NATIONAL HOUSEBUILDER BELLWAY ANNOUNCES TODAY, TUESDAY 16 OCTOBER 2018, ITS PRELIMINARY RESULTS FOR THE YEAR ENDED 31 JULY 2018.

Highlights

Record volume output drives excellent financial performance

	Year ended 31 July 2018	Year ended 31 July 2017	Movement
Revenue	£2,957.7m	£2,558.6m	+15.6%
Gross profit	£753.4m	£661.6m	+13.9%
Gross margin	25.5%	25.9%	(40bps)
Operating profit	£652.9m	£571.6m	+14.2%
Operating margin	22.1%	22.3%	(20bps)
Profit before taxation	£641.1m	£560.7m	+14.3%
Earnings per share	423.4p	370.6p	+14.2%
Proposed total dividend per share	143.0p	122.0p	+17.2%

Robust results and a strong balance sheet

- Bellway exceeded the 10,000 homes barrier for the first time in its history, growing volume by 6.9% and completing the sale of 10,307 new homes (2017 – 9,644).
- Return on capital employed ('RoCE') remained high at 27.2%[1] (2017 – 27.6%).
- A robust trading performance and ongoing focus on growth resulted in earnings per share rising by 14.2% to 423.4p (2017 – 370.6p), a record for the Group.
- The substantial growth in earnings facilitated a 17.2% rise in the proposed total dividend per share to 143.0p (2017 – 122.0p), providing further returns for shareholders.
- A strong balance sheet, with net cash of £99.0 million[1] (2017 – £16.0 million), ensures that Bellway remains agile and is able to respond positively to new opportunities.

Solid operational delivery

- A responsible and long term approach to managing the business in a sustainable manner resulted in the Group retaining its status as a five-star homebuilder[3], one of only two mainstream national housebuilders to have achieved this accolade.
- Bellway contracted to acquire 12,962 plots (2017 – 11,613 plots) and has all land in place with the benefit of a detailed planning permission in order to meet this year's growth forecast.
- The Group launched a new house type range entitled 'The Artisan Collection', designed to appeal to our customers' aspirations, whilst helping to achieve cost savings through greater standardisation, thereby helping to protect the margin in the future

Further opportunity for growth

- The Group has a strong order book with a value of £1,469.5 million at 30 September (1 October 2017 – £1,361.5 million). Whilst there is a risk to consumer confidence posed by the forthcoming exit from the EU, assuming that market conditions remain robust, Bellway has a solid platform from which to further increase output in the year ahead.
- The new Scotland East division, which commenced trading on 1 August 2018, together with the proposed investment in two further new divisions, should enable Bellway to continue growing beyond this financial year.

[1] Bellway uses a range of statutory performance measures and alternatives performance measures when reviewing the performance of the Group against its strategy. Definitions of the alternative performance measures, and a reconciliation to statutory performance measures, are included in note 9.

[2] All figures relating to completions, order book, reservations, cancellations and average selling price exclude the Group's share of its joint ventures.

[3] As measured by the Home Builders' Federation Customer Satisfaction survey.

FOR FURTHER INFORMATION, PLEASE CONTACT JASON HONEYMAN, CHIEF EXECUTIVE OR KEITH ADEY, FINANCE DIRECTOR FROM TUESDAY 16 OCTOBER – FRIDAY 19 OCTOBER ON 0191 217 0717.

Chairman's Statement

Introduction

The Group is making a substantial contribution to addressing the housing shortage in the UK. In doing so, Bellway has completed the sale of 10,307 new homes (2017 – 9,644), surpassing the 10,000 mark for the first time in its history, following nine consecutive years of volume growth. I am delighted to report that this has enabled the Group to deliver another record set of results, with earnings per share ('EPS') rising by 14.2% to 423.4p (2017 – 370.6p).

This substantial rate of growth has been achieved whilst maintaining our focus on build quality and customer care and this has resulted in the Group being ranked as a five-star homebuilder[3] for the second consecutive year. In addition, robust financial disciplines mean that growth has been achieved whilst managing a strong and efficient balance sheet. As a consequence, return on capital employed remained high at 27.2%[1] (2017 – 27.6%) and the Group ended the year with net cash of £99.0 million[1] (2017 – £16.0 million), notwithstanding record investment in new land.

This strong financial position ensures that Bellway retains its ability to be agile and respond positively to future opportunities as they arise.

A responsible approach to growth

In many parts of the country, there is still a shortage of affordably priced, good quality housing. As a result, there is political support, across both major parties to increase the supply of new homes throughout the UK.

Notwithstanding this demand-supply imbalance, buying a new home remains an attainable prospect for many. Unemployment is at a generational low and the lending environment is providing competitively priced, yet sustainable and responsible access to funds. In addition, Help-to-Buy continues to bolster the new build sector, improving accessibility of mortgage finance for those with at least a 5% deposit. The cost of servicing a mortgage is affordable and despite the recent rise, interest rates remain very low by historical standards.

The availability of land in high quality locations is good, supported by a generally positive planning environment which, in turn, creates an appetite for land owners to sell. Access to experienced personnel, skilled construction labour resource and certain materials remain a challenge, but overall, whilst these constraints may frustrate the rate of growth, they have not prevented Bellway from delivering increased output year-on-year.

Bellway has continued to make the most of these favourable market conditions, adopting a strategy for growth. Our approach is to deliver value over the long term, employing strict financial disciplines with respect to land investment, whilst retaining a culture of balance sheet conservatism. This responsible approach has enabled the Group to increase output significantly, with housing revenue rising by 2.2 times since the pre-recession peak achieved in July 2007. At the same time as achieving this, we have maintained an ongoing focus on quality and customer care, helping to ensure that all of our stakeholders benefit from Bellway's ongoing success.

Long term value creation

Reinvestment of earnings into financially attractive land opportunities, with a focus on return on capital employed, has led to a substantial increase in value for shareholders through the ongoing growth in net asset value, together with an increasing dividend.

Our dividend policy is not based upon short term sentiment, but instead considers the capital requirements and the Group's operational capability of delivering further, long term compounding growth.

Measured on a medium term basis, over the three years since July 2015, the increase in NAV of 793.0p and cumulative dividend payments of 330.0p per share, represents total growth in value of 1,123p[1] per share. This equates to an impressive annualised accounting return of 23.3%[1], relative to the 31 July 2015 NAV of 1,286p per share.

For the year ended 31 July 2018, the strong trading performance has resulted in net asset value per share ('NAV') rising by 16.5% to 2,079p[1] (2017 – 1,785p). Furthermore, the growth in earnings has enabled the Board to recommend a 12.4% increase in the final dividend to 95.0p per share (2017 – 84.5p), increasing the proposed total dividend for the year by 17.2% to 143.0p per share (2017 – 122.0p). If approved, the total dividend will be covered by earnings three times (2017 – three times). For the foreseeable future, the Board expects to maintain a dividend cover of around three times earnings.

Board changes

As previously announced, Jason Honeyman, formerly Chief Operating Officer, was appointed as Chief Executive on 1 August 2018, replacing Ted Ayres, who left the Board after a period of poor health on 31 July 2018. In addition, I will be retiring as non-executive Chairman at the AGM on 12 December 2018 and would like to thank the Board, our employees and all connected with Bellway for their invaluable support throughout my 40 years' service with the Group.

