Annual Report and Accounts

2014

BUILDING HOMES, BUILDING VALUE

Contents

For further details on our business please visit:

www.bellway.co.uk

Cover:
Cromwell Fields,
Great Waldingfield, Suffolk

About Us

INTRODUCTION

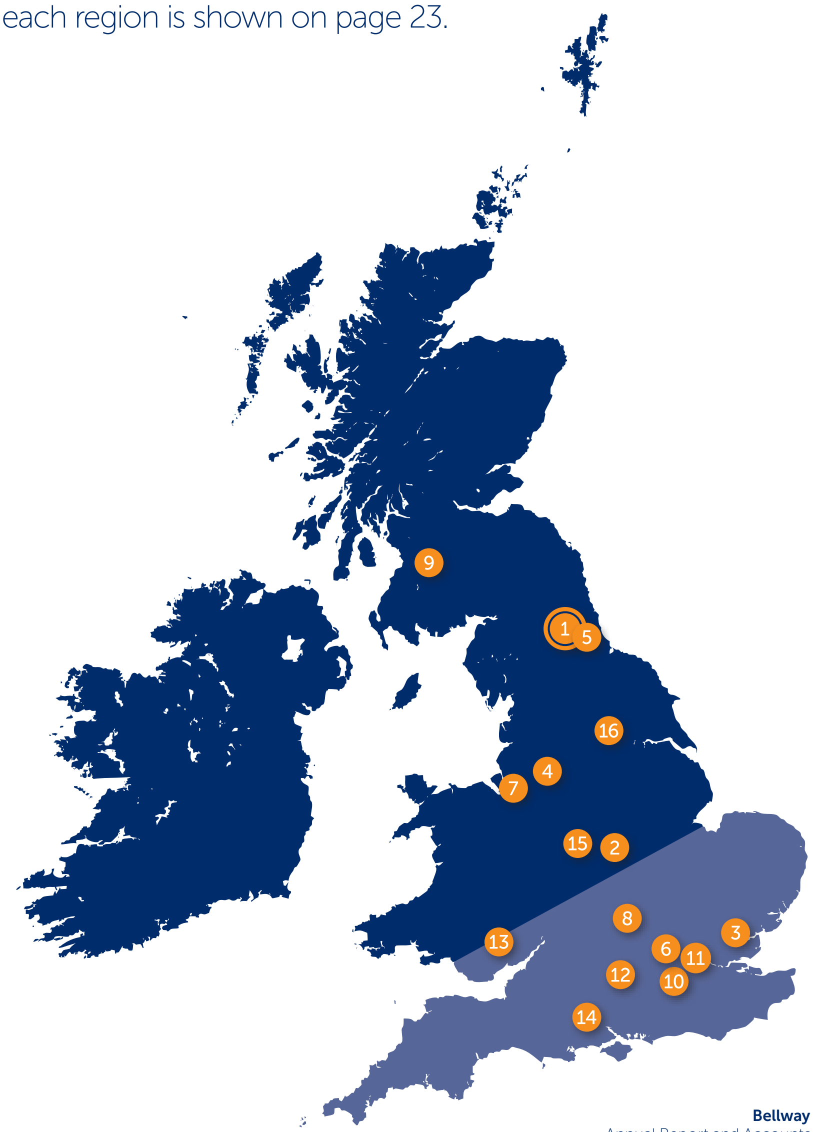
FROM ITS ORIGINS NEARLY 70 YEARS AGO AS A FAMILY-OWNED HOUSEBUILDING BUSINESS IN NEWCASTLE UPON TYNE, BELLWAY HAS GROWN TO BECOME ONE OF THE UK'S LARGEST HOUSEBUILDING GROUPS, WITH REVENUE IN 2013/14 OF £1.486 BILLION, HAVING BUILT AND SOLD OVER 130,000 HOMES SINCE INCORPORATION.

Bellway has its headquarters in Newcastle upon Tyne and operates from 15 divisions throughout the UK. The Group constructs and sells high quality homes to suit a variety of budgets, from apartments up to five-bedroom family homes, including the provision of social housing throughout the country. We directly employ over 2,000 employees and indirectly engage over 5,500 other workers via sub-contract arrangements.

The Group's operations are located in the main population centres in the UK (excluding Northern Ireland), as shown in the chart below. The northern region covers Scotland, the north east and north west of England, Yorkshire and the Midlands. In the south, our business incorporates divisions in the south east and south west of England, London and Wales. The number of homes sold and average selling price for each region is shown on page 23.

Our office locations

1. Head Office
2. East Midlands
3. Essex
4. Manchester
5. North East
6. North London
7. North West
8. Northern Home Counties
9. Scotland
10. South East
11. Thames Gateway
12. Thames Valley
13. Wales
14. Wessex
15. West Midlands
16. Yorkshire

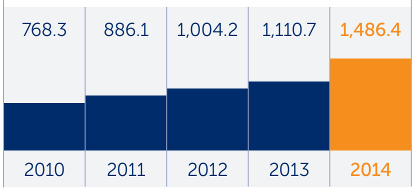


Financial Highlights

Total Group revenue (£m)

1,486.4

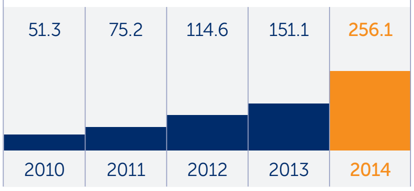
+33.8%



Operating profit (£m)

256.1

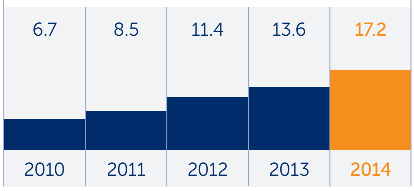
+69.5%



Operating margin (%)

17.2

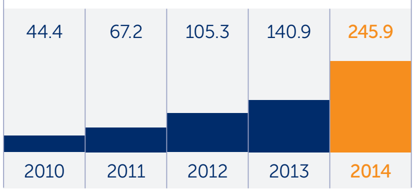
+360bps



Profit before taxation (£m)

245.9

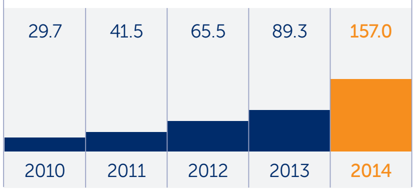
+74.5%



Earnings per ordinary share (p)

157.0

+75.8%

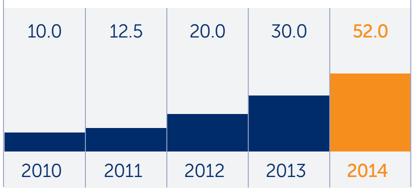


Total dividend per ordinary share (p)

52.0

read more on p.6

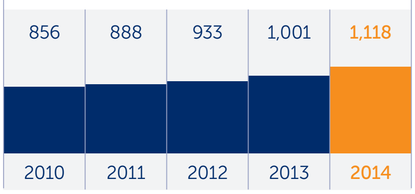
+73.3%



Net asset value per ordinary share (p)

1,118

+11.7%

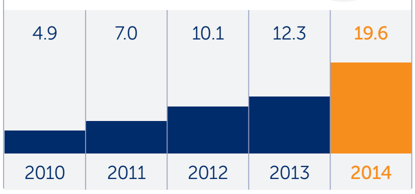


Return on capital employed (%)

19.6

read more on p.27

+730bps



Operational Highlights

Completed sales (homes)

6,851

read more on p.23

+21.2%

2010	2011	2012	2013	2014
4,595	4,922	5,226	5,652	6,851

Average selling price (£)

213,182

read more on p.23

+10.4%

2010	2011	2012	2013	2014
163,175	175,613	186,648	193,025	213,182

Owned and controlled land bank (plots)

35,434

read more on p.24

+7.4%

2010	2011	2012	2013	2014
32,602	31,086	31,136	32,991	35,434

Order book value at 31 July (£m)

924.3

read more on p.25

+36.0%

2010	2011	2012	2013	2014
421.0	426.8	441.2	679.5	924.3

Top:
Bishop Cuthbert, Hartlepool, County Durham

Bottom:
Moderno, Brighton, East Sussex

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

460.0

read more on p.26

+53.3%

2010	2011	2012	2013	2014
208.0	250.0	305.0	300.0	460.0

Right:
Horizon @ Prospect Place, Cardiff Bay, Cardiff

Top left:
North Lodge Park, Milton, Essex

Bottom left:
Signature, Kings Hill, Kent

Top right:
Glaze, Lount, Leicestershire

Bottom right:
Mile Field, Leavesden, Hertfordshire

Chairman's Statement

"THIS HAS BEEN AN EXCEPTIONAL YEAR OF PROGRESS FOR THE GROUP ..." AND "THE GROUP IS WELL PLACED TO CREATE FURTHER VALUE FOR SHAREHOLDERS."

John Watson
Chairman

INTRODUCTION

This has been an exceptional year of progress for the Group in which we have delivered record revenue and profit.

The Group's response to strong market conditions has resulted in growth of 21.2% in the number of legal completions to 6,851 (2013 – 5,652) and an increase in earnings per share of 75.8% to 157.0p (2013 – 89.3p).

DIVIDEND

The rapid growth in profitability is matched by an increase in the proposed dividend. The Board is proposing to increase the final dividend by 71.4% to 36.0p per ordinary share (2013 – 21.0p) which, if approved, will be paid on 14 January 2015. This rise produces an increase of 73.3% in the total dividend for the year to 52.0p (2013 – 30.0p), another record for the Group, with this being covered by earnings 3.0 times (2013 – 3.0 times). The Board expects to maintain this level of cover in the foreseeable future.

Bellway has an unbroken record of paying a dividend every year, including throughout the downturn, thereby providing certainty of return to shareholders. The proposed final dividend for the year ended 31 July 2014 will mean that the Group has returned over £220 million to shareholders since July 2007. The rate of cash return to investors will now increase, commensurate with the expected growth in earnings.

The Group's dividend policy, whilst providing certainty of return, also ensures that sufficient cash can be re-invested in land and work in progress in order to deliver further, sustainable growth. This approach enables Bellway to remain flexible, with the ability to respond to growth opportunities or changes in market conditions as they arise.

PEOPLE AND SUPPLY CHAIN

This record set of results could not have been achieved without the hard work, dedication and commitment of all those who work for and with Bellway. I wish to express the Board's gratitude to all of the Group's employees, sub-contractors and suppliers whose efforts have enabled Bellway to safely and substantially increase output.

BUILDING SHAREHOLDER VALUE

A disciplined approach to investment has resulted in the Group achieving a return on capital employed of 19.6% (2013 – 12.3%) and an 11.7% increase in the net asset value per ordinary share ('NAV') to 1,118p. The strategy of sustainable growth with a focus on return on capital employed, together with regular and increasing dividend payments, ensures that the Group is well placed to create further value for shareholders.

John Watson
Chairman
13 October 2014

19.6%
Return on capital employed
+730bps

Above:
Chase Meadow, Warwick, Warwickshire

Left:
Heaton Manor, Stockport, Greater Manchester

Below:
Brooklands, Holmes Chapel, Cheshire

Group Strategy

Bellway's strategy is to build shareholder value through sustainable volume growth, utilising the Group's operational and balance sheet capacity, combined with a strong focus on return on capital employed ('ROCE'). This generates growth in the Group's net asset value per ordinary share ('NAV') which when combined with a progressive dividend policy, results in value creation for shareholders.

The Group's operational capacity is currently built around a nationwide structure of 15 operating divisions. In addition there is an operational and balance sheet capacity to further expand the Group's divisional base in areas of high population whilst maintaining strict investment criteria, cost control and without encroaching upon the existing structure.

The Group's balance sheet capacity is largely comprised of its net cash position of £5.1 million at 31 July 2014 combined with bank facilities of £300 million. As a result of these factors the Group has a capability to invest in land that either meets or exceeds our investment criteria, which include gross margin and ROCE.

THE PRIMARY EXTERNAL FACTORS THAT CAN AFFECT THE GROUP'S PERFORMANCE AGAINST ITS STRATEGY ARE AS FOLLOWS:

THE PLANNING SYSTEM

The Group's ability to deliver new homes is dependent on the efficiency of the planning system to provide the necessary planning consents in a timely and effective manner to meet the requirements of the Group's volume targets.

Whilst it is too early to say what the long-term effects will be, the National Planning Policy Framework system ('NPPF') introduced in March 2012, working in parallel with the Localism Act 2011, appears to have led to an improvement in the number of planning permissions being granted.

THE AVAILABILITY OF MORTGAGES

Mortgage availability is an important component in a successful housing market. Following the introduction of the government's Help to Buy scheme in April 2013, the availability of higher loan to value mortgage finance has increased significantly, thereby assisting in an increase in the sale of new homes.

The government has announced the extension of the equity loan element of the Help to Buy scheme in England up to 2020. This provides certainty for the housing market and will greatly assist purchasers of new homes and first-time buyers, in particular, who had struggled to acquire their first home during the recession in the previous five years.

52.0p

Total dividend per ordinary share

+73.3%

THE AFFORDABILITY OF MORTGAGES

Mortgage affordability is a crucial ingredient for a successful and sustainable housing market. Access to affordable finance assists potential purchasers in securing the home they require.

Following the introduction of the Help to Buy scheme in April 2013, the mortgage market has seen increased competition and this has led to a rise in the number of buyers being able to access a wider range of more affordable mortgage products to buy their new home. Stronger controls in relation to mortgage regulation has added stability and sustainability over the longer term for purchasers and lenders alike.

THE AVAILABILITY OF LAND AT ATTRACTIVE MARGINS

Acquiring land in areas of high demand, in primary locations, in accordance with the Group's financial and non-financial acquisition criteria, is key to the success of Bellway.

The market for land in the UK, particularly in the main conurbations, remains competitive but we continue to secure land that meets or exceeds our acquisition criteria.

Above:
Grove Farm, Adlington, Lancashire

Business Model

THE BUSINESS MODEL WE USE TO DELIVER THE GROUP STRATEGY IS SUMMARISED BELOW.

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

The Group has five principal KPIs and a larger number of KPIs to support them. The principal KPIs together with the performance for 2014 and the comparator for 2013 are shown opposite.

SELECTING THE RIGHT LAND

Acquiring land in primary locations that meet or exceed the Group's financial and non-financial acquisition criteria is key to the success of the business.

read more on p.12

MANAGING THE PLANNING PROCESS

Ensuring that the planning policies of local authorities are complied with in order to deliver sufficient planning permissions for the business.

read more on p.14

CONSTRUCTION OF THE RIGHT PRODUCT

Providing an appropriate product range on the Group's housing developments, at prices which are affordable for our customers.

read more on p.16

THE PRINCIPAL KPIs ARE:

Volume growth of 21.2% to 6,851 homes (2013 – 5,652 homes);

Operating margin growth of 360bps to 17.2% (2013 – 13.6%);

Improvement in ROCE of 730bps to 19.6% (2013 – 12.3%); and

Improvement in net asset value per ordinary share of 11.7% to 1,118p (2013 – 1,001p); and

Total proposed dividend per ordinary share of 52.0p (2013 – 30.0p).

DELIVERING A POSITIVE SALES AND CUSTOMER CARE EXPERIENCE

Making sure that our customers find the purchase of a Bellway home a satisfactory and rewarding experience, both prior to and following acquisition.

read more on p.18

MANAGING PEOPLE

Ensuring that our employees find working with Bellway a positive and fulfilling experience which will assist in producing a loyal and committed workforce who will deliver high levels of performance and output.

read more on p.20

Selecting the right land

DESCRIPTION

- Land opportunities are identified by our divisional land departments using their local knowledge and contacts. A viability assessment is prepared by the division, which is reviewed at regional and Group level, where the final decision is taken on whether or not to purchase the site.
- Land acquisitions are considered against a number of criteria, such as gross margin, ROCE, forecast sales rates, customer demand and planning prognosis.
- The number of large long-term sites owned by the Group is controlled to avoid having too much capital concentrated in one location.
- The Group focuses on the acquisition of brownfield land as these sites tend to have a better chance of obtaining an implementable detailed planning permission ('DPP') and can often be acquired at higher returns.

HOW THIS LINKS TO STRATEGY

- The Group acquires land to meet its volume growth aspirations. This will comprise land with and without DPP.
- The land acquired must meet or exceed our gross margin and ROCE acquisition criteria.

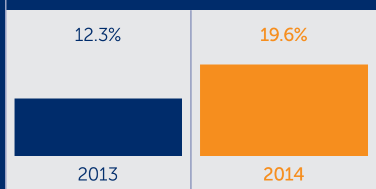
HOW WE PERFORMED IN 2013/14

- We increased the number of plots we own and control with DPP by 443 to 19,434 plots. We increased the number of plots owned and controlled awaiting implementable DPP ('pipeline') by 2,000 to 16,000 plots. Furthermore, the Group has an interest in long-term strategic land holdings, of which 4,500 plots have been identified as benefiting from a positive planning status.
- The Group only acquired land which met or exceeded the Group's minimum acquisition criteria.

ROCE

19.6%

+730bps



Right:
Caledonia View, Broadwood, Cumbernauld

OUR PLANS FOR 2014/15

- We aim to ensure that plots in our owned and controlled land bank with implementable DPP are sufficient to meet the current year's growth targets and to progress land through the planning system to meet the following year's growth targets.
- We will continue to acquire land which meets or exceeds our acquisition criteria.
- We will continue to focus our land buying on brownfield sites, where possible.

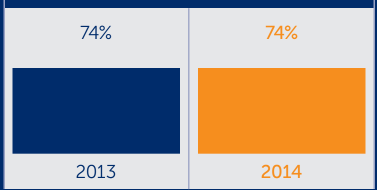
KPIs

- ROCE 19.6% (2013 – 12.3%).
- The percentage of homes developed on brownfield land is 74% (2013 – 74%).

Percentage of homes developed on brownfield land

74 %

+0bps



Managing the planning process

DESCRIPTION

- Our land bank is comprised of three components: i) land with an implementable DPP; ii) medium-term 'pipeline' land, pending an implementable DPP; iii) strategic long-term land which we have an interest in, which may often have the benefit of a positive planning status in approved or emerging local plans.
- Our planning departments work with local authorities and communities to obtain DPP to construct homes which reflect regional architectural design and detail, which is attractive to local customers. The divisional planning departments progress through the planning system a combination of medium-term 'pipeline' land and land from our strategic land bank.

HOW THIS LINKS TO STRATEGY

- With insufficient land with DPP the Group would be unable to achieve its volume growth targets. Furthermore, by not efficiently progressing land through the planning process capital could be tied up in land for longer than necessary which may result in a reduction in the Group's ROCE.
- Strategic land helps to augment our land bank and complements our strategy of volume growth.

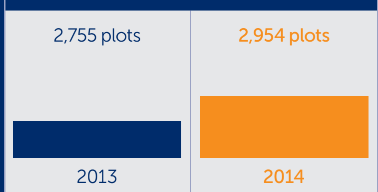
HOW WE PERFORMED IN 2013/14

- The Group obtained implementable DPP on sufficient land during the year to meet its growth aspirations for 2014/15.
- The Group invested in sufficient 'pipeline' land to provide plots available to progress through the planning process.
- The number of plots that were converted from our medium-term 'pipeline' land bank to land with DPP in 2013/14 was 4,340 plots.

Number of plots acquired with an implementable DPP

2,954 plots

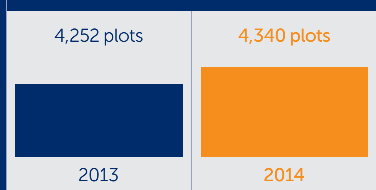
+7.2%



Number of plots converted from 'pipeline' to land with an implementable DPP

4,340 plots

+2.1%



Right:
Copper Beeches,
Wantage, Oxfordshire

OUR PLANS FOR 2014/15

- We aim to have sufficient plots with implementable DPP at 31 July 2015 to meet our 2015/16 volume growth aspirations.
- We will aim to increase the number of plots we convert from our medium-term 'pipeline' land bank to land with implementable DPP.
- We will aim to invest in sufficient 'pipeline' land to provide plots that can be reliably progressed through the planning process without tying up excess capital.
- We aim to increase the number of strategic option sites owned by the Group to complement the other tiers of the land bank.

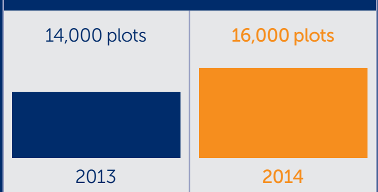
KPIs

- The number of plots that were acquired directly in to our land bank with an implementable DPP in the year was 2,954 (2013 – 2,755).
- The number of plots that were converted from our medium-term 'pipeline' land to owned and controlled with an implementable DPP in the year was 4,340 plots (2013 – 4,252).
- The number of plots in our 'pipeline' land bank increased to 16,000 (2013 – 14,000).
- The number of plots identified in our strategic land bank with a positive planning status is 4,500 (2013 – 4,400).

Number of plots in 'pipeline' land bank

16,000 plots

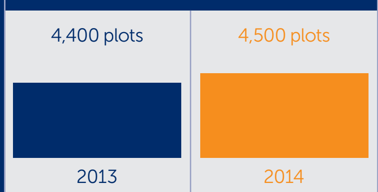
14.3%



Number of plots in strategic land bank

4,500 plots

+2.3%



Construction of the right product

DESCRIPTION

- We construct a wide range of homes to suit a variety of budgets. Our homes are built to specific standards to ensure quality and compliance with building regulations and current best practice.
- In addition, we take very seriously the health and safety of our employees and sub-contractors who work on our sites.
- We strive to maintain long-term working relationships with reputable sub-contractors to reduce health and safety risks and ensure the quality of our product. We seek to make sure that we have suitable building materials available at competitive prices to enable us to construct homes to the required standards expected of us by our customers, within budget and on time.
- We closely monitor work in progress to ensure that construction rates are consistent with sales rates.

HOW THIS LINKS TO STRATEGY

- The products designed by the Group must achieve or exceed our customers' expectations and we use customer feedback to monitor this.
- Good product quality enhances customer satisfaction and ultimately our reputation, which aids our ability to sell the homes we construct.
- Having suitable materials at competitive prices enables us to meet our growth aspirations, helps support our margin and gives the Group better control over its cost base.
- It is important to have high standards of health and safety on our sites to create the appropriate working environment to deliver a good quality product.

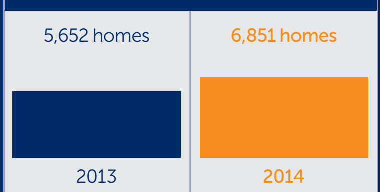
HOW WE PERFORMED IN 2013/14

- We have been trialling a new range of standard house type layouts which we anticipate will meet or exceed customers' expectations whilst resulting savings in design and construction costs for the Group.
- Our homes were regularly inspected during the construction process both by in-house management and the NHBC to ensure that building standards were achieved.
- Key building materials in the construction process, such as bricks, blocks, lintels and boilers were subject to Group purchasing arrangements, ensuring consistently high quality product throughout the Group and competitive prices. This process was carefully managed by the Group procurement function.

Number of homes sold

6,851 homes

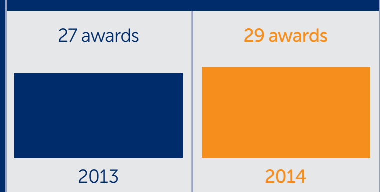
+21.2%



Number of Pride in the Job Awards to employees

29 awards

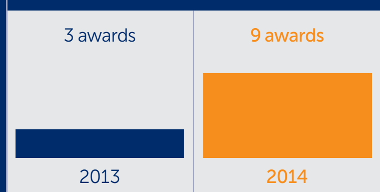
+7.4%



Number of NHBC health and safety awards

9 awards

+200.0%



Right: Baytrees, Gerrards Cross, Buckinghamshire

- The Board considered the Group's health and safety performance at each Board meeting.
- The Group's sites were regularly inspected by both internal and external specialists to ensure that high standards of health and safety compliance were maintained.
- The Board set key targets and objectives in terms of health and safety performance and these were achieved.

OUR PLANS FOR 2014/15

- We will seek to conclude the trials of the new house type layouts and start to implement their use within the Group. The use of these standard layouts will not affect the external design of our homes which we strive to construct in keeping with the local vernacular.
- We will ensure that suitable systems are in place for engaging, monitoring and controlling work carried out by sub-contractors.
- We will continue forward planning within the procurement function to provide certainty of delivery of materials on our sites.
- The Board will continue to monitor the Group's health and safety performance at each Board meeting.
- The Group's sites will continue to be regularly inspected by both internal and external specialists to ensure high standards of health and safety compliance and performance are maintained.
- The Board has set key health and safety targets and objectives for the year.

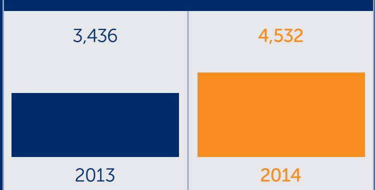
KPIs

- Number of homes sold – 6,851 (2013 – 5,652).
- The Group's employees have been awarded 29 Pride in the Job Awards (2013 – 27) and 9 NHBC Health and Safety Awards (2013 – 3).
- Number of sub-contractors who have worked for Bellway for at least three years – 4,532 (2013 – 3,436).
- Number of RIDDOR lost time accidents (over seven days) per 100,000 employees – 447.09 (2013 – 486.51).
- The effectiveness of health and safety on our sites, as measured using the NHBC benchmarking system – 0.986 (2013 – 1.011).

Number of sub-contractors who have worked for Bellway for at least 3 years

4,532 sub-contractors

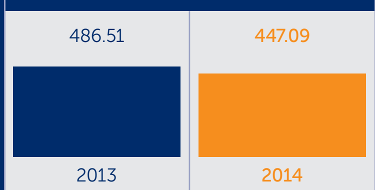
+31.9%



Number of RIDDOR seven-day lost time accidents

447.09 accidents per 100,000 employees

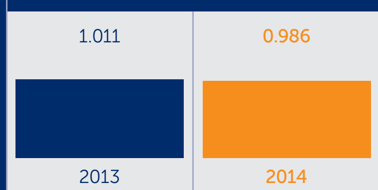
improved by 8.1%



NHBC health and safety benchmark

0.986

improved by 2.5%



Delivering a positive sales and customer care experience

DESCRIPTION

- We aspire to sell homes that are desirable and affordable for our customers. Customers satisfaction is important to us as this can ultimately determine the success or otherwise of our business.
- We aim to deliver a positive sales experience to our customers, both before and following acquisition, building upon our reputation as a quality national housebuilder.
- We aim to increase the number of homes sold through investment in land.

HOW THIS LINKS TO STRATEGY

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

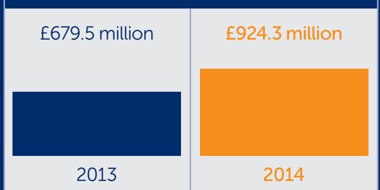
HOW WE PERFORMED IN 2013/14

- All of our customer-facing employees have received advanced customer care training this year. The percentage of customers who would recommended Bellway to a friend was 93.8% and we have retained our Home Builders Federation ('HBF') 5 star rating.
- Our changing geographic and product profile has resulted in an increase in the average selling price during the year. The product profile now comprises mainly traditional two-storey family housing across the UK generally with 50% of apartment completions in the year within the London boroughs.
- We opened two new divisions on 1 August 2013.

Forward order book at 31 July

£924.3 million

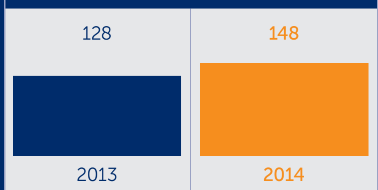
+36.0%



Reservation rate

148 homes per week

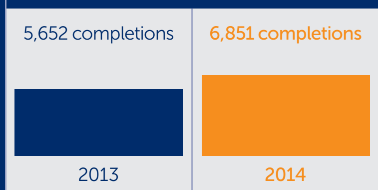
+15.6%



Number of legal completions

6,851

+21.2%



Right:
Mendip Gate,
Weston-super-Mare,
North Somerset

OUR PLANS FOR 2014/15

- We will continue to sell a wide range of high quality homes which customers with a variety of budgets want to live in.
- We will seek to improve further our sales and customer care performance through further training of customer-facing employees.
- We aim to increase the number of new homes we bring to the market and thereby increase the number of homes we sell.
- We plan to open a new division in the second half of the financial year.

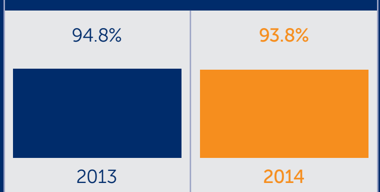
KPIs

- Our forward order book at 31 July has increased during the year from £679.5 million to £924.3 million.
- The reservation rate has increased to 148 per week (2013 – 128).
- The number of legal completions has risen to 6,851 (2013 – 5,652).
- Customers who would recommend Bellway to a friend – 93.8% (2013 – 94.8%).
- HBF 5 star rating retained for the third year in succession.
- We use an independently calculated net assessment of customer satisfaction and the score for the year was 56.7 (2013 – 54.8).

Customers who would recommend Bellway to a friend

93.8 %

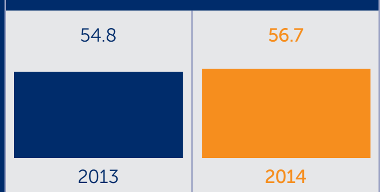
-100bps



Net assessment of customer satisfaction

56.7

+3.5%



Managing people

DESCRIPTION

- The Group's employees play a vital role in implementing strategy.

HOW THIS LINKS TO STRATEGY

- We rely on having highly skilled, professional and dedicated employees who add value at all stages of our operations to enable the Group to implement its strategy.

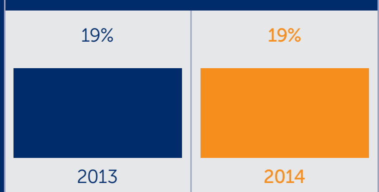
HOW WE PERFORMED IN 2013/14

- We have increased the amount of training this year, with a particular focus on sales, customer care and health and safety. Many of our site managers have achieved NVQ level 6 qualifications in Construction Management.
- We have also been training more apprentices and graduates.

