NATIONAL HOUSEBUILDER BELLWAY ANNOUNCES TODAY, TUESDAY 17 OCTOBER 2017, ITS PRELIMINARY RESULTS FOR THE YEAR ENDED 31 JULY 2017.

Highlights

Operational strength delivers further growth and shareholder returns

	Year ended 31 July 2017	Year ended 31 July 2016	Movement
Revenue	£2,558.6m	£2,240.7m	+14.2%
Gross profit	£661.6m	£574.8m	+15.1%
Gross margin	25.9%	25.7%	+20bps
Operating profit	£571.6m	£492.0m	+16.2%
Operating margin	22.3%	22.0%	+30bps
Profit before taxation	£560.7m	£497.9m	+12.6%
Earnings per share	370.6p	328.7p	+12.7%
Proposed total dividend per share	122.0p	108.0p	+13.0%

Excellent financial performance

- Another year of volume growth, with the number of completions rising by 10.6% to a record 9,644 homes (2016 – 8,721), significantly contributing to the increase in operating profit, which rose by 16.2% to £571.6 million (2016 – £492.0 million).
- Earnings per share ('EPS') has risen by 12.7% to 370.6p (2016 – 328.7p) and this has facilitated a 13.0% rise in the proposed total dividend per share to 122.0p (2016 – 108.0p).
- Strong capital disciplines resulted in return on capital employed ('RoCE') being maintained at a high level of 27.6%[1] (2016 – 28.2%), notwithstanding the significant investment made in land and work in progress in order to deliver future growth.
- Strong balance sheet with net cash of £16.0 million[1] (2016 – £26.5 million).

Strong operational focus

- The Group contracted to acquire 11,613 plots (2016 – 9,555 plots), securing an excellent foundation upon which to facilitate future volume growth.
- A focus on customer care has resulted in Bellway regaining its status as a five star homebuilder[3], one of only two mainstream national housebuilders to achieve this accolade.
- A responsible and sustainable approach to growth, with an emphasis on quality, has resulted in our site managers being awarded ten Health and Safety Awards (2016 – five) and 49 Pride in the Job Awards (2016 – 43) by the NHBC, recognising their success in these important areas.

Positive current trading and outlook

- The order book at 1 October 2017 has grown by 17.4% to £1,361.5 million (2 October 2016 – £1,159.3 million) and comprises 5,034 homes (2 October 2016 – 4,701 homes).
- The outlook remains positive and the Board expects the Group to grow volume by at least 5% and the overall average selling price to increase to around £280,000 in the current 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 11.

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 KEITH ADEY, FINANCE DIRECTOR OR JASON HONEYMAN, CHIEF OPERATING OFFICER FROM TUESDAY 17 OCTOBER – FRIDAY 20 OCTOBER ON 0191 217 0717.

Executive Chairman's Statement

Introduction

The Group, comprising nineteen trading divisions, has delivered another excellent set of results, surpassing the records set last year in respect of volume, operating margin and profit. Earnings per share has risen by 12.7% to 370.6p (2016 – 328.7p) and RoCE remains high at 27.6%[1] (2016 – 28.2%).

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

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

Strong market parameters support the growth strategy

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

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

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

A long term approach to creating shareholder value

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

Measured over a medium term, in the three years from 31 July 2014, the strategy has resulted in total growth in value of 925.5p per share[1], comprising NAV growth of 667p per share[1] and cumulative dividend payments of 258.5p per share[1]. This represents an annualised accounting return of 22.3%[1] relative to the 31 July 2014 NAV of 1,118p per share[1].