I will be replaced by the current Audit Committee Chair, Paul Hampden Smith, who will become non-executive Chairman with effect from 12 December 2018.

I would like to take this opportunity to wish both Paul and Jason every success in their new roles and look forward to them continuing their significant contributions to the Group in the years to come.

People and supply chain

It is important to recognise the efforts of all those who have worked for and with Bellway over the past twelve months. It is their tremendous hard work and commitment that has enabled us to enjoy these record results, in a safe and responsible manner. I would therefore like to extend the Board's gratitude to all those who have contributed to another year of outstanding performance.

John Watson
Chairman
15 October 2018

Operating Review

Trading performance

Demand for new housing has been strong across all geographies in which the Group operates, contributing to an all-time high sales rate of 200 reservations per week (2017 – 187 per week), an increase of 7.0%. The pattern of reservations followed the usual seasonal trend, with a stronger performance in the second half of the financial year, commensurate with the onset of the spring selling season. Accordingly, the average weekly sales rate progressed from 178 sales per week in the first half of the year (2017 H1 – 166 per week), to 222 sales per week in the second half of the year (2017 H2 – 209 per week). Customer confidence was robust, reflected in the cancellation rate, which remained low at 11% (2017 – 11%).

The strong performance has been driven by further investment in land and work in progress, which enabled the opening of a total of 103 new outlets throughout the year. As a result, the average number of active outlets rose by 7.4% to 247 (2017 – 230).

The pricing environment was generally positive, with sites located in affordable areas, where demand is strong, still able to achieve low, single digit price rises. As the year has progressed, the rate of house price inflation has moderated, although it is still running ahead of cost increases. Nevertheless, the net inflationary enhancement to the margin, which has augmented results over recent years, is beginning to abate. Demand was less pronounced at the higher end of the market, where affordability was a greater constraint for some purchasers and where pricing gains were more difficult to achieve. Measurements of affordability are very location specific, however, only 4% of completions had a selling price beyond the Help-to-Buy threshold of £600,000, demonstrating Bellway's low exposure to the higher end of the market.

Help-to-Buy remains an important selling tool, accounting for 39% of completions (2017 – 35%), with its use more pronounced in London, where affordability is most constrained. The ongoing availability of Help-to-Buy underpins the sector's ability to continue growing output. It provides affordable access to mortgage finance for many, particularly those hoping to make their first move on the housing ladder, with approximately 67% of Bellway customers using Help-to-Buy being first time buyers.

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

	Homes sold (number)						**Average selling price (£000)**					
	Private		**Social**		**Total**		**Private**		**Social**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
North	**4,171**	3,897	**890**	758	**5,061**	4,655	**258.0**	233.3	**95.8**	97.9	**229.5**	211.3
South	**4,092**	3,670	**1,154**	1,319	**5,246**	4,989	**390.1**	362.6	**155.2**	149.1	**338.4**	306.2
Group	**8,263**	7,567	**2,044**	2,077	**10,307**	9,644	**323.4**	296.0	**129.3**	130.4	**284.9**	260.4

There was strong growth in the number of private homes sold, which rose by 9.2% to 8,263 (2017 – 7,567). This was the main driver behind the increase in the total number of homes sold, which rose by 6.9% to 10,307 (2017 – 9,644).

Our six newer divisions, opened since 1 August 2013, have been instrumental in achieving this output and accounted for 2,285 completions in the period (2017 – 1,829), an increase of 24.9%. These divisions, together with Bellway's capacity to make investment in additional new divisions, provide the greatest opportunity to deliver further growth in the years ahead.

The increase in volume has also been supported by our Ashberry brand, introduced to increase the sales rate on some of our larger sites and hence improve balance sheet efficiency. The Ashberry brand contributed 348 completions (2017 – 157) during the year, representing 3.4% of total homes sold (2017 – 1.6%), and we intend to further build upon its success to date.

The market is strongest for affordably priced homes in desirable locations. Divisions in differing geographic locations, such as Northern Home Counties, East Midlands and Essex, where the focus is on family product, are performing particularly well and have each completed more than 700 homes. Our relatively new Manchester division is also performing well, benefiting from strong market conditions in this part of the country, together with significant land investment over recent years. In addition, our Scotland West division enjoyed a very successful year, delivering 794 homes and thus establishing a solid platform from which to spearhead our Scotland East division, which commenced trading on 1 August 2018.

Bellway also continues to enjoy success in the London market. This area has become a less substantial component of the business compared to several years ago, reflecting restrained investment in the Capital, in response to slower trading conditions and fewer compelling land opportunities.

Nevertheless, the London Boroughs contributed 1,118 completions during the year (2017 – 959) at an average selling price of £414,872 (2017 – £371,796), with this representing 10.8% of the number of homes sold (2017 – 9.9%) and 15.8% of housing revenue (2017 – 14.2%). Our average selling price remains affordable in the context of the London market and accordingly, sales demand has generally remained robust. Sites such as those located at Barking and West Drayton, with average selling prices around £325,000, have performed particularly well, in total contributing in excess of 300 homes in the year.

At the higher end of the London market, where customer demand can be less pronounced, Bellway has limited exposure, although our site at Nine Elms in Battersea is a notable exception. This site comprises 514 apartments at an anticipated overall average selling price of £668,029. It has sold very well to date, contributing 132 completions in the year, at an average selling price of £705,567. Including these completions, together with those homes already completed or contracted in the prior financial year, there were only 62 apartments remaining to sell on this site at 31 July 2018, with construction expected to be complete by late 2019.

Excluding completions from Nine Elms, the Group's average selling price in the Capital was £375,956 and demand remains robust at this price point.

Overall, the Group's average selling price has risen by 9.4% to £284,937 (2017 – £260,354), with this rise in part influenced by the greater proportion of private homes sold. The private average selling price has risen by 9.3% to £323,426 (2017 – £296,018), driven by investment in higher value, yet affordable locations throughout the country, where strong demand and robust pricing has influenced land acquisition over recent years.

Driving down costs

As housebuilders continue to increase output, there remains upward pressure on build costs throughout the industry. A shortage of skilled labour remains the greatest constraint to growth, but there is also a shortage of key materials, such as structural timber, plastics, bricks and blocks, with these exacerbated due to capacity issues in the broader building materials sector. Looking ahead, in order to mitigate some of these cost pressures, offset some of the reducing benefit of house price inflation and therefore help to protect the margin in the years ahead, the Group is introducing a number of positive cost control initiatives.

These include the development of 'The Artisan Collection', a new rationalised range of 24 standard Group house types, which our divisions have been plotting since June 2018. Improved internal layouts, together with a specification to meet the requirements of a modern family home, will both improve saleability yet reduce costs through the scale of standardisation. A unique part of 'The Artisan Collection' is the in-built adaptability of the external elevational treatments, thereby enabling distinctive developments with individual character areas. Not only does this enable us to meet the requirements of local planning authorities, but it also ensures that street scenes remain attractive to our customers. In addition, this flexibility maximises potential usage across the country and thus improves the cost benefit to the Group.

