NATIONAL HOUSEBUILDER BELLWAY ANNOUNCES TODAY, TUESDAY 15 OCTOBER 2019, ITS PRELIMINARY RESULTS FOR THE YEAR ENDED 31 JULY 2019.

Highlights

Robust financial performance driven by record volume

	Year ended 31 July 2019	Year ended 31 July 2018[4]	Movement
Revenue	£3,213.2m	£2,957.7m	+8.6%
Gross profit	£790.2m	£757.5m	+4.3%
Gross margin	24.6%	25.6%	(100 bps)
Operating profit	£674.9m	£652.9m	+3.4%
Operating margin	21.0%	22.1%	(110 bps)
Profit before taxation	£662.6m	£641.1m	+3.4%
Earnings per share	437.8p	423.4p	+3.4%
Proposed total dividend per share	150.4p	143.0p	+5.2%

Solid financial results together with a strong balance sheet

- Another successful year with a record number of housing completions at 10,892 homes (2018 – 10,307), up 5.7% on last year.

- Solid operational performance, together with volume growth, resulted in profit before taxation rising by 3.4%, in line with guidance, to £662.6 million (2018 – £641.1 million).

- The operating margin of 21.0% (2018 – 22.1%) continued to moderate towards a more normalised level.

- Positive non-recurring contribution from the Group's flagship, high gross margin development at Nine Elms in Battersea, which contributed 214 completions (2018 – 132), at an average selling price of £820,467 (2018 – £705,567). Notwithstanding the reducing proportion of revenue generated in London, the Group should achieve an average selling price in the year ahead in excess of £285,000 (2019 – £291,968).

- Strong balance sheet and net cash of £201.2 million[1] (2018 – £99.0 million), ensuring significant financial flexibility and capacity for future investment.

- The growth in earnings has enabled the Board to propose a 5.2% increase in the total dividend per share to 150.4p (2018 – 143.0p). A favourable cash position provides further opportunity for dividend growth in the year ahead.

Strong operational focus

- A continued focus on quality and customer care resulted in Bellway achieving five-star homebuilder[3] status for the third consecutive year.

- Further, considered investment in new outlets resulted in an all-time high reservation rate of 210 per week (2018 – 200), an increase of 5.0%.

- The Group contracted to acquire 13,113 plots (2018 – 12,962 plots) and has land in place with the benefit of implementable detailed planning permission to meet the current year's forecast volume growth.

- The new Scotland East division contributed 273 completions during the year. The more recently opened Eastern Counties and London Partnerships divisions are expected to contribute to growth in the next twelve months.

- The recently launched 'Artisan Collection' house type range, which will enable cost savings through greater standardisation, is progressing well and in line with expectations. House types from this range are now plotted on 97 developments, with the first completion due later this month.

Well placed to deliver long term volume growth and further value for shareholders

- A positive start to the new financial year, with the weekly reservation rate in the nine weeks to 29 September increasing by 4.0% to 183 (1 August to 30 September 2018 – 176). This, together with a strong forward order book, provides a solid platform from which to deliver further, yet more moderate volume growth in the year ahead, assuming market conditions remain supportive.

- In the new financial year, the one-off benefit to the operating margin from Nine Elms will not be repeated and in addition, in the absence of house price inflation, industrywide build cost pressures will continue to have a moderating effect. As a result of these combined influences, the reduction to a consistent, underlying operating margin will be more pronounced.

- Capacity to deliver up to 13,000 homes per annum over the medium term from the current divisional structure and a longer term ability to expand beyond this.

- Bellway remains well placed to continue its long term growth strategy and this, together with its strong financial position, should result in further value creation for shareholders.

FOR FURTHER INFORMATION, PLEASE CONTACT JASON HONEYMAN, CHIEF EXECUTIVE OR KEITH ADEY, FINANCE DIRECTOR FROM TUESDAY 15 OCTOBER – FRIDAY 18 OCTOBER ON 0191 217 0717.

[1] Bellway uses a range of statutory performance measures and alternatives performance measures when reviewing the performance of the Group against its strategy. Definitions of the alternative performance measures, and a reconciliation to statutory performance measures, are included in note 11.

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

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

[4] Restated following the adoption of IFRS 15 'Revenue from contracts with customers'. See note 10 for further details.

Chairman's Statement

Introduction

The Group, now comprising 22 operating divisions, delivered another positive set of results, consistent with its long term growth strategy and in doing so, achieved record volume, revenue and profit. In this tenth consecutive year of volume growth, Bellway completed the sale of 10,892 homes (2018 – 10,307), thereby making another substantial contribution to addressing the housing shortage in the UK. This growth, together with a solid operational performance, resulted in a 3.4% increase in earnings per share, which rose to 437.8p (2018 – 423.4p). Return on Capital Employed ('RoCE') also remained high at 24.7%[1] (2018 – 27.2%).

Importantly, growth was achieved alongside a continued prioritisation of both build quality and customer care. For the third year in succession, the Group was recognised as a five-star homebuilder[3], a testament to our significant and continued efforts in this crucial aspect of the business. This achievement further builds upon our reputation as a leading national homebuilder, with a focus on customer service and quality. Bellway remains fully committed to growing the business in a safe, responsible and sustainable manner.

The Group has consistently exercised strong financial disciplines, resulting in net cash at 31 July of £201.2 million[1] (2018 – £99.0 million). The strength and efficiency of the balance sheet will not only provide Bellway with significant flexibility and capacity for future investment, but it also ensures that the Group can respond positively should there be any unexpected changes in the economic environment.

Market conditions supportive of disciplined volume growth strategy

The ongoing imbalance between supply and demand for affordably priced, good quality housing remains across many parts of the country. Additionally, strong demand for new homes has continued to be supported by the ongoing availability of Help to Buy, together with an environment of low interest rates.

The land market remains attractive and the planning environment favourable, with the Group continuing to identify value enhancing opportunities which meet our requirements in respect of both gross margin and RoCE. Whilst a shortage of skilled labour remains a challenge for the wider construction sector, this did not prevent Bellway from delivering a record number of new homes in the year.

Bellway continues to draw upon these favourable market conditions, retaining its clear strategy to deliver long term and disciplined volume growth. This, together with the continued focus on quality and customer care, enables all stakeholders to benefit from our continued success.