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

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

Board changes

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

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

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

People and supply chain

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

John Watson
Executive Chairman
16 October 2017

Operating Review

Trading performance

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

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

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

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

The table below shows the number 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	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
North	**3,897**	3,651	**758**	536	**4,655**	4,187	**233.3**	220.6	**97.9**	92.2	**211.3**	204.2
South	**3,670**	3,694	**1,319**	840	**4,989**	4,534	**362.6**	335.6	**149.1**	131.3	**306.2**	297.7
Group	**7,567**	7,345	**2,077**	1,376	**9,644**	8,721	**296.0**	278.4	**130.4**	116.1	**260.4**	252.8

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

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

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

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

Output in the south grew by 10.0% to 4,989 homes (2016 – 4,534 homes), with strong anchor divisions such as Thames Gateway and Essex, both with a presence in London, delivering over 800 completions each.

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

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

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

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

Construction and material costs

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

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

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

Planning and investing in land for growth

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

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

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

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

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

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

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

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

The Group has an interest in 12,200 plots within the ‘pipeline’, on owned or contracted sites, which already have the benefit of an outline planning permission, or where DPP is expected to be obtained within the next three years. A typical example includes a former commercial site in Hemel Hempstead, close to good transport links into the centre of London, contracted on an unconditional basis by our North London division in May 2017. Bellway is actively seeking to obtain DPP on a 184 unit scheme which should deliver a RoCE[1] in excess of 20%. Brownfield sites acquired in this manner help to secure a medium term source of land for the Group and are often able to deliver attractive returns.

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

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

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

Taking pride in customer care

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

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

We continually review our processes not only to ensure that new homes are built to a high standard, but also to make sure that our product design and layout evolves to meet expectations arising from modern living trends. We regularly seek feedback from our customers to assess our performance and, in the independent Home Builders' Federation Customer Satisfaction survey, Bellway was awarded a five star builder status[3], one of only two mainstream national housebuilders to achieve this accolade. In addition, we assess our performance against a number of key measures including build quality, standard of finish and home condition. We use the results of these surveys to calculate an average overall customer care score which has remained consistently high at 85.2% (2016 – 85.7%).

We recognise the continuing importance of customer care and that further improvements can always be made. Notwithstanding our recognition as a five star builder[3], we have recently created a new Customer Experience Committee, the remit of which is to identify initiatives and drive further improvements in both build quality and service in the years ahead.

Building new homes safely

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

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

Investing in our people

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

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

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

Bellway4Good

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

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

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

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

Current trading and outlook

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

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

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

Jason Honeyman
Chief Operating Officer
16 October 2017

Financial Review

Operating performance

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

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

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

In order to boost its operational capability and support continued growth, Bellway has invested significantly in its regional structure over recent years, both in new divisions and by strengthening teams within more established divisions. Notwithstanding this planned investment, administrative expenses have fallen to under 3.6%[1] of revenue (2016 – 3.7%), reflecting improved absorption of the overhead base as the Group delivers more output and maintains its culture of cost control. Overall, administrative expenses have risen more slowly than revenue, by 8.7% to £90.0 million (2016 – £82.8 million).

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

Net finance expense

The net finance expense of £11.2 million[1] (2016 – £11.1 million) principally includes notional interest on land acquired on deferred terms, which has increased slightly to £7.7 million (2016 – £7.6 million). The remaining net interest expense primarily relates to bank interest, comprising interest on drawn monies, commitment fees and refinancing costs on the Group's £430 million banking facilities. This has increased slightly to £4.5 million (2016 – £4.3 million), reflecting higher average net bank borrowings throughout the year.

Profitability

Profit before taxation ('PBT') rose by 12.6% to £560.7 million (2016 – £497.9 million), lower than the rate of operating profit growth, primarily as the PBT reported in the prior year benefited from the one-off exceptional and non-trading related profit of £17.3 million, arising on the disposal of the Group's interest in Barking Riverside Limited. The corporation tax charge was £106.7 million (2016 – £95.0 million), reflecting an effective tax rate of 19.0% (2016 – 19.1%). The effective tax rate is below the standard rate of corporation tax of 19.7% (2016 – 20%), primarily due to an enhanced tax deduction for remediating previously developed, brownfield land.

