average SAP (energy) rating for all Bellway homes	89.60	90.20	91.20	88.00	**85.30**
Number of homes built with renewable energy technology	–	–	17	307	**636**
Percentage of homes built using timber frame	25%	32%	34%	30%	**23%**
Tonnes of plasterboard recycled	2,408	4,708	3,900	2,868	**1,408**
Measure of waste (number of $7m^3$ skips/home sold)	7.55	7.10	5.70	4.30	**3.60**
Number of compliance breaches	1	3	9	6	**–**
Number of sites with car clubs	–	–	–	–	**5**
Number of sites within 500m of a transport node	–	–	–	–	**174**
Number of sites with sustainable urban drainage schemes ("SUDS") designed into the scheme	–	–	–	–	**77**
Employees					
Training days per employee	1.18	1.22	1.24	1.03	**1.20**
Employee turnover	27.0%	31.1%	25.6%	33.7%	**65.2%**
Number of site workers (including sub-contractors) accredited with Construction Skills Certification Scheme ("CSCS") cards	305	597	783	1,042	**1,793**
Number of apprentices employed	139	206	203	149	**30**
Number of NHBC Pride in the Job Awards received	14	18	19	20	**15**
Health and Safety					
Lost time accidents per capita	0.022	0.019	0.019	0.020	**0.016**
Number of health and safety prosecutions	–	1	–	–	**1**

[(1)] The Code for Sustainable Homes Level 3 applies to newly constructed social housing units from April 2008 and therefore 2008 was the first year of reporting.

Consideration

We recognise that we have responsibilities to both limit damage to, and enhance, the environment.

The Bellway Group is one of the largest housebuilders in the UK. The housebuilding process affects the environment by the use of land and consumption of resources throughout the development process. It is our objective to ensure that, at the conclusion of a development, an attractive and sustainable new environment has been created that will continue over time.

Conservation strategies are an important element in planning new developments to ensure the protection of wildlife. We work with ecologists to protect wildlife habitats.

Bellway is one of the largest housebuilding groups in the UK. The housebuilding process affects the environment by the use of land and consumption of resources throughout the development process. It is our objective to ensure that at the conclusion of a development an attractive and desirable new environment has been created that will be sustainable over time.

Recognising that we have responsibilities to both limit damage to, and enhance, the environment, this statement sets out our policies for managing the environmental aspects across our business.

Key objectives are to:

- minimise any deleterious effects on the environment and, where possible, to seek environmental enhancements, concentrating on areas where there is most room for improvement.
- aim to meet and, where practicable, exceed all relevant environmental legislation and regulations.
- improve our environmental performance.
- set specific environmental objectives and targets and periodically review progress against these.
- ensure that Bellway's environmental aims and their importance are communicated throughout the Group, including to appropriate sub-contractors and suppliers, and that a copy of this policy statement is displayed in each Bellway office and site.
- consider the role that Bellway can play in helping to contribute to the principles of sustainable development within the UK.
- recognise and respond to the challenges and opportunities that are presented by climate change.

In addition to our key commitments, the Group has identified a number of specific priority areas which we will endeavour to achieve:

- consideration of environmental aspects in the selection and procurement of land for development, including implications for biodiversity and sustainable development.
- meeting and, where possible, exceeding government targets for the redevelopment of brownfield land.
- influencing the design of sites, housing, and fittings to minimise effects on both the natural and built environment.
- providing environmental benefits and minimising nuisance arising from construction activities and preventing pollution on development sites.
- consideration of environmental issues within our corporate functions and everyday business decision-making processes.

The above statement will be balanced against economic considerations.

Financial Review

Sales

The Group builds an extensive range of homes within its one UK operating segment; a geographical summary of the homes sold in the year to 31 July is shown in the following table.

	Homes sold Number		Average selling price £000		Revenue £m	
	2009	2008	**2009**	2008	**2009**	2008
Northern Region	**1,833**	3,348	**134.2**	157.3	**245.9**	526.6
Southern Region	**2,547**	3,208	**168.3**	182.7	**428.6**	586.1
GROUP TOTAL	**4,380**	6,556	**154.0**	169.7	**674.5**	1,112.7

The total of 4,380 new homes sold includes 980 (2008 – 1,337) housing association sales. In addition, the Group derived £9.3 million (2008 – £36.8 million) revenue from other sources. This consisted of land sales, financial services, commercial developments, rental income and miscellaneous items.

The Group will, in the appropriate economic environment, seek to secure forward sales of homes. This policy involves securing a purchaser in advance of the physical completion of the home. Marketing frequently begins at an early stage of development and prospective purchasers are able to pay a small deposit of between £250 and £1,000 in order to register their interest in a property. At this stage there is no legal obligation for the prospective purchaser to buy the property and no legal obligation for the Group to sell. The Group is merely giving an undertaking not to secure another purchaser within a particular number of weeks. The deposit is held in the balance sheet as a payment in advance of the purchase. If the prospective purchaser does not proceed to exchange and completion the cash deposit is classified as a forfeited deposit and recognised in the income statement.

Once contracts are exchanged, a larger deposit is paid and there is a legal obligation to purchase, and to sell, the home. This increased deposit is also held in the balance sheet as a payment in advance. All deposits are recognised in the income statement, on legal completion, as part of revenue.

The Group acquires second-hand homes taken in part exchange against sales of new homes. The subsequent sale of these properties is not included in homes sold or revenue. The net result of the part-exchange transaction is classified as a cost of sale.

Exceptional Items

For the year ended 31 July 2009, a full review of inventories has been performed and write downs have been made where cost exceeds 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. Estimated selling prices have been reviewed on a site-by-site basis and selling prices have been reduced, based on local management and the Board's assessment of current market conditions. These site reviews have resulted in write-downs totalling £58.9 million (2008 – £112.5 million).

In addition, option costs and related fees have been written down by £6.3 million (2008 – £15.4 million) to their net realisable value.

The Board has also reassessed the net realisable value of part exchange properties and has written down stock by £1.1 million (2008 – £3.0 million).

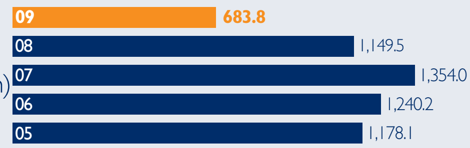
The above has resulted in an exceptional charge totalling £66.3 million (2008 – £130.9 million) as discussed further in note 5 on page 53.

Gross profit (pre-exceptional item) decreased from £243.8 million to £87.1 million and administrative expenses during the year decreased from £58.8 million to £41.6 million representing 6.1% of revenue (2008 – 5.1%).

Revenue (£m)

£683.8m

(2008 – £1,149.5m)



Earnings per ordinary share* (p)

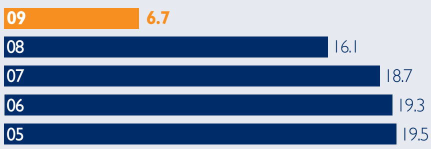
17.7p

(2008 – 104.2p)

Operating margin* (%)

6.7%

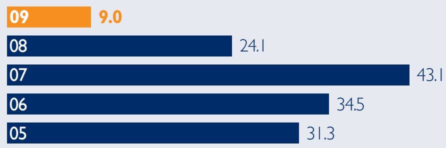
(2008 – 16.1%)



Dividend per ordinary share (p)

9.0p

(2008 – 24.1p)



Profit before taxation* (£m)

£29.8m

(2008 – £165.7m)

Net asset value per ordinary share (p)

839p

(2008 – 871p)

*Pre-exceptional items (note 5)

Income Statement

The operating profit (pre-exceptional item) of £45.6 million compares to £185.0 million last year, giving an operating margin of 6.7% (pre-exceptional item) on revenue (2008 – 16.1%).

All of the Group's operating profit arose in the United Kingdom.

Interest is written off as it is incurred and this year amounted to £15.8 million compared to £19.1 million in 2008. Net interest payable on bank loans and overdrafts of £10.4 million (2008 – £12.3 million) is covered 4.4 times (pre-exceptional item) (2008 – 15.0 times).

The profit before taxation (pre-exceptional item) of £29.8 million is £135.9 million lower than the previous year's figure of £165.7 million, a decrease of 82%.

The tax charge (pre-exceptional item) for the year (including deferred tax) of £9.5 million (2008 – £46.2 million) is 31.8% (2008 – 27.9%) of profit before taxation (pre-exceptional item). The current tax charge (pre-exceptional item) is 30.3% (2008 – 27.1%) and this compares with the Group's standard tax rate for the year of 28.0% (2008 – 29.3%). The Group has unused tax losses of £7.5 million available to offset against future trading profits.

The Board is declaring a dividend for the year of 9.0p per ordinary share and this is a decrease of 62.7% on the previous year, which is covered 2.0 times by earnings (2008 – 4.3 times). Basic earnings per share ("EPS") (pre-exceptional item) amount to 17.7p, compared to 104.2p in 2008, a decrease of 83.0%.

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Financial Review continued

Balance Sheet

The balance sheet remains strong with inventories, after write-downs, showing a measured decrease, down from £1,503.9 million to £1,211.4 million. Land holdings at 31 July 2009 with residential planning permission total some 19,260 units (2008 – 22,500). In addition, there are extensive land interests with development potential.

At 31 July 2009 the Group's borrowings, including preference shares and net of cash balances, were £56.8 million, which compared with £237.7 million last year. The Group's gearing at 31 July 2009 was 3.8% (excluding preference shares) compared with 21.7% last year. Net current assets decreased by £270.8 million from £1,330.8 million to £1,060.0 million.

Total equity decreased by £36.1 million from £1,001.1 million to £965.0 million, reflecting total recognised expense of (£27.2) million, ordinary dividends paid of (£10.4) million and share issues and share option movements in reserves of £1.5 million.

The actuarial valuation of the defined benefit section of the Bellway p.l.c. 1972 Pension & Life Assurance Scheme (the "Scheme") as at 1 August 2008 revealed a shortfall of £2.673 million. The Scheme actuary has advised the Trustees of the Scheme that the remaining funding shortfall at 31 July 2009 was £1.668 million, after allowing for certain adjustments, principally in connection with the closure of both the final salary and the money purchase sections of the Scheme to further accrual on 31 October 2008. The Group paid £1.668 million into the Scheme on 7 October 2009.

Finance

Other than the proceeds obtained from the issue of ordinary shares and reinvestment of retained profits, the Group's activities are financed principally by a combination of preference shares, bank borrowings and cash in hand. Bank borrowing facilities comprise medium-term loans, short-term floating rate loans and overdrafts. In addition, the Group often obtains deferred payment terms in its contracts for land purchases. Facilities are due for renewal in the following time periods:

By July 2010	£65 million
By July 2011	£145 million
By July 2012	£35 million
By July 2013	£85 million
By July 2014	£20 million
By July 2015	£20 million
TOTAL	£370 million

Treasury Policy and Liquidity Risk

The Group's treasury policy has, as its principal objective, the maintenance of flexible bank facilities in order to cover anticipated borrowing requirements. A sophisticated cash forecasting system enables the Group to plan and assess its future treasury needs.

Short-term cash surpluses are placed on deposit. Other than mentioned above, there are no financial instruments, derivatives or commodity contracts used.

Interest Rate Risk

The Group's attitude to interest rate risk 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.

Fair Value

The fair values of the Group's financial instruments at 31 July 2009 are disclosed in note 17 on page 63. This states that the fair values are not materially different to their book value except for the 9.5% cumulative redeemable preference shares where the fair value exceeds book value by £1.5 million. This reflects the movement in long-term interest rates since these financial instruments were entered into.

Share Price and Net Asset Value

The share price at 31 July 2009 was 735.00p (2008 – 477.25p). This compares with a book net asset value at 31 July 2009 of 839p (2008 – 871p).

Dividend

The Board has maintained the final dividend of 6.0p (2008 – 6.0p). The total dividend for the year is 9.0p which compares with 24.1p for 2008.

Alistair M Leitch

Finance Director
12 October 2009

← Keepers Chase, Audenshaw, Greater Manchester.

Risk is a natural part of any business. The management of risk is a key operating component for the Group. The manner in which this is carried out is very important to the long-term success of the business.

The Group has identified, evaluated and put in place strategies to mitigate the principal risks faced by the business, shown in the table below:

Area of Risk	Description of Risk	Mitigation of Risk
Land	Inability to source suitable land at satisfactory margins would have a detrimental effect on the Group's land bank and consequently, its future success.	■ Endeavour to ensure that a land bank with planning permission for at least three years' construction programme is in place on a rolling basis. ■ Thorough pre-purchase due diligence and viability assessments. ■ Authorisation of land purchases in line with robust Group procedures.
Planning	Delays and the increasing complexity of the planning process hampers and slows the Group's growth prospects.	■ Centralised and regional planning personnel provide advice and support to divisions to assist with progressing the planning permission process.
Sales	Ensuring that the effects of any diminution in the size of the market place, the ability of prospective customers to access credit facilities or the sales prices achieved are managed in such a way as to limit any adverse financial or operational effects on the Group's performance.	■ In consultation with Head Office, local divisional management determines product range and pricing strategy commensurate with regional market conditions. ■ Use of sales incentives where appropriate to encourage selling process, such as part exchange, try before you buy, shared ownership etc. ■ Use of government-backed schemes to encourage home ownership where appropriate, such as HomeBuy Direct. ■ Ensure that construction rates are managed and equate to sales achieved.
Construction	Ensuring that appropriately skilled personnel are available and that suitable materials are also available at the right price.	■ Identifying training needs and allocating appropriate resources to training. ■ Ensure systems are in place for engagement of and monitoring and control of work carried out by sub-contractors. ■ Ensuring competitive reward systems are in place. ■ Group purchasing arrangements in place to secure materials at competitive prices.
Environment	Housebuilding has a significant effect on the environment. It is important that the effects of the Group's developments are, as far as possible, positive rather than negative.	■ It is our objective to ensure that at the conclusion of a development an attractive and sustainable new environment has been created that will continue over time. See our Environmental Policy on pages 18 and 19 for further information.

Area of Risk	Description of Risk	Mitigation of Risk
Health and Safety	It is important to ensure that the Group has adequate systems in place to mitigate, as far as possible, the dangers inherent in the construction process.	■ The Board considers health and safety issues at each Board 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 Group's health and safety policies and procedures.
Personnel	Attracting and retaining suitable personnel is key to the Group's long-term success. Failure to do so will severely affect the Group's ability to perform in a highly competitive market.	■ The Group offers a competitive salary and benefits package. ■ Divisional training plans in place. ■ Succession planning for key posts. ■ 96% of site based personnel are fully accredited under CSCS.
Information and Reporting Systems	It is vital that the Group has suitable systems in place to ensure that, as far as possible, a smooth flow of information operates throughout the Group and that the risk of system loss is mitigated and supported by appropriate contingency plans.	■ Group-wide systems in place which are centrally controlled with outsourced support function in place.
Asset Protection	The way in which the Group carries out its operations can have a material effect on the value of its assets.	■ The Group prepares viability assessments on all of its land purchases and construction projects, and keeps these under regular review to protect, wherever possible, the value of its assets.
Treasury Management	Ensuring suitable financial resources at appropriate costs are in place to meet Group requirements.	■ Central negotiation and control of banking facilities to ensure liquidity and debt levels are appropriate. ■ Facilities distributed across various sources. ■ Careful monitoring of cash forecasts.
Legal and Regulatory Compliance	Failure to comply with current laws and regulations or to have appropriately worded contracts in place could expose the Group to disadvantageous contractual obligations, regulatory fines and adverse publicity.	■ Central secretariat and legal functions advise divisions on compliance and ensure policies and procedures are kept up to date to minimise risk of non-compliance.

In addition, the Board ensures that adequate insurance cover is maintained to underpin and support the many areas in which the Group is exposed to risk of loss.

Board of Directors

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As at 12 October 2009

1. Howard C Dawe
Date of Birth: 7 April 1944
Mr Dawe joined Bellway in 1961, was appointed a director in 1977 and was appointed Group Chief Executive in 1985. In May 1997 he was appointed Acting Chairman, and Chairman on 1 November 1999, when he relinquished the role of Group Chief Executive. On 1 November 2004, Mr Dawe became non-executive Chairman. He is a member of the Nomination Committee.

2. John K Watson
Date of Birth: 21 March 1954
Mr Watson, a Chartered Surveyor, joined Bellway in 1978. He was later appointed Managing Director of the North East division, a position which he held for 12 years. He joined the Board as Technical Director in 1995 and became Chief Executive on 1 November 1999. He is Chairman of the Board Committee on Non-Executive Directors' Remuneration.

3. Peter J Stoker
Date of Birth: 23 May 1956
Mr Stoker qualified as a Solicitor in 1979 and joined Bellway in 1981. He was appointed Company Secretary in 1985 and joined the Board as an executive director in 1995. He resigned as Company Secretary to take up his new role as Commercial Director on 1 August 2002. He is a member of the Board Committee on Non-Executive Directors' Remuneration.

4. Alistair M Leitch
Date of Birth: 14 February 1954
Mr Leitch qualified as a Chartered Accountant in 1977 and joined Bellway in 1981. He has held a number of senior positions in the Company including, from 1996, the post of Group Chief Accountant. He was appointed Finance Director on 1 August 2002. He is a member of the Board Committee on Non-Executive Directors' Remuneration.

5. Peter M Johnson
Date of Birth: 17 April 1948
Mr Johnson, a Chartered Accountant, was appointed a non-executive director on 1 November 2003. He had been, on his retirement in September 2000, a partner in KPMG for 23 years. He is a non-executive director of Sunderland Marine Mutual Insurance Company Limited and Honorary Treasurer of the University of Newcastle upon Tyne. He became senior independent non-executive director on 16 January 2009. He is Chairman of the Audit Committee and is also a member of both the Board Committee on Executive Directors' Remuneration and the Nomination Committee.

6. David G Perry
Date of Birth: 26 December 1937
Mr Perry was appointed a non-executive director on 1 November 1999. He was formerly Chairman of Waddington PLC and Anglian Group PLC. He is Chairman of the Nomination Committee and is also a member of both the Audit Committee and the Board Committee on Executive Directors' Remuneration. Mr Perry will retire at the conclusion of the forthcoming AGM on 15 January 2010.

7. Mike R Toms
Date of Birth: 1 July 1953
Mr Toms was appointed a non-executive director on 1 February 2009. He is currently non-executive Chairman of Northern Ireland Electricity plc, and a non-executive director of UK Coal PLC and Birmingham Airport Holdings Limited. He was formerly an executive director of BAA plc and was a non-executive director of Viridian Group PLC. He is a member of the Royal Institution of Chartered Surveyors (MRICS) and a member of the Royal Town Planning Institute (MRTPI). He is Chairman of the Board Committee on Executive Directors' Remuneration and a member of the Audit and Nomination Committees of the Board.

Group Company Secretary
8. G Kevin Wrightson
Date of Birth: 27 October 1954
Mr Wrightson, a Chartered Secretary, joined Bellway in 1990. He has held senior posts within the Group, including that of Deputy Group Secretary, before being appointed as Group Company Secretary on 1 August 2002.

From 1 November 2009
John A Cuthbert
Date of Birth: 9 February 1953
Mr Cuthbert will join the Board on 1 November 2009 as an independent non-executive director and will join the Audit and the Nomination Committees and the Board Committee on Executive Directors' Remuneration from 15 January 2010. Mr Cuthbert is currently Managing Director of Northumbrian Water Group plc, and has worked in the water industry since 1991. He was formerly Managing Director of North East Water plc and Managing Director of Essex and Suffolk Water plc. He is Chairman of Castle View Enterprise Academy in Sunderland.