Following the initial launch of the Artisan range, our technical and sales teams are developing a new construction specification which will help the Group to rationalise the number of suppliers it uses. In addition, the Group has initiated a significant programme of IT investment, in partnership with COINS, to strengthen financial and commercial processes across the Group. This two year programme will help deliver improved management information and cost visibility to help us target cost control measures. In particular, it will help us to capture some of the benefits of standardisation and lead to improved procurement savings.

Taken together, these proactive measures should help to protect the margin in the future.

The strength of relationships with our subcontractors is key to securing on-site labour. We pride ourselves on constructing properly laid out, well organised and professionally managed housing developments, with a keen focus on customer care and health and safety. In addition, we are signatories of the Prompt Payment Code, paying our subcontractors, many of whom are local tradesmen, within an average of 23 days. This responsible and ethical approach leads to a more efficient and enjoyable working environment and fosters strong, loyal relationships, helping to secure certainty of labour over the longer term.

Investing for growth

In addition to the new Scotland East division, which will contribute completions from 1 August 2018, the Board has approved plans to open two further new divisions in the second half of this financial year. The first of these, Eastern Counties, will deliver homes in and around Cambridgeshire, focussing mainly on affordably priced family homes. The second is a new London Partnerships business that will deliver further output in and around the Capital by focussing on building relationships with housing associations and institutional investors, making the most of the very high demand in this affordable part of the market.

Both new businesses will grow initially using the existing Group infrastructure in a cost effective and low risk manner. They are expected to contribute to growth in the year ending 31 July 2020.

With regards to land buying, the planning environment is generally positive, with a record number of planning permissions increasing the availability of good quality land. In some areas, however, the time taken to progress sites from outline through to detailed planning permission, fully resolving pre-commencement conditions, can delay construction start dates and hence frustrate the rate of output.

The land market remains strong and the Group is continuing to acquire land that meets or exceeds its financial hurdle rates in respect of gross margin and return on capital employed, focussing on population hubs where there is high demand for new homes. The Group entered into land contracts with a value of £833.5 million (2017 – £767.0 million) in order to acquire 12,962 plots (2017 – 11,613 plots) across 100 sites (2017 – 97 sites). The land contracted is expected to achieve a gross margin of around 24%, based on an assessment of selling prices and costs at the time of acquisition. These contracted plots include additions to all sections of the land bank.

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

	2018	2017
Owned and controlled plots	**41,077**	37,855
Comprising:-		
DPP: plots with implementable detailed planning permission	26,877	25,655
Pipeline: plots pending an implementable DPP	14,200	12,200
Strategic plots with a positive planning status	**8,500**	6,900

In addition to entering into new land contracts, fulfilling contractual conditions and obtaining implementable detailed planning permission on sites is essential in order to ensure that land is in place to deliver growth. During the year, the Group either acquired or obtained planning permission on 11,529 plots (2017 – 10,420 plots), with these representing the additions to the top tier of the owned and controlled land bank, i.e. the section comprising plots that benefit from having an implementable detailed planning permission ('DPP'). As a result, the number of plots with DPP rose by 4.8% to 26,877 (2017 – 25,655).

Bellway typically acquires sites conditionally, without the benefit of detailed planning permission through its land 'pipeline', and adds value by progressing these through the planning process. In total, 58% of the additions to the top tier of the land bank (2017 – 49%) originated from this land pipeline, demonstrating our success in the planning arena. Notwithstanding this success, the 'pipeline' section of the land bank has grown by 16.4% to include 14,200 plots (2017 – 12,200).

In total, the owned and controlled land bank rose to 41,077 plots (2017 – 37,855 plots), representing a supply of 4.0 years (2017 – 3.9 years) based on last year's output.

As previously reported, as the Group continues to grow, longer term strategic land becomes more important as a supplementary source of supply. Our investment and success in this area means that strategic land has contributed 2,741 plots (2017 – 2,643 plots) into the total owned and controlled land bank during the year.

In addition, we are continuing to invest in replenishing the strategic land bank and have entered into agreements for an additional 27 sites (2017 – 26 sites). As a result, and notwithstanding the promotion of a significant number of plots into the owned and controlled land bank, our strategic land holdings have risen to some 8,500 plots (2017 – 6,900 plots). As always, we take a conservative approach to strategic land and report only those plots with a positive planning status, i.e. those that are either identified in a local plan for residential development or are the subject of a current planning application. The Group will make further investment in its strategic land resource in the year ahead.

Strengthening the brand

Our long term approach to growing the business ensures that high levels of customer satisfaction are at the forefront of what we do and hence it is important that the Bellway brand is one which customers can trust. We are therefore proud to have retained our status as a five-star homebuilder[3] in the Home Builders' Federation Customer Satisfaction survey. Bellway is one of only two mainstream national housebuilders to have achieved this accolade, demonstrating that our commitment to quality is recognised by our customers.

In addition, the high standards being achieved by our site managers have again been recognised, with 49 individuals achieving NHBC Pride in the Job Awards, a testament to their efforts (2017 – 49). We recognise that we cannot rest on our laurels and therefore continue to use our Customer Experience Committee, formed at the start of the financial year, to drive future improvements to quality and customer care. Initiatives include enhanced quality inspection procedures and improved customer communication to ensure that all divisions within Bellway achieve the required high standards.

The sales market has been strong for many years, however, now is the time to invest to make sure that the Group is well equipped to deal with changing customer trends. Whilst footfall on sites remains consistent, visitors to our website continue to grow year on year, as customers tend to use digital media to conduct their research before finally making a visit to a development. Given these changing trends, we have recently invested in a new website, launched in September 2018, and we will continue to improve its functionality and marketing capabilities over the next twelve months.

We have also implemented a Group-wide customer relationship management system which will allow us to develop specific, targeted marketing campaigns in a cost effective and efficient manner.

Lastly, we are taking steps to improve awareness of our established and successful presence in London. Accordingly, we have developed a new London specific logo, which can be adapted to a range of developments at different price points, whilst retaining key elements of the Bellway corporate identity. The consistent use of this brand and logo should, over time, help to increase customer awareness of Bellway's activities in the Capital.

Building new homes safely

Engendering a positive and proactive culture with regards to the health, safety and the wellbeing of those individuals who work on our construction sites is of the utmost importance to the Group. NHBC health and safety professionals visit our sites on a regular basis, benchmarking performance which compares favourably against other organisations in the sector.

In addition, our own in-house health and safety team regularly visit sites and review processes and procedures in order to demonstrate compliance, develop good practice, identify training needs and encourage innovation from our staff. This proactive approach contributed to a reduction in the lost time arising from accidents, with the seven day reportable incident rate reducing by 5.2% to 404.02 incidents per 100,000 site operatives (2017 – 426.36).

Bellway has again performed exceptionally well in the NHBC Health and Safety Awards, with 11 of our site managers receiving Commended Awards (2017 – ten). In addition, four of these site managers went on to win Highly Commended Awards (2017 – five), including one that went on to achieve the National Runner-Up in the Large Builder Category. This strong performance represents 18% of the awards issued across the industry, far above our share of volume output.

The tragic Grenfell fire has understandably brought additional focus to ensuring that the apartments we build are safe. Bellway has a small number of developments where Aluminium Composite Materials ('ACM') has been used. Whilst we received Building Regulations approval for their use at the time, as a responsible developer, we are fully engaged with the Government and our partners to develop solutions that protect our customers and future occupiers. Accordingly, the Group has set aside a provision, net of recoveries, of £5.9 million to deal with any likely remedial costs that may be borne by Bellway. We have also strengthened our processes and training relating to fire safety issues and will continue to develop these in the year ahead as Government guidance no doubt evolves.