Investing cash for growth

The Group invested significantly in land and work in progress throughout the year in order to achieve future growth. As a result, the capital invested in land, net of land creditors and work in progress increased by £331.6 million[1] (2016 – £289.4 million). Before taking this investment into account, cash generated from operations was £588.1 million[1] (2016 – £538.8 million), thereby demonstrating the substantial cash generative ability of the Group. After accounting for this investment in growth assets, cash generated from operations was £256.5 million (2016 – £249.4 million).

After expending £98.8 million on tax, paying a dividend of £136.6 million, providing joint venture funding of £29.4 million and taking into consideration other minor cash outflows of £2.2 million, the Group ended the year with net cash of £16.0 million[1] (2016 – £26.5 million), reflecting an ungeared[1] balance sheet (2016 – ungeared).

Land creditors, which are considered to be a source of longer term debt finance, stood at £366.8 million (2016 – £304.2 million) and continue to be used only when it is cost effective to do so. Including land creditors, total debt stood at £350.8 million (2016 – £277.7 million), representing adjusted gearing of 16.0%[1] (2016 – 14.9%).

A strong balance sheet to secure future growth

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

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

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

A sustainable approach to value creation

RoCE continues to be a key metric used across the Group when appraising land opportunities and managing divisions' performance. As a result of this approach, and notwithstanding the significant investment in land and work in progress in order to secure future growth, Bellway achieved a strong RoCE of 27.6%[1] (2016 – 28.2%). Recognising that land creditors are a source of long term funding, an adjusted measure including land creditors as part of the capital base, resulted in a RoCE of 23.9%[1] (2016 – 24.6%).

Post tax return on equity was 22.6%[1] (2016 – 23.5%), a strong result from a conservatively managed and lowly geared balance sheet.

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

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

Keith Adey
Finance Director
16 October 2017

Group Income Statement
For the year ended 31 July 2017

	Note	**2017 Total £000**	2016 Pre-exceptional item £000	2016 Exceptional item (note 3) £000	2016 Total £000
Revenue	2	**2,558,561**	2,240,651	-	2,240,651
Cost of sales		**(1,896,977)**	(1,665,892)	-	(1,665,892)
Gross profit		**661,584**	574,759	-	574,759
Administrative expenses		**(90,029)**	(82,751)	-	(82,751)
Operating profit		**571,555**	492,008	-	492,008
Profit on disposal of investment in joint venture	3	**-**	-	17,306	17,306
Finance income	4	**1,248**	1,186	-	1,186
Finance expenses	4	**(12,492)**	(12,326)	-	(12,326)
Share of result of joint ventures		**412**	(306)	-	(306)
Profit before taxation		**560,723**	480,562	17,306	497,868
Income tax expense	5	**(106,666)**	(94,966)	-	(94,966)
Profit for the year *		**454,057**	385,596	17,306	402,902
Earnings per ordinary share – Basic	6	**370.6p**			328.7p
Earnings per ordinary share – Diluted	6	**369.0p**			328.0p

* All attributable to equity holders of the parent.

Group Statement of Comprehensive Income
For the year ended 31 July 2017

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

* All attributable to equity holders of the parent.