Advisers

Group Company Secretary and Registered Office
G K Wrightson FCIS
Bellway p.l.c.
Seaton Burn House
Dudley Lane, Seaton Burn
Newcastle upon Tyne NE13 6BE
Registered number 1372603

Registrars and Transfer Office
Capita Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire HD8 0LA

Financial Advisers
N M Rothschild & Sons Limited

Stockbrokers
Citigroup Global Markets Limited

Bankers
Barclays Bank PLC
Lloyds Banking Group plc

Auditors
KPMG Audit Plc

Report of the Directors

The directors have pleasure in submitting the Annual Report and Accounts of Bellway p.l.c. to the shareholders for the year ended 31 July 2009.

Principal activities

The Company is a holding company, owning subsidiary undertakings which continue to be engaged principally in housebuilding in the United Kingdom ("UK").

Performance and prospects

A review of the Group's performance and prospects that fulfils the requirements of the business review can be found in the Chairman's Statement on pages 2 to 5, the Chief Executive's Operating Review on pages 6 to 11, the Corporate Responsibility Policy on page 12, the 2009 Corporate Responsibility Statement on pages 15 to 17, the Environmental Policy Statement on pages 18 and 19, and the Financial Review on pages 20 to 23. In addition, information in respect of the principal operating risks of the business is set out in the Operating Risk Statement on pages 24 and 25.

Results and dividends

The loss for the year attributable to equity holders of the parent company amounts to £27.4 million (2008 – £27.0 million profit).

Ordinary dividends

The directors have proposed a final ordinary dividend for the year ended 31 July 2009 of 6.0p per share. This has not been included within creditors as it was not approved before the year end. Dividends paid during the year comprise a final dividend of 6.0p per share in respect of the previous year ended 31 July 2008, together with an interim dividend in respect of the year ended 31 July 2009 of 3.0p per share.

The directors recommend payment of the final dividend on 20 January 2010 to shareholders on the Register of Members at the close of business on 11 December 2009.

Directors

All the directors of the Company, who are shown on page 26, served throughout the year, apart from Mr Toms who was appointed on 1 February 2009. Mr Finn was a director at the start of the year and retired on 16 January 2009. Mr Cuthbert joins the Board on 1 November 2009.

Two directors retire from the Board and offer themselves for re-election at the forthcoming Annual General Meeting ("AGM"). Mr Dawe and Mr Watson retire by rotation in accordance with the Company's Articles of Association (the "Articles") and the Combined Code. Mr Perry will retire at the forthcoming AGM and is not seeking re-election. Mr Toms will offer himself for re-election at the forthcoming AGM, having been appointed a director since the previous AGM. The directors' biographies are shown on page 27.

As reported in the Chairman's Statement on page 5, Mr John Cuthbert's appointment as a non-executive director takes effect from 1 November 2009. Mr Cuthbert will join the Audit Committee, the Nomination Committee and the Board Committee on Executive Directors' Remuneration following Mr Perry's retirement on 15 January 2010. Mr Cuthbert will offer himself for re-election at the forthcoming AGM, the first following his appointment.

None of the executive directors hold external directorships.

Following formal rigorous evaluation, the Chairman, acting on behalf of the Board, is satisfied as to the effectiveness and commitment of the Chief Executive, Mr Watson, and Mr Johnson, as senior independent non-executive director, acting on behalf of the Board, is satisfied as to the effectiveness and commitment of Mr Dawe.

Directors' contracts

Details of the terms of appointment of the two directors who are retiring and offering themselves for re-election, and the two directors who are offering themselves for re-election at the forthcoming AGM are set out below:

	First appointed as a director	Current contract/letter of appointment commencement date	Current contract/letter of appointment expiry date	Unexpired term at the date of this report	Notice period by the Company
Service contract of executive director					
J K Watson	1 August 1995	16 March 2001, amended 7 October 2009	Normal retirement age (60)	12 months	12 months
Letter of appointment of non-executive directors					
H C Dawe	9 August 1977	1 November 2007	31 October 2010	12 months	3 months
M R Toms	1 February 2009	1 February 2009	31 January 2012	27 months	3 months

Mr J A Cuthbert is to be appointed as a non-executive director with effect from 1 November 2009 for a term of three years with a notice period on either side of three months.

Details of the terms of appointment of all the directors are given in the Report of the Board on Directors' Remuneration on pages 36 and 37.

Directors' interests

The directors' interests in the share capital of the Company and in share ownership plan arrangements are given in the Report of the Board on Directors' Remuneration on pages 38 to 41.

Takeovers Directive

The information for shareholders required pursuant to section 992 of the Companies Act 2006 which implements the Takeovers Directive is disclosed in this report and in the Shareholder Information section on page 79.

Notifiable shareholders' interests

As at 12 October 2009, the Company had been notified of the following interests amounting to 3% or more of the voting rights in the issued ordinary share capital of the Company:

	Number of shares with voting rights	% total voting rights
Fidelity International Ltd/FMR Corp	9,300,000	7.70
Aegon UK Group of Companies	6,051,142	5.01
JP Morgan Asset Management Holdings Inc.	6,046,514	5.01
AXA Framlington Investment Management.	5,603,638	4.64
Legal & General Group plc	4,545,633	3.76
Polaris Capital Management, LLC	4,407,939	3.65
HBOS plc	4,261,453	3.53
Credit Suisse Securities (Europe) Limited	3,890,282	3.22

Corporate governance

Introduction

The Board acknowledges the importance of, and is committed to, the principle of achieving and maintaining a high standard of corporate governance.

This report, together with the Report of the Board on Directors' Remuneration, as detailed on pages 35 to 41, describes how the Principles of Good Governance, which are set out in section 1 of the Combined Code, are applied by the Group.

Statement of compliance with the Code of Best Practice

The Board considers that it has complied with the detailed provisions of the revised Combined Code, which was amended in June 2008, throughout the year to 31 July 2009 and up to the date of this report. The Combined Code is publicly available free of charge from FRC publications, tel: 020 8247 1264, e-mail: customer.services@cch.co.uk and online at: www.frcpublications.com.

Statement about applying the Principles of Good Governance

The Group has applied the Principles of Good Governance, including both the Main Principles and the Supporting Principles, by complying with the Combined Code as reported above. Further explanations of how the Main Principles and Supporting Principles have been applied are set out below and, in connection with the directors' remuneration, in the Report of the Board on Directors' Remuneration.

The Chairman's Statement, the Chief Executive's Operating Review and the Financial Review present a balanced and comprehensive assessment of the Group's position and prospects.

The Board

At the date of this report the Board consists of seven directors whose names, responsibilities and other details appear on pages 26 and 27. Three of the directors are executive and four of the directors, including the Chairman, are non-executive. One of the non-executive directors, Mr Perry, will retire at the AGM on 15 January 2010 and will not seek re-election. Mr John Cuthbert has accepted an appointment as a non-executive director from 1 November 2009, putting the number of Board members temporarily up to eight for a period of two and a half months. The Board discharges its responsibilities by providing entrepreneurial leadership of the Company within a framework of prudent and effective controls, which enables risk to be assessed and managed. It sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. It also defines the Company's values and standards and ensures that its obligations to its shareholders are understood and met.

The Board has adopted a schedule of matters which are specifically reserved for its decision which includes various matters to do with Companies Acts and other legal requirements, listing requirements, Board membership and Board Committees, management, corporate governance, employment, financial and other miscellaneous items. In addition, it has a series of matters that are dealt with at regular Board meetings including an operational review, a financial review, strategy, land acquired, major projects, personnel, corporate governance, internal control and health and safety. It has also adopted a framework of delegated commercial and operational authorities which define the scope of powers delegated to management below Board level.

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

Board effectiveness

The directors possess an appropriate balance of skills and experience to meet the requirements of the business.

During the year there were eleven Board meetings, four Audit Committee meetings, seven meetings of the Board Committee on Executive Directors' Remuneration, one meeting of the Board Committee on Non-Executive Directors' Remuneration and two Nomination Committee meetings.

There were no absences from any Board or Committee meetings by any director, with the exception that Mr Stoker, Mr Perry and Mr Johnson were each unable to attend one Board meeting.

During the year the non-executive directors met without the executive directors on one occasion, and also met once during the year without the Chairman present.

One-third of the directors offer themselves for re-election each year at the AGM and all directors seek re-election every three years in accordance with the Articles. New directors appointed since the last AGM are required to offer themselves for re-election at the next AGM.

Training and development

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

Board balance and independence

The roles of Chairman and Chief Executive, which are recorded in writing and approved by the Board, are separate with a clear division of responsibilities, ensuring a balance of responsibility and authority at the head of the Group.

The senior independent non-executive director is Mr Johnson, who was appointed to this role following Mr Finn's retirement on 16 January 2009. The senior independent non-executive director is available for shareholders to contact with any queries or concerns they may have.

Each of the non-executive directors, excluding the Chairman, has at all times acted independently of management and has no relationship which would materially affect the exercise of his independent judgement and decision-making. The Company considers all of its non-executive directors, excluding the Chairman, to be independent, as defined in the Combined Code. With regard to Mr Perry, as at 1 November 2009 he will have served on the Board and its Committees for ten years. The Company has carefully considered Mr Perry's character and judgement. He has been subject to a rigorous evaluation process and the Company can confirm that, in its view, he remains independent and therefore it is appropriate for him to remain in post until his retirement on 15 January 2010.

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

Board evaluation

During the year the directors undertook an evaluation of the performance and effectiveness of the Board, its Committees and individual directors. The evaluation was performed using a self-assessment questionnaire. This involved the Chairman, acting on behalf of the Board, evaluating the performance of the other individual directors, and the non-executive directors, led by the senior independent non-executive director, assessing the performance of the Chairman, taking into account the views of the executive directors. The Board, led by the Chairman, evaluated its own performance, and the Committees, led by the Chairman of each, evaluated their own performance.

As part of the process of ensuring Board effectiveness, the non-executive directors, led by the senior independent non-executive director, met without the Chairman present. Additionally, the Chairman held a meeting with the non-executive directors without the executives present. The Chairman also had meetings with each of the executive directors.

The Board and its Committees reviewed the results of these evaluations and are satisfied with the evidence they provided about the balance, effectiveness and performance of the Board and its Committees and the effectiveness and commitment of each director.

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Other Information

The Board Committees
The Board has properly constituted Audit, Remuneration and Nomination Committees. The terms of reference for the Committees are available either on request, at the AGM or on the Company's website: www.bellway.co.uk.

Audit Committee
The Audit Committee comprises three independent non-executive directors, Mr Johnson (Chairman) and Mr Perry, who were members of the Committee throughout the year, and Mr Toms who joined the Committee on his appointment to the Board on 1 February 2009. Mr Finn was a member of the Committee until his retirement on 16 January 2009. Mr Perry retires on 15 January 2010 and he will be replaced on the Committee from 15 January 2010 by Mr Cuthbert.

The Committee meets at least three times a year and met four times during the year under review. The Committee's responsibilities include the following.

- to consider the appointment/re-appointment of the external auditors and assess their independence each year.
- to recommend the audit fee to the Board and pre-approve any fees in respect of non-audit services provided by the external auditors and to ensure that the provision of non-audit services does not affect the external auditors' independence or objectivity.
- to agree the nature and scope of the audit and review the quality control procedures and steps taken by the auditors to respond to changes in regulatory and other requirements.
- to oversee the process for selecting the external auditors and make appropriate recommendations through the Board to the shareholders to consider at the AGM.
- to consider annually whether there is a need for an internal audit function and make a recommendation to the Board.
- to review the Group's procedures for handling allegations from whistleblowers.
- to review management's reports on the effectiveness of systems for internal financial control, financial reporting and risk management.
- to assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks.
- to review and make recommendations in relation to the half year and annual accounts prior to submission to the Board.

The Board believes that Mr Johnson, the Committee Chairman, has recent relevant financial experience as a Chartered Accountant. The Group has a written Independent Auditor Policy in place which seeks to preserve the independence of its auditors by defining those non-audit services the independent auditors may and may not provide. There are clearly defined levels of approval depending on the value of work to be provided. Where fees exceed £100,000, or where total non-audit fees equate to 100% of audit fees, Board approval would be required. Any material project with fees in excess of £200,000, where the auditors are considered for the provision of services, would be the subject of a competitive tendering process. During the year the Committee met the auditors without management present on two occasions. In addition, the Committee Chairman had regular contact with the Finance Director and the external auditors.

Board Committee on Executive Directors' Remuneration
The Board Committee on Executive Directors' Remuneration comprises Mr Toms (Chairman), Mr Perry and Mr Johnson. Mr Perry and Mr Johnson were members of the Committee throughout the year, and Mr Toms joined the Committee as Chairman on his appointment as a non-executive director on 1 February 2009. Mr Finn was a member of the Committee until his retirement on 16 January 2009. Mr Perry is to retire at the AGM on 15 January 2010, and he will be replaced on this Committee by Mr Cuthbert.

The Committee meets at least twice a year and during the year it met on seven occasions. Its duties are to review and recommend the basic salary, benefits in kind, terms and conditions of employment, including performance related payments, long-term incentive schemes and other benefits of the executive directors and the Chairman. The Report of the Board on Directors' Remuneration on pages 35 to 41 contains details of directors' remuneration and the Group's policies in relation to directors' remuneration.

Board Committee on Non-Executive Directors' Remuneration
The Board Committee on Non-Executive Directors' Remuneration comprises the executive directors and is chaired by Mr Watson. It meets at least once a year to review and recommend the terms, conditions and remuneration of the non-executive directors. Last year it met on one occasion to review the fees and terms of appointment of the non-executive directors.

Nomination Committee
The Nomination Committee comprises Mr Perry (Chairman), Mr Johnson and Mr Dawe, who were members of the Committee throughout the year, and Mr Toms who joined the Committee on his appointment to the Board on 1 February 2009. Mr Finn was a member of the Committee until his retirement on 16 January 2009. Mr Perry is to retire at the AGM on 15 January 2010, and he will be replaced on this Committee by Mr Cuthbert and replaced as Chairman of the Committee by Mr Dawe.

The Committee's main duties are to formulate plans for succession for both executive and non-executive directors and, in particular, for the key roles of Chairman and Chief Executive and to make recommendations regarding appointments to the Board.

The Committee meets at least twice a year and last year met on three occasions.

Appointments to the Board are made on merit through a formal, rigorous and transparent process against objective criteria recommended by the Committee. The Committee also guides the whole Board in arranging orderly succession for appointments to the Board. The appointment of a non-executive director is for a specified term and re-appointment is not automatic and is made on the recommendation of the Committee.

During the year the Committee was requested by the Board to recommend a suitable candidate to fill the vacancy to be created when Mr Perry retires from the Board at the conclusion of the AGM on 15 January 2010. The Committee consulted the Board and the Group Company Secretary, and did not use recruitment consultants or open advertising because the Committee felt able to recruit a suitably qualified individual using its own resources and that of the Company. The Committee recommended Mr Cuthbert to the Board and the Board agreed with the Committee's recommendation. His appointment will commence on 1 November 2009. Mr Cuthbert's biography is shown on page 27.

Other committees of the Board are formed to perform certain specific functions as required from time to time.

Directors' and officers' liability insurance

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

Directors' remuneration

The principles and details of directors' remuneration are detailed in the Report of the Board on Directors' Remuneration on pages 35 to 41.

Accountability and audit

The statement on going concern and the Statement of Directors' Responsibilities in respect of the Annual Report and Accounts are shown on pages 33 and 42 respectively.

The Audit Committee has meetings at least twice a year with the Company's auditors, KPMG Audit Plc. Its role is detailed above.

Internal control

The Board is responsible for the Group's system of internal control and also for reviewing its effectiveness. The Board has reviewed, on an ongoing basis, the effectiveness of the system of internal control throughout the year and up to the date of approval of the Annual Report and Accounts. The system is regularly reviewed by the Board in accordance with the guidance contained in the Turnbull Report "Internal Control Guidance for Directors of Listed Companies Incorporated in the United Kingdom". The Board acknowledges its responsibility to establish, maintain and monitor a system of internal control relating to operational, financial and compliance controls and risk management to safeguard the shareholders' interests in the Company's assets. This system, however, is designed to manage and meet the Group's particular requirements and reduce the risk to which it is exposed rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board has reviewed the effectiveness of the system of internal control and, in particular, it has reviewed the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed.

Management is responsible for the identification and evaluation of significant risks applicable to particular areas of the business together with the design and operation of suitable controls. These significant risks, which are described in the Operating Risk Statement on pages 24 and 25, are regularly assessed and cover all aspects of the business, but in particular land acquisition, planning, construction, health and safety, information and reporting systems, sales, environmental issues, personnel, asset protection, treasury management and legal and regulatory compliance. In addition, there is a responsibility to mitigate risk by the provision of adequate insurance cover and by management reporting on material changes in the business or external environment affecting the risk profile.

There is a system of regular reporting to the Board which provides for appropriate details and assurances on the assessment and control of risks.

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

- the Board has agreed a list of key risks which affect the Group and has considered the extent to which the measures taken by the Group mitigate those risks.
- an established monitoring structure is in place, which provides short lines of communication and easy access to members of the Board.
- delegation of clearly defined responsibilities to divisional boards with clear procedures and authority limits in place to provide and maintain effective controls across the Group.
- a comprehensive reporting system entailing annual budgets, regular forecasting and financial reporting.
- a central treasury function operates at Head Office.
- regular meetings with management attended by members of the Board to review divisional performance.
- the acquisition of land and land interests is subject to checking by management and approval by the Board to ensure that purchasing criteria are met.
- regular reviews of site costs and revenues by senior Head Office personnel which are reported to the Board.
- regular visits to sites by senior management and external consultants to monitor health and safety standards and performance.
- a number of the Group's key functions are dealt with centrally. These include finance, banking, taxation, financial services, pensions, insurance, information technology, legal, personnel and company secretarial.

Internal audit
The Company does not have an internal audit function and, as recommended by the Combined Code, the Audit Committee considers annually whether there is a need for an internal audit function and makes a recommendation to the Board. During the year, having considered the position, the Audit Committee recommended that no internal audit function, as such, was presently required, given the robust systems and strong controls already present in the Group. The position will continue to be monitored by the Audit Committee on behalf of the Board.

Whistleblowing arrangements
The Group has operated throughout the year a "whistleblowing" arrangement whereby all employees of the Group are able, via an independent external third party, to confidentially report any malpractice or matters of concern they have regarding the actions of management and employees. The Audit Committee and the Board regularly review the effectiveness of this arrangement.

Relations with shareholders
The Company encourages active dialogue with its private and institutional shareholders, both current and prospective. Meetings are held with both existing and prospective institutional shareholders on a regular basis and as requested. Shareholders are also kept up to date with Company affairs through the Annual and Half Year Reports, Trading Updates and Interim Management Statements. The AGM is used to communicate with institutional and private investors and their participation is encouraged by the taking of questions by the whole Board, both during, and also informally, before and after the meeting. The senior independent non-executive director is always available to discuss issues with current and prospective shareholders and institutions, as required. In addition, the whole Board is regularly updated on shareholder and investor views and activities at Board meetings by the Chief Executive and the Finance Director. Further information for shareholders is available under Shareholder Information on pages 77 to 80 and also on the Company's website at www.bellway.co.uk.

Going concern
After making due enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts as discussed further on page 47.

Employees
The Group is an equal opportunities employer. It is the Group's policy to develop and apply, throughout the Group, procedures and practices which are designed to ensure that equal opportunities are provided to employees of the Group, or those who seek employment with the Group, irrespective of their age, colour, disability, ethnic origin, gender, marital status, nationality, parental status, race, religion 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 assisted 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 Group policy to give full and fair consideration to the employment needs of disabled persons (and persons who become disabled whilst employed by the Group) and to comply with any current legislation with regard to disabled persons. Training at each division is planned and monitored through an annual training plan.

The importance of good communications with employees is recognised by the directors. Each division maintains employee relations using a variety of means appropriate to its own particular needs.