Appointing the right people

The success of our business continues to provide a boost to local employment and economic conditions. During the year, Bellway continued to expand its workforce, employing an average of 2,808 employees (2017 – 2,544), an increase of 10.4%. In addition, we estimate that we support 27,000 to 32,000 jobs, both directly and indirectly through subcontractors and the Group's supply chain.

Access to skilled labour is essential for Bellway, not only in order to achieve our growth ambitions, but also to ensure that the quality of our product, standards of customer care and health and safety, and strength of reputation are maintained. Recruiting, developing and retaining high quality site managers is essential in order to achieve these objectives. During the year we implemented a Trainee Assistant Site Manager Programme with the objective of ensuring our trainee assistant site managers have the pre-requisite skills to develop into experienced site agents. In addition, we appointed a dedicated Construction Training and Development Manager whose remit is to further enhance this programme and improve construction related training across the organisation. Whilst we will continue to develop and implement training for a range of roles, the focus in the year ahead will be to enhance the Site Manager Training programme, thereby recognising the influence that this key role has upon the Group's ability to efficiently build a high quality product as the Group pursues its growth strategy.

We also acknowledge our responsibilities to ensure that the industry has the right skills to continue to grow in the future. Accordingly, we have increased the number of apprentices and graduates in the business by 54% to 142 (2017 – 92). We have also become members of 'The 5% Club', a charitable organisation, recognising our commitment to ensuring that at least 5% of our workforce are employed in these developmental roles. We expect to achieve this objective in the year ending 31 July 2019. We actively participate in the HBF Home Building Skills Partnership ('HBSP') which aims to attract new talent into the industry as well as develop, grow and sustain the workforce that the industry requires to deliver further increases in housing supply.

Lastly, we have implemented a number of equality, diversity and inclusion initiatives to encourage and support a more diverse workforce. These include enhancing parental leave benefits, introducing equality, diversity and inclusion training and creating diversity champions in each of our divisions to promote progress in this important area.

Bellway4Good

As one of the UK's largest homebuilders, we have a responsibility to ensure that as we continue to grow, we do so in an ethical and sustainable manner, for the benefit of our customers, employees, shareholders, suppliers and local communities.

We continue to manage our Corporate Responsibility 'CR' activities under the Bellway4Good banner. We have again benchmarked our performance against a range of targets focused around our three 'pillars' of the environment, construction and society & economy.

Under 'environment', the focus remains on energy efficiency work and as an example, we are pleased to report that 100% of construction compounds are now fitted with energy saving devices.

Within 'construction' we have, for the fourth year running, increased the percentage of waste diverted from landfill to 98.1% (2017 – 97.8%). Given this success, in the coming year, the focus will shift to waste minimisation.

Under our 'society and economy' CR pillar, our charitable engagement work continues with pace. We are very proud that our partnership with Cancer Research UK was recognised at the recent Business Charity Awards, where Bellway won the 'Charity Partnership of the Year – Property and Construction' award.

We continue to 'match' employee fundraising for charities of their choice and we introduced a payroll giving scheme across the business. Encompassing our wider charitable activity, Bellway's total donations, including employee and supply chain fundraising, matched funding and company donations, amounted to £564,040 (2017 – £521,920), of which £272,096 (2017 – £229,047) was raised by our employees and subcontractors.

Lastly, we have produced a new Economic and Social Impact Report that will be available for download from the Bellway website later this year. In it, we estimate that as a business we contributed over £215 million to public finances in 2018 (2017 – £186 million).

Current trading and outlook

Notwithstanding the 6.9% rise in volume achieved in the year, the positive sales market and investment in new sales outlets resulted in the Group starting the current financial year with a healthy order book, comprising 4,841 homes (2017 – 4,749 homes), with a value of £1,301.1 million (2017 – £1,296.3 million). In the first nine weeks of the new financial year, trading has remained solid, with the Group achieving 176 reservations per week (2017 – 171), an increase of 2.9%. This has contributed to the order book at 30 September rising by 7.9% to £1,469.5 million (1 October 2017 – £1,361.5 million), representing 5,380 homes (1 October 2017 – 5,034 homes).

This strong order book, together with a net cash position at 31 July, ensures that the Group is in a position to respond positively to opportunities as they arise. The Board are mindful that the forthcoming exit from the EU in March could pose a threat to consumer confidence during the busy spring selling season. Assuming that market conditions remain unchanged, however, this healthy position should enable Bellway to further increase output in the year ahead.

Thereafter, the Board still see opportunities for growth in areas of high demand. Our new Eastern Counties and London Partnerships divisions provide the platform to increase the Group's capacity to some 13,000 homes per annum. Taken together with our positive initiatives to help protect the margin in the future, Bellway's ongoing strategy for growth should deliver further sustainable, long term returns for shareholders.

Jason Honeyman
Chief Executive
15 October 2018

Financial Review

Operating performance

For the ninth year in succession, Bellway has delivered further growth in housing revenue, which in the year under review, increased by 17.0% to £2,936.8 million (2017 – £2,510.9 million). The 9.4% rise in the average selling price to £284,937 (2017 – £260,354), influenced by investment in higher value locations and a rise in the proportion of higher value private completions to 80% (2017 – 78%), was the principal driver for the growth. In addition, the number of housing completions rose by 6.9% to 10,307 (2017 – 9,644).

The growth in housing revenue, together with other revenue of £20.9 million (2017 – £47.7 million), mainly comprising the disposal of freehold reversion interests on apartment schemes, resulted in total revenue increasing by 15.6% to £2,957.7 million (2017 – £2,558.6 million).

The increase in revenue drove a 13.9% increase in gross profit, which rose by £91.8 million to £753.4 million (2017 – £661.6 million). The gross margin remained high at 25.5% (2017 – 25.9%), a slight reduction of 40 basis points compared to the prior financial year, with this moderation principally reflecting the reduced receipt arising on the disposal of freehold reversion interests.

The Group is continuing to invest in its operational platform, comprising 20 divisions, in order to deliver future growth. Accordingly, whilst administrative expenses have increased by 11.7% to £100.6 million (2017 – £90.0 million), they have reduced to only 3.4%[1] of revenue (2017 – 3.6%), as the new divisions opened since 1 August 2013 continue to improve their efficiency at recovering overheads.

The strong operating performance has resulted in a 14.2% increase in operating profit to £652.9 million (2017 – £571.6 million) and the operating margin remains high at 22.1% (2017 – 22.3%).

Net finance expense

The net finance expense of £13.6 million (2017 – £11.2 million) principally consists of bank interest and notional interest on land acquired on deferred terms. Bank interest, which includes interest on drawn monies, commitment fees and refinancing costs, increased to £5.2 million (2017 – £4.5 million), mainly as a result of the 0.25% rise in the Bank of England base rate in November 2017. In addition, average net debt increased slightly to £191.5 million (2017 – £170.8 million). Notional interest on land acquired on deferred terms increased by £1.1 million to £8.8 million (2017 – £7.7 million).