Commitment to value creation over the long term

The board continues to believe that value generation is best evaluated through capital growth, by increasing net asset value per share ('NAV'), together with the payment of a regular dividend.

For the year ended 31 July 2019, the solid trading performance resulted in NAV rising by 14.1% to 2,372p[1] (2018 – 2,079p). Furthermore, the growth in earnings has enabled the board to recommend a 5.3% increase in the final dividend to 100.0p per share (2018 – 95.0p), increasing the proposed total dividend for the year by 5.2% to 150.4p per share (2018 – 143.0p). The dividend is determined following careful consideration of capital requirements, as well as the Group's operational capability to deliver further long term volume growth. If approved, the total dividend will be covered by earnings by 2.9 times (2018 – 3.0 times).

Measured over the medium term, in the three years since 31 July 2016, the increase in NAV of 850p and cumulative dividend payments of 389.4p per share have resulted in total growth in value of 1,239.4p[1] per share. This is equivalent to a substantial annualised accounting return of 22.0%[1] relative to the 31 July 2016 NAV of 1,522p per share.

For the foreseeable future, and assuming continued opportunity for investment and volume growth, the Group will continue to reinvest earnings into attractive land opportunities, as well as delivering sustainable and appropriate growth in the dividend, thereby driving further long term value creation for shareholders.

People and supply chain

It is the hard work, dedication and efforts of those who have worked for and with Bellway over the last twelve months which have enabled the Group to deliver these record results in a responsible and sustainable manner. On behalf of the Board I would therefore like to extend our gratitude to all of those who have contributed to another strong performance.

Paul Hampden Smith
Chairman
14 October 2019

Operating Review

Trading performance

Demand for new homes remained strong across the country and based on this, the Group has made further considered investment into land and work in progress, opening an additional 110 new sites, resulting in an average of 268 active outlets (2018 – 247) throughout the year. This positive action has resulted in an all-time high reservation rate of 210 per week (2018 – 200), a 5.0% increase on last year. As is typically the trend, the reservation rate in the second half of the year was higher, which is a reflection of the stronger spring market. Furthermore, the rate of increase in the second half of the year was more pronounced at 7.2%, in part driven by site openings, but also reflecting more positive customer sentiment following some uncertainty in the run up to Christmas. In addition to a robust overall performance, the private reservation rate was also strong at 160 per week (2018 – 152 per week), a rise of 5.3%, demonstrating the positive underlying demand for new homes.

The cancellation rate remained low at 12% (2018 – 11%), moderating slightly in the second half of the year, which again was a reflection of stronger consumer sentiment in the period.

The pricing environment remained firm and on some sites, typically in affordable areas where demand is strongest, low single digit price increases over budget expectations were achieved. More generally, however, the rate of house price inflation reduced throughout the year and its margin enhancing benefit continues to diminish.

Help to Buy provides ongoing support to the sector's ability to grow output, providing access to mortgage finance for those with at least a 5% deposit. Additionally, the ongoing environment of low interest rates ensures that new homes remain affordable in a historical context, further supporting the strong underlying demand. Help to Buy was used across the Group in 36% of completions (2018 – 39%), with first time buyers representing approximately two-thirds of customers using the scheme. As in prior years, the use of Help to Buy was more prevalent in London, given higher house prices and hence deposit requirements in this part of the country.

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

	Homes sold (number)						Average selling price (£000)					
	Private		Social		Total		Private		Social		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
North	**4,397**	4,171	**803**	890	**5,200**	5,061	**264.0**	258.0	**108.8**	95.8	**240.1**	229.5
South	**4,045**	4,092	**1,647**	1,154	**5,692**	5,246	**409.1**	390.1	**168.3**	155.2	**339.4**	338.4
Group	**8,442**	8,263	**2,450**	2,044	**10,892**	10,307	**333.5**	323.4	**148.8**	129.3	**292.0**	284.9

The total number of homes sold rose by 5.7% to 10,892 (2018 – 10,307), with this rate of increase positively affected by a 19.9% rise in the number of social completions, which rose to 2,450 (2018 – 2,044). This reflects planned construction programmes and the requirements of planning agreements and is in accordance with previous guidance.

The Ashberry brand, introduced to increase the sales rate and improve capital efficiency on some of our larger sites, continued to support volume growth, contributing 564 completions (2018 – 348). Ashberry now represents 5.2% of total homes sold (2018 – 3.4%) and has the potential to expand further in the years ahead, building upon the success already achieved to date.

In all regions, the market remained strongest for affordably priced homes in desirable locations. Divisions such as Manchester, East Midlands and Northern Homes Counties all performed well, each completing in excess of 600 homes, benefitting from positive market conditions, together with land investment and outlet openings over recent years. Our new Scotland East division, which opened on 1 August 2018 and is based in Livingston, completed the sale of 273 homes in its first year of trading, benefitting from investment in land and strong demand for new homes.

In addition, good progress has been made in our most recently launched divisions, Eastern Counties and London Partnerships, both of which opened on 1 February 2019. Eastern Counties delivered its first completions in the year and has secured land in a number of locations to enable further growth in the year ahead. London Partnerships, whose benefit to the Group will grow over the longer term, has commenced on-site production and will contribute completions in the next twelve months.

In London, where the Group has gradually reduced invested capital, demand remains robust for affordably priced homes. The London boroughs contributed 1,010 completions (2018 – 1,118) at an average selling price of £499,617 (2018 – £414,872), with this representing 9.3% of the number of homes sold (2018 – 10.8%).

Bellway's exposure at the higher end of the London market is limited, with 'The Residence' development at Nine Elms in Battersea remaining a noteworthy exception. This site comprises 514 apartments at an anticipated overall average selling price of around £670,500. It has sold very well to date, contributing 214 completions in the year (2018 – 132), at an average selling price of £820,467 (2018 – £705,567), representing 5.5% of housing revenue (2018 – 3.2%).

Land at The Residence was bought in December 2013 and the gross margin achieved has therefore been substantially enhanced by positive house price growth and the post-acquisition redesignation of the area as 'Zone 1' by Transport for London. Accordingly, the contribution to operating margin from the site at Nine Elms in the year under review was around 80 basis points greater than the contribution recognised in the prior financial year. The site is now close to conclusion, with only 31 apartments remaining to complete in the new financial year.