New employees, when eligible, are invited to join the Company's pension and life assurance arrangements and the Savings Related Share Option Scheme. The Company also offers a private medical scheme, childcare vouchers, a cycle to work scheme and personal accident insurance arrangements. In accordance with statutory requirements, the Company also has a designated stakeholder pension arrangement.

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 Statement, approved by the Board, has been adopted by all trading entities within the Group. Environmental issues are addressed in the Corporate Responsibility Policy on page 12, the 2009 Corporate Responsibility Statement on pages 15 to 17, the Environmental Policy Statement on pages 18 and 19, and in the Corporate Responsibility Report itself which is available to view on the Company's website www.bellway.co.uk or from the Group Company Secretary at the Company's registered office. In addition, the Company is developing its systems in line with the ISO14001 Environmental Standard.

Health and safety at work
The Group promotes all aspects of health and safety throughout its operations in the interests of employees, sub-contractors and 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 Chief Executive's Operating Review on pages 6 to 11, in the Corporate Responsibility Policy on page 12, in the 2009 Corporate Responsibility Statement on pages 15 to 17, and in the Corporate Responsibility Report on the Company's website www.bellway.co.uk.

Donations
During the year the Group made no political contributions but donated £11,275 (2008 – £22,010) for charitable purposes.

Significant relationships
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.

Other than the foregoing the Group has contractual and other arrangements in place with suppliers and other third parties which support its business activities. None of these arrangements are considered to be critical to the performance of the business.

Suppliers

The Group agrees terms and conditions under which business transactions with suppliers are conducted. The policy is that payments to suppliers are made in accordance with these terms and conditions, provided that the supplier is also complying with the terms and conditions. The Group follows the Better Payment Practice Code and its current policy concerning the payment of the majority of its materials suppliers and sub-contractors is for payment to be made at the month end following the month of the invoice. For other supplies, particularly land, the terms are many and varied. Trade creditors due within one year at 31 July 2009 of £52.610 million (2008 – £75.075 million) gave a creditor payment period of 26 days (2008 – 27 days). Land creditors due within one year were £83.588 million (2008 – £81.806 million). Including land creditors, the creditor payment period was 68 days (2008 – 57 days).

The parent company had no land or trade creditors at 31 July 2009 (2008 – £nil).

Purchase of the Company's own shares

The Company was given authority at the 2009 AGM to purchase its own ordinary and preference shares. As at the date of this report no market purchases have been made by the Company and this authority will expire at the end of the 2010 AGM. Shareholders will be asked to renew this authority at the 2010 AGM.

Indemnification of directors

The Company has in place directors' and officers' insurance and 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 approving this report.

Disclosure of all relevant information to auditors

The directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

In accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming AGM.

AGM – special business

Five resolutions will be proposed as special business at the AGM to be held on Friday 15 January 2010. Explanatory notes on these resolutions are set out in Shareholder Information on pages 77 and 78.

By order of the Board
G Kevin Wrightson
Group Company Secretary

12 October 2009

Report of the Board on Directors' Remuneration

Introduction

The remuneration of the executive directors is determined by the Board Committee on Executive Directors' Remuneration (the "Committee") within a framework set by the Board. As at the date of this report, the Committee's members are three non-executive directors, Mr Toms (Chairman), Mr Perry and Mr Johnson. Mr Perry is to retire at the AGM on 15 January 2010, and he will be replaced on this Committee by Mr John Cuthbert. None of the Committee members has a personal financial interest, other than as shareholders, in the matters to be decided. There are no conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business.

During the year, the Group Company Secretary attended a number of Committee meetings at the invitation of the Committee and provided advice on issues other than those relating to his own remuneration. The Committee also received independent external advice from Hewitt New Bridge Street. Hewitt New Bridge Street was appointed by the Committee and does not provide any other services to the Company other than to the Board Committee on Non-Executive Directors' Remuneration.

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

The Chairman's remuneration is determined by the other non-executive directors.

Context

This year's report is set in the context of the vote against the advisory resolution to approve the directors' remuneration report for 2007/08 at the Annual General Meeting ("AGM") in January 2009. The opposition of shareholders reflected concerns about the decision of the Committee to base the 2007/08 annual bonus on a broad judgement of the performance of management in a volatile market, rather than to determine the bonus using a range of fixed operating profit targets, based around budget, as had been the case in previous years. It also reflected concerns that the Committee had failed to consult shareholders adequately in making this change.

The Committee has been very mindful of these concerns, and undertook extensive consultations with institutional shareholders on future bonus arrangements in the spring of this year. As a result of these consultations it made significant changes to bonus arrangements including:

- reducing the maximum annual bonus payable from 120% (150% of salary in exceptional circumstances) to 100% of salary.
- for this year, further reducing maximum bonus potential to one-third of salary, to reflect the fact that the bonus terms were not established until March 2009.
- restructuring the bonus for this year from a payment based solely on operating profit, to a payment based on fixed targets for operating profit (before exceptional items) (40%) and cash generation (excluding any equity raising) (40%), with 20% based on personal performance, to be evaluated by the Committee after the year end, thereby providing a more rounded assessment of performance.

The Committee also determined to freeze the salaries and certain benefits of executive directors for the 2009/10 financial year.

Shareholders were consulted before these changes were implemented, and were supportive of the arrangements.

The Committee considers these actions to be a measured and reasonable response to shareholders' concerns and hopes that they will be endorsed.

The Company has also addressed the vesting of the award of shares granted in 2006 under the Bellway p.l.c. (2004) Performance Share Plan ("PSP"). The award was based on relative Total Shareholder Return ("TSR") and the calculation as at 31 July 2009 confirmed that the TSR condition had been met. Before confirming the award, the Committee also considered the financial underpin which requires the Committee to satisfy itself that the Company's TSR reflects the Company's underlying financial performance. The underpin, which was approved by shareholders at the AGM in 2004, is defined in narrow and precise terms. The Committee considers that the terms of the underpin have been met and the awards will vest.

The Committee has engaged with shareholders regarding certain matters in relation to the future operation of the PSP, including the wording of a financial underpin to apply to future awards and will give due consideration to these issues for the financial year commencing 1 August 2010.

Objectives

The aim of the Committee is to ensure that the Company has competitive remuneration packages in place in order to recruit, retain and motivate executive directors in the overall interests of shareholders, the Company, its employees and its customers. The Committee has set, as an objective, a policy of paying remuneration around the median of a peer group of similar UK housebuilding businesses and it is satisfied that the structure of the executives' packages broadly achieves this objective. The Committee has used this comparative approach to benchmarking with caution, recognising the risk of upward only reviews of remuneration. The structure of the package has been designed to ensure that the performance-related elements of remuneration (annual bonus and long-term incentives) constitute a significant proportion of an executive's potential total remuneration package, but are only receivable if demanding and stretching performance targets are achieved. The Committee considers that the remuneration level and structure are fully competitive with the market, with a significant element of the package payable in the form of share-based incentives, subject to long-term performance conditions, including relative TSR performance against other UK housebuilders, thereby creating an alignment with the interests of shareholders.

In framing the Company's remuneration policy for executive directors, the Committee has given full consideration to the best practice provisions in the Combined Code and the Association of British Insurers' ("ABI") guidance.

Summary of remuneration policy

The policy in relation to each component of executive remuneration is described below:

Component	Policy	Performance period	How achieved
Salary	To be market competitive	n/a	Salary levels set by reference to the mid-market level of a peer group of similar UK housebuilding businesses, taking account of individual performance and experience. In practice, notwithstanding the fact that the current management team is highly experienced and well regarded, packages are generally at or below the median.
Benefits	To provide a range and value which is market competitive	n/a	Benefits to be at the mid-market level of a peer group of similar UK housebuilding businesses which include a salary supplement in lieu of pension contributions, car or car allowance, life assurance, medical cover and permanent health insurance.
Annual Bonus	To reward achievement of annual operational-based performance targets	1 year	By providing the opportunity to earn a bonus of up to 100% of salary for outstanding operational performance, both financial and non-financial.
Long-term incentives (performance shares and matching shares)	To encourage long-term value creation, to aid retention, to encourage shareholding, and to promote alignment of interest with shareholders	3 years	By using share-based incentives with performance conditions which are aligned with shareholders' interests, such as TSR, which are assessed over a three-year period.

Service contracts and letters of appointment

The executive directors have fixed-term service contracts which specify that retirement is at age 60, with a 12-month notice period from the Company and a six-month notice period from the executive. On termination by the Company, an amount equivalent to one year's salary, benefits and the average amount of the last two years' annual bonus payments, would be payable. Within six months of a change of control, if the Company or the executive director serves notice to terminate the contract, the liquidated damages payment would be triggered.

The inclusion of average annual bonus in the calculation of compensation payable for early termination will ensure that there is variability in the potential level of compensation. In particular, after a period of poor performance, it could be expected that little or no bonus would be payable, reducing potential payout in these circumstances.

The service contracts of all executive directors have been reviewed and amended, including the removal of the right to indexation of basic salaries. The Committee has also proposed amendments to the terms of future contracts. These actions will make service contracts consistent with current best practice. The details of the executive directors' service contracts are as follows:

Executive director	First appointed as a director	Current contract commencement date
J K Watson	1 August 1995	16 March 2001, amended 7 October 2009
P J Stoker	1 August 1995	19 January 1996, amended with effect from 1 November 2003 and further amended 7 October 2009
A M Leitch	1 August 2002	1 September 2002, amended 7 October 2009

All non-executive directors have letters of appointment with the Company of no more than three years with a three-month notice period by either side.

Non-executive director	First appointed as a director	Current letter of appointment commencement date	Current letter of appointment expiry date
H C Dawe	9 August 1977	1 November 2007	31 October 2010
D G Perry	1 November 1999	1 November 2006	15 January 2010
P M Johnson	1 November 2003	1 November 2006	31 October 2009
M R Toms	1 February 2009	1 February 2009	31 January 2012

On the expiry of his existing letter of appointment, it is the intention of the Company to issue a new letter of appointment to Mr Johnson for a term of three years. Mr Cuthbert is to be appointed as a non-executive director with effect from 1 November 2009 and his letter of appointment will run from 1 November 2009 to 31 October 2012.

Salaries and fees

Salaries are reviewed on 1 August each year, taking into account the general settlement across the Company. Any changes are implemented from that date.

For the year under review, the executive directors were awarded a rise of 3% with effect from 1 August 2008. For the 2009/10 financial year salaries were frozen from 1 August 2009.

Fee levels for non-executive directors reflect the time commitment and responsibilities of the role and are reviewed annually, taking into account the level of fees for similar positions in comparable companies. They are not entitled to any benefits (with the exception of the Chairman) or pension. They do not participate in any bonus or long-term incentive plan and they are not entitled to compensation on termination of their agreements, other than normal notice provisions of three months' notice given by either party.

Benefits in kind

Benefits in kind provided to the executive directors relate to the provision of motor vehicles and private medical insurance.

Annual bonus scheme

For several years the annual bonus scheme had a potential of 120% of basic salary (with 150% for exceptional performance). Following engagement with institutional shareholders, for the year under review the maximum was reduced to 100% of basic salary. Furthermore, in view of the fact that the performance conditions had not been determined until two-thirds of the 2008/09 financial year had elapsed, the maximum bonus potential was scaled back to one-third of basic salary. The performance conditions for the 2008/09 bonus were operating profit (before exceptional items) (40%), debt reduction (excluding any equity raising) (40%) and personal performance (20%). The latter to be assessed on the basis of how well management is perceived to have negotiated the Company through the present housing downturn during the year. Full details of the bonus payments and the performance conditions are set out in the notes to the table of directors' emoluments. Annual bonuses are not pensionable.

The 2009/10 bonuses will also be capped at 100% of basic salary. The performance conditions will be operating profit (before exceptional items) (80%) and personal performance (20%), with personal performance being assessed by reference to succession planning, land bank management, health and safety and customer care. The greater weighting on operating profit (before exceptional items) at the expense of debt reduction in last year's bonus plan reflects the improved opportunities for growth this year.

The bonus will be payable in cash, with executives having the opportunity to invest up to 25% of their net cash bonus in Bellway shares under the terms of the Bellway p.l.c. (2008) Share Matching Plan.

Long-term incentive schemes

The Company operates two long-term incentive plans, designed to focus executive directors on longer term value creation, provide a strong retentive element and provide alignment of interest with shareholders.

The Bellway p.l.c. (2004) Performance Share Plan (the "PSP") was introduced for the Company's executive directors and the Group Company Secretary. Under the PSP, executives have been granted awards over shares worth 100% of basic salary each year, subject to the achievement of TSR-based performance conditions or, in January 2008, a combination of TSR and Return on Capital Employed ("ROCE") conditions.

The policy for long-term incentives to be granted in the 2009/10 financial year, as was the case in prior years, will be for awards to be granted over shares worth 100% of basic salary. Awards will vest to executives after three years subject to the achievement of performance conditions based around TSR, which compares the stock market performance (share price movement and dividends paid) of different companies.

A TSR performance condition will compare Bellway's TSR against that of an index created by the average TSR of the other UK housebuilders. Awards will start to vest at 25% if Bellway's TSR matches the performance of the index. Full vesting will occur if Bellway's TSR out-performs the index by an average of 7.5% per annum over three years. The Committee has carried out significant modelling, the results of which support the premise that 7.5% per annum outperformance is equivalent to average "upper quartile" TSR performance of the housebuilders over the long term.

Further, regardless of TSR performance, no part of the TSR element of an award will vest unless the Committee considers that the Company's TSR over the performance period reflects underlying financial performance.

The companies comprising the Index for the awards to be granted in the financial year commencing on 1 August 2009 are Barratt Developments PLC, The Berkeley Group plc, Bovis Homes Group PLC, Persimmon plc, Redrow plc and Taylor Wimpey plc.

TSR is recognised as enabling alignment with the interests of institutional shareholders through providing a reward mechanism for delivering superior stock market performance.

Report of the Board on Directors' Remuneration continued

The Bellway p.l.c. (2008) Share Matching Plan (the "SMP") operates in conjunction with the annual bonus plan. Under the SMP senior executives may invest up to 25% of their net cash bonus, on a voluntary basis, in Bellway shares, which must be held for a minimum of three years. Invested shares will not be subject to a risk of forfeiture and executives will enjoy full beneficial ownership (including voting rights and dividends).

In return for investing in shares, under the SMP, an award of matching shares is granted. The level of matching is on a gross basis to the net of tax bonus invested in shares.

Matching shares will vest subject to the executive remaining employed, retention of the invested shares and also subject to a performance condition.

No awards have been made to date. For any awards which may be made the performance condition will be the same as will apply to the award under the PSP in the same period.

In addition to the two executive plans detailed above, the Bellway p.l.c. (2003) Savings Related Share Option Scheme ("2003 SRSOS") is available to all employees, including the executive directors.

Shareholding guidelines

There is a minimum shareholding requirement for the executive directors, equivalent to 100% of basic salary. As at 31 July 2009, and at the date of this report, all executive directors hold shares with an equivalent value well in excess of 100% of their basic salary. Any executive directors appointed in the future will be given an appropriate period of time to acquire the requisite shareholding.

Directors' interests

The directors' interests (including family interests and holdings in which the directors are interested only as trustees) in the ordinary share capital of the Company are set out below:

	Fully paid ordinary 12.5p shares	
Beneficial interests	**31 July 2009**	1 August 2008
H C Dawe	**143,634**	143,634
J K Watson	**400,527**	400,527
P J Stoker	**540,000**	536,531
A M Leitch	**132,473**	132,473
D G Perry	**5,000**	5,000
P M Johnson	**4,300**	4,300
M R Toms	**–**	–

There has been no change in the above interests between 31 July 2009 and the date of this report.

In addition, Mr Dawe had a beneficial interest in 629,164 Bellway p.l.c. 9.5% cumulative redeemable preference shares 2014 of £1 each which are held in his Self Invested Personal Pension Plan ("SIPP") at 31 July 2009 and at the date of this report (1 August 2008 – 554,164). Mr Leitch had a beneficial interest in 50,000 Bellway p.l.c. 9.5% cumulative redeemable preference shares 2014 of £1 each, which he held at 31 July 2009 and at the date of this report (1 August 2008 – 50,000).

Pensions

As disclosed in last year's report, in July 2008 the executive directors took enhanced transfer values from the final salary section of the Bellway plc 1972 Pension & Life Assurance Scheme, and therefore have no accrued pension entitlements. Since 1 June 2008 they have received a cash payment in lieu of pension contributions amounting to 30% of basic salary.

The auditors are required to report on the information contained in the following part of this report.

Directors' remuneration

	Salary and Fees £	Taxable Benefits[1] £	Annual Bonus[2] £	Payment in lieu of pension[3] £	Total 2009 £	Total 2008 £
Non-executive Chairman						
H C Dawe	228,094	2,020	–	–	**230,114**	222,863
Executive directors						
J K Watson	515,000	25,755	104,391	154,500	**799,646**	824,917
P J Stoker	334,750	24,933	67,854	100,425	**527,962**	544,276
A M Leitch	334,750	24,696	67,854	100,425	**527,725**	544,009
Non-executive directors						
P M Johnson	49,675	–	–	–	**49,675**	46,000
D G Perry	47,380	–	–	–	**47,380**	46,000
M R Toms[4]	23,690	–	–	–	**23,690**	–
L P Finn[5]	23,835	–	–	–	**23,835**	50,000
Totals	1,557,174	77,404	240,099	355,350	**2,230,027**	2,278,065

Notes:

1. Taxable benefits relate to the provision of motor vehicles and private medical insurance.
2. The annual bonus is payable in November 2009 for performance during the year ended 31 July 2009. The performance conditions for the 2008/09 bonus are operating profit (before exceptional items) (40%), debt reduction (excluding any equity raising) (40%) and personal performance (20%). The latter has been assessed on the basis of how well management is perceived to have negotiated the Company through the present housing downturn during the year. In addition, the bonus potential was scaled back by two-thirds as these targets were not set until March 2009. The actual bonus payments against each of these metrics were determined on the following basis:
   - operating profit was £45.6 million, which was at the lower end of the target range. A bonus of 1.94% of salary was therefore achieved.
   - debt reduction was £180.9 million and the Company finished the year with debt of £36.8 million. This was well above the maximum of the target range and a bonus of 13.33% of salary was achieved.
   - in respect of personal performance the Committee considered that the management team had clearly identified its strategic priorities and had jointly responded effectively to market conditions by reducing the size of the business and exerting strict cost control. A bonus of 5% of salary was therefore awarded to each executive director.
3. Executive directors receive a cash payment in lieu of pension contribution amounting to 30% of basic salary.
4. Appointed 1 February 2009.
5. Retired 16 January 2009.

Directors' interests in deferred bonus plan

The executive directors have a beneficial interest in certain shares held in the Bellway Employee Share Trust (1992) pursuant to the grant of deferred bonus entitlements under the terms of the Bellway p.l.c. 2003 Deferred Bonus Plan (a legacy plan). The number of shares held in the Trust in respect of each director is as follows:

	Fully paid ordinary 12.5p shares			
	Entitlements held in Trust as at 1 August 2008	Entitlements awarded during the year	Entitlements vested during the year[1]	**Entitlements held in Trust as at 31 July 2009**
J K Watson	41,844	–	(23,987)	**17,857**
P J Stoker	30,621	–	(17,675)	**12,946**
A M Leitch	27,204	–	(15,150)	**12,054**

Notes:

1. Additional shares (not included above) were awarded on vesting in lieu of dividends accrued on the shares held in the Trust from the date of the award to vesting in respect of each director as follows: Mr Watson 2,874 shares, Mr Stoker 2,117 shares and Mr Leitch 1,815 shares.
2. There has been no change in the above holdings between 31 July 2009 and the date of this report.