Employees who have worked for the Group for ten years or more

19 %

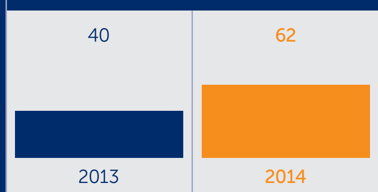
+0bps



Number of graduates and apprentices

62

+55.0%



OUR PLANS FOR 2014/15

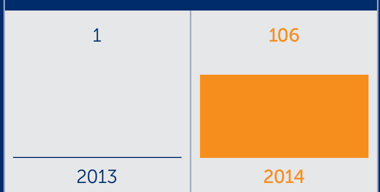
- We will develop our Personnel/Human Resources strategy to try to improve the way we manage, train and reward our employees.
- New site managers recruited into the Group should ideally have the NVQ level 6 qualification or better. If they do not, then the Company will arrange for the necessary training.

KPIs

- Employees who have worked for the Group for ten years or more – 19% (2013 – 19%).
- Graduates and apprentices – 62 (2013 – 40).
- Site managers with NVQ level 6 – 106 (2013 – 1).
- Customer care training during the year – 4,388 hours (2013 – 705 hours).
- Employee turnover was 20.8% (2013 – 17.5%).

Site managers with NVQ level 6

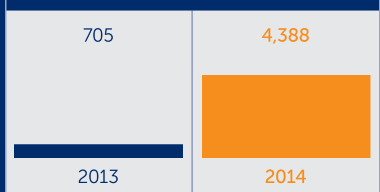
106



Customer care training

4,388 hours

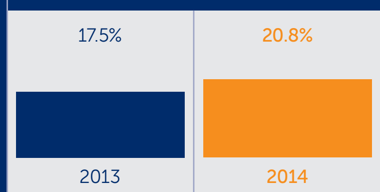
+522.4%



Employee turnover

20.8 %

+330bps



Chief Executive's Operating Review

"BELLWAY HAS THE ABILITY TO INVEST IN A WIDE RANGE OF LOCATIONS AND A VARIETY OF LAND OPPORTUNITIES."

Ted Ayres
Chief Executive

STRATEGY FOR GROWTH

The Group's strong balance sheet and widespread national presence ensures that Bellway has the ability to invest in a wide range of locations and a variety of land opportunities. Our existing structure of fifteen operating divisions provides capacity for growth and beyond that, the Group is well positioned to open new divisions whilst maintaining strict investment criteria.

There continues to be good availability of high quality land that either meets or exceeds our minimum acquisition criteria in respect of gross margin and return on capital employed. This availability, together with a more positive planning environment, is providing the Group with attractive opportunities for investment.

Furthermore, strong demand from customers and improvements in the mortgage market have created a positive environment for Bellway to deliver ongoing growth.

The strong market conditions, capacity for growth and focus on return on capital employed is helping to ensure that the Group can further increase volume and deliver enhanced value for shareholders.

HOUSING MARKET

The government's Help to Buy scheme, launched in April 2013, enabled many customers to gain access to affordable, higher loan to value mortgages. The extension of this scheme in England to 2020 and a general improvement in the supply of mortgage finance, has enabled Bellway to accelerate the construction and delivery of much needed new homes.

The Mortgage Market Review and the measures recently introduced by the Bank of England to control the supply of higher loan to income mortgages should help to ensure a long-term, sustainable supply of mortgage finance in the future. This provides a positive outlook for Bellway to continue to achieve its growth ambitions.

TRADING PERFORMANCE

There has been a significant improvement in customer confidence and the demand for new homes has remained strong throughout the year, with the first six months in particular benefiting from the introduction of Help to Buy. In the latter part of the year, there was a return to the more usual seasonal trading pattern, with a strong performance in spring, followed by a gradual slow down in the private reservation rate during the summer months. Reservations for the full year

Below:
Bluecoats, Sheffield, West Yorkshire

6,851 homes

Number of homes sold during the year

+21.2%

averaged 148 per week, an increase of 15.6% compared to last year. Customer confidence was strong with the Group's cancellation rate falling to just 10.9% (2013 – 13.8%).

We have added capacity to the Group's existing divisional structure through the opening of two new divisions, in Manchester and the Thames Valley, on 1 August 2013. This additional capacity, together with significant investment in land and work in progress has enabled the Group to increase the number of legal completions by 21.2% to 6,851 and has contributed to an improvement of 69.5% in operating profit. All fifteen operating divisions have contributed to this growth, with each delivering an increase in both revenue and profit when compared to the previous financial year.

The number of homes completed in our southern divisions has increased by 20.9% to 3,628, with this in part driven by the strength of the London market. Our Thames Gateway division, which operates in Kent and east London, has completed the sale of 759 new homes.

The Group has an established presence in the London boroughs with housing revenue within this region representing 22.0% of the Group total (2013 – 19.1%).

Our northern divisions have also performed well, with the number of housing completions increasing by 21.5% to 3,223. The North East division, which focuses on family housing, has shown particular strength and has benefited from its established presence in the region, with a rise of 25.7% in the number of homes sold to 729.

The average selling price of homes sold across the Group has risen by 10.4% to £213,182 (2013 – £193,025). The improvement in average selling price has been achieved due to changes in product mix and a reduction in the cost of incentives. The strength in demand has also led to modest upward pressure on house prices, particularly in and around London, although this now appears to be easing.

The average selling price of private housing completions within the London boroughs remains affordable in the context of this local market at under £300,000 and customer demand for new homes remains robust at this price level.

The Group's product range continues to evolve with there being a focus on traditional two-storey family housing and apartments in London, where the average selling prices tend to be higher. This has resulted in the private average selling pricing for the Group exceeding £200,000 in all but three of its fifteen operating divisions.

CONSTRUCTION AND MATERIAL COSTS

In response to the strong market conditions, the Group has accelerated production in order to respond to the improved demand. As a consequence of this increase in production throughout the industry, there has been pressure on construction costs and the supply chain.

The supply of bricks and blocks reduced towards the latter part of 2013, but the shortage has become more manageable, easing as the year has progressed. The Group mitigates material cost pressure through centrally procured, national arrangements with suppliers.

There has also been reduced availability with regard to certain sub-contract trades, in particular bricklayers and ground workers, with these challenges being most pronounced in and around the south east of the country where there have been inevitable cost increases.

Our divisions seek to foster strong relationships with locally sourced sub-contractors, encouraging a culture of fairness in our dealings. In addition, we became signatories to the Prompt Payment Code during the year, which reflects our commitment to ensure that all sub-contractors are paid within agreed timescales for work performed. This collaborative approach helps to create a sense of loyalty, with around 4,500 sub-contractors and suppliers having worked with Bellway for at least three consecutive years.

Homes sold (number)

	Private		Social		Total	
	2014	2013	**2014**	2013	**2014**	2013
North	**2,958**	2,386	**265**	266	**3,223**	2,652
South	**2,851**	2,308	**777**	692	**3,628**	3,000
Group total	**5,809**	4,694	**1,042**	958	**6,851**	5,652

Average selling price (£000)

	Private		Social		Total	
	2014	2013	**2014**	2013	**2014**	2013
North	**192.2**	173.0	**81.4**	79.1	**183.0**	163.5
South	**272.3**	242.9	**121.3**	139.9	**240.0**	219.1
Group average	**231.5**	207.3	**111.2**	123.0	**213.2**	193.0

Chief Executive's Operating Review continued

LAND AND PLANNING

The quality of the Group's land bank contributes significantly to the future success of the business, providing capacity for further volume growth at attractive rates of return.

The land market continues to provide opportunities which at least meet or exceed our minimum acquisition criteria in respect of gross margin and return on capital employed.

Our land and planning teams have acquired or obtained implementable detailed planning permission ('DPP') on 7,294 plots in the period. Accordingly, the Group now has 19,434 plots with the benefit of an implementable DPP on which, subject to sales demand, construction can commence imminently.

Bellway also has a contractual interest in a further 16,000 plots, referred to as its 'pipeline' land bank, which are progressing through the planning process. The Group's approach to land acquisition through this 'pipeline' generally favours brownfield development opportunities where the likelihood of obtaining a planning permission tends to be higher than would be the case for greenfield sites. Whilst obtaining an implementable DPP often remains a challenge, our planners have benefited from a more positive and consistent approach from local authorities when dealing with planning applications. In this environment, the Group has been successful in obtaining an implementable DPP on 4,340 plots, with these previously having been included within the 'pipeline' tier of the land bank. This represents almost 60% of the 7,294 plots added to the implementable DPP tier of the land bank.

Acquiring land through the 'pipeline' often results in an enhanced margin in order to reflect the added complexity associated with the development of these sites. Furthermore, the sites acquired through the 'pipeline' are often bought on a conditional basis and secured with only a deposit payment. Our 'pipeline' land bank therefore provides a degree of certainty over land supply, whilst the higher margin and low initial capital outlay assists the Group in maintaining a strong return on capital employed.

The Group's total owned and controlled land bank, including both land with DPP and land within the 'pipeline', comprises 35,434 plots, representing almost 5.2 years' supply at current rates of output.

In addition to the Group's owned and controlled land bank, Bellway also acquires long-term strategic land. Strategic land, by its very nature, can be speculative and it often tends to take several years to successfully progress through the planning system. Given the inherent uncertainties in obtaining planning permission on these longer term sites, the Group only reports those holdings which currently have a positive planning status. Accordingly, within the strategic land bank, we have identified around 4,500 plots (2013 – 4,400 plots), allocated in either approved or emerging local plans. These plots should benefit from a positive planning outcome in the short to medium-term. The Group will look to add to these strategic land holdings as further long-term opportunities are identified.

TRAINING AND DEVELOPMENT

The long-term success of the industry requires investment in people to alleviate skills shortages in the future. Bellway is actively increasing the number of apprentices and graduate trainees it employs, with the aim of developing skilled tradesmen and managers. We employed 62 apprentices and graduates at 31 July 2014 (2013 – 40) and intend to increase this further.

We aspire to create a working environment where talent and high standards are encouraged and rewarded. Last year, we trained 106 site managers to NVQ level 6, helping to develop further expertise in their roles and 29 of our site managers won NHBC Pride in the Job Awards, recognising their dedication to high standards.

A positive and rewarding working environment is essential to retaining talented employees. Almost one in five of our employees have worked for Bellway for more than 10 years. The high industry demand for labour and an active recruitment market has, however, resulted in employee turnover increasing to 20.8% (2013 – 17.5%), a slight rise compared to last year.

Land bank (plots)

	2014	2013
Owned and controlled plots	**35,434**	32,991
Made up of:		
DPP: plots with implementable detailed planning permission	19,434	18,991
'Pipeline': plots pending an implementable DPP	16,000	14,000
Strategic plots with a positive planning status	**4,500**	4,400

A POSITIVE CUSTOMER EXPERIENCE

At the heart of the business is the creation of high quality homes and new communities. Buying a new home is a major step for any individual or family and Bellway seeks to make the whole process a positive experience for its customers, from their first visit to one of our developments, through to legal completion and beyond.

Notwithstanding a focus on traditional two-storey family housing throughout the country and apartments within London, the Group offers a wide range of house types to suit local planning and demographic requirements, whilst accommodating a variety of household incomes. Apartments represent 30% of the total number of homes sold with half of these located within the London boroughs. Our innovative design teams are constantly developing the product range to adapt to the requirements of modern living and our divisional construction departments have the skills to construct a wide range of homes from one bedroom starter apartments to luxury detached housing.

High standards of construction and customer care are key priorities for the Group. During the year, we engaged in over 4,300 hours of advanced training for customer-facing personnel and this has helped Bellway retain its Home Builders Federation ('HBF') rating as a 5 star housebuilder for the third year in succession. We deploy stringent quality control procedures ensuring that all homes are thoroughly inspected by the local site manager and sales representative prior to handover to customers.

Feedback is important and so that we can constantly improve our product and processes, every customer is requested to complete a customer satisfaction survey. As part of this process, they are asked whether they would 'Recommend Bellway to a friend?' The Group attained a positive response from 93.8% of respondents during the year.

HEALTH AND SAFETY

Ensuring that our building sites are safe places in which to work is an essential part of our business. We directly employ a team of qualified health and safety managers and engage external consultants to ensure that the highest possible standards are maintained.

The Group's health and safety record continues to improve with the seven-day reportable incident rate, measured in accordance with Health and Safety Executive guidelines, reducing by 8.1% to 447.09 incidents per 100,000 hours worked (2013 – 486.51). We also achieved a NHBC Health and Safety score of 0.986, with this low score being a measure of the robust health and safety performance of our sites throughout the Group. It is a testament to our site personnel that this remains well below the industry average of 1.678. The importance placed on health and safety and the high standards maintained by our site employees and sub-contractors have helped eight of our site agents and one health and safety manager to achieve a NHBC Health and Safety Award.

CORPORATE RESPONSIBILITY

Bellway's reputation is crucial to the creation of long-term value for its shareholders. Behaving responsibly and operating a sustainable business that considers and addresses the social, economic and environmental issues that concern our stakeholders is therefore an important area of focus for the Group.

Housebuilding by its nature can be intrusive and we appreciate that we have a moral and legal duty to respect the environment in which we operate. Wherever we are developing, our aim is to consult and work closely with local stakeholders to create new, sustainable places to live, integrated within the wider community. During the year the Group committed to spend £43.5 million on supporting education initiatives and providing transport and highway improvements, health facilities and open spaces.

Our homes are highly insulated and energy efficient and during the year we installed 601 photovoltaic panels, with these being used to generate electricity from sunlight. This renewable energy source not only helps to lower carbon emissions but also helps to reduce electricity bills for our customers.

Our employees involve themselves in many local charitable projects and Bellway has provided a total of £97,637 (2013 – £77,699) to many charities throughout the country, both large and small, including national organisations.

We aim to further build upon our work in this area in the year ahead.

CURRENT TRADING AND OUTLOOK

The Group started the current financial year with a forward sales position comprising 4,363 homes (2013 – 3,525 homes) with a value of £924.3 million (2013 – £679.5 million). This is the highest ever forward sales position achieved by Bellway representing an increase in value of 36.0% compared to the prior year. Reservations in the nine weeks since 1 August have averaged 128 per week (nine weeks commencing 1 August 2013 – 122), resulting in the forward order book at 28 September further increasing to 4,435 homes (29 September 2013 – 3,316 homes), with a value of £975.4 million (29 September 2013 – £644.2 million).

This strong forward sales position should enable the Group to deliver volume growth of around 10% in the current financial year. Depending on market conditions, the Board envisages further expansion to supplement our existing capacity through the opening of new divisions.

The strong market conditions, capacity for growth and our controlled approach to land investment should result in Bellway delivering further value for shareholders.

Ted Ayres
Chief Executive
13 October 2014

Group Finance Director's Review

"THE GROUP IS WELL PLACED TO DELIVER FURTHER ENHANCEMENT IN SHAREHOLDER VALUE."

Keith Adey
Finance Director

1,118p
Net asset value per ordinary share
+11.7%

OPERATING PERFORMANCE

The strong growth in both the number of legal completions and the average selling price has resulted in housing revenue increasing by 33.9% to £1,460.5 million (2013 – £1,091.0 million), a new record for the Group. This, together with non-housing revenue of £25.9 million (2013 – £19.7 million) resulted in the Group's total revenue increasing by 33.8% to £1,486.4 million (2013 – £1,110.7 million).

The gross margin has increased by 300 basis points to 21.3% (2013 – 18.3%) with modest pricing improvements, particularly in London, lower incentive costs and recently acquired, higher margin land all contributing to the improvement in profitability.

The rapid growth in output and the demand for high quality personnel, particularly in land and technical disciplines, is placing upward pressure on administrative costs which have risen by 15.5% to almost £60.3 million (2013 – £52.2 million). Notwithstanding this pressure, strong cost control and enhanced operational efficiencies have resulted in administrative costs falling to just 4.1% of revenue (2013 – 4.7%).

The improved trading performance, together with this more efficient absorption of the overhead base, resulted in the Group achieving an operating margin of 17.2% (2013 – 13.6%). The operating margin in the second half of the financial year was 18.7% with further improvements expected in the year ahead.

The Group achieved an operating profit of £256.1 million (2013 – £151.1 million), a record for the Group.

FINANCE EXPENSE

The net finance expense has remained at £10.2 million (2013 – £10.2 million) with this consisting of bank interest of £2.9 million (2013 – £3.7 million) and non-bank interest of £7.3 million (2013 – £6.5 million).

Non-bank interest mainly comprised of notional interest arising on land acquired on deferred terms, which increased by 21.3% to £5.7 million (2013 – £4.7 million) and interest of £1.3 million (2013 – £1.9 million) on the Group's 9.5% £20 million preference shares, which were redeemed on 7 April 2014.

PROFITABILITY

Profit before taxation was £245.9 million (2013 – £140.9 million) and the Group incurred a taxation charge of £54.5 million (2013 – £32.3 million). The effective tax rate of 22.2% (2013 – 23.0%) is slightly below the standard rate of corporation tax for the period of 22.3%.

Profit after taxation was £191.4 million, resulting in growth in earnings per share of 75.8% to 157.0p. This exceptional growth in profitability has resulted in the Group achieving the highest level of EPS in its history, 8% above its previous peak of 145.4p in July 2007.

CASH FLOW AND DEBT

The Group ended the year with net cash of £5.1 million (2013 – net bank debt of £5.8 million) having generated £124.9 million of cash from operations after spending £460 million on land and land creditors.

Cash from operations, less corporation tax and dividend payments of £42.7 million and £45.1 million respectively, the repayment of the preference share capital of £20 million and other net cash outflows of £6.2 million, resulted in closing net cash of £5.1 million.

BALANCE SHEET

The value of inventories has increased by 20.4% to £1,822.7 million (2013 – £1,513.5 million) demonstrating the significant investment made by the Group in order to satisfy customer demand.

The Group's investment in land increased by 23.7% to £1,122.4 million (2013 – £907.3 million). Plots acquired prior to the downturn and subject to a net realisable value provision at July 2008 and January 2009 represent less than 4% of the total owned and controlled land bank, totalling 35,434 plots.

The increase in production has resulted in the value of work in progress increasing by 18.9% to £635.9 million (2013 – £535.0 million) with this set against a backdrop of a forward order book, at 31 July, of £924.3 million (2013 – £679.5 million). The Group continues to work closely with suppliers and sub-contractors in order to ensure production can meet demand.

The Group's 'other financial assets' comprise amounts receivable from customers who have been provided with shared equity loans. Bellway holds 2,682 (2013 – 2,843) shared equity assets with a value of £32.2 million (2013 – £34.5 million), representing a prudent discount of 54% to the original loan amount. The government scheme, Help to Buy, was used to secure 31% of legal completions in the year and has mitigated the requirement for Bellway sponsored shared equity support.

The investment in land has resulted in land creditors increasing to £248.0 million (2013 – £146.0 million). Where possible, the Group uses its relatively low cost of finance to secure a discounted land payment on legal completion, although we continue to seek deferred terms from land vendors in instances where this proves to be more cost effective than bank finance.

The pension deficit reduced to only £7.9 million (2013 – £9.0 million) and during the year, Bellway made regular pension contributions totalling £1.2 million. In addition, the Group made a special contribution of £1.3 million in July 2014 followed by a further payment of £3.2 million in August 2014.

DELIVERING ENHANCED RETURNS

The net assets of the Group have increased by 12.1% to £1,366.1 million (2013 – £1,218.8 million) and capital employed, including equity, net bank debt and preference shares, has also increased to £1,366.1 million (2013 – £1,244.6 million).

The strong operating performance, strict capital disciplines and a focus on return based measures, when acquiring land, resulted in the Group achieving a return on capital employed of 19.6% (2013 – 12.3%). This return has been achieved whilst growing the capital base with further investment in land and work in progress in order to provide a solid platform for future growth. Notwithstanding this investment, the Group achieved a capital turn of 1.1 times (2013 – 0.9 times).

The strong rate of growth in the capital base has resulted in the net asset value per share increasing by 11.7% to 1,118p (2013 – 1,001p). Net asset value per share has risen since its pre-downturn level and has grown by 23.8% since July 2007, a relatively strong performance given the industry-wide land impairment provisions incurred by Bellway and the sector since that date.

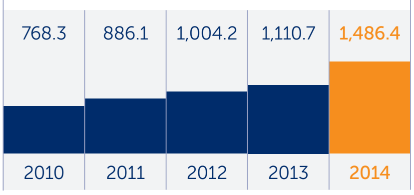
This increase in NAV, together with the payment of a regular dividend, has delivered enhanced value for shareholders. Assuming market conditions remain unchanged, the Group is well placed to deliver further enhancement in shareholder value in the future.

Keith Adey
Finance Director
13 October 2014

Total Group revenue (£m)

1,486.4

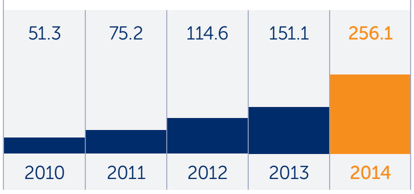
+33.8%



Operating profit (£m)

256.1

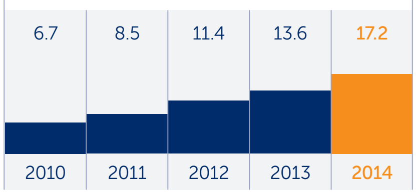
+69.5%



Operating margin (%)

17.2

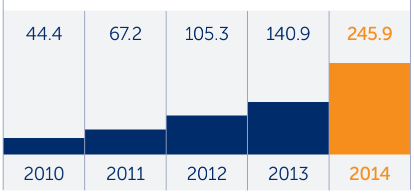
+360bps



Profit before taxation (£m)

245.9

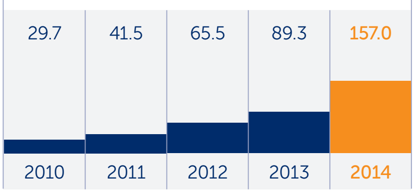
+74.5%



Earnings per ordinary share (p)

157.0

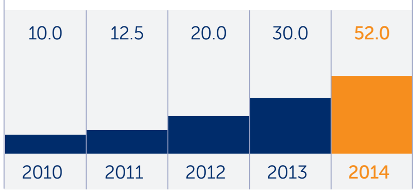
+75.8%



Total dividend per ordinary share (p)

52.0

+73.3%



Below:
Enfield Central, Enfield, Middlesex

Risk Management Process

Bellway has a long-established system for identifying, monitoring and managing risk. It is the responsibility of management to implement the Board's policies on risk and control. In fulfilling its responsibility, management identifies and evaluates the risks faced by the Group for consideration by the Board and designs, operates and monitors the system of internal control, which implements the policies adopted by the Board. In addition, all employees have some responsibility for monitoring risk as part of their responsibility for achieving objectives.

Management maintains a comprehensive risk assessment register which details all significant risks pertinent to the Group, including operational, financial, compliance and strategic risks. This register is reviewed on a regular basis as part of the management reporting process by the functional heads within the Group, who each review their own particular area of operation. As a result of these reviews, the assessment of each risk is monitored and where necessary updated using a scoring system which seeks to assess the likelihood, the financial effect and what controls are in place to mitigate the effects of the relevant risks.

Produced from this comprehensive register is a shorter register of principal risks, specifically reserved for review by the Board. This is mainly, but not exclusively, comprised of risks, after mitigation, above a certain threshold. This register is reviewed by the Board throughout the year, with the Board systematically considering the risks, taking into account any changes which may have been recommended by management in relation to the comprehensive register.

Once a year, the Board reviews both registers in full to ensure that the system of risk assessment and the management thereof is operating effectively.

As a result of the regular reviews, changes required in the control environment are implemented by management to ensure, as far as possible, that the Group's risks are either eliminated or mitigated.

More information on risk management and internal control is included within the Audit Committee Report on pages 42 to 44.

Risk Statement

The Group has identified, evaluated and put in place measures to mitigate the principal risks faced by the business, which are shown in the table below.

AREA AND DESCRIPTION OF RISK AND HOW IT HAS CHANGED DURING THE YEAR	RELEVANCE OF RISK TO STRATEGY	MITIGATION OF RISK
LAND		
The possibility that the Group is unable to source suitable land at satisfactory margins and ROCE. The land market remained competitive during the year, with prices rising in certain locations, particularly in the south east and London. There was however, an increased availability of land.	• Failure to buy land at the right margins would have a detrimental effect on future profitability and ROCE. • Insufficient land would affect the Group's volume growth targets. • Having too much capital tied up in land can dilute ROCE, especially with larger sites which can take many years to develop.	• The Group prepares thorough pre-purchase due diligence and pre-purchase viabilities on all of its proposed land purchases and keeps these under regular review to protect the value of its assets. • Authorisation of land purchases is made in accordance with robust Group procedures. • We are careful about our exposure to large sites where there is a risk of having too much capital tied up. Smaller sites tend to generate a better ROCE and there is a lower risk of loss of value if the housing market declines.
PLANNING		
Possible delays and the complexity of the planning process. The number of planning permissions granted seems to be increasing.	• If the Group has too much capital tied up in land where obtaining an implementable DPP is time-consuming and problematic, this can hamper and slow the Group's growth prospects and have an adverse effect on profitability and ROCE.	• Centralised and divisional planning specialists provide advice and support to the divisions to assist with securing planning permissions. • The medium-term 'pipeline' and strategic land banks are carefully managed to maintain the appropriate balance in terms of quantity and location.
CONSTRUCTION		
Shortages of appropriately skilled personnel, including sub-contractors, and shortages of building materials at competitive prices. This risk has increased during the year as the labour market has become more competitive and the lead time for the provision of some materials has increased.	• Failure to have appropriately skilled personnel and sub-contractors available in the right place together with sufficient materials when needed, at competitive prices, could cause delays in the construction process and affect the Group's growth aspirations.	• Identifying training needs and allocating appropriate resources to training. • Ensuring systems are in place for engaging, monitoring and controlling work carried out by sub-contractors. • Making sure competitive remuneration policies are in place. • Ensuring Group purchasing arrangements are in place to secure materials at competitive prices. • Improving forward planning of the purchasing function to ensure increased lead times do not affect availability of materials.

AREA AND DESCRIPTION OF RISK AND HOW IT HAS CHANGED DURING THE YEAR	RELEVANCE OF RISK TO STRATEGY	MITIGATION OF RISK
HEALTH AND SAFETY		
There are significant risks to health and safety inherent in the construction process. This risk has not changed during the year.	• Notwithstanding the moral obligation and the requirement to act in a responsible manner, injuries to employees, sub-contractors and site visitors could delay construction and result in reputational damage, criminal prosecution and civil litigation which could negatively affect the Group's reputation.	• The Board considers health and safety issues at each Board meeting. • Regular visits to sites by senior management (independent of our divisions) and external consultants to monitor health and safety standards and performance against the Group's health and safety policies and procedures.
ENVIRONMENT		
Housebuilding can have a negative effect on the environment. This risk has not changed during the year.	• The effects of our operations on the environment must be managed in a responsible and sustainable manner. This should ensure, as far as possible, that this does not have a detrimental effect on the Group's reputation and ability to sell homes.	• It is an objective to ensure that, at the conclusion of a development, an attractive and sustainable new environment has been created. See our website at www.bellway.co.uk/corporate-responsibility, for further information.
SALES		
There are a number of risks that could affect the Group's ability to generate sales as follows: • a reduction in the size of the market place; • the ability of prospective purchasers to access credit facilities; • mortgage availability; • interest rate rises changes; • changes in government housing policy; and • failure to maximise sales in a strong market. The sales risk decreased during the year as the use of the government's Help to Buy scheme proved popular with customers.	• Building too many homes in one area or of the wrong type could affect the Group's ability to meet its growth aspirations. To generate sales the Group may have to increase the use of incentives, which affects margin and average selling price. • Operating in areas of low demand could impair the Group's ability to generate sales in a rising market. • The number of legal completions may be constrained by the high demand for labour and material resources as a result of the improved housing market.	• In consultation with Head Office and the regional chairmen, local divisional management determine product range and pricing strategy commensurate with regional market conditions. • Use of sales incentives, where appropriate, to encourage the selling process, such as part-exchange. • Use of government-backed schemes to encourage home ownership, where appropriate. • Ensuring that construction rates are managed to ensure stock availability matches sales rates. • Customer care performance is closely monitored at divisional and Group level and appropriate remedial action taken if performance begins to deteriorate. • The Group is a national housebuilder and so the risk associated with over-concentration in one geographic or product area is diluted.

Risk Statement continued

AREA AND DESCRIPTION OF RISK AND HOW IT HAS CHANGED DURING THE YEAR	RELEVANCE OF RISK TO STRATEGY	MITIGATION OF RISK
PERSONNEL		
Inability to attract and retain appropriate personnel. This risk has increased during the year as the labour market has become more competitive.	• Failure to attract and retain employees will severely affect the Group's ability to perform successfully in a highly competitive market.	• The Group offers competitive salary and benefits packages and keeps these under regular review. • Divisional training plans are in place. • Succession planning is in place for key posts. • Over 90% of site workers (including sub-contractors) are fully accredited under Construction Skills Certification Scheme ('CSCS'). • Graduate and apprentice training programmes are in place across the Group.
INFORMATION TECHNOLOGY		
Failure to have suitable information systems in place, together with system loss mitigation structures and appropriate contingency plans. This risk has not changed during the year.	• Poor performance of the Group's IT systems could affect operational efficiency, the control environment and profitability.	• Group-wide systems are in operation which are centrally controlled with an outsourced support function in place. • The Group is continuing to invest in its IT systems across a broad spectrum of the business.
TREASURY MANAGEMENT		
Failure to effectively manage the treasury function at an acceptable cost. There has been no change to this risk during the year.	• Failure to manage the treasury function at an acceptable cost could lead to a loss of opportunities to invest in new sites. This could lead to a reduction in the value of the business, its profitability and investor confidence.	• Central negotiation and control of banking facilities to ensure liquidity and debt levels are appropriate. • Facilities derived from various sources. • Careful management and regular monitoring of cash forecasts.
LEGAL AND REGULATORY COMPLIANCE		
Failure to comply with current legislation, regulatory requirements and entering into inappropriately worded contracts. This risk has not changed during the year.	• Breaches of law and regulatory codes and entering into inappropriately worded contracts could lead to fines, possible imprisonment and significant reputational loss or to being disadvantaged by onerous contractual obligations .This could diminish customer and investor confidence leading to losses and a reduction in the value of the business.	• Central secretariat and legal functions advise and support divisions on compliance and ensure policies and procedures are kept up to date to minimise risk of non-compliance.