Group Statement of Changes in Equity
At 31 July 2017

	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 2015		15,314	169,012	20,000	1,492	1,370,160	1,575,978	(66)	1,575,912
Total comprehensive income for the period									
Profit for the period		-	-	-	-	402,902	402,902	-	402,902
Other comprehensive expense ^		-	-	-	-	(1,942)	(1,942)	-	(1,942)
Total comprehensive income for the period		-	-	-	-	400,960	400,960	-	400,960
Transactions with shareholders recorded directly in equity:									
Dividends on equity shares	7	-	-	-	-	(105,411)	(105,411)	-	(105,411)
Shares issued		21	1,134	-	-	-	1,155	-	1,155
Purchase of own shares		-	-	-	-	(6,864)	(6,864)	-	(6,864)
Credit in relation to share options and tax thereon		-	-	-	-	1,264	1,264	-	1,264
Total contributions by and distributions to shareholders		21	1,134	-	-	(111,011)	(109,856)	-	(109,856)
Balance at 31 July 2016		15,335	170,146	20,000	1,492	1,660,109	1,867,082	(66)	1,867,016
Total comprehensive income for the period									
Profit for the period		-	-	-	-	454,057	454,057	-	454,057
Other comprehensive income ^		-	-	-	-	3,116	3,116	-	3,116
Total comprehensive income for the period		-	-	-	-	457,173	457,173	-	457,173
Transactions with shareholders recorded directly in equity:									
Dividends on equity shares	7	-	-	-	-	(136,556)	(136,556)	-	(136,556)
Shares issued		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**

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

Group Balance Sheet
At 31 July 2017

	Note	2017 £000	2016 £000
ASSETS			
Non-current assets			
Property, plant and equipment		**11,255**	14,904
Investment property		**-**	-
Investments in joint ventures		**34,345**	4,550
Trade and other receivables		**-**	11,406
Deferred tax assets		**2,432**	2,490
		48,032	33,350
Current assets			
Inventories		**2,968,184**	2,548,339
Trade and other receivables		**85,168**	80,185
Cash and cash equivalents	8	**45,965**	58,968
		3,099,317	2,687,492
Total assets		**3,147,349**	2,720,842
LIABILITIES			
Non-current liabilities			
Retirement benefit obligations		**3,977**	8,036
Trade and other payables		**113,743**	87,866
Deferred tax liabilities		**686**	314
		118,406	96,216
Current liabilities			
Interest bearing loans and borrowings	8	**30,000**	32,500
Corporation tax payable		**58,143**	50,500
Trade and other payables		**749,460**	674,610
		837,603	757,610
Total liabilities		**956,009**	853,826
Net assets		**2,191,340**	1,867,016
EQUITY			
Issued capital		**15,349**	15,335
Share premium		**171,240**	170,146
Capital redemption reserve	9	**20,000**	20,000
Other reserves		**1,492**	1,492
Retained earnings	9	**1,983,325**	1,660,109
Total equity attributable to equity holders of the parent		**2,191,406**	1,867,082
Non-controlling interest		**(66)**	(66)
Total equity		**2,191,340**	1,867,016

Group Cash Flow Statement
For the year ended 31 July 2017

	Note	2017	2016
		£000	£000
Cash flows from operating activities			
Profit for the year		**454,057**	402,902
Depreciation charge		**2,759**	3,044
Exceptional profit	3	**-**	(17,306)
Profit on sale of property, plant and equipment		**(162)**	(74)
Loss on sale of investment properties		**-**	187
Finance income	4	**(1,248)**	(1,186)
Finance expenses	4	**12,492**	12,326
Share-based payment expense		**2,066**	1,568
Share of post tax result of joint ventures		**(412)**	306
Income tax expense	5	**106,666**	94,966
Increase in inventories		**(419,845)**	(413,041)
Decrease/(increase) in trade and other receivables		**7,561**	(68)
Increase in trade and other payables		**92,581**	165,737
Cash from operations		**256,515**	249,361
Interest paid		**(4,616)**	(4,284)
Income tax paid		**(98,790)**	(82,384)
Net cash inflow from operating activities		**153,109**	162,693
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(2,109)**	(3,373)
Proceeds from sale of property, plant and equipment		**3,161**	273
Proceeds from sale of investment in joint venture – exceptional item	3	**-**	16,600
Proceeds from sale of investment properties		**-**	1,422
Increase in loans to joint ventures		**(29,383)**	(1,768)
Interest received		**167**	250
Net cash (outflow)/inflow from investing activities		**(28,164)**	13,404
Cash flows from financing activities			
Decrease in bank borrowings		**(2,500)**	(47,500)
Proceeds from the issue of share capital on exercise of share options		**1,108**	1,155
Purchase of own shares by employee share option plans		**-**	(6,864)
Dividends paid	7	**(136,556)**	(105,411)
Net cash outflow from financing activities		**(137,948)**	(158,620)
Net (decrease)/increase in cash and cash equivalents		**(13,003)**	17,477
Cash and cash equivalents at beginning of year		**58,968**	41,491
Cash and cash equivalents at end of year	8	**45,965**	58,968