Excluding completions from Nine Elms, the Group's average selling price in the Capital was affordable at £413,359 (2018 – £375,956) and demand remains robust at this price point. The Group will continue to invest in financially viable locations in London where demand is strong, however the proportion of homes sold in London is likely to reduce in the foreseeable future, reflecting the positive availability of good quality land at attractive returns elsewhere in the country.

Overall, the Group's average selling price increased by 2.5% to £291,968 (2018 – £284,937), driven mainly by investment in good quality locations. Exposure at the upper end of the market was limited, with just 4% of completions beyond the Help to Buy threshold of £600,000. Notwithstanding the reducing proportion of revenue generated in London, the Board still expects the average selling price in the year ahead to be in excess of £285,000.

Driving down costs

Given competition for resource, there is continued upward pressure on build costs in the construction sector, as has been the case for a number of years. To mitigate cost pressures, the Group continues to pursue a number of cost control initiatives across the business, under the direction of a recently appointed and highly experienced Group Commercial Director.

The 'Artisan Collection' is one such initiative, introduced last year, whereby the rationalised range of 43 standard Group house types should more readily comply with local authority planning requirements and reduce costs through the speed of build and the scale of standardisation. Additionally, the collection is appealing to customers, designed to enable the creation of distinctive communities with individual character areas within developments. The 'Artisan Collection' is currently plotted on around 12,000 plots at 97 developments. The first completion is due later this month at our site in Kings Norton, Birmingham.

As previously reported, an experienced Head of Procurement joined the Group in July 2018, with a key focus on achieving savings from standardisation and rationalisation of Group deals, whilst maintaining the quality of the homes we build. This approach to cost saving is not just limited to the Group procurement function, but is widespread throughout the organisation. Building upon our already strong culture of cost control, we have launched a two-year Group wide cost saving initiative, BWY2020, which is designed to generate cost savings, maintain quality and improve efficiencies by sharing and implementing best practice across our divisions.

Lastly, to better understand the effect of all of these initiatives, the Group initiated a significant upgrade of IT systems, in partnership with COINS, to strengthen financial and commercial processes across the Group. This two-year programme is progressing in line with expectations and over the longer term, it is expected to improve the quality of management information. This will be used to target cost saving measures and identify further opportunities for improvement.

Leaving the EU

Bellway has been in close contact with its supply chain partners over the last year to reduce any adverse risks to the business from 'Brexit'. Whilst most of our materials are sourced in the UK, a limited number of our supply chain partners manufacture in Europe, supplying goods such as electrical appliances and ceramic tiles. We have forecast our material requirements for the coming year and communicated these to our suppliers. In turn, they have considered alternative trade routes to bring goods into the UK and have increased their stock levels to ensure that they have materials available in the event of delays through ports.

Investing for growth

The land market remains attractive and we continue to focus on population hubs in affordable areas, where there is high demand for new homes. Our land teams have identified value enhancing opportunities in accordance with the Group's requirements in respect of both gross margin and RoCE. Accordingly, Bellway entered into contracts to acquire 13,113 plots (2018 – 12,962 plots) across 93 sites (2018 – 100 sites), with a total value of £782.0 million (2018 – £833.5 million). Contracted plots include additions to both sections of the owned and controlled land bank. Geographically, 48% of those sites contracted were located in the north of the country and 52% in the south, a balanced approach to investment, with some diversification of risk and returns across the country.

The tables below analyse the Group's land holdings at 31 July:-

	2019	2018
Owned and controlled plots		
DPP: plots with implementable detailed planning permission	**26,421**	26,877
Pipeline: plots pending an implementable DPP	**16,300**	14,200
Total owned and controlled plots	**42,721**	41,077
Strategic plots		
Positive planning status	**8,800**	8,500
Longer term interests	**16,800**	11,900
Total strategic land holdings	**25,600**	20,400

Ensuring that land is in place to deliver growth remains a key priority for the Group, and in that regard, the total owned and controlled land bank rose to 42,721 plots (2018 – 41,077 plots), representing a supply of 3.9 years (2018 – 4.0 years) based on last year's output.

The number of plots benefitting from an implementable detailed planning permission ('DPP') remained broadly unchanged at 26,421 (2018 – 26,877 plots). The Group either acquired land or obtained DPP on 10,436 plots (2018 – 11,529 plots), with 94% of these additions to the top tier of the owned and controlled land bank originating from the land 'pipeline'. These are typically sites which are bought conditionally and on which value is added by progressing through the planning process. Notwithstanding this success, the 'pipeline' section of the land bank grew by 14.8% to 16,300 plots (2018 – 14,200 plots).

As previously reported, as the Group continues to grow, longer term strategic land becomes more important as a supplementary source of supply. Accordingly, Bellway continues to invest in its strategic land bank and entered into option agreements to buy an additional 29 sites (2018 – 27 sites). The Group's strategic land holdings have risen to some 25,600 plots (2018 – 20,400 plots), offering opportunity for further volume growth in the years ahead.

Included within this total are 8,800 plots (2018 – 8,500 plots) with a positive planning status, representing only those plots that are the subject of a current planning application or form part of an emerging local plan. The rise in plots has been achieved notwithstanding the successful promotion of 1,717 plots into the owned and controlled land bank.

In addition to these shorter term strategic plots, Bellway has a further interest in an estimated 16,800 plots (2018 – 11,900 plots), which have the potential to obtain planning permission over a longer time frame.

Providing compelling opportunities can be identified, Bellway will make further investment in its strategic land resource, further bolstering its in-house land team, thereby ensuring that the contribution from this part of the business increases in the future.

Strengthening the brand

Ensuring that the Bellway brand is one in which customers can trust is fundamental in all that we do. As a result of our considerable efforts in this area, we are delighted to have achieved the status as a five-star homebuilder[3] in the Home Builders' Federation Customer Satisfaction survey for the third consecutive year.

We are also proud that the high standards achieved by site managers in the business were recognised, with 42 (2018 – 49) individuals receiving NHBC Pride in the Job Awards. Furthermore, the Customer Experience Committee formed two years ago continues to drive future improvements to quality and customer care.

The Group has enhanced its efforts with regards to digital marketing, launching a new consumer website in September 2018 and a new corporate website in March this year. More recently, in September 2019, we launched new Instagram and Facebook accounts for both existing and prospective customers. Increasing the amount of resource dedicated to this area will make our marketing efforts more effective and improve the buying experience for our customers. Both the websites and our social media content will continue to evolve in the future.