Report of the Board on Directors' Remuneration continued

Directors' interests in Performance Share Plan ("PSP")

In addition, the executive directors have a potential future beneficial interest in certain shares held in the Bellway Employee Share Trust (1992) pursuant to the allocation of shares under the PSP. Further information on the PSP is set out on pages 35 and 37. The number of shares allocated in the Trust in respect of each director, along with the market price of the shares at the date of award, is shown below:

		Fully paid ordinary 12.5p shares				
Potential future beneficial interests	Award date	Awards held at 1 August 2008	Awarded during the year	Awards lapsed during the year	Awards vested during the year[5]	**Awards held at 31 July 2009**
J K Watson	14.11.2005[1]	42,083	–	–	(42,083)	**–**
	18.10.2006[2]	33,482	–	–	–	**33,482**
	16.01.2008[3]	67,159	–	–	–	**67,159**
	04.11.2008[4]	–	89,487	–	–	**89,487**
Totals		142,724	89,487	–	(42,083)	**190,128**
P J Stoker	14.11.2005[1]	30,510	–	–	(30,510)	**–**
	18.10.2006[2]	23,065	–	–	–	**23,065**
	16.01.2008[3]	43,653	–	–	–	**43,653**
	04.11.2008[4]	–	58,167	–	–	**58,167**
Totals		97,228	58,167	–	(30,510)	**124,885**
A M Leitch	14.11.2005[1]	28,406	–	–	(28,406)	**–**
	18.10.2006[2]	23,065	–	–	–	**23,065**
	16.01.2008[3]	43,653	–	–	–	**43,653**
	04.11.2008[4]	–	58,167	–	–	**58,167**
Totals		95,124	58,167	–	(28,406)	**124,885**

Notes:

1. Market value on award 950.50p (14.11.2005), performance period 1 August 2005 – 31 July 2008.
2. Market value on award 1,344.00p (18.10.2006), performance period 1 August 2006 – 31 July 2009.
3. Market value on award 744.50p (16.01.2008), performance period 1 August 2007 – 31 July 2010.
4. Market value on award 575.50p (04.11.2008), performance period 1 August 2008 – 31 July 2011.
5. Market value on 24 November 2008, which was the day the shares vested, was 513.00p. The awards vested at 100% of the full entitlement. Aggregate gross gains made by these directors on vesting of these awards under the PSP in the year were £507,840.17 (2008 – £620,886.34).
6. The performance conditions for each award are summarised below:
   (a) For awards made on 14 November 2005 and 18 October 2006, vesting is conditional on the achievement of a TSR performance condition requiring Bellway's TSR to be at least at the median of a comparator group of other housebuilders (at which point 33% of the award vests). Full vesting requires Bellway's TSR to be at the upper quartile. The Comparator group comprises Barratt Developments PLC, The Berkeley Group plc, Bovis Homes Group PLC, Persimmon plc, Redrow plc and Taylor Wimpey plc (plus Countryside Properties PLC, Crest Nicholson plc, McCarthy & Stone plc, Taylor Woodrow plc, Westbury plc and Wilson Bowden plc, all of whom have now delisted).
   (b) For awards made on 16 January 2008, two performance conditions applied to separate parts of the award:
      (i) 50% of the award is based on a TSR condition against other housebuilders but, instead of a ranking approach (comparing Bellway's TSR to that of each other company) an Index is created out of the TSR of the other housebuilders in the group. Bellway's TSR is compared to that of the Index. If Bellway's TSR matches that of the Index, 25% of the TSR part of the award vests (reduced from the previous vesting profile whereby 33% of the award vested at median). Full vesting is achieved for 7.5% per annum outperformance of the Index. The companies comprising the Index for the awards made on 16 January 2008 are Barratt Developments PLC, The Berkeley Group plc, Bovis Homes Group PLC, Persimmon plc, Redrow plc and Taylor Wimpey plc.
      (ii) The remaining 50% of the award is based on a range of ROCE based targets requiring average annual ROCE of 15% per annum (at which point, 25% of the ROCE part of the award would vest) to 22% per annum for all of this part of the award to vest. Awards vest on a straight-line basis in between these two points.
   (c) For the award made on 4 November 2008 the TSR part of the award applied as the sole performance condition (compared to the same companies as for the award made on 16 January 2008).
   Further, regardless of TSR performance, no part of the TSR element of an award will vest unless the Committee considers that the Company's TSR over the performance period reflects underlying financial performance.
7. The market price of the ordinary shares at 31 July 2009 was 735.00p and the range during the year was 400.50p to 780.00p.

There has been no change in the above potential future beneficial interests between 31 July 2009 and the date of this report.

Directors' share options

Details of all directors' interests under the all-employee savings related share option scheme are shown below:

	Scheme	1 August 2008	Granted during the year	Withdrawn from during the year	31 July 2009	Exercise price (p)	Exercisable from	Expiry date
J K Watson	2003 SRSOS	1,133	–	(1,133)	**–**	847.20	1 Feb 2011	31 July 2011
	2003 SRSOS	–	2,857	–	**2,857**	336.00	1 Feb 2012	31 July 2012
Totals		1,133	2,857	(1,133)	**2,857**			
P J Stoker	2003 SRSOS	1,133	–	(1,133)	**–**	847.20	1 Feb 2011	31 July 2011
	2003 SRSOS	–	2,857	–	**2,857**	336.00	1 Feb 2012	31 July 2012
Totals		1,133	2,857	(1,133)	**2,857**			
A M Leitch	2003 SRSOS	1,133	–	(1,133)	**–**	847.20	1 Feb 2011	31 July 2011
Totals		1,133	–	(1,133)	**–**			

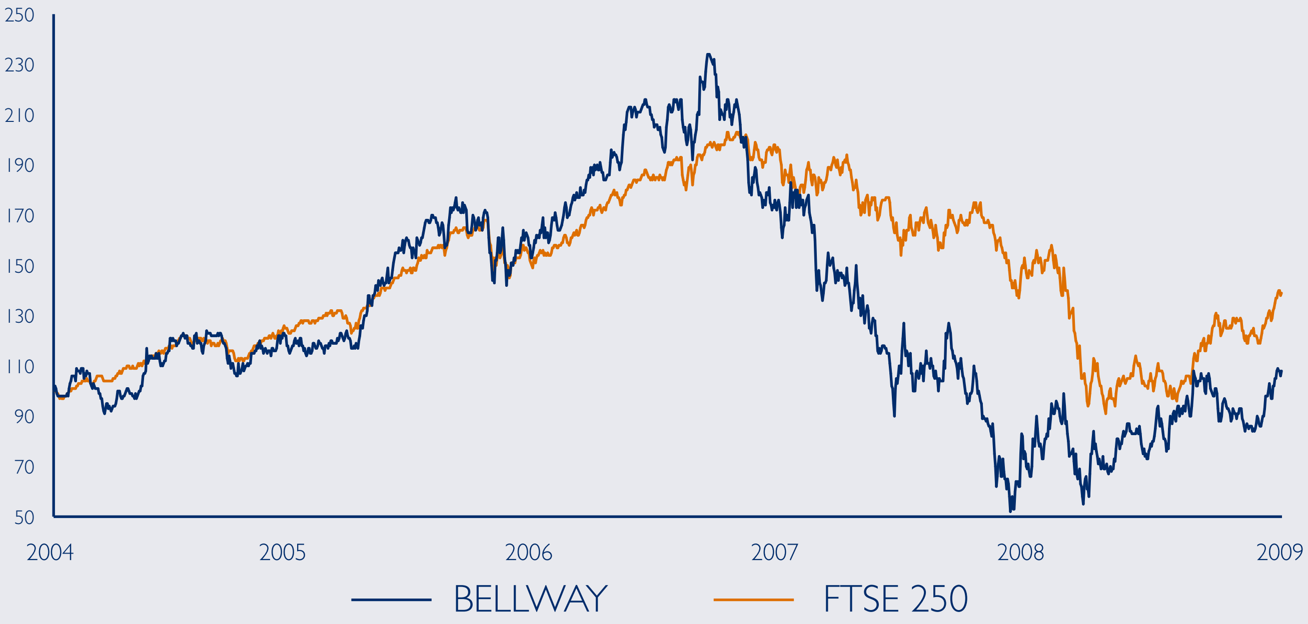
Notes:

1. All of the above options were granted for nil consideration.
2. The market price of the ordinary shares at 31 July 2009 was 735.00p and the range during the year was 400.50p to 780.00p.

Performance graph

The graph below shows the total shareholder return performance of the Company and a "broad equity market index" over the past five financial years. As the Company has been a constituent of the FTSE 250 Index over this period, the Committee considers that index to be the most appropriate for comparison purposes.

Total shareholder return over the last five financial years
Source: Datastream



This graph looks at the value at 31 July 2009, of £100 invested in Bellway p.l.c. on 31 July 2004 compared with the value of £100 invested in the FTSE 250 Index over the same period.

This report will be put to an advisory vote of the Company's shareholders at the AGM on 15 January 2010.

On behalf of the Board of Bellway p.l.c.

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

12 October 2009

Statement of Directors' Responsibilities in respect of the Annual Report and Accounts

The directors are responsible for preparing the Annual Report and Accounts 2009 and the Group and parent company financial statements in accordance with applicable law and regulations.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether they have been prepared in accordance with IFRSs as adopted by the EU.

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

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

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

Responsibility statement of the directors in respect of the Annual Report and Accounts
We confirm that to the best of our knowledge:

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

Alistair M Leitch
Finance Director

12 October 2009

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

We have audited the financial statements of Bellway p.l.c. for the year ended 31 July 2009 set out on pages 44 to 75. 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with sections 495, 496 and 497 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 auditors' 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 auditors

As explained more fully in the directors' responsibilities statement set out on page 42, 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 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 ("APB'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 APB's website at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 July 2009 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Report of the Board on Directors' Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 33, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

M R Thompson (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Quayside House, 110 Quayside
Newcastle upon Tyne NE1 3DX

12 October 2009

Group Income Statement

for the year ended 31 July 2009

	Notes	2009 Pre-exceptional item £000	2009 Exceptional item note 5 £000	**2009 Total £000**	2008 Pre-exceptional item £000	2008 Exceptional item note 5 £000	2008 Total £000
Revenue	1	683,813	–	**683,813**	1,149,541	–	1,149,541
Cost of sales	5	(596,680)	(66,312)	**(662,992)**	(905,745)	(130,905)	(1,036,650)
Gross profit		87,133	(66,312)	**20,821**	243,796	(130,905)	112,891
Administrative expenses		(41,554)	–	**(41,554)**	(58,761)	–	(58,761)
Operating (loss)/profit	4	45,579	(66,312)	**(20,733)**	185,035	(130,905)	54,130
Finance income	2	4,894	–	**4,894**	3,631	–	3,631
Finance expenses	2	(20,712)	–	**(20,712)**	(22,683)	–	(22,683)
Share of losses of equity accounted entities	11	–	–	**–**	(315)	–	(315)
(Loss)/profit before taxation		29,761	(66,312)	**(36,551)**	165,668	(130,905)	34,763
Income tax credit/(expense)	6	(9,460)	18,567	**9,107**	(46,159)	38,399	(7,760)
(Loss)/profit for the year*		20,301	(47,745)	**(27,444)**	119,509	(92,506)	27,003

* All attributable to equity holders of the parent.

	Notes						
(Loss)/earnings per ordinary share – Basic	8	17.7p	(41.6)p	**(23.9)p**	104.2p	(80.6)p	23.6p
(Loss)/earnings per ordinary share – Diluted	8	17.6p	(41.5)p	**(23.9)p**	104.1p	(80.6)p	23.5p

Statements of Recognised Income and Expense

for the year ended 31 July 2009

	Notes	**Group 2009 £000**	Group 2008 £000	**Company 2009 £000**	Company 2008 £000
Actuarial gains/(losses) on defined benefit pension scheme	24	**353**	(14,351)	**–**	–
Tax on items taken directly to equity	6	**(99)**	4,018	**–**	–
Net expense recognised directly in equity		**254**	(10,333)	**–**	–
(Loss)/profit for the year		**(27,444)**	27,003	**(1,873)**	(1,900)
Total recognised (expense)/income*	19	**(27,190)**	16,670	**(1,873)**	(1,900)

* All attributable to equity holders of the parent.

Balance Sheets

at 31 July 2009

	Notes	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
ASSETS					
Non-current assets					
Property, plant and equipment	9	**8,250**	11,559	**–**	–
Investment property	10	**7,377**	4,092	**–**	–
Investments in subsidiaries and equity accounted entities	11	**–**	126	**26,788**	25,470
Other financial assets	14	**20,826**	5,607	**–**	–
Deferred tax assets	12	**7,328**	7,871	**–**	–
		43,781	29,255	**26,788**	25,470
Current assets					
Inventories	13	**1,211,351**	1,503,936	**–**	–
Corporation tax receivable		**9,847**	23,900	**–**	–
Trade and other receivables	14	**41,749**	30,596	**703,617**	715,578
Cash and cash equivalents	21	**43,210**	109,313	**4,953**	5,139
		1,306,157	1,667,745	**708,570**	720,717
Total assets		**1,349,938**	1,697,000	**735,358**	746,187
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings	15	**100,000**	295,000	**20,000**	20,000
Retirement benefit obligations	24	**11,925**	12,709	**–**	–
Land and other payables	16	**26,854**	51,306	**–**	–
		138,779	359,015	**20,000**	20,000
Current liabilities					
Interest-bearing loans and borrowings	15	**–**	52,000	**–**	–
Trade and other payables	16	**246,147**	284,901	**858**	1,058
		246,147	336,901	**858**	1,058
Total liabilities		**384,926**	695,916	**20,858**	21,058
Net assets		**965,012**	1,001,084	**714,500**	725,129
EQUITY					
Issued capital	18	**14,375**	14,372	**14,375**	14,372
Share premium	19	**117,198**	116,928	**117,198**	116,928
Other reserves	19	**1,492**	1,492	**2,145**	2,145
Share-based payment reserve	19	**–**	–	**10,585**	9,267
Retained earnings	19	**832,013**	868,358	**570,197**	582,417
Total equity attributable to equity holders of the parent		**965,078**	1,001,150	**714,500**	725,129
Minority interest	19	**(66)**	(66)	**–**	–
Total equity		**965,012**	1,001,084	**714,500**	725,129

Approved by the Board of Directors on 12 October 2009 and signed on its behalf by

Registered number 1372603

Howard C Dawe
Director

Alistair M Leitch
Director

Cash Flow Statements

for the year ended 31 July 2009

	Notes	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Cash flows from operating activities					
(Loss)/profit for the year		**(27,444)**	27,003	**(1,873)**	(1,900)
Depreciation charge	9	**2,190**	2,858	**–**	–
Loss on sale of property, plant and equipment	4	**4**	140	**–**	–
Loss/(profit) on sale of investment properties		**55**	(151)	**–**	–
Finance income	2	**(4,894)**	(3,631)	**(27)**	–
Finance expenses	2	**20,712**	22,683	**1,900**	1,900
Share-based payment charge	24	**1,318**	1,685	**–**	–
Income tax (credit)/expense	6	**(9,107)**	7,760	**–**	–
Decrease in inventories		**293,155**	33,938	**–**	–
(Increase)/decrease in trade and other receivables		**(22,744)**	13,322	**11,961**	51,784
(Decrease)/increase in trade and other payables		**(69,282)**	(101,688)	**150**	149
Cash from operations		**183,963**	3,919	**12,111**	51,933
Interest paid		**(14,590)**	(17,418)	**(1,900)**	(1,900)
Income tax received/(paid)		**23,591**	(62,875)	**–**	–
Net cash inflow/(outflow) from operating activities		**192,964**	(76,374)	**10,211**	50,033
Cash flows from investing activities					
Acquisition of property, plant and equipment		**(139)**	(2,096)	**–**	–
Acquisition of investment properties		**(3,383)**	(1,858)	**–**	–
Proceeds from sale of property, plant and equipment		**684**	376	**–**	–
Proceeds from sale of investment properties		**43**	334	**–**	–
Interest received		**1,265**	4,557	**27**	–
Net cash (outflow)/inflow from investing activities		**(1,530)**	1,313	**27**	–
Cash flows from financing activities					
(Decrease)/increase in bank borrowings		**(247,000)**	253,000	**–**	–
Proceeds from the issue of share capital on exercise of share options		**273**	1,479	**273**	1,479
Purchase of own shares by employee share option plans		**(113)**	(568)	**–**	–
Dividends paid		**(10,697)**	(51,364)	**(10,697)**	(51,364)
Net cash (outflow)/inflow from financing activities		**(257,537)**	202,547	**(10,424)**	(49,885)
Net (decrease)/increase in cash and cash equivalents		**(66,103)**	127,486	**(186)**	148
Cash and cash equivalents at beginning of year		**109,313**	(18,173)	**5,139**	4,991
Cash and cash equivalents at end of year	21	**43,210**	109,313	**4,953**	5,139

Accounting Policies

Basis of preparation

Bellway p.l.c. (the "Company") is a company incorporated in the UK.

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

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

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Operating Review on pages 6 to 11. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 20 to 23. Note 17 to the financial statements sets out the Group's policies and processes for managing its capital, financial risk, and its exposures to credit risk and liquidity risk.

The Group's activities are financed principally by a combination of ordinary shares, preference shares, bank borrowings and cash in hand. During the year the Group has reduced the level of bank debt by £180.9 million to £36.8 million, thereby reducing the Group's interest rate exposure. The Group has operated within all of its banking covenants throughout the year. At 31 July 2009 borrowings, net of cash balances, were £56.8 million, representing gearing of 5.9% (including preference shares). In addition, the Group had bank facilities of £370.0 million, expiring in tranches up to April 2015, with £290.0 million available for drawdown under such facilities as at 31 July 2009. On 6 August 2009 the Group raised net proceeds of £43.7 million from the issue of 5,747,648 12.5p new ordinary shares.

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 July. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The consolidated financial statements include the Group's share of the total recognised income and expenses of equity accounted entities. When the Group's share of losses exceeds its interest in an equity accounted entity, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the significant entities' assets, liabilities, income and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

The Group and Company own 25%–50% of the ordinary share capital of several small entities which were previously accounted for using the equity method. The results, assets and liabilities of these jointly controlled entities have been proportionately consolidated in the current year. These entities were equity accounted in the prior year. The amounts relating to the year ended 31 July 2008 have not been restated as they are not considered to be significant.

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.

Accounting Policies continued

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 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 40 years (2008 – 40 years).

Inventories

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

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

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

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

Trade and other receivables

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

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 an available-for-sale reserve, except for impairment losses. 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.

Cash and cash equivalents

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

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.

Share capital

I. Preference share capital

Preference share capital is redeemable on 6 April 2014 or at the option of the Company (subject to relevant conditions set out in note 15) and is classified as a liability.

II. Dividends

Dividends on redeemable preference shares are recognised as a liability and accrued using the effective interest rate method. They are recognised in the income statement within finance expenses.

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

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

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company 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 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
Revenue from private housing sales and land is recognised when transactions have legally completed.

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.

Sales incentives also include shared equity schemes which are accounted for as Other Financial Assets as described above.

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.

Any subsequent write-down below the part-exchange valuation is posted to cost of sales.

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

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

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

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

Employee benefits – retirement benefit costs
For the defined benefit scheme, the liability is calculated as the present value of the defined benefit obligation at the balance sheet date. The fair values of scheme assets are then deducted. The calculation is performed by a qualified actuary using the projected unit credit method. All actuarial gains and losses are recognised immediately in the Statement of Recognised Income and Expense ("SORIE"). Further details of the scheme and the valuation methods applied may be found in note 24 on pages 67 to 70.

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

Employee benefits – share-based payment

In accordance with IFRS 2, 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 then the cumulative expense recognised in relation to the relevant options is reversed.