Notes

1. Basis of preparation

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 2017 or 2016, but is derived from those financial statements. Statutory financial statements for 2016 have been delivered to the registrar of companies, and those for 2017 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 2017, net cash was £16.0 million having expended cash of £10.5 million during the year. The Group has operated within all of its banking covenants throughout the year. In addition, the Group had bank facilities of £430.0 million, expiring in tranches up to November 2020, with £400.0 million available for drawdown under such facilities at 31 July 2017.

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

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 2017 to shareholders on 10 November 2017.

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

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

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 is still assessing the full effect of this standard.

- IFRS 15 'Revenue from contracts with customers'. This is a converged standard from the IASB and FASB on revenue recognition to assist with comparability of revenue globally. This is effective for the period beginning on 1 August 2018. It is expected that this standard will result in presentational changes to the income statement to gross up part-exchange revenue and expenses within operating profit which are currently recognised on a net basis within cost of sales. It is not anticipated that the adoption of this standard will effect either the balance sheet or cash flow statement.

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

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

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

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 macro-economic factors, such as mortgage availability and government policy.

Additional information on average selling prices and the unit sales split between north, south, private and social has been included in the Operating Review. 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. Exceptional item

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

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

4. Finance income and expenses

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

5. Taxation

The effective rate of taxation for the year is 19.0% (2016 – 19.1%). The taxation charge for the year is calculated by applying the standard corporation tax rate of 19.7% (2016 – 20.0%) 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 year that are expected to be realised after 31 March 2020 have been revalued at 17%, the substantively enacted corporation tax rate that will be effective when they are expected to be realised.

6. 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 2017 £000	**Weighted average number of ordinary shares 2017 Number**	**Earnings per share 2017 p**	Earnings 2016 £000	Weighted average number of ordinary shares 2016 Number	Earnings per share 2016 p
For basic earnings per ordinary share	**454,057**	**122,511,626**	**370.6**	402,902	122,558,261	328.7
Dilutive effect of options and awards		**536,577**	**(1.6)**		291,845	(0.7)
For diluted earnings per ordinary share	**454,057**	**123,048,203**	**369.0**	402,902	122,850,106	328.0

7. Dividends on equity shares

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

The 2017 proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 13 December 2017 and, in accordance with IAS 10 'Events after the Reporting Period', has not been included as a liability in these financial statements. The proposed final dividend, subject to shareholder approval, will be paid on 10 January 2018 to all ordinary shareholders on the Register of Members on 1 December 2017. The ex-dividend date is 30 November 2017. At the record date for the final dividend for the year ended 31 July 2016 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)

8. Analysis of net cash

	At 1 August 2016 £000	Cash flows £000	At 31 July 2017 £000
Cash and cash equivalents	58,968	(13,003)	**45,965**
Bank loans	(32,500)	2,500	**(30,000)**
Net cash	26,468	(10,503)	**15,965**

9. 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. During the period the Trust made a market purchase of nil shares (2016 – 342,143 at an average price of 2,006p) and transferred 119,733 (2016 – 55,823) shares to employees and directors. The number of shares held within the Trust, and on which dividends have been waived, at 31 July 2017 was 184,403 (2016 – 304,136). These shares are held within the financial statements at a cost of £3.421 million (2016 – £5.908 million). The market value of these shares at 31 July 2017 was £5.882 million (2016 – £6.375 million).