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

Corporate Responsibility

EMPLOYEES AND HUMAN RIGHTS

The Board is committed to protecting the human rights of its employees and contractors. The Group's focus is on creating and perpetuating a working environment which is free from harassment, bullying and unlawful discrimination and to ensure that all employees and contractors are treated with dignity and respect. Bellway complies with the 'Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework', and has in place an Equality Policy and a Bullying and Harassment Policy which make clear to all employees and workers the behaviour that is required of them at work. Employees are able to use the Group's confidential whistleblowing helpline or its Grievance Procedure to raise any matters of concern. Bellway considers that the risk of abuse of human rights within the business is low.

DIVERSITY

The Group's workforce at 31 July 2014 consisted of the following male and female employees:

	Male no.	Male %	Female no.	Female %	Total workforce no.	%
Board directors	6	86	1	14	7	<1
Senior managers	81	85	14	15	95	5
Other employees	1,400	72	541	28	1,941	95
Total	**1,487**	**73**	**556**	**27**	**2,043**	**100**

The Group has a balanced workforce in terms of experience with an average age of 44 (2013 – 44).

SOCIAL AND COMMUNITY INTERESTS

Behaving responsibly and operating a sustainable business that considers and addresses the social, economic and environmental issues that concern our stakeholders makes eminently good business sense. We remain committed to improving our environmental credentials and will continue to report progress annually. Further information can be found on our corporate responsibility website: www.bellway.co.uk/corporate-responsibility.

Below:
Hampton Grange, Bromley, Kent

CARBON REPORTING

We are continually creating efficiencies in our energy use and are working towards a reduction in our CO_2 emissions by trying to lower energy consumption. In order to effect this change we are challenging the behaviour of all employees in relation to their energy consumption, with specific campaigns to encourage electronic equipment to be switched off when not in use and turning the heating down in offices and showhomes.

The Group has reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. This is the first year of reporting under these regulations and in future years comparative figures will be provided.

Category	Total emissions (tonnes of carbon dioxide equivalent (tCO_2e))[1]
Scope 1 – Fuel and gas which includes diesel and petrol used on-site and in cars on Group business	9,335
Scope 2 – Electricity	3,509
Total emissions	**12,844**
Emissions intensity:	
tCO_2e per Bellway home construction	1.87
tCO_2e per Bellway employee[2]	6.56

Notes:

1. tCO_2e has the meaning given in section 93(2) of the Climate Change Act 2008.
2. Based on the average number of employees during the year.

Methodology

Bellway has used the DEFRA Environmental Reporting Guidelines to collate data, and to convert energy consumption into emissions has used the 2013 Government Greenhouse Gas Conversion Factors for Company Reporting.

The following sources of emissions were excluded from this report:

1. Gas and electricity from part-exchange properties due to immateriality and difficulty in accurately reporting and recording this data.
2. Emissions from combined heat and power units which are operated at sites, due to difficulty in acquiring this data.

Further information on Bellway's approach to corporate responsibility is available on its website at www.bellway.co.uk/corporate-responsibility.

Corporate Responsibility continued

CORPORATE RESPONSIBILITY POLICY

Through sustainable construction we aim to create new communities and lasting environments. Using our knowledge and skills, and in consultation with our partners, we aim to enhance the environment in which we work.

Bellway believes that its reputation is critical to the creation of long-term value for its shareholders and we recognise that financial success is reinforced by our behaviour beyond the balance sheet.

Through Bellway's commitment to corporate responsibility we:

- engage with a wide range of stakeholders, including shareholders, employees, customers, government and communities that we affect, thereby improving internal and external awareness.
- comply with all relevant legislation as a minimum standard.
- work towards recognised good practice in sustainable sourcing and use of construction materials.
- treat all employees fairly and invest in training for the medium and long term to realise their potential.
- provide a healthy and safe environment in which to work through an effective health and safety management system.
- recognise and respond to the challenges and opportunities that are presented by climate change.
- invest in the communities in which we develop in a way that contributes to local community needs.

The following structure has been put in place to achieve these commitments. To maintain focus on corporate responsibility, the Chief Executive is responsible for ensuring the policy is adhered to and reports to the Board and external stakeholders on our performance and progress. In this, the Chief Executive is supported by an in-house corporate responsibility group which includes senior employees from a cross-section of disciplines who are responsible for the development and review of policy. They in turn delegate to managers within each of the divisions who are responsible for implementation.

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

Above:
Bellway employees 'Ramped up the Red' for the British Heart Foundation

Opposite:
Pupils from Runnymede St Edward's School helping with tree planting at our site at Bellefield, West Derby, Liverpool

ENVIRONMENTAL POLICY

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

Recognising that these considerations will be balanced against any associated cost we will:

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

- give consideration to environmental aspects in the selection and procurement of land for development, including implications for biodiversity and sustainable development.
- try to meet and where possible, exceed government targets for the redevelopment of brownfield land.
- seek to influence the design of sites, housing and appliances to minimise the effects on both the natural and built environment.
- endeavour to provide environmental benefits and minimise nuisance arising from construction activities and preventing pollution on development sites and surrounding areas.
- give consideration to environmental issues within our corporate functions and everyday business decision-making processes.

Approval of the Strategic Report

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

Ted Ayres

Chief Executive
13 October 2014

Board of Directors

1 JOHN WATSON

Non-executive Chairman

Date of Birth: 21 March 1954

John Watson, a Chartered Surveyor, joined Bellway in 1978 and was later appointed Managing Director of the North East division, a position which he held for 12 years. John joined the Board as Technical Director in 1995 and became Chief Executive on 1 November 1999. On 31 January 2013 he stepped down as Chief Executive to become non-executive Chairman. John is a member of the Nomination Committee.

2 TED AYRES

Chief Executive

Date of Birth: 10 October 1962

Ted Ayres joined Bellway in January 2002 as a divisional Managing Director, becoming Southern Regional Chairman in 2006. Ted was appointed to the Board as Operations Director on 1 August 2011, and succeeded John Watson as Chief Executive on 1 February 2013. Ted is Chairman of the Board Committee on Non-Executive Directors' Remuneration.

3 KEITH ADEY

Finance Director

Date of Birth: 13 May 1979

Keith Adey, a Chartered Accountant, was appointed to the Board as Finance Director on 1 February 2012. Keith joined the Company in December 2008 as Group Chief Accountant and prior to joining Bellway he worked at KPMG and Grainger plc. Keith is a member of the Board Committee on Non-Executive Directors' Remuneration.

4 JOHN CUTHBERT OBE DL

Senior independent non-executive director

Date of Birth: 9 February 1953

John Cuthbert, a Chartered Accountant, was appointed a non-executive director on 1 November 2009. John worked in the water industry from 1991 to 2010, when he retired as Managing Director of Northumbrian Water Group plc, having formerly been Managing Director of North East Water plc and Managing Director of Essex and Suffolk Water plc. John became senior independent non-executive director on 1 February 2014. He is Chairman of the Nomination Committee and is also a member of the Audit Committee and the Board Committee on Executive Directors' Remuneration.

5 MIKE TOMS

Non-executive director

Date of Birth: 1 July 1953

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

6 PAUL HAMPDEN SMITH

Non-executive director

Date of Birth: 1 December 1960

Paul Hampden Smith, a Chartered Accountant, was appointed a non-executive director on 1 August 2013. Paul was Group Finance Director of Travis Perkins plc from 1996 until his retirement in February 2013, having worked for Travis Perkins since 1988. He is a non-executive director and Chairman of the Audit Committee of Pendragon PLC, and senior independent non-executive director and Chairman of the Audit Committee of Clipper Logistics plc. He was previously a non-executive director and Chairman of the Audit Committee of Redrow plc. He is Chairman of the Audit Committee and is also a member of the Nomination Committee and the Board Committee on Executive Directors' Remuneration.

7 DENISE JAGGER

Non-executive director

Date of Birth: 7 September 1958

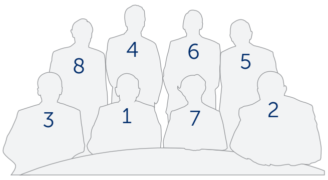
Denise Jagger, a solicitor, was appointed a non-executive director on 1 August 2013. Denise has been a partner at Eversheds LLP since 2004, and is a non-executive director of terrorism risk reinsurer, Pool Re, sits on the Council of the University of York and is a Trustee of St Giles Trust. Prior to joining Eversheds she was Company Secretary and General Counsel at ASDA Group plc, later part of Wal-Mart from 1993 to 2004. Denise's previous non-executive directorships include The British Olympic Association, Redrow plc and SCS Upholstery plc. Denise is a member of the Audit and Nomination Committees and also a member of the Board Committee on Executive Directors' Remuneration.

8 KEVIN WRIGHTSON

Group Company Secretary

Date of Birth: 27 October 1954

Kevin Wrightson, a Chartered Secretary, joined Bellway in 1990. Kevin has held senior posts within the Group, including that of Deputy Group Secretary, before his appointment as Group Company Secretary on 1 August 2002.



ADVISERS

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

Registered number 1372603

Registrars and Transfer Office
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Financial Adviser
N M Rothschild & Sons Limited

Stockbrokers
Citigroup Global Markets Limited
Numis Securities Limited

Bankers
Barclays Bank PLC
Lloyds Banking Group plc

Auditor
KPMG LLP

Chairman's Statement on Corporate Governance

"THE BOARD IS COMMITTED TO HIGH STANDARDS OF CORPORATE GOVERNANCE ... FOR THE BENEFIT OF ITS SHAREHOLDERS AND OTHER STAKEHOLDERS."

John Watson
Chairman

INTRODUCTION

As Chairman, I am responsible for the leadership of the Board and ensuring that it conducts itself in an effective manner. The Board has agreed clearly defined roles for the Chief Executive and myself, and the non-executive directors challenge management and contribute to the development of strategy.

The Board, its Committees and individual directors are subject to annual performance evaluation and all directors are subject to annual re-election by shareholders.

The Board considers strategy, performance and risk at each Board meeting. In addition, the executive directors meet regularly with the regional chairmen and divisional boards, which gives an appropriate level of oversight and direction to the business.

BOARD EFFECTIVENESS

During the year under review, the Board has been particularly focused on the following:

1. The continued development of the executive directors and the induction of the two new non-executive directors into their roles.
2. The areas highlighted for improvement in last year's first externally facilitated Board evaluation, were:
   - i) the structure of Board meetings;
   - ii) the provision of information for Board meetings;
   - iii) communication and reporting; and
   - iv) succession planning.

As a result, there is now a more forward looking agenda at Board meetings and improvements have been made in management information provided to the Board, including the introduction of interim Board papers. We have enhanced the level of communication with external shareholders. Further work has been carried out on succession planning at and below Board level. Progress on these matters is ongoing.

BOARD EVALUATION

This year's Board evaluation was again externally facilitated and concluded that the Board was well run and continued to be operating effectively. The following areas were highlighted for further development and improvement:

- i) CSR performance and reporting;
- ii) strategy for the management of employees;
- iii) review of KPIs used by the Group to measure performance.

These matters are already being addressed and progress will be reported on in next year's report.

BOARD COMMITTEES

The roles of the Board Committees and their work during the year are described in greater detail below in the reports of the Committee Chairmen.

Last year the Board Committee on Executive Directors' Remuneration acting on behalf of the Board substantially restructured its report in advance of the new remuneration regulations, and has fully complied with them in this year's report.

The Nomination Committee has been instrumental in the formulation of succession planning strategies, particularly below Board level.

The Audit Committee, aside from its responsibilities in respect of the interim and annual reports also dealt with issues in relation to audit materiality, the Group's IT strategy and programme and the effect of both on the Group's control environment. It also dealt with issues in relation to the Group's whistleblowing procedures and Bribery Act compliance.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

In last year's report I said that I would provide an update this year on the Group's approach to the requirements of the revised UK Corporate Governance Code which was published in September 2012 and which first applied to the Group in the financial year to 31 July 2014. I am pleased to confirm that the Board considers that it has complied with the detailed provisions of the Code throughout the year and up to the date of this report.

The Corporate Governance Code published in September 2012 introduced additional guidance for Audit Committees, in particular in relation to the rotation of auditors and I would confirm that it is the Board's current intention to put the external audit contract out to tender within the next six years, subject to annual performance reviews by the Audit Committee.

In September 2014, the Financial Reporting Council issued a new UK Corporate Governance Code which is effective from 1 October 2014 and will first apply to the Group in the financial year commencing 1 August 2015. I will be providing an update on the Group's compliance in relation to the 2014 Code in next year's report.

DIVERSITY

The Board is committed to always making appointments on merit, against objective criteria, and the Board strongly supports the principle of boardroom diversity in all its aspects. The Company's female employees make up 28% of the total workforce, while 14% of the Board and 15% of its senior management are women. It is interesting to note that the female profile of our graduates matches exactly the female profile of the whole workforce at 28% but exceeds the female management profile of 15%.

Paul Hampden Smith and Denise Jagger joined the Board as non-executive directors on 1 August 2013 and have made a significant contribution to the work of the Board throughout the year.

HEALTH AND SAFETY

The Board, as ever, is keen to promote high standards of performance in relation to health and safety throughout Bellway for the benefit of all who work at, or visit, our offices and developments. At the beginning of the year, the Board established performance targets and objectives for health and safety and I am pleased to say that these were all satisfactorily achieved.

Similar targets and objectives have been set for 2014/15 and we will be working hard to replicate last year's performance. This demonstrates the Board's commitment to raising levels of health and safety performance in Bellway on an ongoing basis.

STAKEHOLDER ENGAGEMENT

The Board is committed to high standards of corporate governance throughout all areas of the Group's operations for the benefit of its shareholders and other stakeholders.

As stated in last year's Annual Report, I am still very keen to encourage effective communication with the Company's shareholders and other stakeholders, and am available to discuss matters relevant to the Company with interested parties. As was the case last year, I am writing to our major shareholders, advising them that I am available to discuss any matters which they wish to raise with me.

John Watson
Chairman
13 October 2014

Corporate Governance Report

CORPORATE GOVERNANCE

Introduction

The Board acknowledges the importance of, and is committed to the principle of, achieving and maintaining a high standard of corporate governance. This report, together with the Report of the Board on Directors' Remuneration, as detailed on pages 45 to 61, describes how the Principles of Good Governance, which are set out in the UK Corporate Governance Code, are applied by the Group.

Statement of compliance with the UK Corporate Governance Code

The Board considers that it has complied with the detailed provisions of the UK Corporate Governance Code, revised in September 2012, throughout the year to 31 July 2014 and up to the date of this report. It has also complied with the edition of the Code published in June 2010, as compliance with this edition of the Code is still required by the Listing Rules. The UK Corporate Governance Code is publicly available, free of charge, from the Financial Reporting Council, online at www.frc.org.uk or by telephoning 020 7492 2300.

Statement about applying the Principles of Good Governance

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

The Board

At the date of this report the Board consists of seven directors whose names, responsibilities and other details appear on page 36. Two of the directors are executive and five of the directors, including the Chairman, are non-executive. The Board discharges its responsibilities by providing entrepreneurial leadership of the Company within a framework of prudent and effective controls, which enables risk to be assessed and managed. It sets the Company's strategic aims, ensures that the necessary financial resources and personnel are in place for the Company to meet its objectives and reviews management performance. It also defines the Company's values and standards and ensures that its obligations to its shareholders are understood and met.

The Board has adopted a schedule of matters which are specifically reserved for its decision, which includes strategy and management, structure and capital, financial reporting and controls, internal controls, contracts and agreements, communication, Board membership and other appointments, remuneration, delegation of authority, corporate governance matters, policies and other miscellaneous items. In addition, it has a series of matters that are dealt with at regular Board meetings including an operational review, a financial review, land acquisition, major projects, personnel, risk, health and safety, strategy, reporting requirements, corporate governance, internal control and matters for decision. It has also adopted a framework of delegated commercial and operational authorities which define the scope of powers delegated to management below Board level.

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

The Company's Articles of Association ('Articles') require one-third of the directors to offer themselves for re-election each year at the Annual General Meeting ('AGM') and all directors to seek re-election at least every three years. The Articles also require new directors appointed since the last AGM to offer themselves for re-election at the next AGM. In addition, the UK Corporate Governance Code includes a provision that all directors should be subject to annual re-election. As a result, all of the directors retire from the Board and offer themselves for re-election at the forthcoming AGM. The directors' biographies are shown on page 36. None of the executive directors hold external directorships.

Board effectiveness

The Chairman is responsible for leading the Board and ensuring it operates effectively. In this regard it pays due cognisance to the FRC's document entitled 'Guidance on Board Effectiveness', dated March 2011. The directors possess an appropriate balance of skills and experience to meet the requirements of the business.

During the year there were seven Board meetings, three Audit Committee meetings, four meetings of the Board Committee on Executive Directors' Remuneration, one meeting of the Board Committee on Non-Executive Directors' Remuneration and two Nomination Committee meetings. The Board holds a meeting at least once a year dedicated almost entirely to strategy. In addition, the Board aims to visit four divisions each year and last year visited the North London, Scotland, Thames Valley and Wessex divisions, as well as receiving presentations at Board meetings from senior Head Office, regional and divisional management. In addition, presentations are also given by external advisers and other third parties, where necessary.

There were no absences from any Board or Board Committee meetings by any director during the year, with the exception that Mr Toms was unable to attend one Board meeting and one meeting of each of the Audit and Nomination Committees and of the Board Committee on Executive Directors' Remuneration.

The non-executive directors met twice during the year, including once without the Chairman present.

Training and development

The Board received appropriate training and updates on various matters relevant to its role, as and when required. Training needs are reviewed as part of the performance evaluation process and on an ongoing basis. The new non-executive directors have benefited from a Board induction programme which included meetings with a number of the Company's advisers, senior personnel at Head Office, regional chairmen and divisional management, as well as site visits.

Board balance and independence

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

The senior independent non-executive director is John Cuthbert, who is available for shareholders to raise any queries or concerns they may have. Each of the non-executive directors, excluding the Chairman, has, at all times, acted independently of management and has no relationship which would materially affect the exercise of his or her independent judgement and decision-making. The Company considers all of its non-executive directors, excluding the Chairman, to be independent, as defined in the UK Corporate Governance Code.

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

Board evaluation

This year's evaluation of the performance and effectiveness of the Board, its Committees and individual directors, was again externally facilitated by Independent Audit Limited, which has no other business connections with the Group. The evaluation was conducted using online questionnaires and follow-up telephone calls.

This process also included the Chairman, acting on behalf of the Board, evaluating the performance of the other directors and the non-executive directors, led by the senior independent non-executive director, assessing the performance of the Chairman, taking into account the views of the executive directors. The Board, led by the Chairman, evaluated its own performance and the Committees, led by their respective Chairman, evaluated their own performance.

The evaluation concluded that, overall, the Board and its Committees are performing well. Good progress has been made on actions from last year's evaluation so that there is now a more forward looking agenda at Board meetings and there have been improvements in management information to the Board, information provided to external stakeholders and work on succession planning, particularly below Board level and this work continues. The main areas of improvement identified by this year's evaluation were that the Board will be looking to improve on the Group's CSR performance and reporting. In addition the Group is looking to develop further its strategy in relation to employee management. Furthermore work will continue to develop KPIs in relation to business performance and to further improve the quality of Board information.

The Board Committees

The Board has formally constituted Audit, Remuneration and Nomination Committees. The terms of reference for the Audit and Nomination Committees and the Board Committee on Executive Directors' Remuneration are available either on request, at the AGM or on the Group's website: www.bellwaycorporate.com. Other Committees of the Board are formed to perform certain specific functions as required from time to time.

Board Committee on Non-Executive Directors' Remuneration

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

NOMINATION COMMITTEE REPORT

The Nomination Committee comprises John Cuthbert (Chairman), Mike Toms, Paul Hampden Smith, Denise Jagger and John Watson, who were all members of the Committee throughout the year. Peter Johnson was a member of the Committee until his retirement from the Board on 31 January 2014. The Committee's main duties are to formulate plans for succession for both executive and non-executive directors and, in particular, for the key roles of Chairman and Chief Executive and to make recommendations regarding appointments to the Board.

The Committee meets at least twice a year and last year met on two occasions. During the year, the Committee made recommendations to the Board in relation to the structure of below Board succession planning. It also reviewed the quality of the recruitment and induction process for the two new non-executive directors.

Appointments to the Board are made on merit using a formal, rigorous and transparent process against objective criteria recommended by the Committee, with due regard given to the benefits of diversity on the Board, in all its aspects.

The appointment of a non-executive director is for a specified term and re-appointment is not automatic and is made on the recommendation of the Committee.

The Committee also guides the whole Board in arranging orderly succession for appointments to the Board.

John Cuthbert

Chairman of the Nomination Committee
13 October 2014

Corporate Governance Report
continued

AUDIT COMMITTEE REPORT

Committee membership
The Audit Committee comprises four independent non-executive directors, Paul Hampden Smith (Chairman), Mike Toms, John Cuthbert and Denise Jagger, who were members of the Committee throughout the year. Peter Johnson was Chairman of the Committee until his retirement from the Board on 31 January 2014.

The directors' biographies on page 36 detail the Committee members' previous experience. The Board considers that Paul Hampden Smith has recent relevant financial experience and is confident that the collective experience of the members enables them to act effectively as an Audit Committee.

Meetings during the year
The Committee meets at least three times per year and met three times during the year under review. Details of Committee members' attendance is given on page 40.

The Committee met the external auditor without management present on two occasions. In addition, the Committee Chairman had regular contact with the Finance Director and the external auditor.

Responsibilities and terms of reference
The key responsibilities of the Committee include the following:

- to monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and position.
- to review and make recommendations in relation to the half year and annual financial statements prior to submission to the Board for approval.
- to assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks.
- to review management's reports on the effectiveness of systems for internal financial control, financial reporting and risk management.
- to consider the appointment/re-appointment of the external auditor and assess its independence each year.
- to recommend the audit fee to the Board and pre-approve any fees above a certain level, in respect of non-audit services provided by the external auditor.
- to develop and monitor the Group's policy on the provision of non-audit services by the external auditor and to ensure that the provision of non-audit services does not restrict the external auditor's independence or objectivity.
- to agree the nature and scope of the external audit and review the quality control procedures and steps taken by the external auditor to respond to changes in regulatory and other requirements.
- to oversee the process for selecting the external auditor and make appropriate recommendations through the Board to the shareholders to consider at the AGM.
- to consider annually whether there is a need for an internal audit function and make a recommendation to the Board.
- to review the Group's procedures for handling allegations from 'whistleblowers'.
- to review annually the Group's compliance with its Anti-Bribery Policy.

The Committee's terms of reference are available on the Group's website at www.bellwaycorporate.com/corporateGovernance.

The work of the Committee during the year is described below.

Financial reporting
The Committee reviewed the draft Annual Report and Accounts, interim results, preliminary results announcement and reports from the external auditor, KPMG LLP, on the outcome of their audit during the year.

During the year, and up to the date of this report, the Committee considered the key accounting issues in relation to the financial statements to be:

- profit recognition; and
- the carrying value of the Group's land and work in progress.

These were discussed with the external auditor and are described in more detail below.

- Profit recognition – gross profit of £316.4 million (2013 – £203.3 million) has been recognised on housing and other revenue. Gross profit is recognised for completed house sales based on the latest whole site/phase gross margin, which is an output of the site valuation. These valuations, which are updated at frequent intervals throughout the life of each site, use actual and forecast selling prices, land costs and construction costs and are sensitive to future movements in both the estimated cost to complete and expected selling prices. Forecast selling prices are inherently uncertain due to changes in market conditions.

  The Committee understand the Group's gross profit recognition policy and the related systems and controls.

Financial reporting continued

The external auditor explained to the Committee the work they performed in relation to profit recognition, including testing controls over monitoring and updating site selling price and construction cost forecasts, including how the work of suitably qualified surveyors employed by the Group is incorporated into site valuations, and the authorisation and recording of costs. The external auditor has identified higher risk active sites based on a number of risk indicators and performed a comparison of estimated total revenue and costs throughout the life of these sites to assess the historical accuracy of management's forecasting processes.

The Committee believes, following enquiry of management and the external auditor, that appropriate internal controls are in place to assess the forecast selling prices and costs to complete, and that the Group's gross profit recognition policy is appropriate and has been properly applied in these financial statements.

- Carrying value of the Group's land and work in progress – inventories of £1,822.7 million (2013 – £1,513.5 million) are the largest asset on the Group's balance sheet – see note 13 for further detail. Inventory is held at the lower of cost and net realisable value. To determine the net realisable value the whole site gross margin is forecast as detailed above. The risk is that for any site, currently trading or not, the net realisable value may be below cost. Management ensure that any site with negative margins has an appropriate provision, with this being re-assessed during the year.

  The external auditor explained to the Committee the work they performed in relation to the carrying value of the Group's land and work in progress, which includes the procedures identified above in relation to profit recognition.

  The Committee believes, following enquiries with management and the external auditor, that appropriate internal controls are in place to assess the carrying value of the Group's land and work in progress, and the carrying value of these assets in the financial statements is appropriate.

External audit

KPMG LLP is the Group's external auditor and presented a detailed audit plan to the Committee in March 2014 which included an assessment of the key risks. For the year ended 31 July 2014, the primary risks identified were the valuation of inventories and margin recognition due to the inherent judgement required.

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

The Group's independent auditor would not be engaged for any of the following non-audit related services:

- bookkeeping or other services related to the accounting records or financial statements of the Group;
- financial information system design and implementation;
- appraisal or valuation services, fairness opinions, or contributions in kind reports;
- actuarial services;
- internal audit outsourcing services;
- management functions or human resources;
- broker or dealer, investment adviser or investment banking services;
- legal services and expert services unrelated to the audit; and
- any other service that is impermissible by regulation.

In addition KPMG LLP provides the Committee with written confirmation, on an annual basis, that it remains independent.

For an analysis of fees paid to KPMG LLP see note 4 on page 81. The non-audit fees are for tax compliance and ad hoc tax advisory work and an audit of the Group's final salary pension scheme, which is closed to future accrual.

The Committee considered the re-appointment of KPMG LLP following its review of the external auditor's performance and has recommended to the Board that the external auditor should be re-appointed at the forthcoming AGM. The review included discussions with management and the auditor, an assessment of how the auditor had performed in relation to the audit plan, the independence of the auditor and the presentations made to the Committee during the year. The current auditor has been in place and the audit has not been tendered since the Company was listed in 1979, with the lead audit partner having been the subject of rotation in accordance with Auditing Practices Board Ethical Standard 3. Nick Plumb this year commenced his five-year term as lead audit partner. It is the Company's current intention to put the external audit contract out to tender within the next six years, subject to the annual performance reviews carried out by the Committee.

Other matters

During the year, the Committee considered the FRC guidance on audit materiality, the Group's IT strategy, IT programme and their effect on the Group's control environment. It also approved the appointment of a new external provider for the Group's whistleblowing helpline, revised its own terms of reference and reviewed the Group's procedures for ensuring compliance with the Bribery Act 2010.

Corporate Governance Report
continued

Internal control

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

The Board also reviews the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed on an ongoing basis.

Management is responsible for the identification and evaluation of significant risks applicable to particular areas of the business together with the design and operation of suitable controls. These principal risks, which are described in the Strategic Report on pages 30 to 32, are regularly assessed and cover all aspects of the business and in particular, land acquisition, planning, construction, health and safety, sales and personnel. In addition, there is a responsibility to mitigate risk by the provision of adequate insurance cover and by management reporting on material changes in the business or external environment affecting the risk profile.

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

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

- The Board has agreed a list of key risks which affect the Group, which are reviewed throughout the year, and has considered the extent to which the measures taken by the Group mitigate those risks.
- The acquisition of land and land interests is initiated by divisional management and reviewed by the regional chairmen prior to submission to Head Office for approval. All land acquisitions must achieve minimum financial acquisition criteria and are subject to approval by the executive directors and in certain circumstances, approval by the Board.
- A comprehensive monitoring and reporting system is in place entailing annual budgets, monthly forecasting and management reporting, including variance analysis and commentary. This is produced by divisional management and reviewed by the regional chairmen and function heads at Head Office. Summaries are also provided to the executive directors.
- Monthly divisional board meetings are held to review divisional performance, which are attended by the regional chairmen. The executive directors attend certain divisional board meetings on a regular basis during the year, and this is supplemented with main Board visits to divisions.
- Site valuations are produced periodically throughout the life of a site, with the actual and forecast costs and revenues produced at a divisional level prior to review by the divisional management team and Head Office team.
- Regular visits to sites by in-house health and safety teams and external consultants to monitor health and safety standards and performance.
- A central treasury function operates at Head Office ensuring the optimum financing is obtained for the Group as a whole.
- A number of the Group's key functions are dealt with centrally. These include taxation, pensions, insurance, information technology, legal, personnel and company secretarial functions. This centralisation ensures a consistent approach and the appropriate range of skills to manage these specialised areas.

The Group does not have a separate internal audit function and, as recommended by the UK Corporate Governance Code, the Audit Committee considers annually whether there is a need for such an internal audit function and makes a recommendation to the Board. During the year, having considered the robust systems and strong controls already present at both divisional and Head Office levels, as described above, the Audit Committee recommended that no separate internal audit function was presently required. The position will continue to be monitored by the Audit Committee on behalf of the Board.

During the year, there were no significant internal control issues identified by the Group's internal control monitoring procedures, as detailed above.

Paul Hampden Smith
Chairman of the Audit Committee
13 October 2014

Report of the Board on Directors' Remuneration

ANNUAL STATEMENT

Dear shareholder,

This is my second report under the new regulations for the reporting of directors' remuneration, following early adoption last year.

This report, which has been prepared pursuant to, and in accordance with the Companies Act 2006 Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, has three sections – this Annual Statement, the Directors' Remuneration Policy and the Annual Report on Remuneration.

The Directors' Remuneration Policy, which will be subject to a binding shareholder vote (normally on a triennial basis), provides details of the remuneration policy for directors for 2014/15 onwards. The Annual Report on Remuneration, which together with the Annual Statement will be subject to an annual advisory shareholder vote, details the remuneration of directors in respect of the financial year under review and how the policy will be operated for 2014/15 onwards.

Remuneration paid in 2013/14

The Committee considers that the remuneration paid to executive directors fairly reflects both Company and individual performance during the financial year. As set out in last year's report and reflecting the Committee's policy to set salary levels, from appointment, significantly below market levels for quoted housebuilders but move them to mid-market over time, the Committee agreed to increase the basic salaries of the executive directors in two instalments to bring their salaries in line with those of their predecessors and peer companies. The first instalment was made from 1 August 2013, and as explained below, the second instalment was made from 1 August 2014.