We will continue to prioritise quality and service in the year ahead, ensuring that a positive customer experience is an integral part of how we manage our business. An example of this approach is the investment we are making in a new customer care system. This will help us to better and more efficiently manage customer appointments, building upon the systems already in place in the business in order to deliver further improvements to our customers' experience.

Building new homes safely

The health and safety of both operatives and members of the public who visit our sites is of the utmost importance to the Group. Sites are frequently inspected by both our in-house health and safety team and external consultants, including the NHBC, to ensure that we maintain high standards. We also use these visits to benchmark our performance against other organisations in the sector and we continue to compare favourably with our peers.

Our efforts in this area of the business has been recognised in the NHBC Health and Safety Awards, with 12 of our site managers receiving Commended Awards (2018 – 11), representing 23% of the total awards issued across the industry, significantly ahead of our share of volume output.

During their regular site visits, our own health and safety team review processes and procedures in order to evaluate compliance, develop good practice, identify training needs and encourage innovation from our staff. We continue to run campaigns on key target areas, utilising a variety of formats, including billboards and on-site tool box talks. Performance of individual sites is not only evaluated at divisional level, but it is also highlighted to senior management, demonstrating the importance of this issue throughout the Group. Through continually focusing on improving our efforts around health and safety we have continued to reduce the lost time from accidents, with the seven day reportable incidence rate having fallen by 19.6% to 324.87 incidents per 100,000 site operatives (2018 – 404.02). We have a number of important initiatives and focus areas for the coming year including work around mental health and wellbeing.

The Grenfell tragedy has understandably increased the focus on fire safety across the industry and more specifically on apartment blocks. Government guidance issued in December 2018 has sought to improve fire protection measures within wall systems on buildings above 18 metres in height. Bellway has a small number of developments, which obtained full building regulation approval at the time of construction, where cladding has been used. Given evolving guidance in this complex area, as a responsible developer and along with the wider housebuilding sector, we continue to work proactively with the government and our delivery partners in relation to fire safety on apartment schemes.

Appointing the right people

Given the strong growth in the business, Bellway continued to expand its workforce, employing an average of 2,980 employees during the year (2018 – 2,808), an increase of 6.1%. In addition, through indirect subcontract labour and the Group's supply chain, we estimate that we supported around 30,000 to 34,000 jobs during the year, providing a valuable boost to both local employment and the wider economy.

Bellway has a responsibility to ensure that the industry has the right skill base in order to grow in the future. We continue to invest in young talent and have increased the number of apprenticeships and graduates in our business by 9.2% to 155 (2018 – 142). This is also ahead of our initial target, which was set when we became members of 'The 5% Club', a charitable organisation which recognises our commitment to have at least 5% of our workforce employed in these developmental roles. With the launch of our graduate training programme, 'Great Careers Built With Us', later this year, we expect that this number will continue to grow in the next twelve months. Bellway continues to participate in the HBF Home Building Skills Partnership which works to attract new talent and develop, grow and sustain the workforce required by the industry to deliver further increases in housing supply.

The Group encourages and supports a diverse workforce and has implemented a number of initiatives around equality, diversity and inclusion. These include enhancing parental leave benefits, equality, diversity and inclusion training programmes and creating diversity champions in each of our divisions to promote progress in this area.

Bellway4Good

Bellway remains committed to being a responsible homebuilder and ensuring that its growth is achieved in an ethical and sustainable manner for all its stakeholders, including customers, employees, shareholders, suppliers and local communities. Bellway4Good is the Group banner for managing our corporate responsibility activities, with targets focused around the three 'pillars' of the environment, construction and society and economy.

Under 'environment', the focus is on energy efficient work and for the second year running, 100% of construction compounds were fitted with energy saving devices. All showhomes have also been fitted with LED lighting, further contributing to carbon savings. Additionally, from 1 February 2019, all compound electrical supplies were bought under the Renewable Energy Guarantees of Origin system, thereby ensuring a commitment to buying energy generated from renewable energy sources. As a result of these actions, the Group reduced its own carbon emissions per legal completion, i.e. excluding those arising from its supply chain, to 2.4 tonnes (2018 – 2.5 tonnes). We also remain committed to ensuring timber purchased by Bellway is from sustainable sources, mandating that all supplies have Forest Stewardship Council ('FSC') timber certification.

Within 'construction', for the fifth year running we have increased the percentage of waste diverted from landfill to 98.4% (2018 – 98.1%). Waste diversion from offices has also increased to 54.9% (2018 – 44.6%).

Under 'society and economy' our charitable initiatives have gathered momentum. We are proud that at the end of the year, our colleagues and business partners had raised £494,812 for Cancer Research UK (2018 – £394,453), taking total donations over the past three years to a noteworthy £1,275,178, well ahead of our £1 million target. In recognition of this effort, Bellway won the Cancer Research UK 'Flame of Hope' award, acknowledging our significant fundraising achievement and support for this worthwhile cause. We continue to match employee fundraising for charities of their choice and offer a payroll giving scheme for those who wish to participate. In total, charitable donations amounted to £754,793 (2018 – £564,040) in the year, of which £391,736 (2018 – £272,096) was raised by our employees or subcontractors.

Current trading and outlook

In addition to delivering volume growth of 5.7%, the Group ended the financial year with a sizeable forward order book of 4,878 homes (2018 – 4,841), with a value of £1,223.9 million[1] (2018 – £1,301.1 million). In the first nine weeks of the new financial year, trading has remained robust, with the Group achieving 183 reservations per week (1 August to 30 September 2018 – 176), an increase of 4.0%. As a result of this positive start, the order book at 29 September 2019 remained strong and comprised 5,190 homes (30 September 2018 – 5,380 homes) with a value of £1,311.6 million[1] (30 September 2018 – £1,469.5 million). The slight reduction is a result of the higher number of completions recorded in this short trading period, a reflection of good on-site construction progress.

The Board is mindful that the uncertainty surrounding 'Brexit' could pose a threat to consumer confidence. Assuming market conditions remain favourable, the strong order book, together with additional, considered investment in land and work in progress, should enable Bellway to deliver further, yet more moderate volume growth in the year ahead.

Also in the new financial year, the one-off benefit to the operating margin from Nine Elms will not be repeated and in addition, in the absence of house price inflation, industrywide build cost pressures will continue to have a moderating effect. As a result of these combined influences, the reduction to a consistent, underlying operating margin will be more pronounced.