10. Principal risks and uncertainties

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

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

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

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

Notes (continued)

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

Notes (continued)

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

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

Notes (continued)

11. 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, they are not defined or specified by IFRSs. The directors use a combination of APM's and IFRS measures when reviewing the performance, position and cash of the Group.

The APM's 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 reinvested in the business.

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

Per balance sheet	2017 £m	2016 £m	Mvt £m	2016 £m	2015 £m	Mvt £m
Land	**1,838.2**	**1,625.6**	**212.6**	1,625.6	1,297.0	328.6
Work in progress	**1,017.7**	**836.1**	**181.6**	836.1	763.7	72.4
Increase in capital invested in land and work in progress in the year			**394.2**			401.0
Land creditors	**(366.8)**	**(304.2)**	**(62.6)**	(304.2)	(192.6)	(111.6)
Increase in capital invested in land, net of land creditors, and work in progress in the year			**331.6**			289.4

- **Net asset value per ordinary share (NAV)** – This is calculated as total net assets divided by the number of ordinary shares in issue at the end of each period. 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.

Notes (continued)

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

	2017 Capital employed £m	**2017 Land creditors £m**	**2017 Capital employed including land creditors £m**	2016 Capital employed £m	2016 Land creditors £m	2016 Capital employed including land creditors £m
Operating profit	**571.6**		**571.6**	492.0		492.0
Capital employed/land creditors:						
Opening	**1,867.0**	**304.2**	**2,171.2**	1,614.4	192.6	1,807.0
Half year	**2,152.4**	**301.7**	**2,454.1**	1,753.8	275.7	2,029.5
Closing	**2,191.3**	**366.8**	**2,558.1**	1,867.0	304.2	2,171.2
Average	**2,070.2**	**324.2**	**2,394.4**	1,745.1	257.5	2,002.6
Return on capital employed	**27.6%**		**23.9%**	28.2%		24.6%

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

	2017 £m	2016 £m
Profit for the year	**454.1**	402.9
Net assets:		
Opening	**1,867.0**	1,575.9
Half year	**1,977.3**	1,694.9
Closing	**2,191.3**	1,867.0
Average	**2,011.9**	1,712.6
Post tax return on equity	**22.6%**	23.5%

- **Total growth in value per ordinary share** - The directors use this as a proxy for the increase in shareholder value since 31 July 2014.

Net asset value per ordinary share:		
At 31 July 2017	1,785p	
At 31 July 2014	1,118p	
Net asset value growth per ordinary share		667.0p
Dividend paid per ordinary share:		
Year ended 31 July 2017	111.5p	
Year ended 31 July 2016	86.0p	
Year ended 31 July 2015	61.0p	
Cumulative dividends paid per ordinary share		258.5p
Total growth in value per ordinary share		925.5p

Notes (continued)

- **Annualised accounting return in NAV and dividends paid since 31 July 2014** – This is calculated as the annualised increase in net asset value per ordinary share plus cumulative ordinary dividends paid per ordinary share since 31 July 2014 (as detailed above) divided by the net asset value per ordinary share at 31 July 2014. The directors use this as a proxy for the increase in shareholder value since 31 July 2014.

Net asset growth per ordinary share	667.0p
Dividend paid per ordinary share	258.5p
Total growth in value per ordinary share	925.5p
Net asset value per ordinary share at 31 July 2014	1,118.0p
Total value per ordinary share	2,043.5p
Annualised accounting return $= \left(\frac{2,043.5}{1,118.0}\right)^{1/3} - 1$	22.3%

- **Net cash** – This is the cash and cash equivalents less bank debt. The directors consider this to be a good indicator of the financing position of the Group. This is reconciled in note 8.

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

	2017 £m	2016 £m
Cash from operations	**256.5**	249.4
Add: increase in capital invested in land, net of land creditors, and work in progress (as described above)	**331.6**	289.4
Cash generated from operations before investment in land, net of land creditors, and work in progress	**588.1**	538.8

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

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