IFRS 2 has been applied to options granted after 7 November 2002 which had not vested at 1 January 2005.

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 SORIE as share-based payments are considered to be transactions with shareholders.

A deferred tax asset relating to awards issued before 7 November 2002, which follow the exemption of IFRS 1 and have not been accounted for under IFRS 2, has been recognised on transition. Subsequent reversal of the deferred tax asset and any excess tax benefits are recognised directly in equity.

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

Own shares held by ESOP trust

Transactions of the Group-sponsored ESOP trust are included in the Group financial statements but are not accounted for within the Company's financial statements. The purchase of shares in the Company by the trust are charged directly to equity.

Operating leases

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

Finance income and expenses

Finance income includes interest receivable on bank deposits. Other financial assets relate to the deferred element of revenues receivable from the sale of homes under shared equity schemes. The discounting of these other financial assets produces a notional interest receivable amount and this is also credited to finance income.

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

Exceptional items

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

Accounting estimates and judgements

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

Valuation of work in progress and land held for development

Inventories are carried at the lower of cost and net realisable value, less payments on account. 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 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 and in assessing any impairment provisions which may be required.

Exceptional items

For both the years ended 31 July 2009 and 31 July 2008, 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 basis and selling prices have been reduced based on local management and the Board's assessment of current market conditions. These site reviews have resulted in write downs totalling £58.9 million (2008 – £112.5 million). In addition option costs and part exchange properties have been written down by £7.4 million (2008 – £18.4 million) to their net realisable value resulting in a total exceptional charge of £66.3 million (2008 – £130.9 million).

Whilst management remain cautious, selling prices and volumes have stabilised, however the market remains fragile. Should there be further significant movements in selling prices, either further reductions or a stepped recovery, exceptional charges or credits may be necessary.

Pension

The Group has utilised a rate of return on assets and a discount rate having been advised by its actuary. To the extent that such assumed rates are different from what actually transpires, the pension liability of the Group would change.

Income Taxes

A certain degree of estimation and judgement is required in establishing the tax figures prior to formal resolution with HMRC. In accordance with the contingent asset rules, detailed in IAS 37, the Group's policy is to be prudent in assessing the level of benefit which may accrue.

Standards and interpretations in issue but not yet effective

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

- IFRS 8 "Operating Segments". This standard amends the current segmental reporting requirements of IAS 14 with a requirement for segmental information to be presented on the same basis as that used by management for internal reporting purposes. This standard will apply to the Group's financial statements for the period commencing 1 August 2009, with the requirement of additional disclosures. The Board considers there to be one operating segment and accordingly does not expect any additional disclosure to be required.
- IFRIC 15 "Agreements for the Construction of Real Estate". This IFRIC provides guidance on whether the construction of real estate should be accounted for under IAS 11 or IAS 18. The interpretation is effective from 1 January 2009, however, the Group already accounts for the construction of real estate in accordance with IFRIC 15 and consequently there will be no effect on the Group's financial statements.
- IAS 23 (Amendment) "Borrowing Costs". This amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset, removing the option to immediately expense such costs. The Board has concluded that the Group does not hold any material qualifying assets. The Board will continue to assess whether this amendment is applicable to future assets under construction.
- IFRS 1 (Amendment) "First Time Adoption of International Financial Reporting Standards". This amendment allows a first-time adopter, at its date of transition to IFRSs in its separate financial statements, to use a deemed cost to account for an investment in a subsidiary, jointly controlled entity or associate. The amendment is effective for periods beginning on or after 1 January 2009, however, as the Group already applies IFRSs there will be no effect on the Group's financial statements.
- IAS 27 (Amendment) "Consolidated and Separate Financial Statements". The amendments remove the definition of the "cost method" currently set out in IAS 27, and instead, require all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the separate financial statements of the investor when the right to receive the dividend is established. The Board does not consider that there will be any effect on the Group's financial statements.
- IFRS 2 (Amendment) "Share-Based Payment". The definition of vesting conditions in IFRS 2 has been amended to clarify that vesting conditions are limited to service conditions and performance conditions. Conditions other than service or performance conditions are considered non-vesting conditions. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment, i.e. an acceleration of the charge, rather than being treated as a reversal. The amendment applies to periods beginning on or after 1 January 2009, however, the Board does not consider that there will be a significant effect on the Group's financial statements.
- IAS 32 (Amendment) "Financial Instruments: Presentation" and IAS 1 (Amendment) "Presentation of Financial Statements". The amendments provide exemptions from the requirement to classify as a liability certain financial instruments under which an entity has an unavoidable obligation to deliver cash. The Board has concluded that the Group does not hold any applicable financial instruments.
- IFRIC 14 – IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". This IFRIC outlines when refunds or reductions in future contributions can be treated as available under IAS 19 and how a minimum funding requirement affects future contributions or may give rise to a liability. This interpretation applies to the Group's financial statements from the accounting period commenced on 1 August 2009. The Board anticipates that no additional liabilities will be recognised on adoption of IFRIC 14.
- IAS 1 (Amendment) "Presentation of Financial Statements". This is mandatory for accounting periods beginning on or after 1 January 2009. The Board does not expect that this standard will have a material effect on the financial statements of the Group as it solely relates to presentational requirements.
- Annual Improvements 2009. This is a collection of amendments to 12 standards as part of the IASB programme of annual improvements. The latest amendments were included in exposure drafts published in October 2007, August 2008 and January 2009. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. The Board is assessing the applicability of these Annual Improvements, although at present it does not believe that this will have a material effect on the Group.

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

Notes to the Accounts

1 Revenue/segmental analysis

The Group uses business as the basis for primary segmentation. Operations are carried out within one business segment which is housebuilding. No additional business segment information is required to be provided. The Group's secondary segment is geography. It operates in one geographical segment, the United Kingdom, therefore no additional geographical segment information is required to be provided.

2 Finance income and expenses

	2009 £000	2008 £000
Interest receivable on bank deposits	**1,438**	2,706
Interest income from financial assets	**1,594**	–
Other interest income	**1,862**	925
Finance income	**4,894**	3,631
Interest payable on bank loans and overdrafts	**11,857**	15,049
Interest on deferred term land payables	**5,663**	5,262
Interest element of movement in pension scheme deficit	**906**	63
Other interest expense	**386**	409
Preference dividends	**1,900**	1,900
Finance expenses	**20,712**	22,683

3 Employee information

Group employment costs, including directors, comprised:

	2009 £000	2008 £000
Wages and salaries	**48,028**	80,768
Social security	**5,069**	9,215
Pension costs (note 24)	**816**	784
Share-based payments (note 24)	**1,318**	1,685
	55,231	92,452

The average number of persons employed by the Group during the year was 1,240 (2008 – 2,203) comprising 452 (2008 – 704) administrative and 788 (2008 – 1,499) production and others employed in housebuilding and associated trading activities.

Pension costs for the current year are net of a settlement gain of £1.348 million (2008 – £1.783 million).

The Executive Directors and the Group Company Secretary are the only employees of the Company and the emoluments of the executive directors are disclosed in the Report of the Board on Directors' Remuneration on pages 35 to 41.

Key management personnel remuneration, including directors, comprised:

	2009 £000	2008 £000
Salaries and fees	**2,192**	1,733
Taxable benefits	**122**	75
Annual bonus – cash	**335**	807
Pension costs	**12**	358
Share-based payments	**1,040**	1,161
	3,701	4,134

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

4 Operating (loss)/profit

	2009 £000	2008 £000
Operating (loss)/profit is stated after charging:		
Staff costs (note 3)	**55,231**	92,452
Loss on sale of property, plant and equipment	**4**	140
Depreciation	**2,190**	2,858
Hire of plant and machinery	**4,648**	10,210
Operating lease charges for land and buildings	**1,271**	1,569
Auditors' remuneration:		
Audit of these financial statements	**29**	31
Amounts receivable by the auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**180**	177
Other services relating to taxation	**84**	127
Pension scheme audits	**5**	5
Other services	**66**	6

Amounts paid to the Company's auditors and their associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

5 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.

A full review of inventories has been performed and land write-downs have been made where cost exceeds 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. Estimated selling prices have been reviewed on a site-by-site basis and selling prices have been reduced based on local management and the Board's assessment of current market conditions. Following this review a material write-down in both size (see below), and nature, given the economic conditions in the UK, has taken place.

These site reviews have resulted in land write downs totalling £58.881 million (2008 – £112.534 million).

In addition, option costs and related fees have been written down by £6.338 million (2008 – £15.395 million) to their net realisable value.

The Board has also reassessed the net realisable value of part exchange properties and has written down stock by £1.093 million (2008 – £2.976 million).

The above has resulted in an exceptional charge totalling £66.312 million (2008 – £130.905 million).

Notes to the Accounts continued

6 Income tax (credit)/expense

	2009 £000	2008 £000
Current tax (credit)/expense:		
UK corporation tax	**(6,927)**	10,855
Adjustments in respect of prior years	**(2,611)**	(4,378)
	(9,538)	6,477
Deferred tax (credit)/expense:		
Origination and reversal of temporary differences	**(2,317)**	1,277
Adjustments in respect of prior years	**2,748**	6
	431	1,283
Total income tax (credit)/expense in income statement	**(9,107)**	7,760

	2009 %	2009 £000	2008 %	2008 £000
Reconciliation of effective tax rate:				
(Loss)/profit before tax		**(36,551)**		34,763
Tax calculated at UK corporation tax rate	**28.0**	**(10,234)**	28.0	9,734
Non-deductible expenses	**(3.6)**	**1,305**	5.6	1,936
Effect of hybrid rate of tax	**0.9**	**(315)**	1.3	462
Adjustments in respect of prior years – current tax	**7.1**	**(2,611)**	(12.6)	(4,378)
– deferred tax	**(7.5)**	**2,748**	–	6
Effective tax rate and tax (credit)/expense for the year	**24.9**	**(9,107)**	22.3	7,760

The UK corporation tax rate changed from 30% to 28% with effect from 1 April 2008. The hybrid tax rate continued to affect the tax credit for the year ended 31 July 2009 with respect to losses carried back from that period.

The adjustment in respect of prior years' current and deferred tax has been applied to the pre-exceptional charge in the income statement.

	Income tax 2009 £000	Deferred tax 2009 £000	Total 2009 £000	Total 2008 £000
Tax recognised directly in equity:				
Relating to equity-settled transactions	**–**	**(13)**	**(13)**	(2,690)
Relating to actuarial movement on the defined benefit pension scheme	**–**	**(99)**	**(99)**	4,018

7 Dividends on equity shares

	2009 £000	2008 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 July 2008 of 6.0p per share (2007 – 26.675p)	**6,897**	30,541
Interim dividend for the year ended 31 July 2009 of 3.0p per share (2008 – 18.1p)	**3,450**	20,765
	10,347	51,306
Proposed final dividend for the year ended 31 July 2009 of 6.0p per share (2008 – 6.0p)	**7,245**	6,912

The 2009 proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 15 January 2010 and, in accordance with IAS 10, has not been included as a liability in these financial statements.

8 Earnings per ordinary share

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

Diluted earnings per ordinary share uses the same earnings figure as the basic calculation except that the weighted average number of shares has been adjusted to reflect the dilutive effect of outstanding share options allocated under employee share schemes where the market value exceeds the option price. It is assumed that all dilutive potential ordinary shares are converted at the beginning of the accounting period. Diluted earnings per ordinary share is calculated by dividing earnings by the diluted weighted average number of ordinary shares.

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

Pre-exceptional item[1]	Earnings/ (loss) 2009 £000	Weighted average number of ordinary shares 2009 no.	Earnings/ (loss) per share 2009 p	Earnings 2008 £000	Weighted average number of ordinary shares 2008 no.	Earnings per share 2008 p
For basic earnings per ordinary share	**20,301**	**114,949,883**	**17.7**	119,509	114,615,661	104.2
Dilutive effect of options and awards		**339,658**	**(0.1)**		245,743	(0.1)
For diluted earnings per ordinary share	**20,301**	**115,289,541**	**17.6**	119,509	114,861,404	104.1
Post-exceptional item						
For basic earnings per ordinary share	**(27,444)**	**114,949,883**	**(23.9)**	27,003	114,615,661	23.6
Dilutive effect of options and awards[2]		**–**	**–**		245,743	(0.1)
For diluted earnings per ordinary share	**(27,444)**	**114,949,883**	**(23.9)**	27,003	114,861,404	23.5

(1) Exceptional charge of £66.3 million (2008 – £130.9 million) in the current year (note 5) less associated tax credit of £18.6 million (2008 – £38.4 million).

(2) In accordance with IAS 33 potential ordinary shares are only treated as dilutive when their conversion to ordinary shares would increase the loss per share.

Notes to the Accounts continued

9 Property, plant and equipment

	Land and property £000	Plant, fixtures and fittings £000	Total £000
Group			
Cost			
At 1 August 2007	6,891	18,225	25,116
Additions	2	2,260	2,262
Disposals	(92)	(2,269)	(2,361)
At 1 August 2008	6,801	18,216	25,017
Additions	–	139	139
Disposals	(79)	(3,166)	(3,245)
Reclassification	(570)	–	(570)
At 31 July 2009	**6,152**	**15,189**	**21,341**
Depreciation			
At 1 August 2007	677	11,768	12,445
Charge for year	140	2,718	2,858
On disposals	–	(1,845)	(1,845)
At 1 August 2008	817	12,641	13,458
Charge for year	140	2,050	2,190
On disposals	–	(2,557)	(2,557)
At 31 July 2009	**957**	**12,134**	**13,091**
Net book value			
At 31 July 2009	**5,195**	**3,055**	**8,250**
At 31 July 2008	5,984	5,575	11,559
At 31 July 2007	6,214	6,457	12,671

Land and property with a book cost of £0.570 million was reclassified from property, plant and equipment to inventories during the year.

10 Investment property

	Total £000
Group	
Cost	
At 1 August 2007	2,417
Additions	1,858
Disposals	(183)
At 1 August 2008	4,092
Additions	3,383
Disposals	(98)
At 31 July 2009	**7,377**

Investment properties, which represent properties where Bellway has retained an interest in a sold property, are valued under the cost model and are held at cost less accumulated impairment losses. A formal internal valuation of investment properties was carried out at the end of the financial year, updating the formal external valuation performed at the end of the previous financial year.

The fair value of investment properties was assessed at £7.983 million (2008 – £9.038 million).

10 Investment property continued

As noted above, the Group assessed the residual values as being highly likely to exceed cost and, in the event that costs exceed residual values, any excess would be viewed as not likely to be material in the Group's financial statements. The Group has determined, therefore, that no depreciation should be charged (2008 – nil).

The investment properties are a proportion of the cost of residential units constructed by the Group, the units being sold under a shared ownership scheme.

11 Investments in subsidiaries, equity accounted entities and proportionately consolidated jointly controlled entities

The Group and Company have the following investments in subsidiaries and proportionately consolidated jointly controlled entities:

Subsidiaries

Company	Shares in subsidiary undertakings £000
Cost	
At 1 August 2008	25,470
Additions	1,318
At 31 July 2009	**26,788**

Principal subsidiary undertakings

A summary of the principal subsidiary undertakings is given in note 26 on page 75.

Equity accounted entities

The Group and Company own 25%–50% of the ordinary share capital of several small entities which were previously accounted for using the equity method. The results, assets and liabilities of these jointly controlled entities are now proportionately consolidated. The amounts relating to the year ended 31 July 2008 have not been restated as they are not considered to be significant.

	Investments in equity accounted entities £000
Cost	
At 1 August 2008	5
Reclassification	(5)
At 31 July 2009	**–**
Share of post-acquisition reserves	
At 1 August 2008	121
Reclassification	(121)
At 31 July 2009	**–**
Net book value	
At 31 July 2009	**–**
At 31 July 2008	126

The amount by which the accumulated share of post-acquisition losses exceeds the cost of the investment in individual equity accounted entities has, where required by the Group accounting policy, been transferred to current liabilities and included within note 16.

One of the equity accounted entities had a net asset position at 31 July 2008. The other equity accounted entity had a net liability position for that year. The figure for investments in equity accounted entities at 31 July 2008 represents the amount for the entity which had a net asset position.

Notes to the Accounts continued

11 Investments in subsidiaries, equity accounted entities and proportionately consolidated jointly controlled entities continued

Summary of financial information on equity accounted entities – 100%

	2009 £000	2008 £000
Total assets	–	3,922
Total liabilities	–	(5,348)
Net liabilities of equity accounted entities	–	(1,426)
Revenue	–	983
Loss after interest	–	(630)
Taxation	–	38
Loss after interest and taxation	–	(592)

Proportionately consolidated jointly controlled entities

Name	Country of incorporation	Percentage of shares owned directly by Bellway p.l.c.
Barking Riverside Limited	Great Britain	51%

The Group and Company also own 25%–50% of the ordinary share capital of several smaller proportionately consolidated jointly controlled entities, which were previously equity accounted (see above). All of these entities are incorporated in Great Britain and registered in England and Wales.

Aggregated amounts relating to share of proportionately consolidated jointly controlled entities not adjusted for transactions with Group companies

	2009 £000	2008 £000
Non-current assets	565	288
Current assets	27,816	23,452
Non-current liabilities	(471)	–
Current liabilities	(31,793)	(24,180)
Net liabilities	(3,883)	(440)
Income	1,111	638
Expenses	(3,845)	(1,331)

Guarantees relating to the overdrafts of jointly controlled entities have been given by the Company (note 22).

12 Deferred taxation

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

Group

	Capital allowances £000	Retirement benefit obligations £000	Share-based payments £000	Land payables £000	Losses £000	Other temporary differences £000	Total £000
At 1 August 2007	430	556	4,246	2,354	–	240	**7,826**
Income statement credit/(charge)	57	(1,016)	(1,127)	851	–	(48)	**(1,283)**
Credit to statement of recognised income and expense	–	4,018	–	–	–	–	**4,018**
Charge to equity	–	–	(2,690)	–	–	–	**(2,690)**
At 31 July 2008	487	3,558	429	3,205	–	192	**7,871**
Income statement credit/(charge)	192	(120)	337	(3,205)	2,104	261	**(431)**
Charge to statement of recognised income and expense	–	(99)	–	–	–	–	**(99)**
Charge to equity	–	–	(13)	–	–	–	**(13)**
At 31 July 2009	**679**	**3,339**	**753**	**–**	**2,104**	**453**	**7,328**

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

13 Inventories

	2009 £000	2008 £000
Group		
Land	**774,677**	920,778
Work in progress	**386,570**	497,713
Showhomes	**42,106**	44,786
Part-exchange properties	**7,998**	40,659
	1,211,351	1,503,936

Inventories of £643.9 million were expensed in the year (2008 – £872.0 million).

In the ordinary course of business inventories have been written down by a net £5.7 million (2008 – net write back £18.3 million) in the year. There has also been an exceptional write down of inventories in 2009 of £66.3 million (2008 – £130.9 million) as outlined in note 5 on page 53. Land with a carrying value of £63.6 million (2008 – £61.2 million) was used as security for land payables (note 16).

The Company has no inventory.

14 Trade and other receivables

Non-current receivables

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Other financial assets	**20,826**	5,607	**–**	–

Current receivables

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Trade receivables	**11,032**	13,644	**–**	–
Other receivables	**27,166**	15,130	**–**	–
Amounts owed by Group undertakings	**–**	–	**703,617**	715,578
Prepayments and accrued income	**3,551**	1,822	**–**	–
	41,749	30,596	**703,617**	715,578

The Group assesses the ageing of trade receivables in terms of whether amounts are receivable in less than one year or more than one year. None of the trade receivables are past their due dates (2008 – nil).