Beyond this new financial year, with a consistent operating margin, the Board continues to see further opportunities for both volume and earnings growth. Specifically, following the growth potential afforded by investment in the additional new divisions of Eastern Counties and London Partnerships, the Group has capacity to increase output to 13,000 homes per annum. Over the medium term there is opportunity to expand beyond this, with further new divisions. This, together with the Group's strong financial position, ensures our strategy for growth will deliver further sustainable value for shareholders.

Jason Honeyman
Group Chief Executive
14 October 2019

Financial Review

Operating performance

The successful delivery of the Group's disciplined growth strategy has resulted in further growth in housing revenue for the tenth successive year, with this increasing by 8.3% to £3,180.1 million (2018 – £2,936.8 million). This was driven principally by the number of housing completions rising by 5.7% to 10,892 homes (2018 – 10,307 homes), a record level for the Group. Additionally, the 2.5% increase in average selling price to £291,968 (2018 – £284,937) contributed to this growth, as a result of favourable changes in product and geographic mix.

Other revenue, which includes non-recurring land, commercial and ground rent sales, increased by £12.2 million to £33.1 million (2018 – £20.9 million). This, combined with housing revenue growth, resulted in total revenue rising by 8.6% to £3,213.2 million (2018 – £2,957.7 million).

The gross margin, although still high, was slightly below last year at 24.6% (2018 – 25.6%[4]), with the reduction likely to continue as Nine Elms trades out and build cost increases remain a facet of the industry, with house price inflation continuing to diminish.

Under IFRS 15 we now separately disclose the effect of part-exchange sales which, during the period, resulted in a loss of £5.6 million (2018 – £4.1 million).

In order to boost operational capability and support continued growth, Bellway invested further in its regional structure, with 22 operating divisions as at 31 July 2019. As a consequence, administrative expenses grew to £109.7 million (2018 – £100.5 million), but as a proportion of revenue, they remained flat at 3.4%[1] (2018 – 3.4%).

The positive trading performance resulted in operating profit increasing by 3.4% to £674.9 million (2018 – £652.9 million) and the operating margin remained high at 21.0% (2018 – 22.1%).

Net finance expense

The net finance expense was £14.4 million[1] (2018 – £13.6 million) and principally includes bank interest and notional interest on land acquired on deferred terms. Bank interest, which includes interest on drawn monies, commitment fees and refinancing costs, increased to £6.3 million (2018 – £5.2 million). Average net debt reduced to £165.4 million[1] (2018 – £191.5 million). Notional interest on land acquired on deferred terms decreased by £1.0 million to £7.8 million (2018 – £8.8 million).

Profitability

Profit before taxation rose by 3.4% to £662.6 million (2018 – £641.1 million), in line with the rate of operating profit growth. The corporation tax charge was £124.0 million (2018 – £121.2 million), reflecting an effective tax rate of 18.7% (2018 – 18.9%). The effective tax rate is below the standard rate of corporation tax of 19.0% (2018 – 19.0%), primarily due to an enhanced tax deduction for remediating previously developed, brownfield land.

Basic earnings per share rose by 3.4% to 437.8p per share (2018 – 423.4p).

Investing cash for future growth

The Group is highly cash generative and generated cash from operations of £419.1 million (2018 – £375.6 million), representing 62.1% of operating profit (2018 – 57.5%), with this after making further investment in inventories to generate future revenue growth.

The tax paid was £119.3 million and after dividend payments of £178.9 million, joint venture funding of £4.3 million and other minor cash outflows of £14.4 million, net cash at the end of the year was £201.2 million[1] (2018 – £99.0 million), with this ungeared balance sheet demonstrating the financial strength of the business. Following a change in legislation regarding the timing of tax payments-on-account, the cash outflow in relation to tax in the new financial year will increase by around 50%, although the effective tax rate in the income statement is likely to be similar to that reported in the year ended 31 July 2019.

Land creditors, which are considered to be a source of longer term debt finance, stood at £297.9 million (2018 – £365.4 million) and continue to be used only when it is cost effective to do so. Including land creditors, total debt stood at £96.7 million (2018 – £266.4 million), representing very modest adjusted gearing of 3.3%[1] (2018 – 10.4%).

A balanced and flexible capital structure

The balance sheet principally comprises amounts invested in land and work in progress, with the balance of inventories rising by 6.3% to £3,477.6 million (2018 – £3,271.6 million). The carrying value of land remained broadly unchanged at £2,004.4 million (2018 – £2,011.9 million) reflecting the lower average plot cost of sites acquired in the period. Work in progress rose by 16.4% to £1,298.2 million (2018 – £1,115.1 million) and was 40.8% (2018 – 38.0%) as a proportion of housing revenue.

Consistent with previous years, the financing structure remains simple and transparent, with growth financed through retained earnings, net bank borrowings and land creditors. The Group has committed borrowing facilities of £575 million, extending in tranches through to December 2023. This provides reassurance on the security of funding for the years ahead.

The Group had a modest retirement benefit asset of £2.8 million (2018 – £1.3 million) at 31 July reflecting an ongoing commitment to funding this future, long term obligation.

A focus on capital employed

Following the dividend payment of 145.4p per share, the net asset value rose by 14.2% to £2,921.2 million (2018 – £2,557.1 million), representing a net asset value per share of 2,372p[1] (2018 – 2,079p).

This growth in NAV and the payment of the dividend resulted from the compounding effect of reinvesting earnings back into high return land opportunities. RoCE remains high at 24.7%[1] (2018 – 27.2%), or 22.1%[1] (2018 – 23.6%) when including land creditors as part of the capital base. Notwithstanding the lowly geared balance sheet, the post-tax return on equity remained high at 19.8%[1] (2018 – 22.1%).

Bellway's long term growth strategy and continued disciplined investment in high return land opportunities continues to deliver further value growth for shareholders.