Profitability

Profit before taxation ('PBT') increased by 14.3% to £641.1 million (2017 – £560.7 million). The corporation tax charge was £121.2 million (2017 – £106.7 million), with an effective tax rate of 18.9% (2017 – 19.0%). The effective tax rate is below the standard corporation tax rate of 19.0% (2017 – 19.7%), primarily due to an enhanced tax deduction for remediating previously developed brownfield land.

Basic earnings per share rose by 14.2% to 423.4p per share (2017 – 370.6p).

Investing cash for future growth

Bellway is highly cash generative, producing £648.1 million[1] (2017 – £588.1 million) before investment in land, net of land creditors, and work in progress. After taking this into consideration, the Group generated cash from operations of £375.6 million (2017 – £256.5 million), with this representing 57.5% of operating profit (2017 – 44.9%). The continued deployment of capital into land and work in progress ensures that the Group is well placed to deliver further growth.

After expending £116.1 million on tax, paying dividends of £162.6 million and taking into consideration other minor cash outflows of £13.9 million, the Group ended the year with net cash of £99.0 million[1] (2017 – £16.0 million), reflecting an ungeared[1] balance sheet.

Land creditors, which are considered to be a source of longer term debt finance, stood at £365.4 million (2017 – £366.8 million) and continue to be used only when it is cost effective to do so. Including land creditors, total debt stood at £266.4 million (2017 – £350.8 million), representing very modest adjusted gearing of 10.4%[1] (2017 – 16.0%).

A balanced and flexible capital structure

The balance sheet principally comprises amounts invested in land and work in progress, which rose by 10.2% to £3,271.6 million (2017 – £2,968.2 million).

The carrying value of land increased by 9.4% to £2,011.9 million (2017 – £1,838.2 million) and this focussed investment has ensured that all of the plots expected to contribute to next year's growth target benefit from a detailed planning permission. The amount invested in work in progress rose by 9.6% to £1,115.1 million (2017 – £1,017.7 million), but as a proportion of housing revenue, work in progress reduced slightly to 38% (2017 – 41%), reflecting the Group's ongoing focus on return on capital employed.

The financing structure remains simple and transparent with growth financed through retained earnings, net bank borrowings and land creditors. Including renewals since 1 August 2018, the Group has committed borrowing facilities of £500 million, extending in tranches through to August 2023, thereby providing security of funding for the years ahead.

Bellway had a modest retirement benefit asset of £1.3 million (2017 – liability of £4.0 million) at 31 July reflecting the Group's commitment to funding this future, long term obligation.

A focus on return on capital employed

Notwithstanding the dividend payment of 132.5p per share during the year, the net asset value rose by 16.7% to £2,557.1 million (2017 – £2,191.3 million), representing a net asset value per share of 2,079p[1] (2017 – 1,785p).

This growth in NAV and the payment of the dividend has been achieved as a result of the compounding effect of reinvesting earnings back into high return land opportunities. RoCE remains high at 27.2%[1] (2017 – 27.6%), or 23.6%[1] (2017 – 23.9%) when including land creditors as part of the capital base. In addition, post-tax return on equity remains high at 22.1%[1] (2017 – 22.6%), with this being achieved from a lowly geared balance sheet, whilst investing further in land and work in progress to achieve growth.

Bellway has significant financial capability to continue investing in high return land opportunities to deliver further growth. At the same time, it retains the strength and agility to respond proactively to opportunities or prospective changes in market conditions as and when they arise.

Keith Adey
Finance Director
15 October 2018

Group Income Statement
For the year ended 31 July 2018

	Note	2018 £000	2017 £000
Revenue		**2,957,664**	2,558,561
Cost of sales		**(2,204,216)**	(1,896,977)
Gross profit		**753,448**	661,584
Administrative expenses		**(100,577)**	(90,029)
Operating profit		**652,871**	571,555
Finance income	3	**649**	1,248
Finance expenses	3	**(14,261)**	(12,492)
Share of result of joint ventures		**1,798**	412
Profit before taxation		**641,057**	560,723
Income tax expense	4	**(121,152)**	(106,666)
Profit for the year *		**519,905**	454,057

* All attributable to equity holders of the parent.

	Note	2018	2017
Earnings per ordinary share – Basic	5	**423.4p**	370.6p
Earnings per ordinary share – Diluted	5	**421.6p**	369.0p

Group Statement of Comprehensive Income
For the year ended 31 July 2018

	2018 £000	2017 £000
Profit for the period	**519,905**	454,057
Other comprehensive income		
Items that will not be recycled to the income statement:		
Remeasurement gains on defined benefit pension plans	**5,001**	3,846
Income tax on other comprehensive income	**(850)**	(730)
Other comprehensive income for the period, net of income tax	**4,151**	3,116
Total comprehensive income for the period *	**524,056**	457,173

* All attributable to equity holders of the parent.

Group Statement of Changes in Equity
At 31 July 2018

	Note	Issued capital £000	Share premium £000	Capital redemption reserve £000	Other reserves £000	Retained earnings £000	Total £000	Non-controlling interest £000	Total equity £000
Balance at 1 August 2016		15,335	170,146	20,000	1,492	1,660,109	1,867,082	(66)	1,867,016
Total comprehensive income for the period									
Profit for the period		-	-	-	-	454,057	454,057	-	454,057
Other comprehensive income ^		-	-	-	-	3,116	3,116	-	3,116
Total comprehensive income for the period		-	-	-	-	457,173	457,173	-	457,173
Transactions with shareholders recorded directly in equity:									
Dividends on equity shares	6	-	-	-	-	(136,556)	(136,556)	-	(136,556)
Shares issued		14	1,094	-	-	-	1,108	-	1,108
Credit in relation to share options and tax thereon		-	-	-	-	2,599	2,599	-	2,599
Total contributions by and distributions to shareholders		14	1,094	-	-	(133,957)	(132,849)	-	(132,849)
Balance at 31 July 2017		15,349	171,240	20,000	1,492	1,983,325	2,191,406	(66)	2,191,340
Total comprehensive income for the period									
Profit for the period		-	-	-	-	519,905	519,905	-	519,905
Other comprehensive income ^		-	-	-	-	4,151	4,151	-	4,151
Total comprehensive income for the period		-	-	-	-	524,056	524,056	-	524,056
Transactions with shareholders recorded directly in equity:									
Dividends on equity shares	6	-	-	-	-	(162,647)	(162,647)	-	(162,647)
Shares issued		23	2,412	-	-	-	2,435	-	2,435
Credit in relation to share options and tax thereon		-	-	-	-	1,850	1,850	-	1,850
Transactions with non-controlling interest		-	-	-	-	-	-	66	66
Total contributions by and distributions to shareholders		23	2,412	-	-	(160,797)	(158,362)	66	(158,296)
Balance at 31 July 2018		**15,372**	**173,652**	**20,000**	**1,492**	**2,346,584**	**2,557,100**	**-**	**2,557,100**

^ An additional breakdown is provided in the Group Statement of Comprehensive Income.