The basic salaries of the executive directors in 2013/14 were determined in July 2013 after consultation with shareholders and were set out in last year's report. Total remuneration was determined in large part by bonuses awarded for performance. As set out on pages 22 to 25 of this report, the Group performed extremely strongly in the year as management took full advantage of favourable market conditions to increase sales, average selling price, margin, operating profit, dividend and NAV while maintaining a strong balance sheet. Looking forward, the Group concluded the year with a record order book supported by a healthy increase in plots available with detailed planning permission. Two additional operating divisions were opened and management changes were made to support future development. Overall, operating performance substantially exceeded the expectation of the Board and investors at the start of the year.

This performance is reflected in the annual bonus earned by the executive directors. The profit related element of the bonus required increases in operating profit but in the event the increase of 69.5% was above the top of the target range and this element of the bonus was earned in full. In relation to the non-financial elements of the bonus the targets for land bank and health and safety were met, but the customer care score, while remaining high, fell just below the threshold for bonus payment. As a result the directors earned a total bonus of 110% out of a maximum of 120% of salary.

In 2011, Ted Ayres had been granted an award of 35,689 shares under the Bellway p.l.c. (2004) Performance Share Plan. The performance condition in relation to half of these shares was met in 2013/14 and these shares will vest on 24 October 2014. Keith Adey was not a director at the time of the grant and so was not granted any shares in 2011 under this plan.

Implementation of the remuneration policy in 2014/15

The Committee has consulted with and taken into account the views of its major shareholders, the Association of British Insurers ('ABI') and Institutional Shareholder Services Inc. ('ISS') during the year on the proposed remuneration policy, in particular in relation to the salary increases for the executive directors, changes to the non-financial annual bonus performance measures and long-term incentive provision.

Under the direction of the executive directors, the Group has continued its strong performance during the year as described above. As a result, as disclosed last year and as discussed with a number of the Company's major investors, the Committee has completed the second stage of base salary increases. With effect from 1 August 2014, the Chief Executive's salary was increased from £500,000 to £600,000 while the Finance Director's salary was increased from £285,000 to £350,000. In reaching these decisions, the Company was mindful of the salary levels paid by competing housebuilders and was informed by a benchmarking analysis undertaken by the Committee's advisers, New Bridge Street. The Committee considers that the new base salaries now reflect market levels for quoted UK housebuilders and, as such, future increases to base salaries are normally expected to increase in line with the general workforce.

While the maximum annual bonus potential remains at 120% of salary, with 90% of salary based on operating profit and 30% of salary based on non-financial performance measures, the Committee has made some changes to the way the non-financial performance measures operate. Therefore, for 2014/15 onwards, rather than placing 10% of salary each on land bank, health and safety and customer care targets, a greater emphasis will be placed on land bank management reflecting the importance of this metric in determining future profitability. In addition, sliding scale targets have been introduced rather than the simple on/off measures operated in prior years, and the approach to measuring health and safety and customer care has been refined.

Report of the Board on Directors' Remuneration continued

Finally, in response to feedback from a number of the Company's shareholders and in the interests of simplicity, 2014 will be the last year in which the Committee will grant awards under the Share Matching Plan ('SMP'). Performance Share Plan ('PSP') award levels from 2015 onwards will be set at 130% of salary, with the increase reflecting the Committee's estimate of the likely value of SMP awards forgone. The Committee believes that this change will improve the alignment of executive remuneration with the interests of shareholders. As the PSP permits the grant of awards to an individual in any year of up to 150% of salary, no amendments to the PSP rules are required. In addition and consistent with emerging best practice in this area, a two-year minimum holding period will be introduced whereby executive directors will be expected to retain shares which vest under long-term incentive awards (net of any shares required to be sold to settle the relevant taxes) for a period of at least two years from vesting.

Conclusion

The Committee has continued to consult with its major shareholders and advisory bodies over directors' remuneration and considers that the remuneration policy it is asking shareholders to approve at this year's AGM will reward directors appropriately for improvements in Company performance which are aligned with the Company's strategy of improving shareholder returns.

I am pleased to report that over 98% of our shareholders voted in favour of last year's Report of the Board on Directors' Remuneration.

At this year's AGM on 12 December 2014 there will be two votes on directors' remuneration. The first will be a binding vote on the remuneration policy and the second will be an advisory vote on the Annual Statement and Annual Report on Remuneration. Both votes will require a majority vote in favour to pass. Further information on these resolutions is set out on page 100.

Mike Toms

Chairman of the Board Committee on Executive Directors' Remuneration
13 October 2014

DIRECTORS' REMUNERATION POLICY

The remuneration policy has been developed taking into account the principles of the UK Corporate Governance Code published in 2014, the views of the Company's major shareholders and the ABI/IMA guidelines on remuneration.

Objectives of remuneration policy

The aim of the Committee is to ensure that the Company has competitive remuneration packages in place in order to recruit, retain and motivate executive directors in the overall interests of shareholders, the Group, its employees and its customers.

The Committee has a policy of paying a level of remuneration at around the mid-market level of a peer group of similar UK housebuilding businesses, subject to experience and performance. The Committee uses this comparative approach to benchmarking with caution, recognising the relatively low number of direct housebuilding comparators, their differing size and the risk of an upward ratchet effect with any peer-based analysis. The structure of the package has been designed to ensure that the performance-related elements of remuneration (annual bonus and long-term incentives) constitute a significant proportion of an executive's potential total remuneration package, but are only receivable if stretching performance targets are achieved.

The structure of the performance conditions for annual bonus and long-term incentives has been designed to provide a strong link to the Group's performance, namely a focus on maximising profit in a sustainable fashion and producing superior shareholder returns, thereby generating a strong alignment of interest between senior executives and shareholders.

Consideration of employment conditions elsewhere in the Group

While the Company does not consult directly with employees when drawing up the executive remuneration policy, in determining the elements of remuneration for the executive directors the Committee takes into consideration the pay and conditions of employees throughout the Group as a whole, paying particular attention to the levels of basic pay increase awarded to the workforce generally. Normally the salaries of the directors are increased in accordance with the general pay increase awarded to the workforce, and it is the intention of the Committee to revert to this practice now that the executive directors' salaries have reached mid-market levels. All employees, including the executive directors, can join the Group's savings related share option arrangements, have life assurance benefits, and a significant proportion of employees benefit from health insurance, a company car or car allowance. Following the introduction of auto-enrolment during the year, all employees now have access to pension arrangements. The Committee is apprised regularly of any significant policy changes for the workforce generally and management below Board level in particular.

Consideration of shareholder views

The Committee takes into account the views of shareholders. When any significant changes are proposed to the remuneration policy, the Chairman of the Committee will consult with major shareholders in advance. During 2013/14 the Committee consulted with major shareholders, the ABI and ISS on the proposed salary increases for the executive directors to bring them in line with their peers, the proposed changes to the non-financial annual bonus performance measures and long-term incentive provision going forward.

Report of the Board on Directors' Remuneration continued

Future policy table

This section of the report describes the key components of the remuneration arrangements for each element of remuneration for executive and non-executive directors which, subject to shareholder approval, will operate from the 2014 AGM:

COMPONENT AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	FRAMEWORK TO ASSESS PERFORMANCE
SALARY To be market competitive and therefore assist in recruiting, retaining and motivating high quality executives. Reflects individual role and experience.	Salaries are normally reviewed in July each year and changes normally take effect from 1 August. They are determined by reference to market levels of a peer group of similar UK housebuilding businesses, taking account of salaries at other companies of a similar size and by taking account of individual performance and experience. Where salaries of new executive directors are positioned below market levels, the Committee's policy is to progress these over time as experience is gained, subject to performance.	No prescribed maximum. Increases normally in line with the average for the workforce generally. Increases may be below or above this e.g. due to promotion or role change or a significant change in the size and scope of the Company. Salaries for 2014/15 are set out in the Annual Report on Remuneration.	In addition to the reviews by the Chairman, as part of the annual Board evaluation, the performance of the executives and the Company is kept under continuous review by the Board.
ANNUAL BONUS To reward achievement with a combination of financial and non-financial operational based performance targets in accordance with Group KPIs.	Annual bonuses are normally payable in November following the year end on 31 July, subject to the achievement of performance targets that were set at the start of the year on 1 August. The Company operates a clawback mechanism which allows the Company, in exceptional circumstances, to clawback some or all of the payments made under the variable components of an individual's remuneration.	120% of basic salary maximum.	The bonus is based on a combination of financial and non-financial objectives, with financial performance accounting for a majority of the overall bonus opportunity. The Committee determines the choice of measure(s) and their weighting for each year to ensure alignment with the Board's priorities over the short to medium-term. Details of the performance targets for the forthcoming year are set out in the Annual Report on Remuneration.
LONG-TERM INCENTIVES (PERFORMANCE SHARE PLAN ('PSP')) To encourage long-term value creation, aid retention, encourage shareholding and promote alignment of interests with shareholders.	The Company operates a PSP as its primary long-term incentive. Annual awards of nil cost options or conditional awards may be made under the PSP to the executive directors, at the discretion of the Committee. Awards normally vest three years after grant, subject to the achievement of stretching performance targets. Dividend equivalents (in cash or shares) may be payable. The Company operates a clawback mechanism which allows the Company, in exceptional circumstances, to clawback some or all of the payments made. A post-vesting minimum holding period of two years will apply to awards granted from 2014 onwards.	150% of basic salary.	PSP awards are subject to stretching three-year targets. The current awards are subject to relative TSR conditions against relevant comparator companies[1]. For future awards the Committee may choose a financial measure such as EPS, ROCE or NAV in conjunction with or as an alternative to TSR depending on the medium to long-term priorities of the Group at the time of grant. If the Committee decides to introduce a financial measure, it will carry out prior consultation with major shareholders. Further details of the performance metrics applying to the awards for 2014/15 are set out in the Annual Report on Remuneration.

COMPONENT AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	FRAMEWORK TO ASSESS PERFORMANCE
PENSION To provide a structure and value that is market competitive.	Pension contributions into the Company's Group Self Invested Personal Pension Plan and/or a salary supplement in lieu of pension contributions.	20% of salary.	Not applicable.
BENEFITS To provide a range and value that is market competitive.	Comprises car or car allowance, life assurance and health insurance. Other benefits may be provided where appropriate. Any expenses incurred in carrying out duties will be fully reimbursed by the Company including any personal taxation associated with such expenses.	Not applicable.	Not applicable.
CHAIRMAN AND NON-EXECUTIVE DIRECTORS To set appropriate fees in light of the time commitment, responsibilities, wider market and best practice.	The Chairman's fee is determined by the Board Committee on Executive Directors' Remuneration. The remuneration of the non-executive directors is determined by the Board Committee on Non-Executive Directors' Remuneration, which comprises the executive directors. Fee levels are normally reviewed annually, taking into account the time commitment and responsibilities of the roles including membership or chairmanship of Board Committees and the level of fees for similar positions in comparable companies. Non-executive directors are not normally entitled to any benefits (with the exception of the Chairman who receives health and life assurance benefits) or pension. They do not participate in any bonus or long-term incentive plans (with the exception of the Chairman's outstanding PSP awards which he retained when he left his role as Chief Executive) and they are not entitled to compensation on termination of their arrangements, other than normal notice provisions of three months given by either party. Travel, accommodation and other related expenses incurred in carrying out the role will be paid by the Company including any personal taxation associated with such expenses.	Not applicable.	The performance of the non-executive directors is assessed by the Chairman. The senior independent non-executive director reviews the performance of the Chairman in conjunction with the directors.
SHARE OWNERSHIP GUIDELINE FOR EXECUTIVE DIRECTORS To align executive directors' interests with those of shareholders.	Executive directors are required to accumulate a minimum shareholding equivalent to 100% of basic salary. Within a period of three months of appointment an executive director must acquire a minimum of 1,000 ordinary shares in the Company and must retain at least 50% of any shares awarded under the PSP (or SMP in respect of awards granted in 2014 or before), after allowance for paying tax, until the requisite number of shares has been accumulated. If personal circumstances make this difficult, the Committee would exercise discretion.	Not applicable.	Not applicable.

Notes:

1. The Committee believes that relative TSR is an appropriate long-term performance metric as it generates an alignment of interest between executives and institutional shareholders by providing a reward mechanism for delivering superior stock market performance. The TSR performance is independently calculated for the Committee by the Company's brokers.
2. The executive directors may also participate in any all-employee plan operated by the Company up to prevailing HMRC limits.
3. For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to the Company to honour any commitments entered into with current or former directors (such as in connection with the unvested SMP awards and the final SMP award to be granted in 2014, notwithstanding that the SMP will not form part of the Company's policy going forward). Details of any payments made to former directors will be set out in the Annual Report on Remuneration as they arise.

Report of the Board on Directors' Remuneration continued

Approach to recruitment remuneration
In arriving at a total package and in considering quantum for each element of the package, the Committee will take into account the skills and experience of the candidate and the market rate for a candidate of that experience as well as the importance of securing the preferred candidate.

ELEMENT	GENERAL POLICY	DETAIL
Salary	At a level required to attract the most appropriate candidate.	Discretion to pay lower basic salary with incremental increases as new appointee becomes established in the role.
Pension and benefits	In accordance with Company policies.	Additional benefits in relation to recruitment may be provided where considered appropriate. For example, relocation expenses or allowances, legal fees and other recruitment related costs may be payable.
Bonus	In accordance with existing schemes.	Specific targets could be introduced for an individual within the maximum individual limits of the annual bonus plan applicable at the time. Pro-rating would be applied as appropriate for intra-year joiners.
Long-term incentives ('PSP')	In accordance with Company policies and maximum limits in the PSP rules.	An award may be made in the year of joining or, alternatively, the award can be delayed until the following year. Targets would normally be the same as for other directors and grant levels consistent within the permitted individual maximum under the rules of the plan.
Other share awards	The Committee may make an incentive award to replace deferred or incentive pay forfeited by an executive leaving a previous employer (and, if required, by relying on the flexibility provided in the Listing Rules to grant such replacement awards).	Awards would, where possible, be consistent with the awards forfeited in terms of vesting periods, expected value and performance conditions.

Service contracts and loss of office payment policy

The executive directors have service contracts with a 12-month notice period from the Company and a six-month notice period from the executive.

The overriding principle for payments on loss of office will be to honour contractual remuneration entitlements. The Committee would determine, on an equitable basis, the appropriate treatment of performance-linked elements of the package, taking account of the circumstances, in accordance with the rules of each respective plan. Failure will not be rewarded.

ELEMENT	LEAVER[1]	DEPARTURE ON AGREED TERMS[2]	GOOD LEAVER[3]
Salary, pension and benefits (after cessation of employment)	Nil.	Up to 12 months' basic salary, benefits and pension. Payments may be phased and subject to offset against alternative income from elsewhere during the notice period. The Company may pay in lieu of notice an amount equivalent to 12 months' salary, pension and benefits.	Apart from death, up to 12 months' basic salary, benefits and pension, less any period of notice worked. Payments may be phased and subject to offset against alternative income from elsewhere during the notice period. The Company may pay in lieu of notice an amount equivalent to 12 months' salary, pension and benefits.
Annual bonus	No bonus payable.	For the proportion of the financial year worked, bonus may be payable pro-rata at the discretion of the Committee. There will be no bonus payment in respect of any period of notice not worked.	For the proportion of the financial year worked, bonus may be payable pro-rata at the discretion of the Committee.
PSP (and SMP awards granted to the current executive directors in 2014 or before)	All awards, including those which have vested but are unexercised will lapse immediately upon cessation of employment.	Awards will lapse upon cessation of employment, unless the Committee decides otherwise, in which case awards may vest. Where employment ends before the vesting date, awards may vest at the normal time (other than by exception) to the extent that the performance conditions have been satisfied. The level of vested award will be reduced, pro-rata, based upon the period of time after the grant date and ending on the date of cessation of employment, relative to the three-year performance period unless the Committee, acting fairly and reasonably, decides that such a scaling back is inappropriate in any particular case.	Awards may be exercised within 12 months of the vesting date. Where employment ends before the vesting date, awards may be exercised at the normal vesting time (other than by exception) and only to the extent that the performance conditions have been satisfied. The level of vested award will be reduced, pro-rata, based upon the period of time after the grant date and ending on the date of cessation of employment, relative to the three-year performance period unless the Committee, acting fairly and reasonably, decides that such a scaling back is inappropriate in any particular case.
Other payments	Nil.	Depending upon circumstances, the Committee may consider payments in respect of an unfair dismissal award, outplacement support and assistance with legal fees.	The Company may pay for outplacement support and assistance with legal fees.

Notes:

1. For example, normal resignation from the Company or termination for cause (e.g. disciplinary issues).
2. This may cover a range of circumstances such as business reorganisation, changes in reporting structure, change in requirement for the role, termination as a result of a failure to be re-elected at an AGM, etc.
3. Leaver for compassionate reasons such as death, injury, disability or retirement, with the agreement of the employer.

Report of the Board on Directors' Remuneration continued

The details of the executive directors' service contracts are as follows:

Executive director	First appointed as a director	Current contract commencement date
E F Ayres	1 August 2011	1 August 2011
K D Adey	1 February 2012	1 February 2012

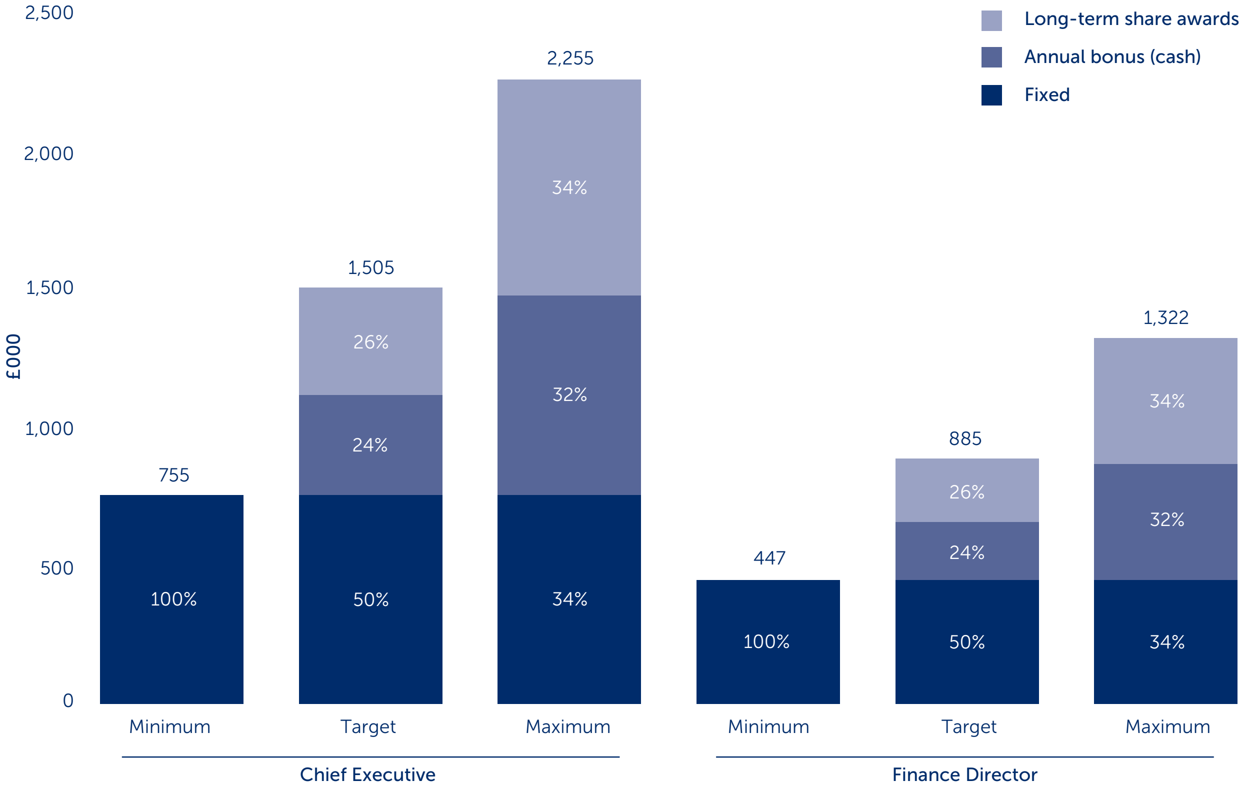
The executive directors may accept external appointments provided that such appointments do not, in any way, prejudice their ability to perform their duties as executive directors of the Company. The extent to which any executive director is allowed to retain any fees payable in respect of such appointments, or whether such fees are remitted to the Company, will be assessed on a case-by-case basis. None of the executive directors currently hold any outside appointments.

All non-executive directors have letters of appointment with the Company of no more than three years, subject to annual re-appointment at the AGM, with a three-month notice period by either side. The appointment letters for the Chairman and non-executive directors provide that no compensation is payable on termination, other than fees accrued and expenses.

Non-executive director	First appointed as a director	Current letter of appointment commencement date	Current letter of appointment expiry date
J K Watson	1 August 1995	1 February 2013	31 January 2016
M R Toms	1 February 2009	1 February 2012	31 January 2015
J A Cuthbert	1 November 2009	1 November 2012	31 October 2015
P N Hampden Smith	1 August 2013	1 August 2013	31 July 2016
D N Jagger	1 August 2013	1 August 2013	31 July 2016

Illustrations of application of remuneration policy

The Company's policy results in a significant portion of remuneration received by executive directors being dependent on the Group's performance. The chart below illustrates how the total pay opportunities for the executive directors vary under three performance scenarios: minimum, target and maximum. The chart, which has been based on the simplified long-term incentive policy from 2015 onwards (i.e. PSP awards at 130% of salary with the SMP no longer operated), is indicative as share price movement and dividend accrual have been excluded.



Note:

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

Assumptions

Minimum – fixed pay only (salary + benefits + pension/pay in lieu of pension); salary is actual for 2014/15, benefits are based on actual benefits received in 2013/14 and pension/pay in lieu of pension is based on policy of 20% of salary.

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

Maximum – full bonus payout. PSP with a face value of 130% of salary and full vesting.

Report of the Board on Directors' Remuneration continued

ANNUAL REPORT ON REMUNERATION

The Board Committee on Executive Directors' Remuneration

The Board Committee on Executive Directors' Remuneration comprises Mike Toms (Chairman), John Cuthbert, Paul Hampden Smith and Denise Jagger, who were members of the Committee throughout the year. Peter Johnson was a member of the Committee until his retirement from the Board on 31 January 2014.

The Committee meets at least twice a year and during the year it met on four occasions. Its duties are to review and recommend the basic salary, taxable benefits, terms and conditions of employment, including performance-related payments, long-term incentive plans and other benefits of the executive directors and the Chairman. The Committee also reviews remuneration policies for senior management below Board level.

During the year, in addition to routine matters, the Committee dealt with, inter-alia:

- arrangements for the introduction of the new performance share plan;
- the remuneration packages in respect of the recently appointed executive directors;
- consideration of the new disclosure requirements for remuneration reports;
- recommendations regarding changes to the Company's Savings Related Share Option Scheme, which is open to all employees, and the replacement of an executive share option scheme which expires in 2015, with a similar scheme which may be used to reward employees below Board level.

The remuneration of the executive directors and the Chairman is determined by the Committee within a framework set by the Board. None of the Committee members has a personal financial interest, other than as shareholders, in the matters to be decided. There are no conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business. The terms of reference of the Committee are available on the Group's website www.bellwaycorporate.com/corporateGovernance. During the year, the Group Company Secretary provided advice on issues other than those relating to his own remuneration. The Committee also received independent external advice from New Bridge Street ('NBS'), part of Aon plc. NBS was appointed by the Committee and does not provide any other services to the Company other than to the Board Committee on Non-Executive Directors' Remuneration. NBS is also a member of the Remuneration Consultants Group and abides by its Code of Conduct. The Committee is satisfied that NBS is independent. The total fee paid to NBS for advice to the Committees during the year was £62,128.

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

IMPLEMENTATION OF REMUNERATION POLICY IN 2014/15

This section sets out how the Company has implemented the remuneration policy for the 2014/15 financial year.

Basic salaries

The Chief Executive was appointed as a director in 2011, and as Chief Executive in 2013, and the Finance Director was appointed in 2012. As disclosed in previous years' reports, their starting salaries were lower than their predecessors and mid-market levels amongst peer housebuilding companies and the Committee stated its intention to raise these salaries in incremental stages to market levels, subject to satisfactory performance. The first stage of these increases was put in place from 1 August 2013. The Committee has carried out an independent review of executive directors' salaries in peer housebuilding companies and following the continuing strong performance of both the business and each of the executives during the year, the Committee has decided that it is appropriate to award the second and final instalment to bring the executives' salaries to market levels. Accordingly, from 1 August 2014, the Chief Executive's salary was increased to £600,000 p.a. and the Finance Director's salary was increased to £350,000 p.a.

Annual bonus

For the 2014/15 financial year the bonus opportunity will continue to be limited to 120% of basic salary. The performance conditions relate to a stretching target of pre-exceptional operating profit (90%) and non-financial performance (30%), with non-financial performance being assessed by reference to land bank management (15%), health and safety (7.5%) and customer care (7.5%). The Committee considers that performance in relation to targets based on annual profitability and non-financial metrics provide a good link to the long-term performance of the business and that the split between financial and non-financial performance targets provides an appropriate balance between long and short-term shareholder returns. The non-financial measures have been changed from previous years, both in relation to their proportions (previously each non-financial measure equated to 10% of the bonus opportunity) and different assessment performance criteria will be used to assess performance for health and safety and customer care. For health and safety, the Committee has decided to move from a seven-day lost time accident measure to the NHBC safety score which is an independent measure based on regular inspections of each site. The customer care element will be measured by taking the proportion of unsatisfied customers from those which are satisfied, to produce a net assessment of customer satisfaction score (indifferent customers are ignored for the purposes of the calculation). For each non-financial element, rather than the binary on/off targets operated in prior years, sliding scale targets have been introduced, whereby a proportion of the bonus will be payable if a base threshold is achieved, with further bonus paid on a sliding scale for improvements in performance up to the maximum bonus opportunity. In the event that the threshold profit criterion is not met, no bonus will be payable under the non-financial elements.

Long-term incentives

It is envisaged that the Company will grant awards under the PSP in November 2014 with a face value of 100% of salary to the executive directors. In addition, the executives may invest up to 25% of their net 2013/14 annual bonus into the SMP for a period of three years, in return for which they will receive a match of up to two times the level of investment on a gross of tax basis. The 2014/15 PSP awards and any SMP awards will vest to executives after three years, subject to the achievement of performance conditions, based around TSR, which measures the total return on a notional investment in Bellway shares, compared to the return on the same notional investment in shares in a group of other companies or an index. This will be the last time that the Company invites management to participate in the SMP.

Consistent with last year, the PSP and SMP awards granted in 2014/15 will be subject to a relative TSR condition with 50% of awards measured against a group of housebuilders and the other 50% against the constituents of the FTSE 250 (excluding investment trusts and financial services sector companies).

From 2015/16 onwards, reflecting the likely value of the SMP awards forgone, PSP awards for executive directors will be set at 130% of salary (previously PSP awards were limited to 100% of salary with the ability to earn up to a further 60% of salary under the SMP). Awards will vest subject to the achievement of an underpin which requires an improvement in the underlying financial performance of the Company over the performance period.

In addition to the above, the Committee has decided that for future PSP and any 2014 SMP awards, it will introduce a two-year minimum holding period for any shares which vest after allowing for tax. This will increase the alignment of directors' interests with the longer-term interests of shareholders.

Chairman and non-executive director fees

Following a review of time commitment and relevant market data, the Chairman's fee was increased from £185,000 to £195,000 p.a. with effect from 1 August 2014.

For 2014/15, the base fee for non-executive directors will increase by 3% from £51,500 to £53,045. This is in line with the average pay awards for the workforce generally. The fees for chairing the Audit Committee and the Board Committee on Executive Directors' Remuneration will also increase by 3% from £5,000 to £5,150. Reflecting the responsibilities of the role and relevant market data, the additional fee for the senior independent non-executive director is to increase from £5,000 to £7,725.

Report of the Board on Directors' Remuneration continued

IMPLEMENTATION OF REMUNERATION POLICY IN 2013/14

The auditor is required to report on the information contained in the following part of this report.

Single figure of total remuneration

		Salary and fees £	Taxable benefits[1] £	Pension[2] £	Annual bonus £	Sub-total £	Long-term incentives[3] £	Total £
Non-executive Chairman								
	2013	90,000	403	–	–	90,403	–	90,403
J K Watson[4]	**2014**	**185,000**	**698**	**–**	**–**	**185,698**	**–**	**185,698**
Executive directors								
	2013	280,250	13,428	84,075	336,300	714,053	–	714,053
J K Watson[4]	**2014**	**–**	**–**	**–**	**–**	**–**	**575,974**	**575,974**
	2013	350,000	24,812	70,000	420,000	864,812	66,094	930,906
E F Ayres[5]	**2014**	**500,000**	**34,972**	**100,000**	**550,000**	**1,184,972**	**264,691**	**1,449,663**
	2013	225,000	26,372	45,000	270,000	566,372	–	566,372
K D Adey	**2014**	**285,000**	**27,129**	**57,000**	**313,500**	**682,629**	**–**	**682,629**
Non-executive directors								
	2013	58,500	–	–	–	58,500	–	58,500
P M Johnson[6]	**2014**	**30,750**	**–**	**–**	**–**	**30,750**	**–**	**30,750**
	2013	54,500	–	–	–	54,500	–	54,500
M R Toms	**2014**	**56,500**	**–**	**–**	**–**	**56,500**	**–**	**56,500**
	2013	51,500	–	–	–	51,500	–	51,500
J A Cuthbert	**2014**	**54,000**	**–**	**–**	**–**	**54,000**	**–**	**54,000**
	2013	–	–	–	–	–	–	–
P N Hampden Smith[7]	**2014**	**54,000**	**–**	**–**	**–**	**54,000**	**–**	**54,000**
	2013	–	–	–	–	–	–	–
D N Jagger[7]	**2014**	**51,500**	**–**	**–**	**–**	**51,500**	**–**	**51,500**
Former directors								
	2013	124,500	1,333	–	–	125,833	–	125,833
H C Dawe[8]	**2014**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2013	1,234,250	66,348	199,075	1,026,300	2,525,973	66,094	2,592,067
Totals	**2014**	**1,216,750**	**62,799**	**157,000**	**863,500**	**2,300,049**	**840,665**	**3,140,714**

Notes:

1. Taxable benefits include car or car allowance and health insurance.
2. Pension includes payments in lieu of pension of £29,831 and contributions to a defined contribution scheme of £127,169. None of the directors are members of the Group's defined benefit scheme and both of the executive directors are members of a defined contribution scheme.
3. The value of long-term incentives in 2014 reflects the partial vesting of the 2011 PSP awards (see the section on long-term incentives vesting in respect of performance period ended 31 July 2014 below).
4. John Watson held the position of Chief Executive until 31 January 2013 and from 1 February 2013 he was appointed non-executive Chairman. Salaries, fees, benefits and payments in lieu of pension for 2013 are pro-rated to reflect his time in each post.
5. Ted Ayres was an executive director throughout the 2013 year, holding the post of Group Operations Director until 31 January 2013 and from 1 February 2013, he was appointed Chief Executive. The figures in the table for the year ended 31 July 2013 reflect his aggregate remuneration for both roles held.
6. Peter Johnson retired from the Board on 31 January 2014. The fee reflects his annual fee of £61,500 pro-rated for his time in post.
7. Paul Hampden Smith and Denise Jagger joined the Board from 1 August 2013.
8. Howard Dawe retired from the Board on 31 January 2013. The fee reflects his annual fee of £248,500 and taxable benefits, pro-rated for his time in post.