Notes to the Accounts continued

14 Trade and other receivables continued

Other financial assets due after more than one year are recorded at fair value, being the amount receivable by the Group discounted to present day values. The difference between the nominal value and the initial fair value is credited over the deferred term to finance income, with the financial asset increasing to its full expected cash settlement value on the anticipated receipt date. Credit risk is accounted for in determining fair values and appropriate discount factors are applied. None of the other financial assets are past their due dates (2008 – nil).

The Group holds a second charge over properties sold under shared equity schemes.

Other receivables due within one year include £4.096 million (2008 – £5.509 million) in relation to VAT recoverable.

15 Interest-bearing loans and borrowings

Non-current liabilities

	Group 2009 £000	Group 2008 £000	**Company 2009 £000**	Company 2008 £000
Bank loans	**80,000**	275,000	**–**	–
Preference shares (see note below)	**20,000**	20,000	**20,000**	20,000
	100,000	295,000	**20,000**	20,000

Current liabilities

	Group 2009 £000	Group 2008 £000	**Company 2009 £000**	Company 2008 £000
Bank loans	**–**	52,000	**–**	–

Preference shares

	Group 2009 £000	Group 2008 £000	**Company 2009 £000**	Company 2008 £000
Authorised, allotted, called up and fully paid				
Number				
20,000,000 at 1 August 2008 and 31 July 2009	**20,000**	20,000	**20,000**	20,000

With regard to the 9.5% cumulative redeemable preference shares 2014 of £1 each the following rights are attached:

(a) The holders are entitled to a preferential fixed cumulative dividend at an annual rate of 9.5% payable half-yearly on 6 April and 6 October.

(b) The shares are redeemable by the Company at any time at a sum calculated by reference to the yield on 12% Exchequer Stock 2013/2017 provided such sum is neither less than the nominal value nor more than twice the nominal value of the shares. Any shares still in issue shall be redeemed at par on 6 April 2014.

(c) In the event of a winding up of the Company, the preference shareholders are entitled to a preferential payment in addition to any arrears of dividend, equivalent to the nominal value of the preference shares, or in the event of a voluntary winding up, an amount per share calculated by reference to the yield on 12% Exchequer Stock 2013/2017, provided such sum is neither less than the nominal value nor more than twice the nominal value of the shares.

(d) The preference shareholders have no ordinary voting rights except in circumstances where the fixed dividend on the preference shares is six months in arrears or where the business of a General Meeting includes the consideration of certain resolutions as defined in the Articles of Association relating to winding up, changes in the rights of preference shareholders or failure by the Company to redeem the preference shares by 6 April 2014.

16 Trade and other payables

Non-current liabilities

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Land payables	**26,379**	51,306	**–**	–
Other payables	**475**	–	**–**	–
	26,854	51,306	**–**	–

Land payables of £6.246 million (2008 – £12.154 million) are secured on the land to which they relate. The carrying value of the land used for security is £6.246 million (2008 – £24.327 million)

Current liabilities

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Trade payables	**52,610**	75,075	**–**	–
Land payables	**83,588**	81,806	**–**	–
Social security and other taxes	**1,712**	4,984	**–**	–
Other payables	**15,454**	3,137	**257**	457
Accrued expenses and deferred income	**49,713**	82,707	**601**	601
Payments on account	**43,070**	37,192	**–**	–
	246,147	284,901	**858**	1,058

Land payables of £50.473 million (2008 – £17.546 million) are secured on the land to which they relate. The carrying value of the land used for security is £57.354 million (2008 – £36.831 million)

17 Financial risk management

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

The Company's only financial instruments are cash and preference shares.

Capital management

The Board's policy is to maintain a strong capital base to underpin the future development of the business in order to deliver value to shareholders. The Group finances its operations through retained earnings, bank borrowings and the management of working capital. From time to time, the trustees of the Bellway Employee Share Trust (1992) also purchase shares for the future satisfaction of employee share options.

On 6 August 2009 the Group announced the successful placing of 5,747,648 new ordinary shares of 12.5p each representing approximately 5.0% of the Group's issued ordinary share capital prior to the Placing (note 27). The net proceeds from the placing of £43.659 million will help provide the Group with the financial flexibility to take advantage of attractive opportunities to acquire land as and when they arise.

Management of financial risk

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

Credit risk

The Group's exposure to credit risk is limited by the fact that the Group generally receives cash at the point of legal completion of its sales.

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 and other financial assets, the amounts presented in the balance sheet are stated after adjusting for any doubtful receivables, based on the judgement of the Group's management through using both previous experience and knowledge of the current position (see note 14). In managing risk the Group assesses the credit risk of its counterparties before entering into a transaction. No credit limits were exceeded during the reporting period or subsequently and the Group does not anticipate any losses from non-performance by these counterparties. In relation to land payables, certain payables are secured on the respective land asset held (see note 16). No other security is held against any other financial assets of the Group.

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

Liquidity risk

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

Notes to the Accounts continued

17 Financial risk management continued

The Group's banking arrangements outlined below are considered to be adequate in terms of flexibility and liquidity for its medium-term cash flow needs therefore mitigating the Group's liquidity risk.

Interest rate risk

Interest rate risk reflects the Group's exposure to fluctuations to interest rates in the market. The risk arises because the Group's overdraft and floating rate bank loans bear interest based on either LIBOR or to the Bank of England base rate.

For the year ended 31 July 2009 it is estimated that an increase of 1% in interest rates applying for the full year would decrease the Group's profit before tax by £1.8 million (2008 – £2.2 million).

Housing market risk

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

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

Land purchased on deferred terms

The Group sometimes acquires land on deferred payment terms. In accordance with IAS 39 the deferred creditor is recorded at fair value being the price paid for the land discounted to present day. The difference between the nominal value and the initial fair value is amortised over the deferred term to finance expenses, increasing the land creditor to its full cash settlement value on the payment date.

The maturity profile of the total contracted cash payments in respect of amounts due on land creditors at the balance sheet date is as follows:

	Balance at 31 July £000	Total contracted cash payment £000	Within one year or on demand £000	1–2 years £000	2–5 years £000	More than 5 years £000
At 31 July 2009	**109,967**	**113,474**	**85,341**	**21,230**	**6,752**	**151**
At 31 July 2008	133,112	139,916	83,279	42,306	7,125	7,206

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	80,000	84,521	1,030	1,030	62,262	20,199
Preference shares	20,000	29,500	1,900	1,900	25,700	–
Trade and other payables	69,776	69,776	69,776	–	–	–
At 31 July 2009	**169,776**	**183,797**	**72,706**	**2,930**	**87,962**	**20,199**
Bank loans – floating rates	325,000	334,151	59,151	–	235,000	40,000
Bank loan – fixed rates	2,000	2,134	2,134	–	–	–
Preference shares	20,000	31,400	–	–	–	31,400
Trade and other payables	115,404	115,404	115,404	–	–	–
At 31 July 2008	462,404	483,089	176,689	–	235,000	71,400

The interest rates on the fixed rate borrowing and preference shares apply to the whole term of the relevant instruments.

No interest rate has been calculated for the imputed interest on land payables as this is an accounting transaction with no actual interest payment being made by the Group.

At the year end, the Group had £290.0 million (2008 – £294.3 million) of undrawn bank facilities available.

The Company's only financial liabilities are preference shares as disclosed in the maturity profile above.

17 Financial risk management continued

Cash and cash equivalents

This comprises cash held by the Group and short-term bank deposits with a maturity date of less than one month.

The amounts of cash and cash equivalents for the years ended July 2009 and July 2008 for both the Group and the Company are shown in note 21.

At 31 July 2009 the average interest rate earned on the temporary closing cash balance was 0.22% (2008 – 3.69%).
The carrying amount of these assets approximates their fair value.

Fair values

Financial assets
The carrying values of financial assets equates to their fair values.

Financial liabilities
A comparison of the book values and fair values of the Group's fixed rate preference shares and fixed rate bank loan at 31 July is as follows:

	2009 £000 Book value	**2009 £000 Fair value**	2008 £000 Book value	2008 £000 Fair value
Preference shares – fixed rate	**20,000**	**21,500**	20,000	20,400
Bank loan – fixed rate	**–**	**–**	2,000	2,021

The fair value of the fixed rate preference shares is based on quoted mid-market prices at 31 July.

The fair value of the fixed rate bank loan is based on an indicative rate which could have been obtained on the market at 31 July 2008.

In aggregate, the fair values of the Group's other financial assets and liabilities are not materially different from their book value.

18 Issued capital

Group and Company

	2009 Number '000	**2009 £000**	2008 Number '000	2008 £000
Authorised				
Ordinary shares of 12.5p each	**146,000**	**18,250**	146,000	18,250
Allotted, called up and fully paid equity				
At 1 August 2008	**114,951**	**14,372**	114,670	14,337
Issued on exercise of options	**55**	**3**	281	35
At 31 July 2009	**115,006**	**14,375**	114,951	14,372

Notes to the Accounts continued

18 Issued capital continued

Share options

At 31 July 2009 all outstanding options to purchase ordinary shares in Bellway p.l.c., in accordance with the terms of the applicable schemes, were as follows:

	Number of shares	Exercise price (p)	Dates from which exercisable		Expiry date
(a) Bellway p.l.c. (1995) Employee Share Option Scheme					
	7,500	248.00	13 April 2003	to	12 April 2010
	2,000	277.50	17 October 2003	to	16 October 2010
	3,500	409.30	25 April 2004	to	24 April 2011
	10,600	474.00	18 April 2005	to	17 April 2012
	23,243	524.00	13 May 2006	to	12 May 2013
	800	621.50	24 October 2006	to	23 October 2013
	2,500	712.50	10 May 2007	to	9 May 2014
	143,940	716.00	17 November 2007	to	16 November 2014
	194,083				
(b) Bellway p.l.c. (1996) Employee Share Option Scheme					
	500	409.30	25 April 2004	to	24 April 2011
	3,700	474.00	18 April 2005	to	17 April 2012
	6,650	524.00	13 May 2006	to	12 May 2013
	6,500	621.50	24 October 2006	to	23 October 2013
	3,500	712.50	10 May 2007	to	9 May 2014
	120,260	716.00	17 November 2007	to	16 November 2014
	329,850	844.00	31 October 2008	to	30 October 2015
	750	1122.00	16 May 2009	to	15 May 2016
	471,710				
(c) Bellway p.l.c. (2005) Employee Share Option Scheme					
	91,350	844.00	31 October 2008	to	30 October 2015
	11,700	1470.00	7 February 2010	to	6 February 2017
	103,050				
(d) Bellway p.l.c. (2007) Employee Share Option Scheme					
	27,300	1470.00	7 February 2010	to	6 February 2017
(e) Bellway p.l.c. (2003) Savings Related Share Option Scheme					
	27,314	537.60	1 February 2010	to	31 July 2010
	18,374	676.00	1 February 2011	to	31 July 2011
	11,312	1092.00	1 February 2010	to	31 July 2010
	4,098	1092.00	1 February 2012	to	31 July 2012
	14,992	847.20	1 February 2011	to	31 July 2011
	4,832	847.20	1 February 2013	to	31 July 2013
	662,072	336.00	1 February 2012	to	31 July 2012
	276,061	336.00	1 February 2014	to	31 July 2014
	1,019,055				
Total	**1,815,198**				

Details of directors' share options are contained within the Report of the Board on Directors' Remuneration on pages 35 to 41.

19 Reconciliation of movements in capital and reserves

Group

	Attributable to equity holders of the parent						
	Ordinary share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000	Minority interest £000	Total equity £000
At 1 August 2007	14,337	115,484	1,492	904,567	1,035,880	(66)	1,035,814
Total recognised income and expense	–	–	–	16,670	16,670	–	16,670
Dividends on equity shares	–	–	–	(51,306)	(51,306)	–	(51,306)
Shares issued	35	1,444	–	–	1,479	–	1,479
Charge in relation to share options and tax thereon	–	–	–	(1,005)	(1,005)	–	(1,005)
Purchase of own shares	–	–	–	(568)	(568)	–	(568)
At 31 July 2008	14,372	116,928	1,492	868,358	1,001,150	(66)	1,001,084
Total recognised income and expense	–	–	–	(27,190)	(27,190)	–	(27,190)
Dividends on equity shares	–	–	–	(10,347)	(10,347)	–	(10,347)
Shares issued	3	270	–	–	273	–	273
Credit in relation to share options and tax thereon	–	–	–	1,305	1,305	–	1,305
Purchase of own shares	–	–	–	(113)	(113)	–	(113)
At 31 July 2009	**14,375**	**117,198**	**1,492**	**832,013**	**965,078**	**(66)**	**965,012**

Within retained earnings are amounts relating to ordinary shares held by the employee share ownership plans. The number of shares held within these plans at 31 July 2009 was nil (2008 – 197,858) which are held within the financial statements at a value of £nil (2008 – £1.872 million).

Company

	Attributable to equity holders of the parent							
	Ordinary share capital £000	Share premium £000	Other reserves £000	Share-based payment reserve £000	Retained earnings £000	Total £000	Minority interest £000	Total equity £000
At 1 August 2007	14,337	115,484	2,145	7,582	635,623	775,171	–	775,171
Total recognised income and expense	–	–	–	–	(1,900)	(1,900)	–	(1,900)
Dividends on equity shares	–	–	–	–	(51,306)	(51,306)	–	(51,306)
Shares issued	35	1,444	–	–	–	1,479	–	1,479
Credit in relation to share options	–	–	–	1,685	–	1,685	–	1,685
At 31 July 2008	14,372	116,928	2,145	9,267	582,417	725,129	–	725,129
Total recognised income and expense	–	–	–	–	(1,873)	(1,873)	–	(1,873)
Dividends on equity shares	–	–	–	–	(10,347)	(10,347)	–	(10,347)
Shares issued	3	270	–	–	–	273	–	273
Credit in relation to share options	–	–	–	1,318	–	1,318	–	1,318
At 31 July 2009	**14,375**	**117,198**	**2,145**	**10,585**	**570,197**	**714,500**	**–**	**714,500**

As permitted by section 408 of the Companies Act 2006, the Company's income statement has not been included in these financial statements. The Company's loss for the financial year was £1.873 million (2008 – £1.900 million).

Notes to the Accounts continued

20 Reconciliation of net cash flow to net debt

Group

	2009 £000	2008 £000
(Decrease)/increase in net cash and cash equivalents	**(66,103)**	127,486
Decrease/(increase) in bank loans	**247,000**	(253,000)
Decrease/(increase) in net debt from cash flows	**180,897**	(125,514)
Net debt at 1 August	**(237,687)**	(112,173)
Net debt at 31 July	**(56,790)**	(237,687)

Company

	2009 £000	2008 £000
(Decrease)/increase in net cash and cash equivalents	**(186)**	148
Net debt at 1 August	**(14,861)**	(15,009)
Net debt at 31 July	**(15,047)**	(14,861)

21 Analysis of net debt

Group

	At 1 August 2008 £000	Cash flows £000	At 31 July 2009 £000
Cash and cash equivalents	109,313	(66,103)	**43,210**
Bank loans	(327,000)	247,000	**(80,000)**
Preference shares redeemable after more than one year	(20,000)	–	**(20,000)**
Net debt	(237,687)	180,897	**(56,790)**

Company

	At 1 August 2008 £000	Cash flows £000	At 31 July 2009 £000
Cash and cash equivalents	5,139	(186)	**4,953**
Preference shares redeemable after more than one year	(20,000)	–	**(20,000)**
Net debt	(14,861)	(186)	**(15,047)**

22 Contingent liabilities

The Company is liable, jointly and severally with other members of the Group, under guarantees given to the Group's bankers in respect of overdrawn balances on certain Group bank accounts and in respect of other overdrafts, loans and guarantees given by the banks to or on behalf of other Group undertakings. At 31 July 2009 there were bank overdrafts of £nil (2008 – £nil) and loans of £80.0 million (2008 – £327.0 million). The Company has given performance and other trade guarantees on behalf of subsidiary undertakings. The Company has guaranteed the overdrafts of associated undertakings up to a maximum of £7.5 million (2008 – £6.5 million).

23 Commitments

Group

	2009 £000	2008 £000
Capital commitments		
Contracted not provided	–	–
Authorised not contracted	–	–

Operating leases

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which expire as follows:

	2009 £000	2008 £000
Expiring within one year	**88**	1,298
Expiring within the second to fifth years	**3,218**	4,331
Expiring in more than five years	**2,510**	2,778
	5,816	8,407

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

Company

The commitments of the Company were £nil (2008 – £nil).

24 Employee benefits

Retirement benefit obligations

The Group sponsors the Bellway p.l.c. 1972 Pension and Life Assurance Scheme which has a funded defined benefit arrangement. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 1 August 2008 and updated on an approximate basis to 31 July 2009.

Contributions of £1.393 million (2008 – £0.866 million) were charged to the income statement for the defined contribution section of the Scheme.

With regard to the defined benefit section of the Scheme, the regular contributions made by the employer over the financial year have been £0.179 million (2008 – £1.174 million). The employer also paid special contributions amounting to £0.581 million (2008 – £2.435 million). Expenses were paid in addition.

The actuarial valuation of the Scheme as at 1 August 2008, which is used to determine cash contributions to the Scheme, revealed a funding shortfall of £2.673 million.

The Scheme actuary has advised the Trustees that the remaining funding shortfall is £1.668 million after allowing for certain adjustments, principally in connection with the closure of both the final salary and money purchase sections of the scheme to further accrual on 31 October 2008. The Group paid into the scheme £1.668 million on 7 October 2009.

It is the policy of the Group to recognise all actuarial gains and losses in the year in which they occur outside the income statement and in the statement of recognised income and expense.

Insured pensions and defined contributions have been excluded from the assets and liabilities.

Present values of defined benefit obligations, fair value of scheme assets and deficit:

	2009 £000	2008 £000
Present value of defined benefit obligation	**(39,870)**	(47,472)
Fair value of scheme assets	**27,945**	34,763
Deficit in Scheme	**(11,925)**	(12,709)

As all actuarial gains and assets are recognised, the deficits shown above are those recognised in the balance sheet.

24 Employee benefits continued

Best estimate of contributions to be paid to the Scheme for the year ending 31 July 2010

This best estimate of contributions to be paid to the Scheme for the year ending 31 July 2010 is £1.668 million (2009 – £0.808 million).

Reconciliation of opening and closing balances of the present value of the defined benefit obligation:

	2009 £000	2008 £000
Defined benefit obligation at start of year	**47,472**	51,531
Current service cost	**199**	1,530
Interest cost	**2,822**	2,948
Contributions by scheme participants	**16**	67
Actuarial (gain)/loss	**(4,350)**	8,103
Benefit paid, death in service insurance premiums and expenses	**(1,711)**	(2,485)
Settlement	**(5,150)**	(14,393)
Past service cost	**572**	171
Defined benefit obligation at end of year	**39,870**	47,472

Reconciliation of opening and closing balances of the fair value of Scheme assets:

	2009 £000	2008 £000
Fair value of assets at start of year	**34,763**	49,545
Expected return on assets	**1,916**	2,885
Actuarial losses	**(3,997)**	(6,248)
Contributions by employer	**760**	3,609
Contributions by scheme participants	**16**	67
Benefit paid, death in service insurance premiums and expenses	**(1,711)**	(2,485)
Settlement	**(3,802)**	(12,610)
Fair value of assets at end of year	**27,945**	34,763

Total expense/(income) recognised in the income statement:

	2009 £000	2008 £000
Current service cost	**199**	1,530
Interest on liabilities	**2,822**	2,948
Expected return on assets	**(1,916)**	(2,885)
Settlement	**(1,348)**	(1,783)
Past service cost	**572**	171
Total expense/(income)	**329**	(19)

Of the total expense, income of £0.577 million (2008 – £0.082 million) is recognised within administrative expenses and an expense of £0.906 million (2008 – £0.063 million) is recognised within finance expenses.