Group Balance Sheet
At 31 July 2018

	Note	2018 £000	2017 £000
ASSETS			
Non-current assets			
Property, plant and equipment		**13,095**	11,255
Investments in joint arrangements		**43,463**	34,345
Deferred tax assets		**1,121**	2,432
Retirement benefit assets		**1,298**	-
		58,977	48,032
Current assets			
Inventories		**3,271,611**	2,968,184
Trade and other receivables		**114,915**	85,168
Cash and cash equivalents	7	**98,993**	45,965
		3,485,519	3,099,317
Total assets		**3,544,496**	3,147,349
LIABILITIES			
Non-current liabilities			
Retirement benefit obligations		**-**	3,977
Trade and other payables		**82,320**	113,743
Deferred tax liabilities		**2,538**	686
		84,858	118,406
Current liabilities			
Interest-bearing loans and borrowings	7	**-**	30,000
Corporation tax payable		**61,463**	58,143
Trade and other payables		**841,075**	749,460
		902,538	837,603
Total liabilities		**987,396**	956,009
Net assets		**2,557,100**	2,191,340
EQUITY			
Issued capital		**15,372**	15,349
Share premium		**173,652**	171,240
Capital redemption reserve	8	**20,000**	20,000
Other reserves		**1,492**	1,492
Retained earnings	8	**2,346,584**	1,983,325
Total equity attributable to equity holders of the parent		**2,557,100**	2,191,406
Non-controlling interest		**-**	(66)
Total equity		**2,557,100**	2,191,340

Group Cash Flow Statement
For the year ended 31 July 2018

	Note	**2018**	2017
		£000	£000
Cash flows from operating activities			
Profit for the year		**519,905**	454,057
Depreciation charge		**1,855**	2,759
Profit on sale of property, plant and equipment		**(72)**	(162)
Finance income	3	**(649)**	(1,248)
Finance expenses	3	**14,261**	12,492
Share-based payment expense		**2,459**	2,066
Share of post tax result of joint ventures		**(1,798)**	(412)
Income tax expense	4	**121,152**	106,666
Increase in inventories		**(303,427)**	(419,845)
(Increase)/decrease in trade and other receivables		**(29,319)**	7,561
Increase in trade and other payables		**51,228**	92,581
Cash from operations		**375,595**	256,515
Interest paid		**(5,472)**	(4,616)
Income tax paid		**(116,128)**	(98,790)
Net cash inflow from operating activities		**253,995**	153,109
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(3,921)**	(2,109)
Proceeds from sale of property, plant and equipment		**298**	3,161
Increase in loans to joint ventures		**(7,320)**	(29,383)
Interest received		**188**	167
Net cash outflow from investing activities		**(10,755)**	(28,164)
Cash flows from financing activities			
Decrease in bank borrowings		**(30,000)**	(2,500)
Proceeds from the issue of share capital on exercise of share options		**2,435**	1,108
Dividends paid	6	**(162,647)**	(136,556)
Net cash outflow from financing activities		**(190,212)**	(137,948)
Net increase/(decrease) in cash and cash equivalents		**53,028**	(13,003)
Cash and cash equivalents at beginning of year		**45,965**	58,968
Cash and cash equivalents at end of year	7	**98,993**	45,965

Notes

1. Basis of preparation and accounting policies

Bellway p.l.c. is a company incorporated in England and Wales.

The financial information set out above does not constitute the Group's statutory financial statements for the years ended 31 July 2018 or 2017, but is derived from those financial statements. Statutory financial statements for 2017 have been delivered to the registrar of companies, and those for 2018 will be delivered in due course. The auditor, KPMG LLP, has reported on those financial statements; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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

The Group's activities are financed principally by a combination of ordinary shares and bank borrowings less cash in hand. At 31 July 2018, cash was £99.0 million having generated cash of £83.0 million during the year. The Group has operated within all of its banking covenants throughout the year. In addition, the Group had bank facilities of £430.0 million, expiring in tranches up to March 2023, with £430.0 million available for drawdown under such facilities at 31 July 2018.

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.

Whilst the financial information included in this announcement has been prepared in accordance with Adopted IFRSs, this announcement does not itself contain sufficient information to comply with Adopted IFRSs. The Group expects to send its Annual Report and Accounts 2018 to shareholders on 9 November 2018.

The Group adopted Annual Improvements 2014 – 2016 and 'Disclosure Initiative – Amendments to IAS 7' during the year. The adoption of these has not had a material effect on the Group's profit for the year or equity.

The other standards and interpretations that are applicable for the first time in the Group's financial statements for the year ended 31 July 2018 have had no effect on these financial statements.

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

- IFRS 9 'Financial Instruments'. This standard will replace IAS 39 'Financial Instruments: Recognition and Measurement' and will affect both the measurement and disclosures of financial instruments. This is effective for the period beginning on 1 August 2018. The Group does not consider this will have a material effect on the financial statements.

- IFRS 15 'Revenue from contracts with customers'. This is a converged standard from the IASB and FASB on revenue recognition to assist with comparability of revenue globally. This is effective for the period beginning on 1 August 2018. This standard will result in presentational changes to the income statement to gross up part-exchange revenue and expenses within operating profit which are currently recognised on a net basis within cost of sales. The impact of IFRS 15 for the year ended 31 July 2018 would have been to recognise other operating income of £141.1 million and other operating expenses of £145.1 million, and a corresponding £4.0 million decrease in cost of sales.

- IFRS 16 'Leases'. This standard replaces the existing standard, IAS 17 'Leases', where lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. This is effective for the period beginning on 1 August 2019, although the Group will adopt this standard with effect from 1 August 2018. The impact of IFRS 16 as at 31 July 2018 would have been an increase in non-current assets of £13.9 million, lease liabilities of £14.3 million and finance expenses of £0.4 million.

Notes (continued)

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

2. Segmental analysis

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

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

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

3. Finance income and expenses

	2018 **£000**	2017 £000
Interest receivable on bank deposits	**161**	154
Interest on fair value through profit or loss	**425**	1,054
Other interest income	**63**	40
Finance income	**649**	1,248
Interest payable on bank loans and overdrafts	**5,410**	4,642
Interest on deferred term land payables	**8,754**	7,662
Interest element of movement in pension scheme deficit	**97**	188
Finance expenses	**14,261**	12,492

4. Taxation

The effective rate of taxation for the year is 18.9% (2017 – 19.0%). The taxation charge for the year is calculated by applying the standard corporation tax rate of 19.0% (2017 – 19.7%) to the profit before taxation, adjusted for non-taxable items and enhanced deductions. The lower effective tax rate in the current year is principally due to enhanced tax deductions received by the Group in relation to land remediation relief and a credit following the finalisation of the prior year corporation tax returns.

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

Notes (continued)

5. Earnings per ordinary share

Basic earnings per ordinary share is calculated by dividing earnings by the weighted average number of ordinary shares in issue during the year (excluding the weighted average number of ordinary shares held by the Bellway Employee Share Trust (1992) (the 'Trust') which are treated as cancelled).