Annual bonus for the year ended 31 July 2014

The annual bonus is payable in November 2014 for performance during the year ended 31 July 2014. The performance conditions for the 2013/14 bonus were operating profit (pre-exceptional items) (90%) and non-financial performance (30%), with non-financial performance being assessed by reference to land bank management, health and safety and customer care. Each of these elements accounted for a maximum bonus of 10% of salary.

The actual bonus payment against operating profit was determined on the following basis:

Measure	Weighting (% of salary)	Threshold	Target	Maximum value	Actual	Payout (% of maximum)	Payout (% of salary)
Operating profit	90%	£170.0 million	£185.0 million	£195.0 million	£256.1 million	100%	90%

As can be seen from this table, the actual operating profit exceeded the top of the range set by the Committee at the start of the year. This was the result of both a favourable business environment and of the success of the management in exploiting this environment by acquiring land and constructing and selling more homes at higher prices.

The three non-financial metrics were not determined on a range of targets but related to specific individual performance targets for each. Details are set out in the table below:

Non-financial measure	Objectives	Score
Land bank	Increase in the forward land bank of plots with detailed planning permission in the year to 31 July 2014 to ensure the Group's revenue aspirations are not frustrated by land shortages in future years.	Maximum – 10% of salary
	The Group exceeded its land bank target for the following financial year.	Achieved – 10% of salary
Health and safety	Improvement in performance by reference to the rate of over seven-day lost time accidents, taking account of the volume of activity.	Maximum – 10% of salary
	The Group reduced its rate of over seven-day lost time accidents per 100,000 employees to 447.09 from 486.51 in 2013.	Achieved – 10% of salary
Customer care	Improvement in the Group's performance, taking account of the results of the Company's survey of buyers' satisfaction 'Would you recommend a Bellway home?'	Maximum – 10% of salary
	The Group experienced a slight reduction in its customer care score to 93.8% from 94.8% in 2013.	Not achieved – no payment

The land bank and health and safety targets were achieved and the full bonus was payable in relation to both these elements. If the targets had not been achieved then no bonus would have been payable. In the case of health and safety, no bonus would have been payable if a work related fatality had occurred on one of the Group's sites. The customer care performance score remained very high but the target was missed, albeit by a small margin, so no bonus was payable in respect of this element.

Overall, the Committee is satisfied that the resulting bonus payout of 110% of salary (out of 120%) is reflective of the Company's strong performance during the year.

Long-term incentives vesting in respect of performance period ended 31 July 2014

The PSP award granted on 24 October 2011 which will partially vest on 24 October 2014, was based on the three-year performance period to 31 July 2014. The applicable vesting percentages will be as follows:

Metric	Performance condition	Threshold target	Stretch target	Actual	% Vesting
50% of awards	Relative TSR against a Housebuilders' Index: 25% of this part of an award vests at the Index, increasing, pro-rata, to full vesting at Index + 7.5% p.a.	161.2% TSR (Index)	183.6% TSR (Index + 7.5% p.a.)	123.2% Bellway TSR	0%
50% of awards	Relative TSR against the FTSE 250 (excluding investment trusts and financial services sector companies): 25% of this part of an award vests at median, increasing, pro-rata, to full vesting at the upper quartile.	49.7% TSR (median)	87.3% TSR (upper quartile)	123.2% Bellway TSR	50%
Total					**50% (out of 100%)**

Report of the Board on Directors' Remuneration continued

Long-term incentives vesting in respect of performance period ended 31 July 2014 continued

An underpin, which was deemed to have been met, also applied to the 2011 PSP awards. Regardless of TSR performance, no part of an award will vest unless the Committee is satisfied that the Company's TSR over the performance period is reflective of underlying performance, taking into account, inter alia, operating profit, operating margin, ROCE and NAV. Based on the above, the following awards are expected to vest on 24 October 2014.

	Number of shares at grant	Number of shares vested	Number of shares lapsed	Dividends on vested shares	Total	Estimated value at vesting[1] (£000)
J K Watson	77,659	38,829	38,830	N/A	38,829	576.0
E F Ayres	35,689	17,844	17,845	N/A	17,844	264.7

Note:

1. Based on the average share price for the last quarter of the financial year i.e. 1 May – 31 July 2014 as a proxy for the share price at vesting.

Directors' interests in the long-term incentive plans

The Chairman and executive directors have a potential future beneficial interest pursuant to the allocation of shares under the PSP. The number of shares allocated in the Bellway Employee Share Trust (1992) ('Trust') in respect of each director, along with the market price of the shares at the date of award, is shown below:

PSP		Fully paid ordinary 12.5p shares				
Potential future beneficial interests	Award date	Awards held at 1 August 2013	Awarded during the year	Awards lapsed during the year	Awards vested during the year	**Awards held at 31 July 2014**
J K Watson	21.10.2010[1][5]	96,060	–	(96,060)	–	**–**
	24.10.2011[2][5]	77,659	–	–	–	**77,659**
Totals		173,719	–	(96,060)	–	**77,659**
E F Ayres	24.10.2011[2][5]	35,689	–	–	–	**35,689**
	13.11.2012[3][5]	30,960	–	–	–	**30,960**
	18.12.2013[4]	–	34,506	–	–	**34,506**
Totals		66,649	34,506	–	–	**101,155**
K D Adey	13.11.2012[3][5]	23,220	–	–	–	**23,220**
	18.12.2013[4]	–	19,668	–	–	**19,668**
Totals		23,220	19,668	–	–	**42,888**

Notes:

1. Market value on award 549.50p. The performance period was 1 August 2010 – 31 July 2013. The performance conditions were not achieved and these awards lapsed in full on 20 October 2013.
2. Market value on award 700.50p. The performance period was 1 August 2011 – 31 July 2014.
3. Market value on award 976.50p. The performance period is 1 August 2012 – 31 July 2015.
4. On 18 December 2013 awards of performance shares under the 2013 PSP were made to Ted Ayres and Keith Adey. The awards were in the form of nil cost options. The face value of awards granted were equal to 100% of their respective salaries, which is in line with the Committee's prevailing grant policy. Ted Ayres was granted an award over 34,506 shares with a face value, on grant, of £500,000 and Keith Adey's award was over 19,668 shares with a face value, on grant, of £285,000. The market value of a Bellway share on award was 1,449.00p, and the performance period is 1 August 2013 – 31 July 2016. The awards are subject to a TSR performance condition, which is in two parts. Half is measured by reference to Bellway's TSR against the TSR of UK housebuilders. If Bellway's TSR matches the median of the housebuilder group, 25% of this part of an award vests. Full vesting for this part of an award would be achieved for 22.5% outperformance of the median. The housebuilder group is comprised of Barratt Developments PLC, The Berkeley Group plc, Bovis Homes Group PLC, Crest Nicholson Holdings plc, Persimmon plc, Redrow plc and Taylor Wimpey plc. The other half is measured by reference to the companies in the FTSE 250 Index (excluding investment trusts and financial services). Awards start to vest at 25% for this part of an award if Bellway's TSR matches the median of the companies in the Index, increasing on a straight-line basis so that full vesting would be achieved if Bellway's TSR reaches the upper quartile. Furthermore, no part of either element of this award will vest unless the Committee is satisfied that there has been an improvement in underlying financial performance, taking into account, inter alia, operating profit, operating margin, ROCE and NAV. These awards are also subject to clawback provisions.
5. The performance conditions for previous awards are summarised below:
   (a) For the awards made on 21 October 2010, the performance criteria were not achieved.
   (b) For the awards made on 24 October 2011 and 13 November 2012, the TSR performance condition was in two parts. Half was measured by reference to the Housebuilders' Index as above (excluding Crest Nicholson Holdings plc which was re-listed in February 2013). If Bellway's TSR matches that of the Housebuilders' Index (excluding Crest Nicholson Holdings plc), 25% of the award vests. Full vesting would be achieved for 7.5% per annum outperformance of the Housebuilders' Index. The other half was measured by reference to the companies in the FTSE 250 Index (excluding investment trusts and financial services) as above. Awards start to vest at 25% if Bellway's TSR matches the median of the companies in the group, increasing on a straight-line basis so that full vesting would be achieved if Bellway's TSR reaches the upper quartile.

   Regardless of TSR performance, no part of an award will vest unless the Committee is satisfied that the Company's TSR over the performance period is reflective of underlying financial performance, taking into account, inter alia, operating profit, operating margin, ROCE and NAV.
6. The market price of the ordinary shares at 31 July 2014 was 1,511.00p and the range during the year was 1,258.00p to 1,691.00p.

Directors' interests in the long-term incentive plans continued

The executive directors have a potential beneficial interest in certain shares held in the Trust pursuant to the allocation of shares under the SMP. The number of shares allocated in the Trust (as Matching Shares) in respect of each director, along with the market price of the shares at the date of award, is shown below:

SMP		Fully paid ordinary 12.5p shares					
Potential future beneficial interests	Award date	Awards held at 1 August 2013	Matching Shares awarded during the year	Matching Shares lapsed during the year	Matching Shares vested during the year	**Matching Shares held at 31 July 2014**	Investment Shares purchased during the year
E F Ayres	23.11.2012[1]	15,504	–	–	–	**15,504**	–
	28.11.2013[2]	–	14,501	–	–	**14,501**	3,843
Totals		15,504	14,501	–	–	**30,005**	3,843
K D Adey	23.11.2012[1]	6,204	–	–	–	**6,204**	–
	28.11.2013[2]	–	9,320	–	–	**9,320**	2,470
Totals		6,204	9,320	–	–	**15,524**	2,470

Notes:

1. Market value on award 967.50p. The performance period is 1 August 2012 – 31 July 2015. The vesting of the Matching Shares is subject to the same performance conditions as the PSP award made on 13 November 2012.
2. Market value on award 1,448.00p. The performance period is 1 August 2013 – 31 July 2016. The vesting of the Matching Shares is subject to the same performance conditions as the PSP award made on 18 December 2013.

Directors' share options

Details of all directors' interests in the various share option schemes are shown below:

	Scheme	1 August 2013	Granted during the year	Exercised during the year	**31 July 2014**	Exercise price (p)	Exercisable from	Expiry date
J K Watson	2003 SRSOS[e]	1,618	–	–	**1,618**	556.00	1 Feb 2015	31 July 2015
E F Ayres	1996 ESOS[b]	16,500	–	16,500	**–**	844.00	31 Oct 2008	31 Oct 2015
	2005 ESOS[c]	3,500	–	–	**3,500**	844.00	31 Oct 2008	31 Oct 2015
	2003 SRSOS[e]	2,350	–	–	**2,350**	661.60	1 Feb 2015	31 July 2015
Totals		22,350	–	16,500	**5,850**			
K D Adey	2003 SRSOS[e]	3,463	–	–	**3,463**	439.60	1 Feb 2016	31 July 2016

Notes:

1. All of the above options were granted for nil consideration.
2. Aggregate gross gains made by the directors on the exercise of the above options in the year were £132,379.50 (2013 – £66,094.00).
3. References to (b), (c) and (e) correspond with the summary of outstanding share options in note 19 on page 91.
4. The 1996 ESOS and 2005 ESOS awards, exercisable from 31 October 2008, were subject to a profit before tax ('PBT') performance target at the operating division of Bellway Homes Limited where Ted Ayres was a director at the time of the grant and during the three-year performance period. Full vesting occurs where actual PBT reaches the forecast PBT, within a 10% range, in each of the three financial years of the performance period, with one-third vesting if the target was met in only one year and two-thirds vesting if the target was met in two of the three years. If the target was not reached in any of the three years then the total award would lapse. The performance conditions have been met in full.

Report of the Board on Directors' Remuneration continued

Statement of directors' shareholdings and share interests

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

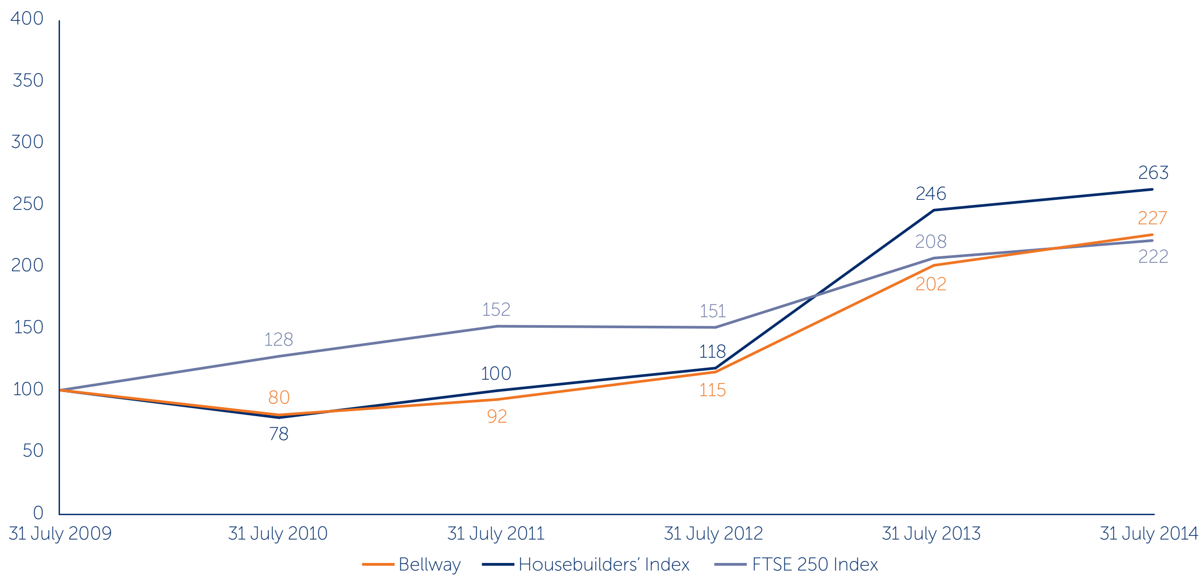
Director	Beneficially owned at 31 July 2014	Beneficially owned at 31 July 2013	Outstanding and unvested PSP awards	Outstanding and unvested SMP awards	Outstanding and unvested share options	Share options vested but unexercised	Share options exercised in the year
J K Watson	**403,384**	403,384	77,659	–	1,618	–	–
E F Ayres	**24,359**	16,292	101,155	30,005	2,350	3,500	16,500
K D Adey	**4,959**	2,489	42,888	15,524	3,463	–	–
M R Toms	**1,500**	1,500	N/A	N/A	N/A	N/A	N/A
J A Cuthbert	**6,000**	6,000	N/A	N/A	N/A	N/A	N/A
P N Hampden Smith	**8,196**	–	N/A	N/A	N/A	N/A	N/A
D N Jagger	**500**	–	N/A	N/A	N/A	N/A	N/A

Notes:

1. There has been no change in any of the above interests between 31 July 2014 and the date of this report. John Watson's and Ted Ayres' interests in outstanding PSP awards and potentially, in shares beneficially owned, will change when the awards over 77,659 and 35,689 shares respectively made on 24 October 2011, partially vest on 24 October 2014. Further details are provided in the PSP table on page 58.
2. A share ownership guideline is in place requiring executive directors to build up a holding of 100% of their basic salary. The current executives have not met this guideline given their relatively short time in post.

Performance graph and table

The graph below shows the TSR performance over the past five years of the Company, the FTSE 250 Index and the bespoke Housebuilders' Index (as defined in note 4 on page 58). The FTSE 250 Index has been selected as the most appropriate 'broad equity market index' as the Company has been a constituent of the FTSE 250 Index over this period and the bespoke Housebuilders' Index has been selected as this index is used for the Company's long-term incentive plans.



This graph shows the value, by 31 July 2014, of £100 invested in Bellway p.l.c. on 31 July 2009 compared with the value of £100 invested in the FTSE 250 Index and equally in each of the housebuilders currently contained in the FTSE 350 Index (excluding Bellway and Crest Nicholson, which re-listed in February 2013). The other points plotted are the values at intervening financial year ends.

Chief Executive total remuneration

The table below sets out the total remuneration for the Chief Executive over the same five-year period as for the chart above, together with the percentage of annual bonus paid and the vesting of long-term incentives as a percentage of the maximum (relating to the performance periods ending in that year).

	2010	2011	2012	2013	**2014**
Total remuneration (£000)	1,532	1,899	1,396	1,243(1)	**1,450**
Annual bonus paid (as % of maximum)	76.9%	100.0%	99.3%	100.0%	**91.6%**
PSP vesting (as % of maximum)	48.3%	99.6%	0.0%	0.0%	**50.0%**

Note:

1. John Watson held the role of Chief Executive up until 31 January 2013 and Ted Ayres was Chief Executive for the remainder of the financial year from 1 February 2013 to 31 July 2013. The total remuneration for the period as Chief Executive was £714,053 for John Watson and £528,500 for Ted Ayres.

Percentage change in remuneration of the Chief Executive

The table below shows the percentage change over the prior year in respect of the Chief Executive's base salary, benefits and annual bonus compared to the average increase across all employees.

		% change
Salary	Chief Executive(1)	+4
	All other employees	+14
Benefits	Chief Executive(1)	+35
	All other employees	+8
Annual bonus	Chief Executive(1)	-5
	All other employees	+39

Note:

1. John Watson was Chief Executive to 31 January 2013 and Ted Ayres was Chief Executive for the remainder of the financial year from 1 February 2013 to 31 July 2013. The figures for the Chief Executive in respect of the year to 31 July 2013 are based on the combined pro-rated figures for both Messrs Watson and Ayres for the period they each were Chief Executive.

Importance of remuneration relative to dividends and corporation tax

The chart below shows the relative expenditure of the Group in respect of employee remuneration, dividends and corporation tax, together with the percentage change in each, for the financial years ended 31 July 2013 and 31 July 2014.

	2014 £000	2013 £000	% change
Employee costs	**84,619**	72,892	16.1
Dividends	**63,525**	36,518	74.0
Corporation tax	**54,513**	32,355	68.5

Statement of voting at AGM

At last year's AGM held on 13 December 2013, the Report of the Board on Directors' Remuneration received the following votes from shareholders:

	Votes	**% of votes cast**
Votes cast in favour	86,473,565	98.38
Votes cast against	1,422,563	1.62
Total votes cast	87,896,128	100.00
Votes withheld	4,778,655	N/A

This report will be put to an advisory vote of the Company's shareholders at the AGM on 12 December 2014.

On behalf of the Board

Mike Toms

Chairman of the Board Committee on Executive Directors' Remuneration
13 October 2014

Report of the Directors

Bellway p.l.c. is the holding company of the Bellway Group of companies and is a UK publicly listed company whose shares are traded on the London Stock Exchange. The main trading company is Bellway Homes Limited and this and the other subsidiaries which principally generate the profits and hold the net assets of the Group are listed at note 27 to the accounts.

RESULTS AND DIVIDENDS

The profit for the year attributable to equity holders of the parent company amounts to £191.4 million (2013 – £108.6 million).

The directors have proposed a final ordinary dividend for the year ended 31 July 2014 of 36.0p per share. This has not been included within creditors as it was not approved before the end of the financial year. Dividends paid during the year comprise a final dividend of 21.0p per share in respect of the year ended 31 July 2013, together with an interim dividend in respect of the year ended 31 July 2014 of 16.0p per share.

The directors recommend payment of the final dividend on Wednesday 14 January 2015 to shareholders on the Register of Members at the close of business on Friday 12 December 2014.

DIRECTORS

All the directors of the Company, who are shown on pages 36 and 37, served throughout the year. Peter Johnson, who is not shown, was a director up until the date of his retirement on 31 January 2014.

DIRECTORS' CONTRACTS

Details of the terms of appointment of all the directors are given in the Report of the Board on Directors' Remuneration on page 52.

DIRECTORS' INTERESTS

The directors' interests in the share capital of the Company and in share ownership plan arrangements are given in the Report of the Board on Directors' Remuneration on pages 45 to 61.

TAKEOVERS DIRECTIVE

The information for shareholders required pursuant to the relevant companies' legislation which implements the Takeovers Directive is disclosed in this report and in the Shareholder Information section on pages 102 and 103.

NOTIFIABLE SHAREHOLDERS' INTERESTS

As at 31 July 2014 and as at the date of this report, the Company had been notified under DTR 5 of the following interests, amounting to 3% or more of the voting rights in the issued ordinary share capital of the Company:

	As at 31 July 2014		As at 13 October 2014	
	Number of shares with voting rights	**% total voting rights**	Number of shares with voting rights	% total voting rights
Blackrock Inc	**11,174,895**	**9.15**	11,174,895	9.15
Fidelity International Ltd/FMR Corp	**9,300,000**	**7.62**	9,300,000	7.62
Standard Life Investment Limited	**8,570,757**	**7.01**	8,570,757	7.01
JP Morgan Chase & Co	**5,715,902**	**4.68**	5,715,902	4.68
AXA Framlington Investment Management	**5,603,638**	**4.59**	5,603,638	4.59
Credit Suisse Securities (Europe) Limited	**3,890,282**	**3.19**	3,890,282	3.19

ACCOUNTABILITY AND AUDIT

The Statement on Going Concern and the Statement of Directors' Responsibilities in respect of the Annual Report and Accounts are shown on pages 64 and 66 respectively.

The Audit Committee, whose role is detailed on pages 42 to 44, has meetings at least twice a year with the Company's auditor, KPMG LLP.

CAPITAL MANAGEMENT

The Group is financed through the proceeds of issued ordinary shares, re-invested profits, and bank borrowings less cash in hand. Bellway repaid the £20 million 9.5% preference shares at par in April 2014, thereby marginally reducing the Group's cost of debt. The following table analyses the Group's capital structure:

	2014 £million	2013 £million
Equity	**1,366.1**	1,218.8
Preference shares	**–**	20.0
Net bank debt	**–**	5.8
Capital employed	**1,366.1**	1,244.6

The Group has a strong balance sheet and with bank facilities of £300 million, Bellway is well positioned to deliver further growth if market conditions will allow. The Group's banking facilities provide flexibility and expire during the course of the following financial years:

	£million
By 31 July 2015	125
By 31 July 2016	80
By 31 July 2017	70
By 31 July 2018	–
By 31 July 2019	25
Total	**300**

The Group is in advanced negotiations to renew that element of the facilities which expire by 31 July 2015.

FINANCIAL RISK MANAGEMENT

Treasury policy and liquidity risk

The Group's treasury policy has, as its principal objective, the maintenance of flexible bank facilities in order to meet anticipated borrowing requirements. An internal cash forecasting system enables the Group to plan and assess its future treasury needs. Relationships with banks and overall cash management are co-ordinated centrally. The Group is operating well within its financial covenants and available bank facilities.

Short-term cash surpluses are placed on deposit at competitive rates with high quality counterparties. Other than disclosed above, there are no financial instruments or derivative contracts.

Credit risk

The Group's credit risk is largely mitigated as the vast majority of the Group's sales are made on completion of a legal contract, at which point monies are received in exchange for transfer of legal title. Those completions where shared equity incentives are used do represent some exposure to credit risk but this is small, given the high number of counterparties.

Interest rate risk

The Group's attitude to interest rate risk and forecast debt is influenced by the existing and forecast conditions prevailing at the time that each new interest-bearing instrument is entered into. This will determine, amongst other things, the term and whether a fixed or floating interest rate is obtained.

SUPPLIERS

The Group agrees terms and conditions under which business transactions with suppliers are conducted. The policy is that payments to suppliers are made in accordance with these terms and conditions, provided that the supplier is also complying with the terms and conditions. The Group's current policy concerning the payment of the majority of its material suppliers and sub-contractors is for payment to be made at the end of the month following the month of the invoice. For other supplies, particularly land, the terms are many and varied. Furthermore the Group signed up to the Prompt Payment Code during the year. Trade creditors due within one year at 31 July 2014 of £106.8 million (2013 – £88.4 million) resulted in a creditor payment period of 22 days (2013 – 23 days). Land creditors due within one year were £186.4 million (2013 – £107.0 million). Including land creditors, the creditor payment period was 67 days (2013 – 60 days).

WHISTLEBLOWING ARRANGEMENTS

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

Report of the Directors
continued

RELATIONS WITH SHAREHOLDERS

The Company encourages active dialogue with its private and institutional shareholders, both current and prospective. Meetings are held with both existing and prospective institutional shareholders on a regular basis and as requested. Shareholders are also kept up to date with Company affairs through the Annual and Half Year Reports, Trading Updates and Interim Management Statements. The AGM is used to communicate with institutional and private investors and their participation is encouraged by the taking of questions by the whole Board, both during and also informally, before and after the meeting. The senior independent non-executive director is always available to discuss issues with current and prospective shareholders and institutions, as required. In addition, the whole Board is regularly updated on shareholder and investor views and activities at Board meetings by the Chief Executive and the Finance Director. During the year the Chairman of the Board Committee on Executive Directors' Remuneration consulted with a number of major shareholders and shareholder advisory bodies on matters concerning executive remuneration.

Further information for shareholders is available under Shareholder Information on page 100 to 104 and also on the Group's website at www.bellwaycorporate.com.

GOING CONCERN

After conducting a full review, the directors have a reasonable expectation that the Group has adequate resources to fund its operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts as discussed further on page 75.

EMPLOYEES

Bellway is an equal opportunities employer. It is the Group's policy to develop and apply, throughout the Group, procedures and practices which are designed to ensure that equal opportunities are provided to all employees of Bellway, or those who seek employment with the Group, irrespective of their age, colour, disability, ethnic origin, gender, marital status, nationality, parental status, race, religion, belief or sexual orientation.

All employees, whether part-time, full-time or temporary, are treated fairly and equally. Selection for employment, promotion, training or other matters affecting their employment is on the basis of aptitude and ability. All employees are assisted and encouraged to develop their full potential and the talents and resources of the workforce are fully utilised to maximise the efficiency of the organisation.

It is Group policy to give full and fair consideration to the employment needs of disabled persons (and persons who become disabled whilst employed by the Group) and to comply with any current legislation with regard to disabled persons. Training at each division is planned and monitored through an annual training plan.

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

All new employees, when eligible, are automatically entered into the Group's pension arrangements. In addition, the Group operates a savings related share option scheme. The Group also provides life assurance cover to all staff and offers a private medical scheme, childcare vouchers and personal accident insurance arrangements.

ENVIRONMENTAL ISSUES

The Board recognises the importance of environmental issues and when carrying out its business endeavours to make a positive contribution to the quality of life, both for the present and the future. An Environmental Policy, approved by the Board, has been adopted by all trading entities within the Group, which is available on the Group's website, along with the Group's other corporate responsibility policies. Environmental issues are addressed in the Corporate Responsibility section of the Strategic Report on page 35, and on the Group's website at www.bellway.co.uk/corporate-responsibility.

CARBON REPORTING

The Group's carbon reporting is set out in the Strategic Report on page 33.

HEALTH AND SAFETY AT WORK

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

INFORMATION ON THOSE THIRD PARTIES WITH WHICH THE COMPANY HAS CONTRACTS OR ARRANGEMENTS ESSENTIAL TO ITS BUSINESS

The Company is party to a number of banking agreements with major clearing banks. The withdrawal of such facilities could have a material effect on the financing of the business. There are no other arrangements which the Group considers to be critical to the performance of the business.

PURCHASE OF THE COMPANY'S OWN SHARES

The Company was given authority at the AGM on 13 December 2013 to purchase its own ordinary and preference shares. As at the date of this report, no market purchases of ordinary shares have been made by the Company. All of the 20 million preference shares were however redeemed on 7 April 2014 at their normal redemption date and have been cancelled. This authority will expire at the end of the forthcoming AGM when shareholders will be asked to renew this authority in relation to its ordinary shares for a further year.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNIFICATION OF DIRECTORS

The Company carries appropriate insurance cover in respect of possible legal action being taken against its directors and senior employees. The Articles provide the directors with further protection against liability to third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of this report.

DISCLOSURE OF ALL RELEVANT INFORMATION TO THE AUDITOR

The directors who held office at the date of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and that each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

AUDITOR

In accordance with section 489 of the Companies Act 2006, a resolution for the appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming AGM.

AGM – SPECIAL BUSINESS

Five resolutions will be proposed as special business at the AGM to be held on Friday 12 December 2014. Explanatory notes on these resolutions are set out in Shareholder Information on pages 100 to 101.

DIRECTORS' RESPONSIBILITY

The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations. The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy. Further details are provided on page 66.

By order of the Board

Kevin Wrightson
Group Company Secretary
13 October 2014

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

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

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

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

Responsibility statement of the directors in respect of the Annual Report and Accounts

We confirm that to the best of our knowledge:

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

Keith Adey

Finance Director
13 October 2014

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

Opinions and conclusions arising from our audit.

1 OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Bellway p.l.c. for the year ended 31 July 2014 set out on pages 70 to 98.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 July 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

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

Profit recognition on current sites and the carrying amount of land held for development and work in progress (gross profit £316.4 million; Land held for development and work in progress £1,758.3 million).