24 Employee benefits continued

Gains/(losses) recognised in statement of recognised income and expense:

	2009 £000	2008 £000	2009 %	2008 %	
Difference between expected and actual return on Scheme assets:	**(3,997)**	(6,248)	**14**	18	of Scheme assets
Experience gains and losses arising on the Scheme liabilities	**5,351**	(1,001)	**(13)**	2	of the present value of Scheme liabilities
Effects of changes in the demographic and financial assumptions underlying the present value of the Scheme liabilities	**(1,001)**	(7,102)	**3**	15	of the present value of Scheme liabilities
Total gain/(loss) recognised in statement of recognised income and expense	**353**	(14,351)	**(1)**	30	of the present value of Scheme liabilities

The cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expense since adoption of IAS 19 is a loss of £15.973 million.

Assets

The fair value of Scheme assets is:

	2009 £000	2008 £000
Equities	**15,206**	18,993
Bonds	**11,715**	12,459
Cash	**1,024**	3,311
Total	**27,945**	34,763

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by, the Group.

Expected long-term rates of return

The expected long-term return on cash is related to bank base rates at the balance sheet date. The expected return on bonds is determined by reference to UK long dated gilt and bond yields at the balance sheet date. The expected rate of return on equities has been determined by setting an appropriate risk premium above gilt/bond yields having regard to market conditions at the balance sheet date.

The expected long-term rates of return are as follows:

	Period commencing 1 August 2008 % per annum	Period commencing 1 August 2007 % per annum	Period commencing 1 August 2006 % per annum	Period commencing 1 August 2005 % per annum
Equities	**6.30**	6.50	6.50	6.50
Bonds	**4.80**	5.00	5.00	5.00
Cash	**5.00**	5.00	4.00	4.00
Overall for Scheme	**5.60**	5.90	5.90	5.90

Actual return on Scheme assets

The actual return on the Scheme assets over the year ended 31 July 2009 was a reduction of 4.70% (31 July 2008 – reduction of 7.35%).

24 Employee benefits continued

Assumptions

	2009 % per annum	2008 % per annum
Inflation	**3.70**	3.90
Salary increases	**4.70**	4.90
Rate of discount	**5.80**	6.00
Allowance for pension in payment increases of RPI or 2.5% p.a. if less	**–**	–
Allowance for pension in payment increases of RPI or 5% p.a. if less	**3.70**	3.90
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	**3.70**	3.90
Allowance for commutation of pension for cash at retirement	**–**	–

The mortality assumptions adopted at 31 July 2009 are based on the PA00 tables using the long cohort improvements and allow for future improvement in mortality. The tables used imply the following life expectancies at age 65:

Male retiring at age 65 in 2009	23.0 years
Female retiring at age 65 in 2009	25.5 years
Male retiring at age 65 in 2029	25.0 years
Female retiring at age 65 in 2029	27.4 years

Amounts for the current and previous four years

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Fair value of assets	**27,945**	34,763	49,545	41,622	34,603
Defined benefit obligation	**(39,870)**	(47,472)	(51,531)	(53,338)	(46,687)
Deficit in Scheme	**(11,925)**	(12,709)	(1,986)	(11,716)	(12,084)
Experience adjustment on Scheme liabilities	**5,351**	(1,001)	(967)	(543)	(3,341)
Experience adjustment on Scheme assets	**(3,997)**	(6,248)	1,262	1,435	3,876
Effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities	**(1,001)**	(7,102)	4,973	(3,095)	(5,575)

Share-based payments

The Group operates a long-term incentive plan ("LTIP"), an annual bonus scheme, employee share ownership schemes ("ESOS") and savings related share option schemes ("SRSOS") all of which are detailed below. IFRS 2 has been applied to options granted after 7 November 2002, which had not vested at 1 January 2005.

Awards under the LTIP and the annual bonus scheme have been made to executive directors and the Group Company Secretary.

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 the scheme. 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 above Schemes is detailed under the long-term incentive scheme section on pages 37 and 40 within the Report of the Board on Directors' Remuneration.

24 Employee benefits continued

Share-based payments continued

For awards made prior to 16 January 2008, vesting of awards under the LTIP is dependent upon total shareholder return of the Group measured against relevant comparator companies as detailed on pages 37 and 40 within the Report of the Board on Directors' Remuneration. For awards made on 16 January 2008, vesting of awards is dependent upon two conditions, total shareholder return and return on capital employed. For awards made on 4 November 2008, vesting of awards is dependent only on total shareholder return as detailed on pages 37 and 40 within the Report of the Board on Directors' Remuneration.

With regard to the annual bonus scheme, for awards up to and including those for the year ended 31 July 2006, one half was payable in November each year following the announcement of the Group's annual results. The other half was used to acquire Bellway shares at the prevailing market value. These shares are held in the Bellway Employee Share Trust (1992) for three years. The shares can then be transferred into the employee's name. In addition, various small share awards were made for years 2003 through to 2007 to employees, mainly at divisional management level. These awards mainly had three-year vesting periods. Awards to executive directors and to the Group Company Secretary in relation to the year ended 31 July 2007, and subsequent years, are made in cash with no compulsory deferral element.

Share options have been valued by an external third party using various models detailed below, based on publicly available market data at the time of the grant, which the directors consider to be the most appropriate method of determining their fair value.

Reconciliations of share options outstanding and weighted average exercise prices for each type of share option are shown below:

	Number of share options 2009	Number of share options 2008
LTIP		
Outstanding at the beginning of the year	**384,982**	355,851
Granted during the year	**235,799**	176,963
Lapsed during the year	**–**	(69,334)
Exercised during the year	**(116,502)**	(78,498)
Outstanding at the end of the year	**504,279**	384,982
Exercisable at the end of the year	**–**	–

The weighted average share price at the date of exercise for share options exercised during the year was 513.00p (2008 – 914.25p). The options outstanding at 31 July 2009 had a weighted average remaining life of 1.6 years (2008 – 1.5 years).

	Number of share options 2009	Number of share options 2008
Annual bonus		
Outstanding at the beginning of the year	**146,149**	248,868
Granted during the year	**5,000**	16,064
Exercised during the year	**(83,681)**	(118,783)
Outstanding at the end of the year	**67,468**	146,149
Exercisable at the end of the year	**1,000**	12,000

Notes to the Accounts continued

24 Employee benefits continued

The weighted average share price at the date of exercise for share options exercised during the year was 518.6p (2008 – 881.9p). The options outstanding at 31 July 2009 had a weighted average remaining contractual life of 0.7 years (2008 – 0.7 years).

	Number of share options 2009	**Weighted average exercise price 2009**	Number of share options 2008	Weighted average exercise price 2008
1995,1996, 2005 and 2007 ESOS				
Outstanding at the beginning of the year	**959,873**	**796.6p**	1,301,193	792.0p
Forfeited during the year	**(154,730)**	**(789.2p)**	(255,200)	(828.3p)
Exercised during the year	**(10,000)**	**(581.1p)**	(86,120)	(637.1p)
Outstanding at the end of the year	**795,143**	**801.9p**	959,873	796.6p
Exercisable at the end of the year	**756,143**	**767.4p**	409,923	558.2p

The weighted average share price at the date of exercise for share options exercised during the year was 711.7p (2008 – 958.4p). The options outstanding at 31 July 2009 had exercise prices ranging from 248.0p to 1,470.0p (2008 – 273.5p to 1,470.0p) and the weighted average remaining contractual life of these options was 5.7 years (2008 – 6.6 years).

	Number of share options 2009	**Weighted average exercise price 2009**	Number of share options 2008	Weighted average exercise price 2008
SRSOS				
Outstanding at the beginning of the year	**514,275**	**774.8p**	700,983	680.9p
Granted during the year	**970,830**	**336.0p**	267,031	847.2p
Forfeited during the year	**(420,480)**	**(770.7p)**	(262,340)	(815.9p)
Exercised during the year	**(44,570)**	**(544.9p)**	(191,399)	(475.3p)
Outstanding at the end of the year	**1,020,055**	**370.3p**	514,275	774.8p
Exercisable at the end of the year	**–**	**–**	–	–

The weighted average share price at the date of exercise for share options exercised during the year was 669.7p (2008 – 796.2p). The options outstanding at 31 July 2009 had exercise prices ranging from 336.0p to 1,092.0p (2008 – 490.0p to 1,092.0p) and the weighted average remaining contractual life of these options was 3.4 years (2008 – 2.6 years).

Valuation methodology

For the LTIP, a Monte Carlo simulation method is used which allows the Group's performance, in terms of total shareholder return, to be measured against its comparator companies. Individual share price volatilities are calculated for each of the comparator companies. A correlation assumption, appropriate to the building sector, is also used.

In the case of the deferred element of the annual bonus, 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.

24 Employee benefits continued

The inputs into the Monte Carlo model for the various grants under the LTIP were as follows:

	January 2004	November 2004	November 2005	October 2006	January 2008 (ROCE element)	January 2008 (TSR element)	November 2008
Grant date	19 Jan 2004	30 Nov 2004	14 Nov 2005	18 Oct 2006	16 Jan 2008	16 Jan 2008	4 Nov 2008
Risk free interest rate	–	–	–	–	–	–	–
Exercise price	–	–	–	–	–	–	–
Share price at date of grant	667.5p	712p	999p	1,372p	766p	766p	576p
Expected dividend yield	3.00%	3.00%	2.90%	2.40%	5.60%	5.60%	4.00%
Expected life	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Date vested	19 Jan 2007	30 Nov 2007	14 Nov 2008	18 Oct 2009	16 Jan 2011	16 Jan 2011	4 Nov 2011
Expected volatility	25%	25%	25%	25%	–	30%	50%
Fair value of option	343.0p	292.0p	480.0p	676.4p	650.0p	359.0p	395.0p

The inputs into the simplified Black Scholes model used for the shares issued under the annual bonus scheme were as follows:

	May 2003	November 2003	October 2004	November 2005	October 2006	February 2007	November 2007	January 2008	April 2008
Grant date	31 May 2003	18 Nov 2003	26 Oct 2004	14 Nov 2005	18 Oct 2006	7 Feb 2007	23 Nov 2007	21 Jan 2008	17 Apr 2008
Exercise price	–	–	–	–	–	–	–	–	–
Share price at date of grant	575.5p	621.5p	675p	999p	1,372p	1,542p	993.5p	772.5p	783.5p
Expected dividend yield	–	–	–	–	–	–	–	–	–
Expected life	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Date vested	31 May 2006	18 Nov 2006	26 Oct 2007	18 Nov 2008	18 Oct 2009	7 Feb 2010	23 Nov 2010	21 Jan 2011	17 Apr 2011
Fair value of option	575.5p	621.5p	675p	999p	1,372p	1,542p	993.5p	772.5p	783.5p

The inputs into the binomial lattice model for the various grants under the 1995, 1996, 2005 and the 2007 ESOSs were as follows:

	April 2003	May 2003	October 2003	May 2004	November 2004	October 2005	May 2006	February 2007
Grant date	22 Apr 2003	13 May 2003	24 Oct 2003	10 May 2004	17 Nov 2004	31 Oct 2005	16 May 2006	7 Feb 2007
Risk free interest rate	4.10%	4.00%	4.90%	5.10%	4.70%	4.40%	4.40%	5.40%
Exercise price	548.5p	524p	621.5p	712.5p	716p	844p	1,122p	1,470p
Share price at date of grant	548.5p	524p	621.5p	712.5p	716p	844p	1,122p	1,542p
Expected dividend yield	3.00%	3.00%	3.00%	3.00%	3.00%	3.40%	3.40%	2.20%
Expected life	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Date vested	22 Apr 2006	13 May 2006	24 Oct 2006	10 May 2007	17 Nov 2007	31 Oct 2008	16 May 2009	7 Feb 2010
Expected volatility	25%	25%	25%	25%	25%	25%	25%	25%
Fair value of option	129p	123p	155p	180p	183p	197p	197p	466p

24 Employee benefits continued

Share-based payments continued

The inputs into the Black Scholes model for the various grants under the SRSOS were as follows:

	November 2002 5 Year SRSOS	November 2003 5 Year SRSOS	November 2004 3 Year SRSOS	November 2004 5 Year SRSOS	November 2005 3 Year SRSOS	November 2005 5 Year SRSOS	November 2006 3 Year SRSOS	November 2006 5 Year SRSOS	November 2007 3 Year SRSOS	November 2007 5 Year SRSOS	November 2008 3 Year SRSOS	November 2008 5 Year SRSOS
Grant date	26 Nov 2002	25 Nov 2003	19 Nov 2004	19 Nov 2004	15 Nov 2005	15 Nov 2005	14 Nov 2006	14 Nov 2006	13 Nov 2007	13 Nov 2007	13 Nov 2008	13 Nov 2008
Risk free interest rate	4.50%	5.00%	4.70%	4.70%	4.40%	4.40%	5.00%	4.90%	4.80%	4.80%	2.90%	3.50%
Exercise price	384.0p	489.6p	537.6p	537.6p	676.0p	676.0p	1,092p	1,092p	847.2p	847.2p	336.0p	336.0p
Share price at date of grant	451.0p	638p	720p	720p	995p	995p	1,397p	1,397p	1,034p	1,034p	515p	515p
Expected dividend yield	3.00%	3.00%	3.00%	3.00%	2.90%	2.90%	2.30%	2.30%	3.50%	3.50%	4.50%	4.50%
Expected life	5 years 2 months	5 years 2 months	3 years 2 months	5 years 2 months	3 years 2 months	5 years 2 months	3 years 2 months	5 years 2 months	3 years 2 months	5 years 2 months	3 years 2 months	5 years 2 months
Date vested	1 Feb 2008	1 Feb 2009	1 Feb 2008	1 Feb 2010	1 Feb 2009	1 Feb 2011	1 Feb 2010	1 Feb 2012	1 Feb 2011	1 Feb 2013	1 Feb 2012	1 Feb 2014
Expected volatility	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	50%	40%
Fair value of option	126p	209p	224p	239p	349p	363p	436p	482p	268p	291p	212p	195p

The expected volatility for all models was determined by considering the volatility levels historically for the Group. Volatility levels for more recent years were considered to have more relevance than earlier years for the period reviewed.

The Group recognised total expenses of £1.318 million (2008 – £1.685 million) in relation to equity-settled share-based payment transactions.

25 Related party transactions

Transactions between fellow subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

Group

During the year the Group entered into the following related party transactions with its associates and jointly controlled entities:

	2009 £000	2008 £000
Invoiced to associates in respect of land purchases and infrastructure works	**–**	1
Invoiced from associates in respect of management fees	**–**	(22)
Invoiced to jointly controlled entities in respect of accounting, management fees, interest on loans, land purchases and infrastructure works	**1,525**	1,440
Invoiced from jointly controlled entities in respect of fees , land purchases and infrastructure works	**(1,555)**	(21)
Amounts owed to associates in respect of management fees at the year end	**–**	(11)
Amounts owed by jointly controlled entities in respect of accounting, management fees, interest, land purchases and infrastructure works	**31,577**	23,055

25 Related party transactions continued

Company

During the year the Company entered into the following related party transactions with its subsidiaries and jointly controlled entities:

	2009 £000	2008 £000
Amounts received in the year from subsidiaries in respect of dividends and shares issued	**276**	1,479
Amounts paid in the year by subsidiaries on behalf of the Company in respect of dividends and finance expenses	**(12,236)**	(53,198)
Amounts owed by subsidiaries in respect of dividends and shares issued net of amounts paid on behalf of the Company	**703,617**	715,578

26 Principal subsidiary undertakings

The Company owns the whole of the ordinary share capital of the following active subsidiary undertakings incorporated in Great Britain, registered in England and Wales and engaged in housebuilding and associated activities.

Bellway Homes Limited
Bellway Properties Limited
Bellway (Services) Limited
Litrose Investments Limited
Bellway Financial Services Limited
Bellway Housing Trust Limited
The Victoria Dock Company Limited (60% owned)*

* These shares are held indirectly.

27 Subsequent events

On 6 August 2009 the Group announced the successful placing of 5,747,648 new ordinary shares of 12.5p each (the "Placing Shares") at a price of 779p per Placing Share, raising gross proceeds of £44.774 million. The Placing Shares issued represent approximately 5.0% of the Company's issued ordinary share capital prior to the Placing.

The Placing Shares are credited as fully paid and rank equally in all respects with the existing ordinary shares of Bellway, including the right to receive all dividends and other distributions declared, made or paid in respect of such shares after the date of the issue of the Placing Shares.

Five Year Record

	2005 £m	2006 £m	2007 £m	2008 £m	**2009 £m**
Income statement					
Revenue	1,178.1	1,240.2	1,354.0	1,149.5	**683.8**
Operating profit*	230.1	239.3	253.0	185.1	**45.6**
Exceptional items	–	–	–	(130.9)	**(66.3)**
Net finance expenses	(16.4)	(18.4)	(17.9)	(19.1)	**(15.8)**
Share of profit/(losses) of associates	0.1	(0.2)	(0.3)	(0.3)	**–**
Profit/(loss) before taxation	213.8	220.7	234.8	34.8	**(36.5)**
Income tax (expense)/credit	(64.6)	(65.0)	(68.1)	(7.8)	**9.1**
Profit/(loss) for the year (all attributable to equity holders of the parent)	149.2	155.7	166.7	27.0	**(27.4)**
Balance sheet					
ASSETS					
Non-current assets	36.7	31.4	28.1	29.3	**43.8**
Current assets	1,381.4	1,462.8	1,608.5	1,667.7	**1,306.2**
LIABILITIES					
Non-current liabilities	(287.4)	(194.7)	(126.9)	(359.0)	**(138.8)**
Current liabilities	(350.9)	(396.0)	(473.9)	(336.9)	**(246.2)**
EQUITY					
Total equity	779.8	903.5	1,035.8	1,001.1	**965.0**
Statistics					
Dividend per ordinary share	31.25p	34.5p	43.125p	24.1p	**9.0p**
Basic earnings/(loss) per ordinary share	133.1p	137.5p	146.1p	23.6p	**(23.9)p**
Number of homes sold	7,001	7,117	7,638	6,556	**4,380**
Average price of new homes	£163.8k	£169.0k	£173.3k	£169.9k	**£154.0k**
Operating margin	19.5%	19.3%	18.7%	16.1%*	**6.7%***
Net assets per ordinary share	689p	793p	903p	871p	**839p**
Land portfolio – plots with planning permission	22,500	22,600	23,500	22,500	**19,260**
Weighted average no. of ordinary shares	112,054,913	113,248,814	114,108,350	114,615,661	**114,949,883**
No. of ordinary shares in issue at end of year	113,229,119	113,988,310	114,670,396	114,950,915	**115,006,480**

* Operating margin is stated before exceptional item (note 5)

Shareholder Information

Annual General Meeting ("AGM")

This section is important. If you are in any doubt as to what action to take you should consult an appropriate independent financial adviser.

If you have sold or transferred all of your shares in Bellway p.l.c. you should pass this document and all accompanying documents to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Special business

Five resolutions will be proposed as special business at the forthcoming AGM. The effect of these resolutions is as follows:

Resolution 10 – Authority to directors to issue shares

This is an ordinary resolution which authorises the directors to allot ordinary shares up to an aggregate nominal value of £5,032,058, which is equivalent to approximately one-third of the Company's issued ordinary share capital as at 12 October 2009, and also gives the directors authority to allot, by way of rights issue only, ordinary shares up to an aggregate nominal value of £10,064,116, which is equivalent to approximately two-thirds of the Company's issued ordinary share capital as at 12 October 2009, such authority, if granted, to expire at the conclusion of the AGM of the Company to be held in 2011. As at 12 October 2009 the Company held no shares as treasury shares. At present, the directors only intend to use this authority to satisfy the exercise of awards under the Company's share schemes. The directors wish to obtain the necessary authority from shareholders so that allotments can be made (if required and if suitable market conditions arise) at short notice and without the need to convene a general meeting of the Company which would be both costly and time consuming.