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

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

	Earnings	**Weighted average number of ordinary shares**	**Earnings per share**	Earnings	Weighted average number of ordinary shares	Earnings per share
	2018	**2018**	**2018**	2017	2017	2017
	£000	**Number**	**p**	£000	Number	p
For basic earnings per ordinary share	**519,905**	**122,779,199**	**423.4**	454,057	122,511,626	370.6
Dilutive effect of options and awards		**528,251**	**(1.8)**		536,577	(1.6)
For diluted earnings per ordinary share	**519,905**	**123,307,450**	**421.6**	454,057	123,048,203	369.0

6. Dividends on equity shares

	2018	2017
	£000	£000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 July 2017 of 84.5p per share (2016 – 74.0p)	**103,668**	90,589
Interim dividend for the year ended 31 July 2018 of 48.0p per share (2017 – 37.5p)	**58,997**	45,980
Dividends forfeited	**(18)**	(13)
	162,647	136,556
Proposed final dividend for the year ended 31 July 2018 of 95.0p per share (2017 – 84.5p)	**116,830**	103,608

The 2018 proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 12 December 2018 and, in accordance with IAS 10 'Events after the Reporting Period', has not been included as a liability in these financial statements. The proposed final dividend, subject to shareholder approval, will be paid on 9 January 2019 to all ordinary shareholders on the Register of Members on 30 November 2018. The ex-dividend date is 29 November 2018. At the record date for the final dividend for the year ended 31 July 2017 shares were held by the Trust on which dividends had been waived.

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

Notes (continued)

7. Analysis of net cash

	At 1 August 2017 £000	Cash flows £000	At 31 July 2018 £000
Cash and cash equivalents	45,965	53,028	**98,993**
Bank loans	(30,000)	30,000	**-**
Net cash	15,965	83,028	**98,993**

8. Reserves

Capital redemption reserve

On 7 April 2014 the Group redeemed 20,000,000 £1 preference shares, being all of the preference shares in issue. An amount of £20 million, equivalent to the nominal value of the shares redeemed, was transferred to a capital redemption reserve on the same date.

Own shares held

The Group holds shares within the Trust for participants of certain share-based payment schemes. These are held within retained earnings. During the period no shares were purchased by the Trust (2017 – nil shares) and the Trust transferred 118,863 (2017 – 119,733) shares to employees and directors. The number of shares held within the Trust and on which dividends have been waived at 31 July 2018 was 65,540 (2017 – 184,403). These shares are held within the financial statements at a cost of £1.216 million (2017 – £3.421 million). The market value of these shares at 31 July 2018 was £1.912 million (2017 – £5.882 million).

9. Alternative performance measures

Bellway uses a variety of alternative performance measures ('APM') which, although financial measures of either historical or future performance, financial position or cash flows, are not defined or specified by IFRSs. The directors use a combination of APMs and IFRS measures when reviewing the performance, position and cash of the Group.

The APMs used by the Group are defined below:

- **Administrative expenses as a percentage of revenue** – This is calculated as the total administrative overheads divided by total revenue. The directors consider this to be an important indicator of how efficiently the Group is managing its administrative overhead base.

- **Net finance expense** – This is finance expenses less finance income. The directors consider this to be an important measure when assessing whether the Group is using the most cost effective source of finance.

- **Dividend cover** – This is calculated as earnings per ordinary share for the period divided by the dividend per ordinary share relating to that period. At the half year the dividend per ordinary share is the proposed interim ordinary dividend, and for the full year it is the interim dividend paid plus the proposed final dividend. The directors consider this an important indicator of the proportion of earnings paid to shareholders and re-invested in the business.

Notes (continued)

- **Capital invested in land, net of land creditors, and work in progress** – This is calculated as shown in the table below. The directors consider this as an indicator of the net investment by the Group in the period to achieve future growth.

Per balance sheet	2018 £m	2017 £m	Mvt £m	2017 £m	2016 £m	Mvt £m
Land	**2,011.9**	**1,838.2**	**173.7**	1,838.2	1,625.6	212.6
Work in progress	**1,115.1**	**1,017.7**	**97.4**	1,017.7	836.1	181.6
Increase in capital invested in land and work in progress in the year			**271.1**			394.2
Land creditors	**(365.4)**	**(366.8)**	**1.4**	(366.8)	(304.2)	(62.6)
Increase in capital invested in land, net of land creditors, and work in progress in the year			**272.5**			331.6

- **Net asset value per ordinary share ('NAV')** – This is calculated as total net assets divided by the number of ordinary shares in issue at the end of each period. The directors consider this to be a proxy when reviewing whether value, on a share by share basis, has increased or decreased in the period.

- **Capital employed** – Capital employed is defined as the total of equity and net bank debt. Equity is not adjusted where the Group has net cash. The directors consider this to be an important indicator of the operating efficiency and performance of the Group.

- **Return on capital employed ('RoCE')** – This is calculated as operating profit divided by the average capital employed. Average capital employed is calculated based on opening, half year and closing capital employed. The calculation is shown in the table below. The directors consider this to be an important indicator of whether the Group is achieving a sufficient return on its investments.

	2018 Capital employed £m	2018 Land creditors £m	2018 Capital employed including land creditors £m	2017 Capital employed £m	2017 Land creditors £m	2017 Capital employed including land creditors £m
Operating profit	**652.9**		**652.9**	571.6		571.6
Capital employed/land creditors:						
Opening	**2,191.3**	**366.8**	**2,558.1**	1,867.0	304.2	2,171.2
Half year	**2,455.3**	**367.3**	**2,822.6**	2,152.4	301.7	2,454.1
Closing	**2,557.1**	**365.4**	**2,922.5**	2,191.3	366.8	2,558.1
Average	**2,401.2**	**366.5**	**2,767.7**	2,070.2	324.2	2,394.4
Return on capital employed	**27.2%**		**23.6%**	27.6%		23.9%

Notes (continued)

- **Post tax return on equity** – This is calculated as profit for the year divided by the average of the opening, half year and closing net assets. The directors consider this to be a good indicator of the operating efficiency of the Group.

	2018 £m	2017 £m
Profit for the year	**519.9**	454.1
Net assets:		
Opening	**2,191.3**	1,867.0
Half year	**2,323.9**	1,977.3
Closing	**2,557.1**	2,191.3
Average	**2,357.4**	2,011.9
Post tax return on equity	**22.1%**	22.6%

- **Total growth in value per ordinary share** – The directors use this as a proxy for the increase in shareholder value since 31 July 2015.

Net asset value per ordinary share:		
At 31 July 2018	2,079p	
At 31 July 2015	1,286p	
Net asset value growth per ordinary share		793.0p
Dividend paid per ordinary share:		
Year ended 31 July 2018	132.5p	
Year ended 31 July 2017	111.5p	
Year ended 31 July 2016	86.0p	
Cumulative dividends paid per ordinary share		330.0p
Total growth in value per ordinary share		1,123.0p

- **Annualised accounting return in NAV and dividends paid since 31 July 2015** – This is calculated as the annualised increase in net asset value per ordinary share plus cumulative ordinary dividends paid per ordinary share since 31 July 2015 (as detailed above) divided by the net asset value per ordinary share at 31 July 2015. The directors use this as a proxy for the increase in shareholder value since 31 July 2015.

Net asset growth per ordinary share	793.0p
Dividend paid per ordinary share	330.0p
Total growth in value per ordinary share	1,123.0p
Net asset value per ordinary share at 31 July 2015	1,286.0p
Total value per ordinary share	2,409.0p
Annualised accounting return $= \left(\frac{2,409.0}{1,286.0}\right)^{1/3} - 1$	23.3%

- **Net cash** – This is the cash and cash equivalents less bank debt. The directors consider this to be a good indicator of the financing position of the Group. This is reconciled in note 7.