Refer to pages 42 to 44 (Audit Committee Report), pages 76 and 79 (Accounting Policies) and note 13 on page 86 (financial disclosures).

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

Gross profit is recognised for legally complete house sales based on the latest whole site gross margin which is an output of the site valuations. These valuations use actual and forecast selling prices and build costs and are sensitive to future movements in both the estimated cost to complete and expected selling prices.

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

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

Our response – Our audit procedures included, among others:

- Inspecting a sample of land additions to evaluate the terms of the deal and checking to the amounts recorded in the financial statements, including re-performing the calculation of fair value for a sample of land acquired on deferred payment terms;
- Testing the Group's controls over the authorisation and recording of costs, including agreeing a sample of costs incurred to date from site valuations to invoice and/or payment, including checking that they relate to the site against which they have been allocated;
- We attended a selection of site valuation meetings, where incurred costs and revenues were reviewed against budgets, and estimates of future cost and selling prices were discussed, challenged and updated, to check that senior operational, commercial and financial management were effectively challenging the forecast margins utilised to recognise profit;
- We used a variety of quantitative and qualitative factors to select those sites with a higher risk of material misstatement and conducted detailed site reviews for these sites to understand the associated risks and ascertain whether these risks had been factored into the site valuations. The site reviews included the following procedures, among others, where relevant, i) making inquiries of management, including senior operational, commercial and financial management, about their assessment of risks for these sites; ii) reviewing site plans to gain an understanding of progress made and problems arising on the site; and iii) comparing actual and budgeted unit sales and average selling prices to date to identify potential build or sale issues.

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

2 OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT (CONTINUED)

- For a sample of sites we performed a comparison of estimated and actual revenue and costs across the period from the initial assessment of a site's viability (conducted prior to acquiring land for development) to July 2014 in order to assess the Group's ability to forecast accurately;
- On a site by site basis, we compared the gross margin recognised in the financial statements with the latest site valuations to determine whether the margin recognised was appropriate;
- We developed an expectation, based on our attendance at site valuation meetings, our detailed site reviews, and other procedures, including enquiries of management and reviews of divisional board reports, of sites to be included in the Group's net realisable value provision. We obtained the Group's net realisable value provision and compared land held for development and work in progress sites included to our expectations and, with reference to site valuations, determined whether amounts included had been calculated appropriately for these sites;
- Assessing the adequacy of the Group's disclosures in relation to areas of judgement and estimation in relation to these balances.

3 OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the Group financial statements as a whole was set at £15 million. This has been determined with reference to a benchmark of revenue, of which it represents 1.0%, which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the Group.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.5 million, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The Group audit team performed an audit of the Group's main trading subsidiary. The audit covered 100% of total Group revenue, 100% of total Group profit before taxation, and 95% of total Group assets. For the other subsidiary companies and jointly controlled entities, we performed analytical procedures at the aggregated Group level to corroborate our conclusion that there are no significant risks of material misstatement within these.

The audit undertaken for Group reporting purposes at the Group's main trading subsidiary was performed to a materiality level of £8.75 million, as set by the Group audit team.

4 OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED

In our opinion:

- the part of the Report of the Board on Directors' Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and Report of the Directors' for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the Corporate Governance Report set out on pages 40 to 44 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures as described in the Report of the Directors' is consistent with the financial statements.

5 WE HAVE NOTHING TO REPORT IN RESPECT OF THE MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee's report does not appropriately address matters communicated by us to the Audit Committee.

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 64, in relation to going concern; and
- the part of the Corporate Governance Report on pages 40 to 44 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

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

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 66, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Nick Plumb (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House, 110 Quayside, Newcastle upon Tyne NE1 3DX
13 October 2014

Group Income Statement

for the year ended 31 July 2014

	Notes	2014 £000	2013 £000
Revenue	1	**1,486,394**	1,110,676
Cost of sales	5	**(1,170,027)**	(907,380)
Gross profit		**316,367**	203,296
Administrative expenses		**(60,241)**	(52,227)
Operating profit	4	**256,126**	151,069
Finance income	2	**807**	751
Finance expenses	2	**(10,996)**	(10,893)
Profit before taxation		**245,937**	140,927
Income tax expense	6	**(54,513)**	(32,355)
Profit for the year*		**191,424**	108,572

* All attributable to equity holders of the parent.

There were no exceptional items in the current or prior period (note 5).

	Notes	2014	2013
Earnings per ordinary share – Basic	8	**157.0p**	89.3p
Earnings per ordinary share – Diluted	8	**156.3p**	88.9p

Statements of Comprehensive Income

for the year ended 31 July 2014

	Notes	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Profit/(loss) for the period		**191,424**	108,572	**(1,310)**	(1,900)
Other comprehensive (expense)/income					
Items that will not be recycled to the income statement:					
Remeasurement (losses)/gains on defined benefit pension plans	25	**(1,052)**	1,558	**–**	–
Income tax on other comprehensive expense/(income)	6	**210**	(530)	**–**	–
Other comprehensive (expense)/income for the period, net of income tax		**(842)**	1,028	**–**	–
Total comprehensive income/(expense) for the period*		**190,582**	109,600	**(1,310)**	(1,900)

* All attributable to equity holders of the parent.

Statements of Changes in Equity

at 31 July 2014

Group	Notes	Issued capital £000	Share premium £000	Capital redemption reserve £000	Other reserves £000	Retained earnings £000	Total £000	Non-controlling interest £000	Total equity £000
Balance at 1 August 2012		15,180	162,755	–	1,492	953,774	1,133,201	(66)	1,133,135
Total comprehensive income for the period									
Profit for the period		–	–	–	–	108,572	108,572	–	108,572
Other comprehensive income*		–	–	–	–	1,028	1,028	–	1,028
Total comprehensive income for the period		–	–	–	–	109,600	109,600	–	109,600
Transactions with shareholders recorded directly in equity:									
Dividends on equity shares	7	–	–	–	–	(27,963)	(27,963)	–	(27,963)
Shares issued	19	41	2,377	–	–	–	2,418	–	2,418
Credit in relation to share options and tax thereon	25	–	–	–	–	1,648	1,648	–	1,648
Total contributions by and distributions to shareholders		41	2,377	–	–	(26,315)	(23,897)	–	(23,897)
Balance at 31 July 2013		15,221	165,132	–	1,492	1,037,059	1,218,904	(66)	1,218,838
Total comprehensive income for the period									
Profit for the period		–	–	–	–	191,424	191,424	–	191,424
Other comprehensive expense*		–	–	–	–	(842)	(842)	–	(842)
Total comprehensive income for the period		–	–	–	–	190,582	190,582	–	190,582
Transactions with shareholders recorded directly in equity:									
Dividends on equity shares	7	–	–	–	–	(45,102)	(45,102)	–	(45,102)
Shares issued	19	52	1,813	–	–	–	1,865	–	1,865
Purchase of own shares	20	–	–	–	–	(764)	(764)	–	(764)
Redemption of preference shares	20	–	–	20,000	–	(20,000)	–	–	–
Credit in relation to share options and tax thereon	25	–	–	–	–	645	645	–	645
Total contributions by and distributions to shareholders		52	1,813	20,000	–	(65,221)	(43,356)	–	(43,356)
Balance at 31 July 2014		**15,273**	**166,945**	**20,000**	**1,492**	**1,162,420**	**1,366,130**	**(66)**	**1,366,064**

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

Statements of Changes in Equity continued

at 31 July 2014

Company	Notes	Issued capital £000	Share premium £000	Capital redemption reserve £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at 1 August 2012		15,180	162,755	–	2,145	527,443	707,523
Total comprehensive expense for the period							
Loss for the period		–	–	–	–	(1,900)	(1,900)
Other comprehensive income*		–	–	–	–	–	–
Total comprehensive expense for the period		–	–	–	–	(1,900)	(1,900)
Transactions with shareholders recorded directly in equity:							
Dividends on equity shares	7	–	–	–	–	(27,963)	(27,963)
Shares issued	19	41	2,377	–	–	–	2,418
Credit in relation to share options	25	–	–	–	–	1,021	1,021
Total contributions by and distributions to shareholders		41	2,377	–	–	(26,942)	(24,524)
Balance at 31 July 2013		15,221	165,132	–	2,145	498,601	681,099
Total comprehensive expense for the period							
Loss for the period		–	–	–	–	(1,310)	(1,310)
Other comprehensive income*		–	–	–	–	–	–
Total comprehensive expense for the period		–	–	–	–	(1,310)	(1,310)
Transactions with shareholders recorded directly in equity:							
Dividends on equity shares	7	–	–	–	–	(45,102)	(45,102)
Shares issued	19	52	1,813	–	–	–	1,865
Purchase of own shares	20	–	–	–	–	(764)	(764)
Redemption of preference shares	20	–	–	20,000	–	(20,000)	–
Credit in relation to share options	25	–	–	–	–	923	923
Total contributions by and distributions to shareholders		52	1,813	20,000	–	(64,943)	(43,078)
Balance at 31 July 2014		**15,273**	**166,945**	**20,000**	**2,145**	**432,348**	**636,711**

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

Balance Sheets

at 31 July 2014

	Notes	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
ASSETS					
Non-current assets					
Property, plant and equipment	9	**12,493**	11,328	**–**	–
Investment property	10	**6,371**	7,697	**–**	–
Investments in subsidiaries and jointly controlled entities	11	**–**	–	**32,107**	31,184
Other financial assets	14	**32,186**	34,484	**–**	–
Deferred tax assets	12	**2,762**	3,238	**–**	–
		53,812	56,747	**32,107**	31,184
Current assets					
Inventories	13	**1,822,682**	1,513,527	**–**	–
Trade and other receivables	15	**72,876**	57,166	**556,142**	622,054
Cash and cash equivalents	22	**35,136**	24,215	**48,748**	48,727
		1,930,694	1,594,908	**604,890**	670,781
Total assets		**1,984,506**	1,651,655	**636,997**	701,965
LIABILITIES					
Non-current liabilities					
Retirement benefit obligations	25	**7,932**	9,042	**–**	–
Trade and other payables	17	**67,725**	45,062	**–**	–
		75,657	54,104	**–**	–
Current liabilities					
Interest-bearing loans and borrowings	16	**30,000**	50,000	**–**	20,000
Corporation tax payable		**29,752**	18,305	**–**	–
Trade and other payables	17	**483,033**	310,408	**286**	866
		542,785	378,713	**286**	20,866
Total liabilities		**618,442**	432,817	**286**	20,866
Net assets		**1,366,064**	1,218,838	**636,711**	681,099
EQUITY					
Issued capital	19	**15,273**	15,221	**15,273**	15,221
Share premium		**166,945**	165,132	**166,945**	165,132
Capital redemption reserve	20	**20,000**	–	**20,000**	–
Other reserves		**1,492**	1,492	**2,145**	2,145
Retained earnings		**1,162,420**	1,037,059	**432,348**	498,601
Total equity attributable to equity holders of the parent		**1,366,130**	1,218,904	**636,711**	681,099
Non-controlling interest		**(66)**	(66)	**–**	–
Total equity		**1,366,064**	1,218,838	**636,711**	681,099

Approved by the Board of Directors on 13 October 2014 and signed on its behalf by:

John Watson
Director

Keith Adey
Director

Registered number 1372603

Cash Flow Statements

for the year ended 31 July 2014

	Notes	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Cash flows from operating activities					
Profit/(loss) for the year		**191,424**	108,572	**(1,310)**	(1,900)
Depreciation charge	9, 10	**2,998**	2,487	**–**	–
Profit on sale of property, plant and equipment	4	**(154)**	(76)	**–**	–
Profit on sale of investment properties		**(95)**	(578)	**–**	–
Finance income	2	**(807)**	(751)	**–**	–
Finance expenses	2	**10,996**	10,893	**1,305**	1,900
Share-based payment expense	25	**923**	1,021	**–**	–
Income tax expense	6	**54,513**	32,355	**–**	–
Increase in inventories		**(309,155)**	(113,684)	**–**	–
(Increase)/decrease in trade and other receivables		**(13,405)**	14,573	**65,912**	27,445
Increase/(decrease) in trade and other payables		**187,676**	39,030	**19**	(18)
Cash from operations		**124,914**	93,842	**65,926**	27,427
Interest paid		**(5,480)**	(5,922)	**(1,904)**	(1,900)
Income tax paid		**(42,658)**	(28,770)	**–**	–
Net cash inflow from operating activities		**76,776**	59,150	**64,022**	25,527
Cash flows from investing activities					
Acquisition of property, plant and equipment		**(3,855)**	(1,956)	**–**	–
Proceeds from sale of property, plant and equipment		**296**	197	**–**	–
Proceeds from sale of investment properties		**904**	2,213	**–**	–
Interest received		**801**	743	**–**	–
Net cash (outflow)/inflow from investing activities		**(1,854)**	1,197	**–**	–
Cash flows from financing activities					
Decrease in bank borrowings		**–**	(32,000)	**–**	–
Redemption of preference shares		**(20,000)**	–	**(20,000)**	–
Proceeds from the issue of share capital on exercise of share options		**1,865**	2,418	**1,865**	2,418
Purchase of own shares by employee share option plans		**(764)**	–	**(764)**	–
Dividends paid	7	**(45,102)**	(27,963)	**(45,102)**	(27,963)
Net cash outflow from financing activities		**(64,001)**	(57,545)	**(64,001)**	(25,545)
Net increase/(decrease) in cash and cash equivalents		**10,921**	2,802	**21**	(18)
Cash and cash equivalents at beginning of year		**24,215**	21,413	**48,727**	48,745
Cash and cash equivalents at end of year	22	**35,136**	24,215	**48,748**	48,727

Accounting Policies

BASIS OF PREPARATION

Bellway p.l.c. (the 'Company') is a company incorporated in England and Wales.

Both the Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') and have been prepared on the historical cost basis except for other financial assets, which are stated at their fair value. On publishing the Company financial statements here together with the Group financial statements, which were approved for issue on 13 October 2014, the Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Operating Review on pages 22 to 25. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Finance Director's Review on pages 26 to 27. Note 18 to the financial statements sets out the Group's policies and processes for managing its capital, financial risk, and its exposures to credit, liquidity, interest rate and housing market risk.

The Group's activities are financed principally by a combination of ordinary shares and bank borrowings less cash in hand. At 31 July 2014, net cash was £5.1 million having generated cash of £10.9 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 £300.0 million, expiring in tranches up to November 2018, with £270.0 million available for drawdown under such facilities at 31 July 2014.

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

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

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

EFFECT OF NEW STANDARDS AND INTERPRETATIONS EFFECTIVE FOR THE FIRST TIME

The Group adopted the following standard and amendment during the current financial year:

- IAS 19 'Employee Benefits' (Amendment). The amendment requires additional disclosures, the disaggregation of plan costs and the removal of the corridor approach for the recognition of actuarial gains and losses. For the current period the profit before taxation is £0.2 million lower than it would have been prior to the adoption of this amendment and net assets are unchanged. The comparative period has not been restated as the adoption of this amendment reduces the profit before taxation by less than £0.2 million and net assets are unchanged.
- IFRS 13 'Fair Value Measurement'. The standard defines fair value and provides a single IFRS framework for measuring fair value. The adoption of this standard has not had a material effect on the Group's profit for the period or equity.

The other standards and interpretations that are applicable for the first time in the Group's financial statements for the year ended 31 July 2014 have no effect on these financial statements.

BASIS OF CONSOLIDATION

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

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

Accounting Policies
continued

PROPERTY, PLANT AND EQUIPMENT

Items are stated at cost less accumulated depreciation and impairment losses. Depreciation on property, plant and equipment is charged to the income statement on a straight-line basis over their estimated useful lives over the following number of years:

Plant, fixtures and fittings – 3 to 10 years.

Freehold buildings – 40 years.

Freehold land is not depreciated.

INVESTMENT PROPERTY

Investment property is initially recognised at cost. Subsequent to recognition, investment property is measured using the cost model and is carried at cost less any accumulated depreciation and accumulated impairment losses.

Depreciation is charged, where material, so as to write off the cost less residual value of the investment properties over their estimated useful lives. The residual values and useful lives of investment properties are reviewed at each financial year end.

The useful life of investment properties has been assessed as: 10 to 100 years.

Land is not depreciated.

INVESTMENTS IN SUBSIDIARIES

Interests in subsidiary undertakings are valued at cost less impairment.

INVENTORIES

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

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

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

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

TRADE AND OTHER RECEIVABLES

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

OTHER FINANCIAL ASSETS

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

A description of the valuation technique is given in note 14 on page 86.

CASH AND CASH EQUIVALENTS

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

INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing loans and borrowings are stated at their fair value at the date of initial recognition and subsequently at amortised cost.

TRADE AND OTHER PAYABLES

Trade payables on normal terms are not interest-bearing and are stated at their nominal value. Trade payables on deferred terms, most notably in relation to land purchases, are recorded initially at their fair value. The discount to nominal value is amortised over the period to settlement and charged to finance expenses.

SHARE CAPITAL

I. Preference share capital
Preference share capital was redeemed on 7 April 2014.

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

Other dividends are recognised as a liability in the period in which they are approved by the shareholders. Interim dividends are recognised when paid.

CLASSIFICATION OF EQUITY INSTRUMENTS AND FINANCIAL LIABILITIES ISSUED BY THE GROUP

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

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

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

GRANTS

Grants are included within work in progress in the balance sheet to the extent that they contribute to construction costs and within deferred income to the extent that they contribute to site income. Grants are credited to the income statement over the life of the developments to which they relate.

REVENUE RECOGNITION

Revenue from housing sales and land is recognised when transactions have legally completed.

Incentives
Sales incentives, including NewBuy, are substantially cash in nature but include part-exchange costs which mainly relate to amounts written down, where the part-exchange allowance given to the purchaser of the new home is greater than the valuation of the part-exchange property. Incentives are accounted for by reducing the housebuild revenue by the cost to the Group of providing the incentive.

Sales incentives also include shared equity schemes which are accounted for as Other Financial Assets. Revenue is recognised at the initial fair value of the Other Financial Assets as described above.

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

PART-EXCHANGE PROPERTIES

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

CONTINGENT LIABILITIES

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

Accounting Policies
continued

TAXATION

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

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

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

EMPLOYEE BENEFITS – RETIREMENT BENEFIT COSTS

The defined benefit scheme liability is the present value of the defined benefit obligation at the balance sheet date less the fair value of scheme assets. The calculation is performed by a qualified actuary using the projected unit credit method. All remeasurement gains and losses are recognised immediately in the Statement of Comprehensive Income ('SOCI'). Under IAS 19R, the net interest cost is calculated on the net defined benefit liability with the difference between actual and expected returns on scheme assets recognised in full within the SOCI. Further details of the scheme and the valuation methods applied may be found in note 25 on page 93.

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

EMPLOYEE BENEFITS – SHARE-BASED PAYMENTS

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

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

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

OWN SHARES HELD BY ESOP TRUST

Transactions of the Company-sponsored ESOP trust are included in both the Group financial statements and the Company's own financial statements. The purchase of shares in the Company by the trust are charged directly to equity.

OPERATING LEASES

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

FINANCE INCOME AND EXPENSES

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

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

EXCEPTIONAL ITEMS

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Valuation of work in progress and land held for development
Inventories are carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price (in the ordinary course of business) less all estimated costs of completion and overheads. Valuations of site work in progress are carried out at regular intervals and estimates of the cost to complete a site and estimates of anticipated revenues are required to enable a development profit to be determined. Management are required to employ considerable judgement in estimating the profitability of a site and in assessing any impairment provisions which may be required.

For both the years ended 31 July 2014 and 31 July 2013, a full review of inventories has been performed and write-downs have been made where cost exceeds net realisable value. Estimated selling prices have been reviewed on a site by site basis and have been amended based on local management and the Board's assessment of current market conditions. For the years ended 31 July 2014 and 31 July 2013 no exceptional charge has resulted from the review.

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

Gross profit recognition
Gross profit is recognised for completed house sales based on the latest whole site gross margin which is an output of the site valuation. These valuations, which are updated at frequent intervals throughout the life of the site, use actual and forecast selling prices, land costs and construction costs and are sensitive to future movements in both the estimated cost to complete and expected selling prices. Forecast selling prices are inherently uncertain due to changes in market conditions.

STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

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

- IFRS 10 'Consolidated Financial Statements'. The standard provides a single control model for the inclusion of entities in consolidated financial statements. This is effective for the period beginning on 1 August 2014.
- IFRS 11 'Joint Arrangements'. The standard requires the equity method to be used when consolidating jointly controlled entities, and does not permit the use of the proportional method which is currently used by the Group. The adoption of this standard will result in presentational changes to the income statement and balance sheet and require adjusted comparative information in the year of adoption. This is effective for the period beginning on 1 August 2014.
- IFRS 12 'Disclosure of Interests in Other Entities'. The standard requires additional disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities. This is effective for the period beginning on 1 August 2014.

The Board anticipates that these standards will be adopted in the Group's financial statements in the year they become effective and that the adoption of these standards will not have a significant effect on the Group's financial statements.

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

Notes to the Accounts

1 SEGMENTAL ANALYSIS

The Board regularly reviews the Group's performance and balance sheet position for its entire operations, which are entirely based in its country of domicile, the UK, and receives financial information for the UK as a whole. As a consequence the Group has one reportable segment which is UK housebuilding.

As there continues to be only one reportable segment whose revenue, profits, expenses, assets, liabilities and cash flows are measured and reported on a basis consistent with the Group financial statements, no additional numerical disclosures are necessary.

Additional information on average selling prices and the unit sales split between north, south, private and social has been included in the Chief Executive's Operating Review on page 23. The Board does not, however, consider these categories to be separate reportable segments as they review the entire operations as a whole, which are based in the UK, when assessing performance and making decisions about the allocation of resources.

2 FINANCE INCOME AND EXPENSES

	2014 £000	2013 £000
Interest receivable on bank deposits	**502**	309
Other interest income	**305**	442
Finance income	**807**	751
Interest payable on bank loans and overdrafts	**3,403**	3,983
Interest on deferred term land payables	**5,700**	4,682
Interest element of movement in pension scheme deficit	**358**	299
Other interest expense	**230**	29
Preference dividends	**1,305**	1,900
Finance expenses	**10,996**	10,893

3 EMPLOYEE INFORMATION

Group employment costs, including directors, comprised:

	2014 £000	2013 £000
Wages and salaries	**83,208**	71,599
Social security	**8,718**	7,870
Pension costs (note 25)	**2,858**	2,238
Share-based payments (note 25)	**923**	1,021
	95,707	82,728

The average number of persons employed by the Group during the year was 1,959 (2013 – 1,733) comprising 628 (2013 – 578) administrative and 1,331 (2013 – 1,155) production and others employed in housebuilding and associated trading activities.

The executive directors and the Group Company Secretary are the only employees of the Company and the emoluments of the executive directors are disclosed in the Report of the Board on Directors' Remuneration on pages 45 to 61.

Key management personnel remuneration, including directors, comprised:

	2014 £000	2013 £000
Salaries and fees	**2,054**	2,263
Taxable benefits	**130**	128
Annual bonus – cash	**1,641**	1,633
Pension costs	**183**	166
Share-based payments	**449**	564
	4,457	4,754

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

4 OPERATING PROFIT

	2014 £000	2013 £000
Operating profit is stated after charging/(crediting):		
Staff costs (note 3)	**95,707**	82,728
Profit on sale of property, plant and equipment	**(154)**	(76)
Depreciation of property, plant and equipment	**2,481**	2,071
Depreciation of investment property	**517**	416
Hire of plant and machinery	**10,495**	9,331
Operating lease charges for land and buildings	**1,182**	1,138
Auditor's remuneration:		
Audit of these financial statements	**30**	30
Amounts receivable by the auditor and its associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**153**	196
Other services relating to taxation	**39**	53
Pension scheme audit	**4**	4

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

5 EXCEPTIONAL ITEMS

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

A full review of inventories was performed at 31 July 2014 and the carrying value of land was compared to the net realisable value. Net realisable value represents the estimated selling price (in the ordinary course of business) less all estimated costs of completion and attributable overheads. Estimated selling prices and costs to complete were reviewed on a site by site basis and selling prices were amended based on local management and the Board's assessment of current market conditions. No exceptional land write-downs or land write backs were required as a result of this review.

There were no exceptional items in the year ended 31 July 2013.

Notes to the Accounts
continued

6 INCOME TAX EXPENSE

	2014 £000	2013 £000
Current tax expense:		
UK corporation tax	**54,152**	33,559
Adjustments in respect of prior years	**(47)**	(1,304)
	54,105	32,255
Deferred tax expense:		
Origination and reversal of temporary differences	**464**	(210)
Reduction in tax rate	**–**	164
Adjustments in respect of prior years	**(56)**	146
	408	100
Total income tax expense in income statement	**54,513**	32,355

	2014 %	2014 £000	2013 %	2013 £000
Reconciliation of effective tax rate:				
Profit before taxation		**245,937**		140,927
Tax calculated at UK corporation tax rate	**22.3**	**54,844**	23.7	33,400
Enhanced deductions	**(0.1)**	**(228)**	–	(51)
Reduction in tax rate	**–**	**–**	0.1	164
Adjustments in respect of prior years – current tax	**–**	**(47)**	(0.9)	(1,304)
– deferred tax	**–**	**(56)**	0.1	146
Effective tax rate and tax expense for the year	**22.2**	**54,513**	23.0	32,355

The deferred tax assets held by the Group at the start of the year that are expected to be realised after 31 March 2015 are valued at the tax rate that will be effective when they are expected to be realised. At the year end a tax rate reduction to 20%, effective from 1 April 2015, was substantively enacted.

The corporation tax rate reduced from 24% to 23% with effect from 1 April 2013, and to 21% with effect from 1 April 2014. A further reduction to 20%, effective from 1 April 2015, will reduce the Group's current tax charge accordingly.

The effective income tax expense is 22.2% of profit before taxation (2013 – 23.0%) and compares favourably to the Group's standard tax rate for the year of 22.3% (2013 – 23.7%). 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.

	2014 £000	2013 £000
Deferred tax recognised directly in equity:		
(Charge)/credit relating to equity-settled transactions	**(278)**	627
Credit/(charge) relating to remeasurements on the defined benefit pension scheme	**210**	(530)

7 DIVIDENDS ON EQUITY SHARES

	2014 £000	2013 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 July 2013 of 21.0p per share (2012 – 14.0p)	**25,566**	17,017
Interim dividend for the year ended 31 July 2014 of 16.0p per share (2013 – 9.0p)	**19,543**	10,952
Dividends forfeited	**(7)**	(6)
	45,102	27,963
Proposed final dividend for the year ended 31 July 2014 of 36.0p per share (2013 – 21.0p)	**43,989**	25,572

The 2014 proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 12 December 2014 and, in accordance with IAS 10 'Events after the Reporting Period', has not been included as a liability in these financial statements. At the record date for the final dividend for the year ended 31 July 2013 shares were held by the Trust (note 20) on which dividends had been waived.

8 EARNINGS PER ORDINARY SHARE

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

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

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

	Earnings 2014 £000	**Weighted average number of ordinary shares 2014 Number**	**Earnings per share 2014 p**	Earnings 2013 £000	Weighted average number of ordinary shares 2013 Number	Earnings per share 2013 p
For basic earnings per ordinary share	**191,424**	**121,919,049**	**157.0**	108,572	121,572,688	89.3
Dilutive effect of options and awards		**535,130**	**(0.7)**		599,151	(0.4)
For diluted earnings per ordinary share	**191,424**	**122,454,179**	**156.3**	108,572	122,171,839	88.9

9 PROPERTY, PLANT AND EQUIPMENT

Group	**Land and property £000**	**Plant, fixtures and fittings £000**	**Total £000**
Cost			
At 1 August 2012	7,200	16,505	23,705
Additions	–	2,113	2,113
Disposals	–	(2,043)	(2,043)
At 1 August 2013	7,200	16,575	23,775
Additions	793	2,995	3,788
Disposals	–	(2,344)	(2,344)
At 31 July 2014	**7,993**	**17,226**	**25,219**
Depreciation			
At 1 August 2012	1,225	11,073	12,298
Charge for year	166	1,905	2,071
On disposals	–	(1,922)	(1,922)
At 1 August 2013	1,391	11,056	12,447
Charge for year	166	2,315	2,481
On disposals	–	(2,202)	(2,202)
At 31 July 2014	**1,557**	**11,169**	**12,726**
Net book value			
At 31 July 2014	**6,436**	**6,057**	**12,493**
At 31 July 2013	5,809	5,519	11,328
At 31 July 2012	5,975	5,432	11,407

The Company has no property, plant and equipment.

Notes to the Accounts
continued

10 INVESTMENT PROPERTY

Group	Total £000
Cost	
At 1 August 2012	9,791
Disposals	(1,685)
At 1 August 2013	8,106
Disposals	(809)
At 31 July 2014	**7,297**
Depreciation	
At 1 August 2012	43
Charge for year	416
On disposals	(50)
At 1 August 2013	409
Charge for year	517
At 31 July 2014	**926**
Net book value	
At 31 July 2014	**6,371**
At 31 July 2013	7,697
At 31 July 2012	9,748

Investment properties mainly represent properties where Bellway has retained an interest in a sold property comprising a proportion of the cost of residential units constructed by the Group, the units being sold under a shared ownership scheme. They are valued under the cost model and are held at cost less accumulated depreciation and accumulated impairment losses. A formal internal valuation of investment properties was carried out at the end of the financial year. The fair value of the investment properties was assessed at £7.450 million (2013 – £7.697 million).

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

The Company has no investment properties.

11 INVESTMENTS IN SUBSIDIARIES AND PROPORTIONATELY CONSOLIDATED JOINTLY CONTROLLED ENTITIES

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

Subsidiaries

Company	Shares in subsidiary undertakings £000
Cost	
At 1 August 2013	31,184
Additions	923
At 31 July 2014	**32,107**

11 INVESTMENTS IN SUBSIDIARIES AND PROPORTIONATELY CONSOLIDATED JOINTLY CONTROLLED ENTITIES (CONTINUED)

Principal subsidiary undertakings

A summary of the principal subsidiary undertakings is given in note 27 on page 98.

Jointly controlled entities

Name	Country of incorporation	Percentage of shares owned directly by Bellway p.l.c.
Barking Riverside Limited	England and Wales	51%

The Group and Company also own 25% – 50% of the ordinary share capital of several smaller proportionately consolidated jointly controlled entities. All of these entities are incorporated and registered in England and Wales.