Keith Adey
Group Finance Director
14 October 2019

Group Income Statement
For the year ended 31 July 2019

	Note	2019 £000	2018 £000 Restated[1]
Revenue		**3,213,243**	2,957,664
Cost of sales		**(2,423,062)**	(2,200,184)
Gross profit		**790,181**	757,480
Other operating income		**169,922**	141,093
Other operating expenses		**(175,513)**	(145,125)
Administrative expenses		**(109,685)**	(100,577)
Operating profit		**674,905**	652,871
Finance income	3	**569**	649
Finance expenses	3	**(15,014)**	(14,261)
Share of result of joint ventures		**2,131**	1,798
Profit before taxation		**662,591**	641,057
Income tax expense	4	**(124,037)**	(121,152)
Profit for the year *		**538,554**	519,905
Earnings per ordinary share – Basic	6	**437.8p**	423.4p
Earnings per ordinary share – Diluted	6	**436.4p**	421.6p

Group Statement of Comprehensive Income
For the year ended 31 July 2019

	2019 £000	2018 £000
Profit for the period	**538,554**	519,905
Other comprehensive income		
Items that will not be recycled to the income statement:		
Remeasurement gains on defined benefit pension plans	**1,333**	5,001
Income tax on other comprehensive income	**(227)**	(850)
Other comprehensive income for the period, net of income tax	**1,106**	4,151
Total comprehensive income for the period *	**539,660**	524,056

* All attributable to equity holders of the parent.

[1] See note 10.

Group Statement of Changes in Equity
At 31 July 2019

	Note	Issued capital £000	Share premium £000	Capital redemption reserve £000	Other reserves £000	Retained earnings £000	Total £000	Non-controlling interest £000	Total equity £000
Balance at 1 August 2017		15,349	171,240	20,000	1,492	1,983,325	2,191,406	(66)	2,191,340
Total comprehensive income for the period									
Profit for the period		-	-	-	-	519,905	519,905	-	519,905
Other comprehensive income **		-	-	-	-	4,151	4,151	-	4,151
Total comprehensive income for the period		-	-	-	-	524,056	524,056	-	524,056
Transactions with shareholders recorded directly in equity:									
Dividends on equity shares	5	-	-	-	-	(162,647)	(162,647)	-	(162,647)
Shares issued		23	2,412	-	-	-	2,435	-	2,435
Credit in relation to share options and tax thereon		-	-	-	-	1,850	1,850	-	1,850
Transactions with non-controlling interest		-	-	-	-	-	-	66	66
Total contributions by and distributions to shareholders		23	2,412	-	-	(160,797)	(158,362)	66	(158,296)
Balance at 31 July 2018		15,372	173,652	20,000	1,492	2,346,584	2,557,100	-	2,557,100
Total comprehensive income for the period									
Profit for the period		-	-	-	-	538,554	538,554	-	538,554
Other comprehensive income **		-	-	-	-	1,106	1,106	-	1,106
Total comprehensive income for the period		-	-	-	-	539,660	539,660	-	539,660
Transactions with shareholders recorded directly in equity:									
Dividends on equity shares	5	-	-	-	-	(178,865)	(178,865)	-	(178,865)
Purchase of own shares		-	-	-	-	(512)	(512)	-	(512)
Shares issued		23	2,102	-	-	(8)	2,117	-	2,117
Credit in relation to share options and tax thereon		-	-	-	-	1,674	1,674	-	1,674
Total contributions by and distributions to shareholders		23	2,102	-	-	(177,711)	(175,586)	-	(175,586)
Balance at 31 July 2019		**15,395**	**175,754**	**20,000**	**1,492**	**2,708,533**	**2,921,174**	**-**	**2,921,174**

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

Group Balance Sheet
At 31 July 2019

	Note	2019 £000	2018 £000
ASSETS			
Non-current assets			
Property, plant and equipment		**29,791**	13,095
Investment property		**-**	-
Financial assets and equity accounted joint arrangements		**49,902**	43,463
Deferred tax assets		**706**	1,121
Retirement benefit assets		**2,776**	1,298
		83,175	58,977
Current assets			
Inventories		**3,477,583**	3,271,611
Trade and other receivables		**127,858**	114,915
Cash and cash equivalents	7	**201,241**	98,993
		3,806,682	3,485,519
Total assets		**3,889,857**	3,544,496
LIABILITIES			
Non-current liabilities			
Trade and other payables		**97,215**	82,320
Deferred tax liabilities		**2,199**	2,538
		99,414	84,858
Current liabilities			
Corporation tax payable		**66,314**	61,463
Trade and other payables		**802,955**	841,075
		869,269	902,538
Total liabilities		**968,683**	987,396
Net assets		**2,921,174**	2,557,100
EQUITY			
Issued capital		**15,395**	15,372
Share premium		**175,754**	173,652
Capital redemption reserve	8	**20,000**	20,000
Other reserves		**1,492**	1,492
Retained earnings	8	**2,708,533**	2,346,584
Total equity		**2,921,174**	2,557,100

Group Cash Flow Statement
For the year ended 31 July 2019

	Note	2019	2018
		£000	£000
Cash flows from operating activities			
Profit for the year		**538,554**	519,905
Depreciation charge		**5,757**	1,855
Loss/(profit) on sale of property, plant and equipment		**4**	(72)
Finance income	3	**(569)**	(649)
Finance expenses	3	**15,014**	14,261
Share-based payment expense		**1,648**	2,459
Share of post tax result of joint ventures		**(2,131)**	(1,798)
Income tax expense	4	**124,037**	121,152
Increase in inventories		**(205,972)**	(303,427)
Increase in trade and other receivables		**(11,901)**	(29,319)
(Decrease)/increase in trade and other payables		**(45,377)**	51,228
Cash from operations		**419,064**	375,595
Interest paid		**(7,829)**	(5,472)
Income tax paid		**(119,311)**	(116,128)
Net cash inflow from operating activities		**291,924**	253,995
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(5,126)**	(3,921)
Proceeds from sale of property, plant and equipment		**74**	298
Increase in loans to joint ventures		**(5,750)**	(7,320)
Repayment of loans by joint ventures		**1,442**	-
Interest received		**482**	188
Net cash outflow from investing activities		**(8,878)**	(10,755)
Cash flows from financing activities			
Decrease in bank borrowings		**-**	(30,000)
Payment of lease liabilities		**(3,538)**	-
Proceeds from the issue of share capital on exercise of share options		**2,117**	2,435
Purchase of own shares		**(512)**	-
Dividends paid	5	**(178,865)**	(162,647)
Net cash outflow from financing activities		**(180,798)**	(190,212)
Net increase in cash and cash equivalents		**102,248**	53,028
Cash and cash equivalents at beginning of year		**98,993**	45,965
Cash and cash equivalents at end of year	7	**201,241**	98,993

Notes

1. Basis of preparation and accounting policies

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

The financial information set out above does not constitute the Group's statutory financial statements for the years ended 31 July 2019 or 2018, but is derived from those financial statements. Statutory financial statements for 2018 have been delivered to the registrar of companies, and those for 2019 will be delivered in due course. The auditor, KPMG LLP, has reported on those financial statements; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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

The Group's activities are financed principally by a combination of ordinary shares and bank borrowings less cash in hand. At 31 July 2019, cash was £201.2 million having generated cash of £102.2 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 £575.0 million, expiring in tranches up to December 2023, with £575.0 million available for drawdown under such facilities at 31 July 2019.