Notes (continued)

- **Cash generated from operations before investment in land, net of land creditors, and work in progress** – This is calculated as shown in the table below. The directors consider this as an indicator of whether the Group is generating cash before investing in land and work in progress to achieve future growth.

	2018 £m	2017 £m
Cash from operations	**375.6**	256.5
Add: increase in capital invested in land, net of land creditors, and work in progress (as described above)	**272.5**	331.6
Cash generated from operations before investment in land, net of land creditors, and work in progress	**648.1**	588.1

- **Gearing** – This is calculated as net bank debt divided by total equity. The directors consider this to be a good indicator of the financial stability of the Group.

- **Adjusted gearing** – This is calculated as the total of net bank debt/cash and land creditors divided by total equity. The directors believe that land creditors are a source of long-term finance so this provides an alternative indicator of the financial stability of the Group.

Principal risks and uncertainties

A risk register is maintained detailing all of our potential risks, categorised between strategic, operational, financial and compliance and reputational risks. The risk management processes are set up to ensure all aspects of the business are considered, from strategy through to business execution and including any specialist business areas.

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

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

We have identified the following principal risks to our business:

Risk and description	Strategic relevance	KPIs	Mitigation	Change in year
Land Inability to source suitable land at appropriate gross margins and RoCE.	▪ Insufficient land would affect our volume growth targets. ▪ Failure to buy land at the right margin would have a detrimental effect on future returns.	▪ Land bank (with DPP). ▪ Number of homes sold. ▪ RoCE. ▪ Gross margin. ▪ EPS.	▪ Budgeting and forecasting of growth targets to ensure land bank supports strategic target. ▪ Pre-purchase due diligence and viabilities on all proposed land purchases. ▪ Authorisation of all land purchases in accordance with our Authority Matrix.	No change.
Planning Delays and complexity in the planning process.	▪ Failure to obtain planning within appropriate timescales would have a detrimental impact on our growth prospects and have an adverse effect on returns.	▪ EPS. ▪ RoCE. ▪ Number of plots acquired directly in land bank with an implementable DPP. ▪ Number of plots converted from medium-term pipeline to land with DPP. ▪ Number of plots in our pipeline land bank. ▪ Number of plots identified in our strategic land bank with a positive planning status.	▪ Group and divisional planning specialists in place to assist with securing planning permissions. ▪ Management of immediate, medium-term and strategic land to maintain an appropriate balance of land in terms of quantity and location.	Decrease. This risk has reduced slightly during the year due to investment in our strategic land team.
Construction resources Shortage of appropriately skilled sub-contractors and shortages of building materials at competitive prices.	▪ Failure to secure required and appropriate resources causes delays in construction, impacting the ability to deliver volume growth targets. ▪ Pricing pressure would impact returns.	▪ Number of homes sold. ▪ Customer care satisfaction. ▪ Employee turnover. ▪ EPS.	▪ Systems to select, appoint, monitor, manage and build long-term relationships with our sub-contractors. ▪ Competitive rates and prompt payment for our sub-contractors. ▪ Group-wide purchasing arrangements. ▪ Continued review and monitoring of supplier and sub-contractor performance.	No change.

Health and safety There are significant health and safety risks inherent in the construction process.	▪ In addition to the moral obligation and the requirement to act in a responsible manner, injuries to any individual while at one of our business locations would delay construction and could result in criminal prosecution, civil litigation and reputational damage.	▪ Number of RIDDOR seven-day lost time accidents per 100,000 site operatives. ▪ NHBC health and safety benchmark. ▪ NHBC Health and Safety Awards.	▪ The Board considers health and safety issues at every meeting. ▪ Regular visits to sites by senior management (independent of our divisions) and external consultants to monitor health and safety standards and performance against the health and safety policies and procedures.	No change.
Sales and external factors There are a number of external factors that could affect our ability to generate sales, including but not limited to: ▪ Economic factors, especially house price inflation and interest rates. ▪ Mortgage availability. ▪ Government housing policy.	▪ The impact of these external factors would be on the ability to sell houses and apartments and on returns.	▪ Number of homes sold. ▪ Forward order book. ▪ Reservation rate. ▪ Customer care satisfaction. ▪ EPS. ▪ RoCE.	▪ Ongoing monitoring of key business metrics and development of action plans as necessary. ▪ Product range and pricing strategy determined based on regional market conditions. ▪ Use of sales incentives, such as part-exchange, to encourage the selling process. ▪ Use of government-backed schemes to encourage home ownership.	Increase. This risk has increased slightly during the year due to increased uncertainty over Brexit and the impact on the economy.
Sales and external factors Uncertainty over Brexit and the future impact on the economy could significantly impact our ability to deliver our strategic objectives.	▪ The uncertainty that currently exists in relation to Brexit and the economy has resulted in splitting out Brexit due to the potential impact on our business.	▪ Number of homes sold. ▪ Forward order book. ▪ Reservation rate. ▪ EPS. ▪ RoCE.	▪ While outside of our direct control, we continue to monitor business performance and build a robust future proof business with a solid strategy and sound financial controls.	Increase. This risk has increased during the year as a result of continued uncertainty over Brexit.
Human resources Inability to attract and retain appropriate people.	▪ Failure to attract and retain people with appropriate skills will affect our ability to perform and deliver our volume growth target.	▪ Employee turnover. ▪ Number of graduates and apprentices. ▪ Number of people who have worked for the Group for 10 years or more.	▪ Continued development of the Group Human Resources function and implementation of our people strategy. ▪ Competitive salary and improved employee benefits. ▪ Succession plans in place and key person dependencies identified and mitigated. ▪ Increased the number of training days per employee. ▪ Introduced a Trainee Assistant Site Manager apprenticeship programme. ▪ Increase the number of graduates and apprentices.	No change.

IT and security Failure to have suitable systems in place and appropriate back up, contingency plans and security policies.	▪ Poor performance of our systems would affect operational efficiency, profitability and our control environment.	▪ EPS.	▪ Group-wide systems are in operation which are centrally controlled with an outsourced support function in place. ▪ Continued investment in systems. ▪ Regular review and testing of our security measures, contingency plans and IT security policies. ▪ Creation of Cyber Security Committee.	Increase. There has been an increase in this risk during the year as a result of a complex system implementation project.
Legal and regulatory compliance Failure to comply with legislation and regulatory requirements.	▪ Lack of appropriate procedures and compliance would result in delays in land development and construction, have a detrimental impact on profitability and reputation and potentially lead to financial penalties and other regulatory consequences.	▪ Volume growth. ▪ EPS.	▪ Central Company Secretarial, Legal, Health and Safety and Technical functions advise and support divisions on compliance and regulatory matters. ▪ Group-wide policies, procedures and training for key regulatory matters.	No change.

In addition to the above individual principal risks, we are currently going through a period of change within the business, both in terms of senior management change and some significant IT processes. Change naturally brings risk to the business as systems and processes are developed and evolved and as employees adjust to changing organisational structures. The risks associated with change have been evaluated and are monitored by management and the Board.

Certain statements in this announcement are forward-looking statements which are based on Bellway p.l.c.'s expectations, intentions and projections regarding its future performance, anticipated events or trends and other matters that are not historical facts. Such forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as "aim", "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "believe", or other words of similar meaning. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Given these risks and uncertainties, prospective investors are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date of such statements and, except as required by applicable law, Bellway p.l.c. undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.