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

	2014 £000	2013 £000
Non-current assets	**253**	202
Current assets	**38,661**	37,140
Non-current liabilities	**(7,474)**	(7,256)
Current liabilities	**(41,721)**	(40,830)
Net liabilities	**(10,281)**	(10,744)
Income	**5,793**	2,440
Expenses	**(5,330)**	(2,502)

Guarantees relating to the overdrafts of jointly controlled entities have been given by the Company (note 23).

12 DEFERRED TAXATION

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

Group	Capital allowances £000	Retirement benefit obligations £000	Share-based payments £000	Other temporary differences £000	**Total £000**
At 1 August 2012	207	2,645	358	31	3,241
Income statement (charge)/credit	(158)	(306)	303	61	(100)
Charge to statement of comprehensive income	–	(530)	–	–	(530)
Credit to equity	–	–	627	–	627
At 31 July 2013	49	1,809	1,288	92	3,238
Income statement (charge)/credit	(8)	(432)	(40)	72	(408)
Credit to statement of comprehensive income	–	210	–	–	210
Charge to equity	–	–	(278)	–	(278)
At 31 July 2014	**41**	**1,587**	**970**	**164**	**2,762**

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

Notes to the Accounts
continued

13 INVENTORIES

Group	2014 £000	2013 £000
Land	**1,122,402**	907,279
Work in progress	**635,865**	535,022
Showhomes	**52,850**	52,827
Part-exchange properties	**11,565**	18,399
	1,822,682	1,513,527

Inventories of £1,141.5 million were expensed in the year (2013 – £880.8 million).

In the ordinary course of business inventories have been written back by a net £11.8 million (2013 – £3.2 million) in the year. There has been no exceptional write-down of inventories in the period (2013 – £nil) as outlined in note 5 on page 81.

Land with a carrying value of £66.4 million (2013 – £53.2 million) was used as security for land payables (note 17).
The directors consider all inventories to be essentially current in nature although the Group's operational cycle is such that a proportion of inventories will not be realised within 12 months. It is not possible to determine with accuracy when specific inventory will be realised as this is subject to a number of issues including consumer demand and planning permission delays.

The Company has no inventory.

14 OTHER FINANCIAL ASSETS

Group	2014 £000	2013 £000
At 1 August	**34,484**	35,080
Additions	**72**	1,128
Redemptions	**(2,526)**	(1,849)
Imputed interest	**156**	125
At 31 July	**32,186**	34,484

Other financial assets carried at fair value are categorised as level 3 within the hierarchical classification of IFRS 7 Revised (as defined within the standard).

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

The fair value of future anticipated cash receipts takes into account the directors' view of significant unobservable inputs including future house price movements, the expected timing of receipts and the likelihood that a purchaser defaults on a repayment. The directors revisit the future anticipated cash receipts from the assets at the end of each reporting period. At 31 July 2014 the estimated fair value of these assets included an allowance for low single-digit price inflation.

The difference between the anticipated future receipt and the initial fair value is charged over the estimated deferred term to cost of sales, with the financial asset increasing to its full expected cash settlement value on the anticipated receipt date. The imputed interest credited to cost of sales for the year ended 31 July 2014 was £0.156 million (2013 – £0.125 million).

Credit risk, which the directors currently consider to be largely mitigated through holding a second legal charge over the assets, is accounted for in determining present values. The directors review the financial assets for impairment at the end of each reporting period. There were no indicators of impairment at 31 July 2014 (2013 – nil). None of the other financial assets are past their due dates (2013 – nil).

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

The directors considered that there was no material difference between the initial market discount rate and the market discount rate at 31 July 2014 or 31 July 2013 and accordingly have not recognised any movements directly within the Statement of Comprehensive Income to date.

The Company has no other financial assets.

15 TRADE AND OTHER RECEIVABLES

Current receivables

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Trade receivables	**20,998**	9,881	**–**	–
Other receivables	**49,284**	44,606	**35**	–
Amounts owed by Group undertakings	**–**	–	**556,107**	622,054
Prepayments and accrued income	**2,594**	2,679	**–**	–
	72,876	57,166	**556,142**	622,054

The Group assesses the ageing of trade receivables in terms of whether amounts are receivable in less than one year or more than one year. None of the trade receivables are past their due dates (2013 – nil).

Other receivables due within one year include £16.440 million (2013 – £11.956 million) in relation to VAT recoverable.

16 INTEREST-BEARING LOANS AND BORROWINGS

Current liabilities

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Bank loans	**30,000**	30,000	**–**	–
Preference shares (see note below)	**–**	20,000	**–**	20,000
	30,000	50,000	**–**	20,000

Preference shares

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Allotted, called up and fully paid				
20,000,000 £1 shares at 31 July 2013	**–**	20,000	**–**	20,000

With regard to the 9.5% cumulative redeemable preference shares 2014 of £1 each, which were redeemed on 7 April 2014, the following rights were attached:

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

(b) The shares were redeemable by the Company at any time at a sum calculated by reference to the yield on 12% Exchequer Stock 2013/2017 provided such sum was neither less than the nominal value nor more than twice the nominal value of the shares. All shares still in issue were redeemed at par on 7 April 2014.

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

(d) The preference shareholders had no ordinary voting rights except in circumstances where the fixed dividend on the preference shares was six months in arrears or where the business of a general meeting included the consideration of certain resolutions as defined in the Articles of Association relating to winding up, changes in the rights of preference shareholders or failure by the Company to redeem the preference shares by 7 April 2014.

Notes to the Accounts
continued

17 TRADE AND OTHER PAYABLES

Non-current liabilities

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Land payables	**61,546**	38,986	**–**	–
Other payables	**4,800**	4,858	**–**	–
Accrued expenses and deferred income	**1,379**	1,218	**–**	–
	67,725	45,062	**–**	–

Land payables of £8.053 million (2013 – £10.650 million) are secured on the land to which they relate.

The carrying value of the land used for security is £7.023 million (2013 – £9.421 million).

Current liabilities

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Trade payables	**106,822**	88,423	**–**	–
Land payables	**186,441**	107,033	**–**	–
Social security and other taxes	**3,410**	2,918	**–**	–
Other payables	**30,498**	26,413	**286**	121
Accrued expenses and deferred income	**62,832**	49,512	**–**	745
Payments on account	**93,030**	36,109	**–**	–
	483,033	310,408	**286**	866

Land payables of £61.067 million (2013 – £45.513 million) are secured on the land to which they relate.

The carrying value of the land used for security is £59.377 million (2013 – £43.811 million).

18 FINANCIAL RISK MANAGEMENT

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

The Company's only financial instruments are cash, other receivables and amounts owed by Group undertakings following the repayment of the preference shares on 7 April 2014.

Capital management

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

Management of financial risk

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

Credit risk

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

There is no specific concentration of credit risk in respect of home sales as the exposure is spread over a number of customers. In respect of trade receivables and other financial assets, the amounts presented in the balance sheet are stated after adjusting for any doubtful receivables, based on the judgement of the Group's management through using both previous experience and knowledge of the current position (see note 15). In managing risk the Group assesses the credit risk of its counterparties before entering into a transaction. No credit limits were exceeded during the reporting period or subsequently and the Group does not anticipate any losses from non-performance by these counterparties. In relation to land payables, certain payables are secured on the respective land asset held (see note 17). No other security is held against any other financial assets of the Group.

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

18 FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

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

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

Interest rate risk

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

For the year ended 31 July 2014 it is estimated that an increase of 1% in interest rates applying for the full year would increase the Group's profit before taxation by £0.122 million (2013 – decrease profit before taxation by £0.649 million).

Housing market risk

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

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

At 31 July 2014 it is estimated that if forecast UK house price inflation had been 1% lower, and all other variables were held constant, the Group's house price linked financial instruments, which are solely available for sale financial assets, would decrease in value, excluding the effects of taxation, by £3.0 million (2013 – £3.0 million) with a corresponding reduction in both the result for the year and equity.

Adjustments to the house price inflation assumption in the fair value model would have an effect on the fair value of the assets. Additionally, whilst not easily assessable in advance, changes to house price inflation levels may affect the likelihood of these assets being redeemed, further affecting their fair value.

Land purchased on deferred terms

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

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

	Balance at 31 July £000	Total contracted cash payment £000	Within one year or on demand £000	1 – 2 years £000	2 – 5 years £000	More than 5 years £000
At 31 July 2014	**247,987**	**253,826**	**188,114**	**41,973**	**23,739**	**–**
At 31 July 2013	146,019	150,551	108,403	18,064	21,442	2,642

Notes to the Accounts
continued

18 FINANCIAL RISK MANAGEMENT (CONTINUED)

The maturity profile of the total contracted payments in respect of financial liabilities (excluding amounts due on land creditors shown separately above) is as follows:

	Balance at 31 July £000	Total contracted cash payment £000	Within one year or on demand £000	1 – 2 years £000	2 – 5 years £000	More than 5 years £000
Bank loans – floating rates	30,000	30,087	30,087	–	–	–
Trade and other payables	145,530	145,530	140,730	–	–	4,800
At 31 July 2014	**175,530**	**175,617**	**170,817**	**–**	**–**	**4,800**
Bank loans – floating rates	30,000	30,015	30,015	–	–	–
Preference shares	20,000	21,900	21,900	–	–	–
Trade and other payables	122,612	122,612	117,754	–	–	4,858
At 31 July 2013	172,612	174,527	169,669	–	–	4,858

The interest rates on the preference shares apply to the whole term of the relevant instruments.

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

At the year end, the Group had £270.0 million (2013 – £270.0 million) of undrawn bank facilities available.

Cash and cash equivalents

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

The amounts of cash and cash equivalents for the years ended 31 July 2014 and 31 July 2013 for both the Group and the Company are shown in note 22.

At 31 July 2014 the average interest rate earned on the temporary closing cash balance was 0.51% (2013 – 0.48%).

The carrying amount of these assets approximates their fair value.

Fair values

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

Financial assets and liabilities by category

	Group 2014 £000	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Available for sale financial assets	**32,186**	34,484	**–**	–
Loans and receivables	**70,282**	54,487	**556,142**	622,054
Cash and cash equivalents	**35,136**	24,215	**48,748**	48,727
Financial liabilities at amortised cost	**(420,107)**	(315,713)	**(286)**	(20,121)
	(282,503)	(202,527)	**604,604**	650,660

19 ISSUED CAPITAL

Group and Company	2014 Number 000	2014 £000	2013 Number 000	2013 £000
Allotted, called up and fully paid ordinary shares				
At start of year	**121,772**	**15,221**	121,451	15,180
Issued on exercise of options	**419**	**52**	321	41
At end of year	**122,191**	**15,273**	121,772	15,221

Share options

At 31 July 2014 all outstanding options to purchase ordinary shares in Bellway p.l.c., in accordance with the terms of the applicable schemes, were as follows:

Grant date	Number of shares	Exercise price (p)	Dates from which exercisable		Expiry date
(a) Bellway p.l.c. (1995) Employee Share Option Scheme					
17 November 2004	11,700	716.00	17 November 2007	to	16 November 2014
	11,700				
(b) Bellway p.l.c. (1996) Employee Share Option Scheme					
17 November 2004	4,600	716.00	17 November 2007	to	16 November 2014
31 October 2005	56,000	844.00	31 October 2008	to	30 October 2015
	60,600				
(c) Bellway p.l.c. (2005) Employee Share Option Scheme					
31 October 2005	24,100	844.00	31 October 2008	to	30 October 2015
7 February 2007	7,400	1,470.00	7 February 2010	to	6 February 2017
	31,500				
(d) Bellway p.l.c. (2007) Employee Share Option Scheme					
7 February 2007	14,600	1,470.00	7 February 2010	to	6 February 2017
	14,600				
(e) Bellway p.l.c. (2003) Savings Related Share Option Scheme					
11 November 2009	11,750	661.60	1 February 2015	to	31 July 2015
12 November 2010	54,426	439.60	1 February 2016	to	31 July 2016
14 November 2011	262,680	556.00	1 February 2015	to	31 July 2015
14 November 2011	42,607	556.00	1 February 2017	to	31 July 2017
16 November 2012	107,180	805.60	1 February 2016	to	31 July 2016
16 November 2012	17,896	805.60	1 February 2018	to	31 July 2018
15 November 2013	86,618	1,218.40	1 February 2017	to	31 July 2017
15 November 2013	30,025	1,218.40	1 February 2019	to	31 July 2019
	613,182				
Total	**731,582**				

Details of directors' share options are contained within the Report of the Board on Directors' Remuneration on pages 45 to 61.

Notes to the Accounts
continued

20 RESERVES

Own shares held
The Group and Company holds shares within the Bellway Employee Share Trust (1992) (the 'Trust') for participants of certain share-based payment schemes as outlined in note 25. During the period the Trust made a market purchase of 50,000 (2013 – nil) shares at an average price of 1,529.7p (2013 – nil) and transferred nil (2013 – nil) shares to employees. The number of shares held within the Trust, and on which dividends have been waived, at 31 July 2014 was 88,443 (2013 – 38,443). These shares are held within the financial statements at a cost of £1.033 million (2013 – £0.269 million). The market value of these shares at 31 July 2014 was £1.336 million (2013 – £0.531 million).

Redemption of preference shares
On 7 April 2014 the Company redeemed 20,000,000 £1 preference shares, being all of the preference shares in issue. An amount of £20 million, equivalent to the nominal value of the shares redeemed, has been transferred to a capital redemption reserve during the year.

Income statement
As permitted by section 408 of the Companies Act 2006, the Company's income statement has not been included in these financial statements. The Company's loss for the financial year was £1.310 million (2013 – £1.900 million).

21 RECONCILIATION OF NET CASH FLOW TO NET CASH/(DEBT)

Group	2014 £000	2013 £000
Increase in net cash and cash equivalents	**10,921**	2,802
Decrease in bank borrowings	**–**	32,000
Decrease in preference shares	**20,000**	–
Decrease in net debt from cash flows	**30,921**	34,802
Net debt at 1 August	**(25,785)**	(60,587)
Net cash/(debt) at 31 July	**5,136**	(25,785)

Company	2014 £000	2013 £000
Increase/(decrease) in net cash and cash equivalents	**21**	(18)
Decrease in preference shares	**20,000**	–
Increase/(decrease) in net cash from cash flows	**20,021**	(18)
Net cash at 1 August	**28,727**	28,745
Net cash at 31 July	**48,748**	28,727

22 ANALYSIS OF NET (DEBT)/CASH

Group	At 1 August 2013 £000	Cash flows £000	At 31 July 2014 £000
Cash and cash equivalents	24,215	10,921	**35,136**
Bank loans	(30,000)	–	**(30,000)**
Preference shares	(20,000)	20,000	**–**
Net (debt)/cash	(25,785)	30,921	**5,136**

Company	At 1 August 2013 £000	Cash flows £000	At 31 July 2014 £000
Cash and cash equivalents	48,727	21	**48,748**
Preference shares	(20,000)	20,000	**–**
Net cash	28,727	20,021	**48,748**

23 CONTINGENT LIABILITIES

The Company is liable, jointly and severally with other members of the Group, under guarantees given to the Group's bankers in respect of overdrawn balances on certain Group bank accounts and in respect of other overdrafts, loans and guarantees given by the banks to or on behalf of other Group undertakings. At 31 July 2014 there were bank overdrafts of £nil (2013 – £nil) and loans of £30.0 million (2013 – £30.0 million). The Company has given performance and other trade guarantees on behalf of subsidiary undertakings. The Company has guaranteed the overdrafts of jointly controlled entities up to a maximum of £7.1 million (2013 – £7.5 million). It is the directors' expectation that the possibility of cash outflow on these liabilities is considered minimal and no provision is required.

24 COMMITMENTS

Group **Capital commitments**	**2014** **£000**	2013 £000
Contracted not provided	**372**	20
Authorised not contracted	**–**	32

Operating leases

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

	2014 **£000**	2013 £000
Expiring within one year	**–**	69
Expiring within the second to fifth years	**2,397**	2,438
Expiring in more than five years	**1,031**	–
	3,428	2,507

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

Company

The commitments of the Company were £nil (2013 – £nil).

25 EMPLOYEE BENEFITS

(a) Retirement benefit obligations

The Group sponsors the Bellway p.l.c. 1972 Pension Scheme (the 'Scheme') which has a funded defined benefit arrangement which is closed to new members and to future service accrual. The Group also sponsors the Bellway plc 2008 Group Self Invested Personal Pension Plan ('GSIPP') which is a defined contribution contract-based arrangement.

Contributions of £2.858 million (2013 – £2.238 million) were charged to the income statement for the GSIPP.

Defined contributions have been excluded from the assets and liabilities.

Role of Trustees

The Scheme is managed by the Trustees, who are appointed by either the Company or the members. The role of the Trustees is to manage the Scheme in line with the Scheme trust deed and rules, to act prudently, responsibly and honestly, impartially and in the interests of all beneficiaries. The main responsibilities of the Trustees are to agree with the employer the level of contributions to the Scheme and to make sure these are paid, to decide how the Scheme's assets are invested so the Scheme is able to meet its liabilities, and to oversee that the payment of benefits, record keeping and administration of the Scheme complies with the Scheme trust deed and rules and legislation.

Funding

UK legislation requires that pension schemes are funded prudently (i.e. to a level in excess of the current expected cost of providing benefits). The last full actuarial valuation of the Scheme was carried out by a qualified independent actuary as at 1 August 2011 and updated on an approximate basis to 31 July 2014. A full actuarial valuation as at 1 August 2014 is underway.

With regard to the Scheme, regular contributions made by the employer over the financial year were £1.2 million (2013 – £1.2 million). The employer also paid special contributions amounting to £1.32 million (2013 – £nil). Expenses were paid in addition.

The Group paid a special contribution of £3.2 million in August 2014 and expects to pay no regular contributions to the Scheme during the year ending 31 July 2015, subject to the results of the full actuarial valuation as at 1 August 2014.

Notes to the Accounts
continued

25 EMPLOYEE BENEFITS (CONTINUED)

Regulation
The UK pensions market is regulated by the Pensions Regulator whose key statutory objectives in relation to UK defined benefit plans are:

- to protect the benefits of members of occupational pension schemes;
- to promote, and to improve understanding of the good administration of work-based pension schemes;
- to reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund; and
- to maximise employer compliance with employer duties and the employment safeguards introduced by the Pensions Act 2008.

Risk
The Scheme exposes the Group to a number of risks, the most significant are:

RISK	DESCRIPTION
Asset volatility	The Scheme's defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields. However, a significant proportion of the Scheme's assets are invested in growth assets, such as equities, that would be expected to outperform corporate bonds in the long-term but create volatility and risk in the short-term.
Inflation risk	A significant proportion of the Scheme's defined benefit obligation is linked to inflation, with higher inflation increasing the liabilities. However, there are caps of either a 3% p.a. or 5% p.a. increase in place to limit the effect of higher inflation.
Life expectancy	The majority of the Scheme's liabilities are to provide a pension for the life of the member, with any increase in life expectancy also increasing the Scheme's defined benefit obligation.

Movements in net defined benefit obligations

	Defined benefit obligation		Fair value of Scheme assets		Net defined benefit liability	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Balance at 1 August	**(48,549)**	(47,317)	**39,507**	35,816	**(9,042)**	(11,501)
Included in the income statement						
Interest (cost)/income	**(2,191)**	(1,945)	**1,833**	1,646	**(358)**	(299)
	(2,191)	(1,945)	**1,833**	1,646	**(358)**	(299)
Included in other comprehensive (expense)/income						
Remeasurement (loss)/gain arising from:						
– Difference between expected and actual return on Scheme assets	**–**	–	**–**	2,897	**–**	2,897
– Change in demographic and financial assumptions	**(1,558)**	(1,378)	**–**	–	**(1,558)**	(1,378)
– Experience adjustments	**90**	39	**–**	–	**90**	39
Return on plan assets excluding interest income	**–**	–	**416**	–	**416**	–
	(1,468)	(1,339)	**416**	2,897	**(1,052)**	1,558
Other						
Contributions paid by the employer	**–**	–	**2,520**	1,200	**2,520**	1,200
Benefits paid	**1,844**	2,052	**(1,844)**	(2,052)	**–**	–
	1,844	2,052	**676**	(852)	**2,520**	1,200
Balance at 31 July	**(50,364)**	(48,549)	**42,432**	39,507	**(7,932)**	(9,042)

25 EMPLOYEE BENEFITS (CONTINUED)

The weighted average duration of the defined benefit obligation at the end of the reporting period is 17 years (2013 – 18 years).

Scheme assets
The fair value of the Scheme assets is:

	2014 £000	2013 £000
Equity instruments – quoted	**24,166**	23,810
Corporate bonds	**12,703**	11,179
Government bonds	**1,786**	1,750
Cash and cash equivalents	**3,777**	2,768
Total	**42,432**	39,507

Equity instruments and government bonds have quoted prices in active markets. Other plan assets are not quoted in active markets. All government bonds are issued by European governments and are AAA rated.

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

	2014 % per annum	2013 % per annum
Discount rate	**4.20**	4.60
Future salary increases	**3.90**	4.05
Allowance for pension in payment increases of RPI or 5% p.a. if less	**3.40**	3.55
Allowance for deferred pension increases of CPI or 5% p.a. if less	**2.40**	2.85
Allowance for commutation of pension for cash at retirement	**50% of maximum**	50% of maximum

The mortality assumptions adopted at 31 July 2014 are based on the SIPxA tables and allow for future improvement in mortality. The tables used imply the following life expectancies at age 65:

Male retiring at age 65 in 2014	23.4 years
Female retiring at age 65 in 2014	25.7 years
Male retiring at age 65 in 2034	25.6 years
Female retiring at age 65 in 2034	28.0 years

Sensitivities
The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises the effect on the defined benefit obligation at the end of the reporting period if different assumptions were used:

Assumption	Change in assumption	Change in liabilities (%)
Discount rate	-0.25% p.a.	Increase by 4.3%
Future salary increases	+0.25% p.a.	Increase by 0.8%
Inflation – RPI	+0.25% p.a.	Increase by 3.7%
Mortality	+1 year life expectancy	Increase by 2.6%

The calculations for the sensitivity analysis are not as accurate as a full valuation carried out using these assumptions. Each assumption change is considered in isolation, which in practice is unlikely to occur, as changes in some of the assumptions are correlated.

Notes to the Accounts
continued

25 EMPLOYEE BENEFITS (CONTINUED)

(b) Share-based payments
The Group operates a long-term incentive plan ('LTIP'), a share matching plan ('SMP'), an annual bonus scheme, employee share option schemes ('ESOS') and Savings Related Share Option Schemes ('SRSOS'), all of which are detailed below.

Awards under the LTIP and SMP have been made to executive directors and the Group Company Secretary, with awards under the annual bonus scheme also made to senior employees. The awards take the form of ordinary shares in the Company.

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

Options issued under the SRSOS are offered to all employees including the executive directors.

An outline of the performance conditions in relation to the LTIP and the SMP is detailed under the long-term incentive scheme section on pages 55 and 58 within the Report of the Board on Directors' Remuneration.

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

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

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

LTIP, SMP and annual bonus

	2014 Number of options	2013 Number of options
Outstanding at the beginning of the year	**251,219**	330,064
Granted during the year	**114,812**	108,962
Lapsed during the year	**(71,629)**	(187,807)
Outstanding at the end of the year	**294,402**	251,219
Exercisable at the end of the year	**–**	1,000

The options outstanding at 31 July 2014 have a weighted average contractual life of 1.5 years (2013 – 1.7 years).

1995, 1996, 2005 and 2007 ESOS, and SRSOS

	2014 Number of options	2013 Number of options
Outstanding at the beginning of the year	**1,067,871**	1,359,551
Granted during the year	**123,050**	139,180
Lapsed during the year	**(39,019)**	(64,560)
Forfeited during the year	**(1,000)**	(45,039)
Exercised during the year	**(419,320)**	(321,261)
Outstanding at the end of the year	**731,582**	1,067,871
Exercisable at the end of the year	**118,400**	188,800

The options outstanding at 31 July 2014 have an exercise price in the range of 439.6p to 1,470.0p (2013 – 336.0p to 1,470.0p) and have a weighted average contractual life of 1.9 years (2013 – 2.0 years). The weighted average share price at the date of exercise for share options exercised during the year was 1,570.2p (2013 – 1,155.6p).

25 EMPLOYEE BENEFITS (CONTINUED)

Valuation methodology

For the LTIP options granted prior to 24 October 2011, a Monte Carlo simulation method was used which allows the Group's performance, in terms of TSR, to be measured against its comparator companies. Individual share price volatilities were calculated for each of the comparator companies. A correlation assumption, appropriate to the building sector, was also used. For LTIP and SMP options granted after 24 October 2011 half of the performance criteria is based on TSR against comparator companies with the other half based on TSR measured against the FTSE 250 Index (excluding investment trusts and financial service companies). A simplified Monte Carlo simulation method has been used to determine the Group's TSR performance against the FTSE 250 Index (excluding investment trusts and financial service companies).

In the case of the DBP, a simplified Black Scholes method is applied with an exercise price and dividend yield of zero. This is because no performance conditions attach to the award and no dividends are credited to the individual. The result is that the fair value equates to the face value of the award.

The Black Scholes method is used for the SRSOS due to the relatively short exercise window of six months.

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. The inputs into the models for the various grants in the current and previous year were as follows:

	2014				2013			
	November 2013	**November 2013**	**November 2013**	**December 2013**	November 2012	November 2012	November 2012	November 2012
Scheme description	**SMP**	**3 Year SRSOS**	**5 Year SRSOS**	**LTIP**	SMP	3 Year SRSOS	5 Year SRSOS	LTIP
Grant date	**28 Nov 13**	**15 Nov 13**	**15 Nov 13**	**17 Dec 13**	23 Nov 12	16 Nov 12	16 Nov 12	13 Nov 12
Risk free interest rate	**0.9%**	**0.9%**	**1.7%**	**0.0%**	0.4%	0.4%	0.8%	0.0%
Exercise price	**–**	**1,218.4p**	**1,218.4p**	**–**	–	805.6p	805.6p	–
Share price at date of grant	**1,446.0p**	**1,406.0p**	**1,406.0p**	**1,472.0p**	967.5p	951.0p	951.0p	969.0p
Expected dividend yield	**n/a**	**3.00%**	**3.00%**	**3.00%**	n/a	3.00%	3.00%	3.00%
Expected life	**3 years**	**3 years 2 months**	**5 years 2 months**	**3 years**	3 years	3 years 2 months	5 years 2 months	3 years
Vesting date	**28 Nov 16**	**1 Feb 17**	**1 Feb 19**	**17 Dec 16**	23 Nov 15	1 Feb 16	1 Feb 18	13 Nov 15
Expected volatility	**30%**	**30%**	**35%**	**30%**	30%	30%	45%	30%
Fair value of option	**735p**	**315p**	**409p**	**708p**	535p	215p	336p	501p

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

The Group recognised total expenses of £0.923 million (2013 – £1.021 million) in relation to equity-settled share-based payment transactions.

Notes to the Accounts
continued

26 RELATED PARTY TRANSACTIONS

The Board and certain members of senior management are related parties within the definition of IAS 24 'Related Party Disclosures'. Summary information of the transactions with key management personnel is provided in note 3. Detailed disclosure of individual remuneration of Board members is included in the Report of the Board on Directors' Remuneration on pages 45 to 61. There is no difference between transactions with key management personnel of the Company and the Group.

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

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

	2014 £000	2013 £000
Invoiced to jointly controlled entities in respect of accounting, management fees, interest on loans, land purchases and infrastructure works	**1,529**	2,876
Invoiced from jointly controlled entities in respect of fees, land purchases and infrastructure works	**(5,234)**	(1,588)
Amounts owed to jointly controlled entities in respect of land purchases and management fees at the year end	**(5,291)**	(180)
Amounts owed by jointly controlled entities in respect of accounting, management fees, interest, land purchases and infrastructure works	**44,194**	39,616

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

	2014 £000	2013 £000
Amounts received in the year from subsidiaries in respect of shares issued	**1,831**	2,421
Amounts paid in the year by subsidiaries on behalf of the Company in respect of dividends, finance expenses, preference share redemption and share purchases	**(67,778)**	(29,863)
Amounts owed by subsidiaries in respect of dividends and shares issued net of amounts paid on behalf of the Company	**556,107**	622,054
Investments in subsidiaries and jointly controlled entities	**32,107**	31,184

The Company has suffered no expense in respect of bad or doubtful debts of subsidiary undertakings in the year (2013 – £nil).

27 PRINCIPAL SUBSIDIARY UNDERTAKINGS

The directors set out below information relating to the major subsidiary undertakings (those that principally affect the profits and assets of the Group) of Bellway p.l.c. taking advantage of the exemption in section 410 of the Companies Act 2006 not to disclose all subsidiary undertakings. All of these companies are registered in England and Wales, are engaged in housebuilding and associated activities, have coterminous year ends with the Group, and 100% of their ordinary share capital is held by the Company (unless otherwise stated).

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

*These shares are held indirectly.

Five Year Record

	2010 £m	2011 £m	2012 £m	2013 £m	**2014 £m**
Income statement					
Revenue	768.3	886.1	1,004.2	1,110.7	**1,486.4**
Operating profit	51.3	75.2	114.6	151.1	**256.1**
Net finance expenses	(6.9)	(8.0)	(9.3)	(10.2)	**(10.2)**
Profit before taxation	44.4	67.2	105.3	140.9	**245.9**
Income tax expense	(8.6)	(17.0)	(26.0)	(32.3)	**(54.5)**
Profit for the year (all attributable to equity holders of the parent)	35.8	50.2	79.3	108.6	**191.4**
Balance sheet					
ASSETS					
Non-current assets	52.3	55.1	59.4	56.7	**53.8**
Current assets	1,340.2	1,415.9	1,492.4	1,594.9	**1,930.7**
LIABILITIES					
Non-current liabilities	(129.2)	(124.7)	(69.4)	(54.1)	**(75.6)**
Current liabilities	(228.5)	(273.0)	(349.3)	(378.7)	**(542.8)**
EQUITY					
Total equity	1,034.8	1,073.3	1,133.1	1,218.8	**1,366.1**

Statistics					
Number of homes sold	4,595	4,922	5,226	5,652	**6,851**
Average price of new homes	£163.2k	£175.6k	£186.6k	£193.0k	**£213.2k**
Gross margin	11.7%	13.5%	16.1%	18.3%	**21.3%**
Operating margin	6.7%	8.5%	11.4%	13.6%	**17.2%**
Basic earnings per ordinary share	29.7p	41.5p	65.5p	89.3p	**157.0p**
Dividend per ordinary share	10.0p	12.5p	20.0p	30.0p	**52.0p**
Return on capital employed	4.9%	7.0%	10.1%	12.3%	**19.6%**
Gearing (including preference shares)	–	1.5%	5.3%	2.1%	**–**
Net assets per ordinary share	856p	888p	933p	1,001p	**1,118p**
Land portfolio – plots with detailed planning permission	17,602	18,086	17,636	18,991	**19,434**
Weighted average no. of ordinary shares	120,619,800	120,705,397	121,036,846	121,572,688	**121,919,049**
No. of ordinary shares in issue at end of year	120,831,922	120,848,131	121,450,797	121,772,058	**122,191,378**

Shareholder Information

ANNUAL GENERAL MEETING ('AGM')

This section is important. If you are in any doubt as to what action to take you should consult an appropriate independent financial adviser. If you have sold or transferred all of your shares in Bellway p.l.c. you should pass this document and all accompanying documents to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Remuneration

Two separate resolutions on directors' remuneration are now required under company law. These are briefly explained below.