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

Whilst the financial information included in this announcement has been prepared in accordance with Adopted IFRSs, this announcement does not itself contain sufficient information to comply with Adopted IFRSs. The Group expects to send its Annual Report and Accounts 2019 to shareholders on 7 November 2019.

Effect of new standards and interpretations effective for the first time

The Group adopted IFRS 15 'Revenue from contracts with customers' during the current financial year. Details of the effect on these financial statements are included in note 10.

The Group adopted IFRS 16 'Leases' during the current financial year. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The Group used the modified retrospective approach so the comparative information has not been restated. The right-of-use asset at the date of transition was equal to the lease liability at that date, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet immediately before the date of initial application. The weighted average incremental borrowing rate applied to lease liabilities at the date of initial application was 3.15%.

Following the adoption of these standards, the following accounting policies have changed compared to those in the 2018 Annual Report and Accounts:

Revenue recognition

(a) Private and social (turnkey and plot sale) housing sales and land sales.

Revenue is measured at the fair value of consideration received or receivable, net of incentives. Revenue is recognised in the income statement at a point in time when the performance obligation, being the transfer of a completed dwelling to a customer, has been satisfied. This is when legal title is transferred.

(b) Social housing properties as part of a land sale and design and build contract.
Revenue is measured at the fair value of consideration received or receivable, net of incentives. Revenue is recognised in the income statement at a point in time when the performance obligations have been satisfied. This is when the homes are build complete and all material contractual obligations have been fulfilled.

Incentives
Sales incentives are substantially cash in nature. Cash incentives are recognised as a reduction in housebuild revenue by the cost to the Group of providing the incentive.

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

Part-exchange properties

The purchase and subsequent sale of part-exchange properties is an activity undertaken in order to achieve the sale of a new property. The original sale of private housing is recognised, as above, at the fair value of the part exchange property plus the cash received or receivable. The fair value of the part exchange property is equal to the amount assessed by external valuers. The onward sale of a part-exchange property is recognised at the fair value of consideration received or receivable. As it is not considered a principal activity of the Group the income and expenses associated with this are recognised in other operating income and other operating expenses. Income is recognised in the income statement at a point in time when the performance obligations have been satisfied. This is when legal title is transferred.

Leases

The lease liability is initially measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate. The lease term comprises the non-cancellable period of the contract, together with periods covered by an option to extend the lease where the Group is reasonably certain to exercise that option. Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability, and reducing it by the lease payments made. The lease liability is remeasured when the Group changes its assessment of whether it will exercise an extension or termination option.

Right-of-use assets are initially measured at cost, comprising the initial measurement of the lease liability, plus any initial direct costs and an estimate of asset retirement obligations, less any lease incentives. Subsequently, right-of-use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and are adjusted for certain remeasurements of the lease liability. Depreciation is calculated on a straight-line basis over the length of the lease.

The Group has elected to apply exemptions for short-term leases and leases for which the underlying asset is of low value. For these leases, payments are charged to the income statement on a straight-line basis over the term of the relevant lease.

Right-of-use assets are presented in property, plant and equipment on the balance sheet and lease liabilities are shown on the balance sheet in trade and other payables in current liabilities and non-current liabilities depending on the length of the lease term.

The Group has also adopted the following standards and interpretations for the first time in these financial statements which had no material effect:

- IFRS 9 'Financial Instruments'.
- Annual Improvements to IFRS 2014 – 2016 Cycle.
- Amendments to IFRS 2: Classification and measurement of share-based payment transactions.

Standards and interpretations in issue but not yet effective

At the date of authorisation of these financial statements there were a number of standards and interpretations which were in issue and endorsed by the EU but not yet effective. These have not been applied in these financial statements and are not expected to have a material effect when adopted.

Notes (continued)

2. Segmental analysis

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

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

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

3. Finance income and expenses

	2019 £000	2018 £000
Interest receivable on bank deposits	**397**	161
Interest on fair value through profit or loss	**136**	425
Interest element of movement in pension scheme asset	**36**	-
Other interest income	**-**	63
Finance income	**569**	649
Interest payable on bank loans and overdrafts	**6,690**	5,410
Interest on deferred term land payables	**7,826**	8,754
Interest payable on leases	**498**	-
Interest element of movement in pension scheme deficit	**-**	97
Finance expenses	**15,014**	14,261

4. Taxation

The effective rate of income tax is 18.7% of profit before taxation (2018 – 18.9%) and compares favourably to the Group's standard tax rate for the year of 19.0% (2018 – 19.0%). The lower effective tax rate in the current year is principally due to enhanced tax deductions received by the Group in relation to land remediation relief and a credit following the finalisation of the prior year corporation tax returns.

The deferred tax assets and liabilities held by the Group that are expected to be realised after 31 March 2020 are valued at 17%, the substantively enacted corporation tax rate that will be effective after that date.

Notes (continued)

5. Dividends on equity shares

	2019 £000	2018 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 July 2018 of 95.0p per share (2017 – 84.5p)	**116,829**	103,668
Interim dividend for the year ended 31 July 2019 of 50.4p per share (2018 – 48.0p)	**62,041**	58,997
Dividends forfeited	**(5)**	(18)
	178,865	162,647
Proposed final dividend for the year ended 31 July 2019 of 100.0p per share (2018 – 95.0p)	**123,103**	116,830

The 2019 proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 10 December 2019 and, in accordance with IAS 10 'Events after the Reporting Period', has not been included as a liability in these financial statements. The proposed final dividend, subject to shareholder approval, will be paid on 8 January 2020 to all ordinary shareholders on the Register of Members on 29 November 2019. The ex-dividend date is 28 November 2019. At the record date for the final dividend for the year ended 31 July 2018, shares were held by the Bellway Employee Share Trust (1992) (the 'Trust') on which dividends had been waived.