Resolution 11 – Disapplication of pre-emption rights

This is a special resolution and is the customary annual request, in substitution for the authority granted to the directors by shareholders on 16 January 2009 which expires at the conclusion of the forthcoming AGM, that shareholders empower the directors to allot ordinary shares for cash without first offering them pro rata to existing shareholders as would otherwise be required by section 561 of the Companies Act 2006 (a) in connection with a rights issue or other pre-emptive offer and (b) (otherwise than in connection with a rights issue or other pre-emptive offer) up to an aggregate nominal value of £754,809, being approximately equal to 5% of the issued ordinary share capital of the Company as at 12 October 2009.

Resolution 12 – Company's purchase of its own shares

The Company's authority to purchase its own ordinary and preference shares, given at the last AGM, expires at the conclusion of the forthcoming AGM. This authority was not used during the year. The directors propose, as a special resolution, that it should be renewed for a further year to expire on the date of the 2011 AGM.

The directors will review opportunities to use this authority in light of stock market conditions and trading opportunities during the year.

The directors will only make purchases (which will reduce the number of shares in issue) after paying due attention to the effect on the financing of the Group, its assets and earnings per share for the remaining shareholders. Any shares purchased under this authority may be cancelled (in which case the number of shares in issue will be reduced accordingly) or may be held in treasury.

Resolution 13 – Adoption of new Articles of Association

The Company proposes, as a special resolution, to adopt new Articles of Association (the "new Articles") at the forthcoming AGM. These incorporate amendments to the current Articles to reflect the changes brought about by the Companies Act 2006 which came into effect on 1 October 2009, and by the Companies (Shareholders' Rights) Regulations 2009 (the "Shareholders' Rights Regulations") which came into force on 3 August 2009. A summary of the amendments is set out on page 78. A copy of the current Articles and of the new Articles will be available for inspection during normal business hours on Monday to Friday (public holidays excepted) at the registered office of the Company and at the offices of Dickinson Dees LLP, Gate House, 1 Farringdon Street, London EC4M 7LG from the date of publication of this notice until the close of the AGM and on the Company's website www.bellway.co.uk. These documents will also be available for inspection during the AGM and for at least 15 minutes before it begins.

Resolution 14 – Length of notice of meeting

The Companies Act 2006 was amended by the Shareholders' Rights Regulations on 3 August 2009 to increase the notice period required for general meetings of the Company to 21 days unless shareholders approve a shorter notice period, which cannot be less than 14 days. This resolution is therefore proposed as a special resolution to approve 14 days as the minimum notice period for all general meetings of the Company, other than AGMs. The approval will be effective until the Company's next AGM, when it is intended that the approval be renewed.

Recommendation

Your directors consider each of the resolutions set out in the Notice of AGM to be in the best interests of the Company and its shareholders as a whole. Accordingly, they unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial shareholdings.

Summary of proposed amendments to the Company's Articles of Association

The principal amendments introduced in the new Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some minor changes which merely reflect changes made by the Companies Act 2006 (the "Act") or the Shareholders' Rights Regulations have not been noted below. A copy of the new Articles showing all the changes to the current Articles is available for inspection as indicated above.

(a) Objects
The Company's memorandum of association contains the objects clause which sets out the scope of activities the Company is authorised to undertake. The Act states that unless a company's articles provide otherwise, its objects are unrestricted. This abolishes the need for companies to have objects clauses. Resolution 13(a) removes the objects clause together with any other parts of the memorandum which, because of the Act, are treated as forming part of the Articles. The new Articles contain a statement about the limited liability of shareholders as this Resolution removes this statement from the memorandum.

(b) Authorised share capital
The Act abolishes the requirement for a company to have an authorised share capital and the new Articles reflect this. The directors will still be limited as to the number of shares they can allot because allotment authority continues to be required under the Act, except in respect of employee share schemes.

(c) Share transfers
Under the Act share transfers must be registered as soon as practicable. The power in the current Articles to suspend the registration of transfers is inconsistent with this requirement and has therefore been removed. In addition, directors are now obliged to give reasons for any refusal to register a share transfer and the new Articles amend the current Articles to reflect this.

(d) Adjournment for lack of quorum
Under the Act, as amended by the Shareholders' Rights Regulations, general meetings adjourned for lack of quorum must be held at least ten clear days after the original meeting. The new Articles reflect this requirement.

(e) Chairman's casting vote
The new Articles remove the provision giving the chairman a casting vote at general meetings in the event of an equality of votes as this is no longer permitted under the Act.

(f) Multiple proxies
The Act provides that, where a member appoints more than one proxy, each proxy must be appointed to exercise the rights attached to a different share or shares held by him. The new Articles reflect this.

(g) Corporate representatives
The new Articles remove provisions in the current Articles dealing with voting by corporate representatives on the basis that these are dealt with in the Act, as amended by the Shareholders' Rights Regulations.

(h) Directors' conflict of interests
Under the Act the directors must avoid a situation where they have, or can have a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The new Articles update the provisions allowing the directors to authorise such conflicts or potential conflicts in line with the requirements of the Act. They also contain provisions about confidential information, attendance at board meetings and availability of board papers to protect a director if a conflict of interest or potential conflict of interest arises. These provisions will only apply following authorisation of the potential conflict by the directors.

Takeovers Directive

Where not provided in the Directors' Report the following sets out the information required to be provided to shareholders in compliance with the Takeovers Directive.

Share capital

The Company's total issued ordinary and preference share capital as at 31 July 2009 consisted of 115,006,480 ordinary shares of 12.5p each (representing 42% of the Company's total issued share capital) and 20,000,000 9.5% Cumulative Redeemable Preference Shares 2014 of £1 each (representing 58% of the Company's total issued share capital). Further details of the issued capital of the Company and brief details of the rights in relation to the preference shares can be found in notes 18 and 15 to the accounts. The rights and obligations attaching to the ordinary and preference shares in the Company are set out in the Articles. Copies of the Articles can be obtained from Companies House or by writing to the Group Company Secretary at the Company's registered office.

Restrictions on the transfer of shares

The restrictions on the transfer of shares are set out in the Articles. In addition, in compliance with the FSA Listing Rules, Company approval is required for directors, certain employees and their connected persons to deal in the Company's ordinary shares.

No person has special rights of control over the Company's share capital.

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

The voting rights on shares held in the employee benefit trust in relation to the Company's employee share schemes are exercisable by the trustees.

Restrictions on voting rights

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

Appointment and replacement of directors

The Company's rules about the appointment and replacement of directors are set out in the Articles and are summarised in the Directors' Report on pages 30 and 32.

Amendments to the Company's Articles

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

Powers of the Board

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

Allotment of shares

During the year 55,565 new ordinary shares were issued to satisfy awards made under the Company's employee share schemes. After the year end, on 6 August 2009, the Company placed 5,747,648 new ordinary shares with new and existing institutional shareholders, representing approximately 5% of the Company's existing issued ordinary share capital at that time. The directors have authority to allot shares within limits agreed by shareholders. Details of the renewal of this authority are set out on page 77, and Resolutions 10 and 11 in the Notice of Meeting of the AGM to be held on 15 January 2010 on pages 81 and 82 seek to renew this authority.

Purchase of own shares

The Company has not purchased any of its own shares during the year. The directors have authority to purchase the Company's own shares within limits agreed by shareholders. Details of the renewal of this authority are set out on page 77, and Resolution 12 in the Notice of Meeting of the AGM to be held on 15 January 2010 on page 82 seeks to renew this authority.

Significant agreements – change of control provisions

The Company is party to a number of banking agreements which may be terminable in the event of a change of control of the Company.

Agreements for compensation for loss of office following a change of control

The service agreements between the Company and the executive directors and the Group Company Secretary contain provisions that entitle the individual to terminate the agreement following a takeover offer and receive an amount equivalent to one year's salary, benefits and the average amount of the last two years' annual bonus payment.

Financial calendar

Announcement of results and ordinary dividends

Half year	March
Full year	October
Ordinary share dividend payments	
Interim	July
Final	January
Preference share dividend payments at the rate of 9.5% per annum paid half yearly	April and October

Shareholder Information continued

Financial calendar continued

Annual report posted to shareholders	November
Final ordinary dividend – ex-dividend date	9 December 2009
Final ordinary dividend – record date	11 December 2009
AGM	15 January 2010
Final ordinary dividend – payment date	20 January 2010

Shareholders by size of holding at 31 July 2009

	Holdings		Shares	
	Number	**%**	**Holding**	**%**
0 – 2,000	**2,149**	**71.75**	**1,395,324**	**1.21**
2,001 – 10,000	**475**	**15.86**	**1,956,770**	**1.71**
10,001 – 50,000	**174**	**5.81**	**4,546,761**	**3.95**
50,001 and over	**197**	**6.58**	**107,107,625**	**93.13**
Total	**2,995**	**100.0**	**115,006,480**	**100.0**

Dividend Re-Investment Plan ("DRIP")

Shareholders may agree to participate in the Company's DRIP to receive dividends in the form of shares in Bellway p.l.c. instead of in cash. For further information please e-mail Capita Registrars Limited at shares@capitaregistrars.com or telephone 0871 664 0300 – calls cost 10p per minute plus network extras. If calling from overseas please call +44 208 639 3399. Lines are open from 8.30 am to 5.30 pm on Monday to Friday (excluding Bank Holidays).

Share dealing service

The Company's registrars, Capita Registrars Limited, provide a share dealing service to existing shareholders to buy or sell the Company's shares. Online and telephone dealing facilities provide an easy to access and simple to use service.

For further information on this service, or to buy or sell shares, please contact: www.capitadeal.com for online dealing, or call 0871 458 4577 for telephone dealing.

Please note that the directors of the Company are not seeking to encourage shareholders to either buy or sell their shares in the Company. Shareholders in any doubt as to what action to take are recommended to seek financial advice from an independent financial adviser, authorised under the terms of the Financial Services and Markets Act 2000.

Discount to shareholders

The following discount arrangement is currently available to shareholders.

Should you intend to purchase a new Bellway home, you will be entitled to a discount of £2,000 per £25,000, or pro rata on part thereof, of the purchase price provided that:

(a) you have been the registered holder of at least 2,000 ordinary shares for a minimum period of 12 months prior to the reservation of your new home; and

(b) you inform our sales representative on-site when reserving your property that you are claiming shareholder discount.

The above discount arrangement is only available to shareholders on the Company's Register of Members. Employees of investing companies or members of investing institutions would not therefore be eligible. Underlying beneficial shareholders would be entitled to benefit from the arrangements.

For further details please contact the Group Company Secretary, Bellway p.l.c., Seaton Burn House, Dudley Lane, Seaton Burn, Newcastle upon Tyne NE13 6BE, telephone 0191 217 0717 or e-mail kevin.wrightson@bellway.co.uk.

Beneficial owners of shares with "information rights"

Beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's registrar, Capita Registrars Limited, or to the Company directly.

Corporate Responsibility Report 2009

The Company's Corporate Responsibility Report 2009 is available to view on the Company's website www.bellway.co.uk.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at The Copthorne Hotel, The Close, Quayside, Newcastle upon Tyne NE1 3RT on Friday 15 January 2010 at 12.00 noon for the following purposes:

Ordinary business

To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

1. THAT the Accounts for the financial year ended 31 July 2009 and the Directors' Report and the Auditors' Report on those Accounts and the auditable part of the Report of the Board on Directors' Remuneration be received and adopted.
2. THAT a final dividend for the year ended 31 July 2009 of 6.0p per ordinary 12.5p share, as recommended by the directors, be declared.
3. THAT Mr H C Dawe be re-elected as a director of the Company.
4. THAT Mr J K Watson be re-elected as a director of the Company.
5. THAT Mr M R Toms be re-elected as a director of the Company.
6. THAT Mr J A Cuthbert be re-elected as a director of the Company.
7. THAT KPMG Audit Plc be re-appointed as the auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which Accounts are laid before the Company.
8. THAT the directors are authorised to agree the remuneration of the auditors of the Company.
9. THAT the Report of the Board on Directors' Remuneration shown on pages 35 to 41 of the Annual Report and Accounts for the year ended 31 July 2009 be approved.

Special business

To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

10. THAT the directors be generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to:
    (a) allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company ("Rights") up to a maximum nominal amount of £5,032,058; and
    (b) allot equity securities (within the meaning of section 560 of the Act) up to a maximum nominal amount of £10,064,116 (such amount to be reduced by the nominal amount of any shares issued or in respect of which Rights are granted under (a) above) in connection with an offer by way of a rights issue to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter, provided that:
        (i) this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2011, but may be previously revoked or varied by an ordinary resolution of the Company; and
        (ii) this authority shall permit and enable the Company to make offers or agreements before the expiry of this authority which would or might require shares to be allotted or Rights to be granted after such expiry and the directors shall be entitled to allot shares and grant Rights pursuant to any such offers or agreements as if this authority had not expired; and
        (iii) all unexercised authorities previously granted to the directors to allot shares and grant Rights be and are hereby revoked.

To consider and, if thought fit, pass the following resolutions which will be proposed as special resolutions:

11. THAT,

(a) subject to resolution 10 above being passed as an ordinary resolution, the directors be empowered pursuant to section 570 and section 573 of the Companies Act 2006 ("the Act") to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority so conferred or by way of sale of treasury shares in each case as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

(i) the allotment of equity securities in connection with a pre-emptive offer (but in the case of the authority conferred under paragraph (b) of resolution 10 in connection with an offer by way of rights issue only); and

(ii) the allotment to any person or persons (otherwise than pursuant to paragraph (i) above) of equity securities up to an aggregate nominal amount of £754,809;

(b) the power given by this resolution shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2011 except that the Company may, before such expiry, make an offer or agreement which would, or might, require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to such an offer or agreement as if the power conferred by this resolution had not expired; and

(c) for the purposes of this resolution, "pre-emptive offer" means a rights issue, open offer or other offer of equity securities open for acceptance for a fixed period, by the directors to ordinary shareholders of the Company on the Register on a fixed record date in proportion (as nearly as may be) to their then holdings of such equity securities (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in, any overseas territory or fractional entitlements or any other matter whatsoever).

12. THAT the Company be generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 ("the Act") to purchase ordinary shares and preference shares in the capital of the Company by way of one or more market purchases (within the meaning of section 693 of the Act) on the London Stock Exchange upon, and subject to the following conditions:

(i) the maximum number of ordinary shares hereby authorised to be purchased is 12,076,940, being approximately 10 per cent of the ordinary shares in issue;

(ii) the maximum number of preference shares hereby authorised to be purchased is 20,000,000 9.5% Cumulative Redeemable Preference Shares 2014 of £1 each, being the total amount of preference shares in issue;

(iii) the maximum price at which ordinary shares may be purchased is an amount equal to 105 per cent of the average of the middle market quotations derived from the London Stock Exchange Limited Official List for the five business days immediately preceding the date on which the ordinary shares are contracted to be purchased and the minimum price is 12.5p per share, in both cases exclusive of expenses;

(iv) the maximum price at which preference shares may be purchased shall be an amount calculated in accordance with the provisions contained in the Articles of Association of the Company; and

(v) unless previously renewed, varied or revoked, the authority to purchase conferred by this resolution shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this resolution provided that any contract for the purchase of any shares, as aforesaid, which was concluded before the expiry of the said authority may be executed wholly or partly after the said authority expires and the relevant shares purchased pursuant thereto.

13. THAT with immediate effect:

(a) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Companies Act 2006, are treated as provisions of the Company's Articles of Association; and

(b) the Articles of Association produced to the meeting and for the purpose of identification, signed by the chairman of the meeting be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

14. THAT a general meeting of the Company, other than an annual general meeting of the Company, may be called on not less than 14 clear days' notice.

Notes:

(i) A member entitled to attend and vote at the meeting convened by the above notice may appoint one or more proxies to attend and speak and vote instead of him/her, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company.

(ii) A form of proxy is enclosed separately. Completion and return of the proxy will not preclude shareholders from attending in person and voting at the meeting.

(iii) CREST members will be able to cast their vote using CREST electronic proxy voting using the procedures described in the CREST Manual (available via www.euroclear.com/CREST). In order to be valid, the Company's registrars must receive CREST Proxy Instructions not less than 48 hours before the time of the meeting or any adjourned meeting.

(iv) The above statement as to proxy rights contained in note (i) above does not apply to a person who receives this notice of general meeting as a person nominated to enjoy "information rights" under section 146 of the Companies Act 2006. If you have been sent this notice of meeting because you are such a nominated person, the following statements apply: (a) you may have a right under an agreement between you and the member of the Company by whom you were nominated to be appointed or to have someone else appointed as a proxy for this general meeting; and (b) if you have no such right or do not wish to exercise it, you may have a right under such an agreement to give instructions to that member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.

(v) To be entitled to attend and vote at the meeting (and for the purposes of determination by the Company of the number of votes cast), shareholders must be entered on the Company's Register of Members at 5.30 pm on Wednesday 13 January 2010 (or, in the event of any adjournment, at 5.30 pm on the date which is two days prior to the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting or adjourned meeting.

(vi) Pursuant to section 527 of the Companies Act 2006, where requested by either a member or members having a right to vote at the general meeting and holding at least 5% of total voting rights of the Company or at least 100 members having a right to vote at the meeting and holding, on average, at least £100 of paid up share capital, the Company must publish on its website a statement setting out any matter that such members propose to raise at the meeting relating to either the audit of the Company's accounts that are to be laid before the meeting or the circumstances connected with an auditor ceasing to hold office since the last meeting at which accounts were laid. Where the Company is required to publish such a statement on its website, it may not require the members making the request to pay any expenses incurred by the Company in complying with the request. It must forward the statement to the Company's auditors and the statement may be dealt with as part of the business of the meeting.

(vii) Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such questions relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation of the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

(viii) Members have the right, under section 338 of the Companies Act 2006, to require the Company to give its members notice of a resolution which the shareholders wish to be moved at an annual general meeting of the Company. Additionally, members have the right under section 338A of the Companies Act 2006 to require the Company to include a matter (other than a proposed resolution) in the business to be dealt with at the annual general meeting. The Company is required to give such notice of a resolution or include such matter once it has received requests from members representing at least 5% of the total voting rights of all the members who have a right to vote at the annual general meeting or from at least 100 members with the same right to vote who hold shares in the Company on which there has been paid up an average sum per member of at least £100. This request must be received by the Company not later than six weeks before the annual general meeting or, if later, the time at which notice is given of the annual general meeting. In the case of a request relating to section 338A of the Companies Act 2006, the request must be accompanied by a statement setting out the grounds for the request.

(ix) Except as provided above, members who wish to communicate with the Company in relation to the AGM should do so in writing either to the Group Company Secretary at the registered office address or to the Company's registrar, Capita Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0LA. No other methods of communication will be accepted. In particular you may not use any electronic address provided either in this notice of meeting or in any related documents to communicate with the Company for any purposes other than those expressly stated.

(x) There will be available for inspection during the AGM and for at least 15 minutes before it begins, a copy of the current Memorandum and Articles of Association, a copy of the proposed new Articles of Association, and the directors' appointment letters and service contracts.

(xi) A copy of this notice and the other information required by section 311A of the Companies Act 2006 can be found at www.bellway.co.uk.

(xii) As at the date of this notice there are 120,769,397 ordinary shares in issue and the total voting rights of the Company are therefore 120,769,397.

By order of the Board

G Kevin Wrightson
Group Company Secretary

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

Registered in England and Wales
No. 1372603
12 October 2009

Notes

Bellway p.l.c.

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Bellway Homes Limited

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Printed on paper sourced from sustainable sources, using vegetable-based inks.

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