Resolution 2 – To approve the Directors' Remuneration Policy

This is a new ordinary resolution which is required under section 439A of the Companies Act 2006 to approve the Directors' Remuneration Policy set out on pages 47 to 53. If the policy is approved, this is a binding vote and the policy will be in place for three years, commencing at the conclusion of the AGM. The Company can only make payments to its directors in accordance with the approved policy unless a separate shareholder approval is obtained for the payment.

Resolution 3 – To approve the Report of the Board on Directors' Remuneration

This is an ordinary resolution, which is advisory only and seeks shareholder approval to the Report of the Board on Directors' Remuneration, excluding the Directors' Remuneration Policy which is subject to a separate and binding shareholder vote as explained above.

Special Business

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

Resolution 14 – Approval of the Rules of the 2014 Employee Share Option Scheme

The Company considers share-based incentives as a vital tool in helping to align the interests of directors and employees with shareholders. Accordingly, share incentives with benefits linked to stretching performance targets have always formed a significant proportion of the total remuneration for senior employees (including executive directors).

The existing Bellway p.l.c. (2005) Employee Share Option Scheme was approved by shareholders in January 2005 and is due to expire in January 2015. Accordingly, Resolution 14, which is an ordinary resolution, seeks to adopt the new Scheme under substantively the same terms as the Existing Scheme, including amendments to reflect subsequent developments and changes in tax legislation. The Scheme will be operated by the Board Committee on Executive Directors' Remuneration.

A summary of the Scheme is set out below and a copy of the draft rules of the Scheme may be inspected at the registered office of the Company and at Bond Dickinson LLP, 4 More London Riverside, London SE1 2AU during usual business hours on weekdays (public holidays excepted) until the date of the meeting and also at the place of the AGM for at least 15 minutes prior to and during, the meeting. There is no present intention to grant options under this Scheme to executive directors.

Resolution 15 – Authority to directors to issue shares

This is an ordinary resolution which authorises the directors to allot ordinary shares up to an aggregate nominal value of £5,091,453, which is equivalent to approximately one-third of the Company's issued ordinary share capital as at 13 October 2014 and also gives the directors authority to allot, by way of rights issue only, ordinary shares up to an aggregate nominal value of £10,182,907 which is equivalent to approximately two-thirds of the Company's issued ordinary share capital, as at 13 October 2014, such authority, if granted, to expire at the conclusion of the next AGM of the Company. As at 13 October 2014, the Company held no shares as treasury shares. At present, the directors only intend to use this authority to satisfy the exercise of awards under the Company's share schemes. The directors wish to obtain the necessary authority from shareholders so that allotments can be made (if required and if suitable market conditions arise) at short notice and without the need to convene a general meeting of the Company which would be both costly and time consuming.

Resolution 16 – Disapplication of pre-emption rights

This is a special resolution and is the customary annual request, in substitution for the authority granted to the directors by shareholders on 13 December 2013 which expires at the conclusion of the forthcoming AGM, that shareholders empower the directors to allot ordinary shares for cash without first offering them pro-rata to existing shareholders, as would otherwise be required by section 561 of the Companies Act 2006 (a) in connection with a rights issue or other pre-emptive offer and (b) (otherwise than in connection with a rights issue or other pre-emptive offer) up to an aggregate nominal value of £763,718 being approximately equal to 5% of the issued ordinary share capital of the Company as at 13 October 2014.

Resolution 17 – Company's purchase of its own shares
The Company's authority to purchase its own ordinary and preference shares, given at the last AGM, expires at the conclusion of the forthcoming AGM. This authority was used during the year to redeem all of the 20 million preference shares at par on their normal redemption date, following which the shares were cancelled. The directors propose, as a special resolution, that it should be renewed for a further year to expire on the date of the next AGM. The directors will review opportunities to use this authority in light of stock market conditions and trading opportunities during the year. The directors will only make purchases (which will reduce the number of shares in issue) after paying due attention to the effect on the financing of the Group, its assets and earnings per share for the remaining shareholders. Any shares purchased under this authority may be cancelled (in which case the number of shares in issue will be reduced accordingly) or may be held in treasury.

At 13 October 2014 there were options outstanding over 1,022,482 ordinary shares, representing 0.84% of the Company's issued ordinary share capital. If the authority given by this resolution were to be fully used, these would represent 0.93% of the Company's issued ordinary share capital. There are no warrants outstanding. Details of any substantial shareholders holding more than 10% of the Company's issued ordinary share capital are included in the Notifiable Shareholders' interests table on page 62.

Resolution 18 – Length of notice of meeting
Shareholder approval for general meetings of the Company, other than AGMs to be held on 14 days' notice, given at the last AGM, expires at the conclusion of the forthcoming AGM. There is no current intention to use this authority and the Company will only consider using this authority where it is considered that this would be for the benefit of shareholders as a whole. The directors propose, as a special resolution, that it should be renewed for a further year to expire on the date of the next AGM.

Recommendation
The directors consider each of the resolutions set out in the Notice of AGM to be in the best interests of the Company and its shareholders as a whole, accordingly they recommend voting in favour of the resolutions as they intend to do in respect of their own beneficial shareholdings.

SUMMARY OF THE PRINCIPAL TERMS OF THE BELLWAY P.L.C. (2014) EMPLOYEE SHARE OPTION SCHEME (THE 'SCHEME')

1. General

The Scheme provides for the grant of options over ordinary shares in the Company on a discretionary basis to eligible employees and directors, and is intended to replace the Bellway p.l.c. (2005) Employee Share Option Scheme (the 'Existing Scheme') under which no further options can be granted after 14 January 2015.

The Scheme is intended to satisfy the requirements of Parts 2 to 6 of Schedule 4 to the Income Tax (Earnings and Pensions Act 2003) and thus entitle participants to benefit from certain tax advantages that would otherwise not be available when options are exercised. The maximum value of ordinary shares over which any participant can have outstanding options is limited to £30,000 (see further below under the heading, 'Scheme limits').

2. Eligibility

All employees and full-time directors of the Company or its participating subsidiaries will be eligible to participate in the Scheme. Actual participation will take place at the discretion of the Board Committee on Executive Directors' Remuneration (the 'Committee'). There is no present intention to grant options under this Scheme to executive directors.

3. Grant of options

Options may be granted under the Scheme at any time during the period of 42 days, commencing on the date of announcement of the Company's annual or half-yearly results for any year. In the case of an employee or director first becoming eligible to participate in the Scheme, options may be granted in the period of 28 days following that date, and, exceptionally, at the absolute discretion of the Committee, during any other 42-day period.

Options may not be granted under the Scheme more than ten years after the date of approval of the Schemes. Options may not be transferred.

4. Performance targets

The Committee shall, when options are granted, be entitled to specify objective conditions (performance targets) that are required to be met in order that the options may be exercised.

5. Exercise, lapse and exchange of options

Options will, provided that any performance targets specified at the time of their grant have been met, normally be exercisable during the period commencing three years after, and ending ten years after, their grant. Options will normally lapse on termination of a participant's employment. However, exercise will be permitted for a limited period (irrespective of the period for which the options have been held) following the termination of a participant's employment where this takes place for 'good leaver' reasons. Exercise will also be permitted following a takeover of, or other similar corporate event affecting, the Company. There are also provisions for the exchange of options in specified circumstances.

Shareholder Information
continued

6. **Exercise price**
The price at which participants may acquire ordinary shares on exercise of options will be not less than their middle market price quoted on the London Stock Exchange at the close of dealings on the day immediately preceding the date of their grant or the average of such prices over a period of five successive Dealing Days ending on that immediately preceding Dealing Day.

7. **Scheme limits**
No option may be granted to a participant if the aggregate price at which he or she can acquire the ordinary shares the subject of that option and any other option granted to him or her under the Scheme and any other equivalent company share option plan established by the Company or any associated company (including the Existing Scheme), would exceed £30,000. Any options which have already been exercised, or have lapsed or been surrendered, are ignored in calculating this limit. Options may not be granted if this would cause the total number of ordinary shares which can be issued by the Company to satisfy the exercise of those options to exceed 5% of the total issued share capital of the Company on the date of intended grant. This limit takes account of ordinary shares that have been or may be issued pursuant to rights granted within the previous ten years under any discretionary employee share scheme (including the Scheme and the Existing Scheme) established by the Company, and is increased to 10% to take account of ordinary shares issued pursuant to rights granted within the previous ten years under all employee share schemes established by the Company.

8. **Adjustments**
The number of shares comprised within an option and/or its exercise price may be adjusted if any capitalisation issue or rights issue, or any consolidation, sub-division or reduction of the Company's share capital, takes place.

9. **Amendments**
The rules of the Scheme may be amended by the Committee. If any proposed amendment would be to the advantage of participants generally (and, in particular, if the proposed amendment relates to the eligibility of participants under the Scheme, limitations on the number of ordinary shares over which options may be granted or adjustments to options), the prior approval of shareholders will be required unless the amendment is minor or is made either to obtain or maintain favourable tax treatment or to comply with, or take account of, any existing or proposed legislation.

10. **General**
The Company will apply for admission to dealing on the London Stock Exchange for ordinary shares which are to be allotted and issued to a participant following the exercise of options. Those ordinary shares will rank pari passu with all other issued ordinary shares, except for any rights determined by reference to a date preceding the date on which the option is exercised.

Benefits provided under the Scheme are not pensionable.

TAKEOVERS DIRECTIVE

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

Share capital
The Company's total issued share capital as at 31 July 2014 consisted of 122,191,378 ordinary shares of 12.5p each. Further details of the issued capital of the Company can be found in note 19 to the accounts. The rights and obligations attaching to the ordinary shares in the Company are set out in the Articles of Association (the 'Articles'). Copies of the Articles can be obtained from Companies House or by writing to the Group Company Secretary at the Company's registered office.

Restrictions on the transfer of shares
The restrictions on the transfer of shares are set out in the Articles. In addition, in compliance with the FSA Listing Rules, Company approval is required for directors, certain employees and their connected persons to deal in the Company's ordinary shares. No person has special rights of control over the Company's share capital.

Rights in relation to the shares held in the employee benefit trust
The voting rights on shares held in the Bellway Employee Share Trust (1992) in relation to the Company's employee share schemes are exercisable by the trustees.

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

Appointment and replacement of directors
The Company's rules about the appointment and replacement of directors are set out in the Articles and are summarised in the Corporate Governance Report on page 40. In accordance with the UK Corporate Governance Code all the directors are seeking annual re-election by shareholders.

Amendments to the Company's Articles of Association
The Company may amend its Articles by passing a special resolution at a general meeting of its shareholders.

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

Allotment of shares
During the year 419,320 new ordinary shares were issued to satisfy awards made under the Company's employee share schemes. The directors have authority to allot shares within limits agreed by shareholders. Details of the renewal of this authority are set out on page 100, and Resolutions 15 and 16 in the Notice of Meeting of the AGM to be held on 12 December 2014 on pages 105 and 106 seek to renew this authority.

Purchase of own shares
The Company has not purchased any of its own ordinary shares during the year, but redeemed all of the 20,000,000 preference shares at their normal redemption date. The directors have authority to purchase the Company's own shares within limits agreed by shareholders. Details of the renewal of this authority are set out on page 101, and Resolution 17 in the Notice of Meeting of the AGM to be held on 12 December 2014 on page 106 seeks to renew this authority.

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

Agreements for compensation for loss of office following a change of control
The service agreement between the Company and the Group Company Secretary contain provisions that entitle the individual to terminate the agreement following a takeover offer and receive an amount equivalent to 12 months' salary, benefits and the average amount of the last two years' annual bonus payment.

FINANCIAL CALENDAR

Announcement of results and ordinary dividends	
Half year	March
Full year	October
Ordinary share dividend payments	
Interim	July
Final	January
Annual Report posted to shareholders	November
Final ordinary dividend – ex-dividend date	11 December 2014
Final ordinary dividend – record date	12 December 2014
AGM	12 December 2014
Final ordinary dividend – payment date	14 January 2015

ORDINARY SHAREHOLDERS BY SIZE OF HOLDING AT 31 JULY 2014

	Holdings		Shares	
	Number	%	Holding	%
0 – 2,000	1,918	68.65	1,198,293	0.98
2,001 – 10,000	446	15.96	1,920,620	1.57
10,001 – 50,000	193	6.91	4,872,338	3.99
50,001 and over	237	8.48	114,200,127	93.46
Total	2,794	100.00	122,191,378	100.00

DIVIDEND RE-INVESTMENT PLAN ('DRIP')

Shareholders may agree to participate in the Company's DRIP to receive dividends in the form of shares in Bellway p.l.c. instead of in cash. The DRIP is provided by Capita Asset Services, a trading name of Capita IRG Trustees Limited which is authorised and regulated by the Financial Conduct Authority. For more information please call 0871 664 0381 (calls to this number cost 10p per minute plus network extras) or if calling from overseas +44 20 8639 3402. Lines are open from 9 am to 5.30 pm, Monday to Friday, (excluding bank holidays). Alternatively you can e-mail shares@capita.co.uk or log on to www.capitashareportal.com.

Shareholder Information
continued

NON-STERLING BANK ACCOUNT

If you live outside the UK, or have a non-sterling bank account, Capita can provide you with a service that will convert your sterling dividend into your local currency and send you the funds by currency draft, or pay them straight into your overseas bank account. You can register for this service on the Share Portal (by clicking on 'your dividend options' and following the on-screen instructions) or by contacting the Customer Support Centre. For further information e-mail ips@capita.co.uk or call 0871 664 0385 (UK calls cost 10p per minute plus network extras), or from overseas call +44 20 8639 3405. Lines are open from 9 am to 5.30 pm, Monday to Friday (excluding bank holidays).

SHARE DEALING SERVICE

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

For further information on this service, or to buy or sell shares, please contact: www.capitadeal.com for online dealing, or telephone 0871 664 0454 for telephone dealing.

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

DISCOUNT TO SHAREHOLDERS

The following discount arrangement is currently available to shareholders.

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

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

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

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

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

BENEFICIAL OWNERS OF SHARES WITH 'INFORMATION RIGHTS'

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

CORPORATE RESPONSIBILITY REPORTING

Further reporting on the Company's corporate responsibility activities is available to view on the Group's website at www.bellway.co.uk/corporate-responsibility.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at the Jesmond Dene House Hotel, Jesmond Dene Road, Newcastle upon Tyne, NE2 2EY on Friday 12 December 2014 at 12 noon for the following purposes:

ORDINARY BUSINESS

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

1. THAT the Accounts for the financial year ended 31 July 2014 and the Directors' Report and the Auditor's Report on those Accounts and the auditable part of the Report of the Board on Directors' Remuneration be received and adopted.
2. THAT the Directors' Remuneration Policy set out in the Report of the Board on Directors' Remuneration shown on pages 47 to 53 of the Annual Report and Accounts for the year ended 31 July 2014 be approved.
3. THAT the Report of the Board on Directors' Remuneration, except for the Directors' Remuneration Policy, shown on pages 45 to 61 of the Annual Report and Accounts for the year ended 31 July 2014 be approved.
4. THAT a final dividend for the year ended 31 July 2014 of 36.0p per ordinary 12.5p share, as recommended by the directors, be declared.
5. THAT Mr J K Watson be re-elected as a director of the Company.
6. THAT Mr E F Ayres be re-elected as a director of the Company.
7. THAT Mr K D Adey be re-elected as a director of the Company.
8. THAT Mr M R Toms be re-elected as a director of the Company.
9. THAT Mr J A Cuthbert be re-elected as a director of the Company.
10. THAT Mr P N Hampden Smith be re-elected as a director of the Company.
11. THAT Mrs D N Jagger be re-elected as a director of the Company.
12. THAT KPMG LLP be appointed as the auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which Accounts are laid before the Company.
13. THAT the directors are authorised to agree the remuneration of the auditor of the Company.

SPECIAL BUSINESS

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

14. THAT the rules of the Bellway p.l.c. (2014) Employee Share Option Scheme be approved.
15. THAT the directors be generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act 2006 ('the Act') to exercise all the powers of the Company to:
    (a) allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company ('Rights') up to a maximum nominal amount of £5,091,453; and
    (b) allot equity securities (within the meaning of section 560 of the Act) up to a maximum nominal amount of £10,182,907 (such amount to be reduced by the nominal amount of any shares issued or in respect of which Rights are granted under (a) above) in connection with an offer by way of a rights issue to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter, provided that:
        (i) this authority shall expire at the conclusion of the next Annual General Meeting of the Company, but may be previously revoked or varied by an ordinary resolution of the Company; and
        (ii) this authority shall permit and enable the Company to make offers or agreements before the expiry of this authority which would or might require shares to be allotted or Rights to be granted after such expiry and the directors shall be entitled to allot shares and grant Rights pursuant to any such offers or agreements as if this authority had not expired; and
        (iii) all unexercised authorities previously granted to the directors to allot shares and grant Rights be and are hereby revoked.

Notice of Annual General Meeting continued

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

16. THAT,
    (a) subject to Resolution 15 above being passed as an ordinary resolution, the directors be empowered pursuant to section 570 and section 573 of the Companies Act 2006 ('the Act') to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority so conferred or by way of sale of treasury shares in each case as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
        (i) the allotment of equity securities in connection with a pre-emptive offer (but in the case of the authority conferred under paragraph (b) of Resolution 14 in connection with an offer by way of rights issue only); and
        (ii) the allotment to any person or persons (otherwise than pursuant to paragraph (i) above) of equity securities up to an aggregate nominal amount of £763,718;
    (b) the power given by this resolution shall expire at the conclusion of the next Annual General Meeting of the Company except that the Company may, before such expiry, make an offer or agreement which would, or might, require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to such an offer or agreement as if the power conferred by this resolution had not expired; and
    (c) for the purposes of this resolution, 'pre-emptive offer' means a rights issue, open offer or other offer of equity securities open for acceptance for a fixed period, by the directors to ordinary shareholders of the Company on the Register on a fixed record date in proportion (as nearly as may be) to their then holdings of such equity securities (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any overseas territory or fractional entitlements or any other matter whatsoever).
17. THAT the Company be generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 ('the Act') to purchase ordinary shares in the capital of the Company by way of one or more market purchases (within the meaning of section 693 of the Act) on the London Stock Exchange upon, and subject to the following conditions:
    (a) the maximum number of ordinary shares hereby authorised to be purchased is 12,219,488, being approximately 10% of the ordinary shares in issue;
    (b) the maximum price at which ordinary shares may be purchased is an amount equal to 105% of the average of the middle market quotations derived from the London Stock Exchange Official List for the five business days immediately preceding the date on which the ordinary shares are contracted to be purchased and the minimum price is 12.5p per share, in both cases exclusive of expenses;
    (c) unless previously renewed, varied or revoked, the authority to purchase conferred by this resolution shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this resolution provided that any contract for the purchase of any shares, as aforesaid, which was concluded before the expiry of the said authority may be executed wholly or partly after the said authority expires and the relevant shares purchased pursuant thereto.
18. THAT a general meeting of the Company, other than an Annual General Meeting of the Company, may be called on not less than 14 clear days' notice.

Notes:

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

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

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

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

(v) To be entitled to attend and vote at the meeting (and for the purposes of determination by the Company of the number of votes cast), shareholders must be entered on the Company's Register of Members at 5.30 pm on Wednesday 10 December 2014 (or, in the event of any adjournment, at 5.30 pm on the date which is two days prior to the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting or adjourned meeting.

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

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

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

(ix) Except as provided above, members who wish to communicate with the Company in relation to the AGM should do so in writing either to the Group Company Secretary at the registered office address or to the Company's registrar, Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. No other methods of communication will be accepted. In particular you may not use any electronic address provided either in this notice of meeting or in any related documents to communicate with the Company for any purposes other than those expressly stated.

(x) There will be available for inspection during the AGM, and for at least 15 minutes before it begins, the directors' appointment letters and service contracts and the draft rules of the 2014 ESOS.

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

(xii) As at the date of this notice there are 122,194,880 ordinary shares in issue and the total voting rights of the Company are therefore 122,194,880.

By order of the Board

Kevin Wrightson
Group Company Secretary

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

Registered in England and Wales
No. 1372603

13 October 2014

Glossary

Affordable Housing
Social rented and intermediate housing provided to specified eligible households whose needs are not met by the market, at a cost low enough for them to afford, determined with regard to local incomes and local house prices.

Average Selling Price
Calculated by dividing the total price of homes sold by the number of homes sold.

Brownfield Sites
Land which has been previously used for other purposes.

Cancellation Rate
The rate at which customers withdraw from a house purchase after paying the reservation fee, but before contracts are exchanged, usually due to difficulties in obtaining mortgage finance. Reservation fees are refunded in accordance with the Consumer Code for Home Builders.

Code for Sustainable Homes
A national standard for sustainable design and construction of new homes. The Code measures the 'whole home' as a complete package, assessing its sustainability against nine categories: energy/CO_2, water, materials, surface water run-off, waste, pollution, health and well-being, management and ecology. Level 3 applies to newly-constructed affordable housing subject to Homes and Communities Agency ('HCA') grant policy and all homes built on HCA land from 1 April 2008. Level 3 differs from Level 4 primarily in respect of the energy/CO_2 levels. Level 3 seeks a 25% reduction in CO_2 emissions compared with the 2006 Building Regulations requirements, whereas Level 4 requires a 44% reduction.

Considerate Constructors Scheme
A national initiative by the construction industry, where companies and sites voluntarily register and agree to be monitored against a Code of Considerate Practice, with a view to promoting best practice beyond statutory requirements.

CSCS Cards
The CSCS card denotes achievement of a Construction Skills Certificate, demonstrating occupational competence in the construction industry under the Construction Skills Certificate Scheme.

HBF
Home Builders Federation. is an industry body, representing the home building industry in England and Wales. It represents member interests on a national and regional level to create the best possible environment in which to deliver new homes.

Help to Buy
The Help to Buy equity loan scheme is a government scheme which provides equity loans to both first-time buyers and home movers on newly constructed homes worth up to £600,000. Buyers have to contribute at least 5% of the property price as a deposit, and obtain a mortgage of up to 75% and the government provides a loan for up to 20% of the price.

The Help to Buy mortgage guarantee scheme helps people to buy a home with a 5% deposit to obtain a 95% mortgage. The government gives a guarantee to the lender of up to 15% of the value of the property.

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

Mortgage Market Review ('MMR')
The MMR was a comprehensive review of the mortgage market which set out the case for reforming the mortgage market to ensure it is sustainable and works better for consumers.

National Planning Policy Framework ('NPPF')
The National Planning Policy Framework sets out the government's planning policies for England and how these are expected to be applied. It provides a framework within which local people and their accountable councils can produce their own distinctive local and neighbourhood plans, which reflect the needs and priorities of their communities.

NHBC
National House-Building Council. NHBC is the leading warranty, insurance provider and body responsible for setting standards of construction for UK housebuilding for new and newly converted homes.

Pipeline
Plots which are either owned or contracted, often conditionally, pending an implementable detailed planning permission.

Planning Permission
Usually granted by the local planning authority, this permission allows a plot of land to be built on, change its use or, for an existing building, be redeveloped or altered. Permission is either 'outline' when detailed plans are still to be approved, or 'detailed' when detailed plans have been approved.

Photovoltaic Panels
Solar panel electricity systems, also known as solar photovoltaics ('PV'), capture the sun's energy using photovoltaic cells. These cells don't need direct sunlight to work – they can still generate some electricity on a cloudy day. The cells convert the sunlight into electricity, which can be used to run household appliances and lighting. PV cells are made from layers of semi-conducting material, usually silicon. When light shines on the cell it creates an electric field across the layers. The stronger the sunshine, the more electricity is produced.

Registered Providers
Government funded organisations that provide affordable housing. These can be either non-profit making, such as housing associations, trusts and co-operatives, or profit making, such as housebuilders. Working alongside local authorities, they provide homes for people meeting the affordable homes criteria. As well as developing land and building homes, Registered Providers also perform a landlord function by maintaining properties and collecting rent.

RIDDOR
RIDDOR refers to the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013. The regulations require an employer to report any absence by an employee of seven days or more caused by an accident at work.

Safemark Certificate
NHBC's Health & Safety Competence Assessment Scheme.

Section 106 Planning Agreements
These are legally-binding agreements or planning obligations entered into between a landowner and a local planning authority, under section 106 of the Town and Country Planning Act 1990. These agreements are a way of delivering or addressing matters that are necessary to make a development acceptable in planning terms. They are increasingly used to support the provision of services and infrastructure, such as highways, recreational facilities, education, health and affordable housing.

Site/phase
A site is a concise area of land on which homes are being constructed. Larger sites may be divided into a number of phases which are developed at different times.

Social Housing
Housing that is let at low rents and on a secure basis to people in housing need. It is generally provided by councils and not-for-profit organisations such as housing associations.

Sustainability
Environmental sustainability has been defined as meeting the needs of the present without compromising the ability of future generations to meet their needs.

Notes

Notes continued

BELLWAY P.L.C.

Seaton Burn House, Dudley Lane, Seaton Burn, Newcastle upon Tyne, NE13 6BE
Tel: (0191) 217 0717; Fax: (0191) 236 6230; DX 711760 Seaton Burn; Website: www.bellway.co.uk

Bellway Homes Limited

East Midlands
No. 3 Romulus Court
Meridian East
Meridian Business Park
Braunstone Town
Leicester LE19 1YG
Tel: (0116) 282 0400
Fax: (0116) 282 0401

North London
Bellway House
Bury Street, Ruislip
Middlesex HA4 7SD
Tel: (01895) 671 100
Fax: (01895) 671 111

South East
Bellway House
London Road North
Merstham
Surrey RH1 3YU
Tel: (01737) 644 911
Fax: (01737) 646 319

Wessex
Bellway House
Embankment Way
Castleman Business Centre
Ringwood
Hampshire BH24 1EU
Tel: (01425) 477 666
Fax: (01425) 476 774
DX: 45710 Ringwood

Essex
Bellway House
1 Rainsford Road
Chelmsford
Essex CM1 2PZ
Tel: (01245) 259 989
Fax: (01245) 259 996
DX: 121935 Chelmsford 6

North West
Bellway House
2 Alderman Road
Liverpool L24 9LR
Tel: (0151) 486 2900
Fax: (0151) 336 9393

Thames Gateway
Osprey House
Crayfields Business Park
New Mill Road
Orpington
Kent BR5 3QJ
Tel: (01689) 886 400
Fax: (01689) 886 410

West Midlands
Bellway House
Relay Point
Relay Drive, Tamworth
Staffordshire B77 5PA
Tel: (01827) 255 755
Fax: (01827) 255 766
DX: 717023 Tamworth

Manchester
The Genesis Centre
Garrett Field
Birchwood
Warrington
Cheshire WA3 7BH
Tel: (01925) 882 900

Northern Home Counties
St Andrew's House
Caldecotte Lake Drive
Caldecotte
Milton Keynes MK7 8LE
Tel: (01908) 364 200
Fax: (01908) 364 201
DX 100007 Bletchley

Thames Valley
Pacific House
Imperial Way
Reading
Berkshire RG2 OTD
Tel: (01189) 338 020
Fax: (01189) 313 929

Yorkshire
2 Deighton Close
Wetherby
West Yorkshire LS22 7GZ
Tel: (01937) 583 533
Fax: (01937) 586 147
DX: 16815 Wetherby

North East
Bellway House, Kings Park
Kingsway North
Team Valley, Gateshead
Tyne and Wear
NE11 0JH
Tel: (0191) 482 8800
Fax: (0191) 491 4537
DX: 745710 Gateshead 7

Scotland
Bothwell House
Hamilton Business Park
Caird Street
Hamilton ML3 0QA
Tel: (01698) 477 440
Fax: (01698) 477 441
DX: HA13 Hamilton

Wales
Alexander House
Excelsior Road
Western Avenue
Cardiff CF14 3AT
Tel: (029) 2054 4700
Fax: (029) 2054 4701

Other Subsidiary

Bellway Housing Trust Limited
Seaton Burn House
Dudley Lane
Seaton Burn
Newcastle upon Tyne
NE13 6BE
Tel: (0191) 217 0717
Fax: (0191) 236 6230
DX: 711760 Seaton Burn

Designed and produced by **Radley Yeldar** www.ry.com

Bellway p.l.c. are committed to caring for the environment and looking for sustainable ways to minimise our impact on it.
Printed by Taylor Bloxham Group who are certified to ISO 14001 environmental management system.
Printed using vegetable oil based inks.

This report is printed on Regency Satin which contains material sourced from responsibly managed forests, certified in accordance with the FSC(r) (Forest Stewardship Council) and also contains 10% recovered fibre, diverting waste from landfill.
The pulp is bleached using an Elementary Chlorine Free (ECF) process.

FSC® – Forest Stewardship Council. This ensures that there is an audited chain of custody from the tree in the well-managed forest through to the finished document in the printing factory.

ISO 14001. A pattern of control for an environmental management system against which an organisation can be accredited by a third party.

FSC www.fsc.org MIX Paper from responsible sources FSC® C022913

BUILDING HOMES,
BUILDING VALUE

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

Tel: (0191) 217 0717
Fax: (0191) 236 6230
DX: 711760 Seaton Burn

www.bellway.co.uk