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

6. Earnings per ordinary share

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

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

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

	Earnings 2019 £000	**Weighted average number of ordinary shares 2019 Number**	**Earnings per share 2019 p**	Earnings 2018 £000	Weighted average number of ordinary shares 2018 Number	Earnings per share 2018 p
For basic earnings per ordinary share	**538,554**	**123,012,723**	**437.8**	519,905	122,779,199	423.4
Dilutive effect of options and awards		**398,943**	**(1.4)**		528,251	(1.8)
For diluted earnings per ordinary share	**538,554**	**123,411,666**	**436.4**	519,905	123,307,450	421.6

7. Analysis of net cash

	At 1 August 2018 £000	Cash flows £000	**At 31 July 2019 £000**
Cash and cash equivalents	98,993	102,248	**201,241**
Net cash	98,993	102,248	**201,241**

Notes (continued)

8. Reserves

Own shares held

The Group holds shares within the Trust for participants of certain share-based payment schemes. These are held within retained earnings. During the period 20,000 shares were purchased by the Trust (2018 – nil shares) and the Trust transferred 20,911 (2018 – 118,863) shares to employees and directors. The number of shares held within the Trust and on which dividends have been waived, at 31 July 2019 was 64,629 (2018 – 65,540). These shares are held within the financial statements at a cost of £1.3 million (2018 – £1.2 million). The market value of these shares at 31 July 2019 was £1.9 million (2018 – £1.9 million).

Capital redemption reserve

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

9. Contingent liabilities

Following the Grenfell fire, there has been evolving guidance in the complex area of fire safety, including amendments to the Building Regulations which, from 21 December 2018, ban the use of combustible materials in the external walls of new high-rise residential buildings 18 metres or more in height. The result of this and revised guidance to building owners and responsible persons is additional scrutiny and review of the materials used in the construction of apartment schemes. Whilst all buildings constructed by Bellway obtained the appropriate building regulations approval at the time of construction, as a responsible developer, Bellway continues to work with residents, management companies, housing associations and freeholders to assess the performance of specific cladding systems and fire safety measures. A liability, which is immaterial in the context of these financial statements, is included in the balance sheet based on management's expectation of the potential cost of working with partners to carry out replacement cladding and related fire safety works as part of Bellway's commitment to be a responsible developer. These estimates may change over time as further information is assessed, building works progress and fire safety regulations further evolve.

Notes (continued)

10. Revenue from contracts with customers

The Group adopted IFRS 15 'Revenue from contracts with customers' during the current financial year. This standard resulted in presentational changes to the income statement to gross up part-exchange revenue and expenses within operating profit which were previously recognised on a net basis within cost of sales, since part-exchange transactions were treated as being associated with housing sales. The Group used the full retrospective approach so the prior year comparatives have been restated. The effect of IFRS 15 is that these are considered separate transactions and are therefore presented separately within other operating income and other operating expenses as it is not a principal activity of the Group, and for the period ended 31 July 2019 was an increase in other operating income of £169.9 million, an increase in other operating expenses of £175.5 million, and a corresponding £5.6 million decrease in cost of sales.

The financial statement items affected by the adoption of IFRS 15 for the comparative period are shown below. There was no change in previously reported balance sheet information or earnings per share.

	Year ended 31 July 2018		
	As previously reported	**Adjustment in respect of part-exchange transactions**	**Restated**
	£000	**£000**	**£000**
Revenue	2,957,664	-	2,957,664
Cost of sales	(2,204,216)	4,032	(2,200,184)
Gross profit	753,448	4,032	757,480
Other operating income	-	141,093	141,093
Other operating expenses	-	(145,125)	(145,125)
Administrative expenses	(100,577)	-	(100,577)
Operating profit	652,871	-	652,871

11. Alternative performance measures

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

The APMs used by the Group are defined below:

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

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

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

Notes (continued)

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

Per balance sheet	2019 £m	2018 £m	Mvt £m	2018 £m	2017 £m	Mvt £m
Land	**2,004.4**	**2,011.9**	**(7.5)**	2,011.9	1,838.2	173.7
Work in progress	**1,298.2**	**1,115.1**	**183.1**	1,115.1	1,017.7	97.4
Increase in capital invested in land and work in progress in the year			**175.6**			271.1
Land creditors	**(297.9)**	**(365.4)**	**67.5**	(365.4)	(366.8)	1.4
Increase in capital invested in land, net of land creditors, and work in progress in the year			**243.1**			272.5

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

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

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

	2019 Capital employed £m	2019 Land creditors £m	2019 Capital employed including land creditors £m	2018 Capital employed £m	2018 Land creditors £m	2018 Capital employed including land creditors £m
Operating profit	**674.9**		**674.9**	652.9		652.9
Capital employed/land creditors:						
Opening	**2,557.1**	**365.4**	**2,922.5**	2,191.3	366.8	2,558.1
Half year	**2,720.4**	**294.5**	**3,014.9**	2,455.3	367.3	2,822.6
Closing	**2,921.2**	**297.9**	**3,219.1**	2,557.1	365.4	2,922.5
Average	**2,732.9**	**319.3**	**3,052.2**	2,401.2	366.5	2,767.7
Return on capital employed	**24.7%**		**22.1%**	27.2%		23.6%

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

	2019 £m	2018 £m
Profit for the year	**538.6**	519.9
Net assets:		
Opening	**2,557.1**	2,191.3
Half year	**2,693.8**	2,323.9
Closing	**2,921.2**	2,557.1
Average	**2,724.0**	2,357.4
Post tax return on equity	**19.8%**	22.1%

Notes (continued)

- **Total growth in value per ordinary share** – The directors use this as a proxy for the increase in shareholder value since 31 July 2016.

Net asset value per ordinary share:		
At 31 July 2019	2,372p	
At 31 July 2016	1,522p	
Net asset value growth per ordinary share		850.0p
Dividend paid per ordinary share:		
Year ended 31 July 2019	145.4p	
Year ended 31 July 2018	132.5p	
Year ended 31 July 2017	111.5p	
Cumulative dividends paid per ordinary share		389.4p
Total growth in value per ordinary share		1,239.4p

- **Annualised accounting return in NAV and dividends paid since 31 July 2016** – This is calculated as the annualised increase in net asset value per ordinary share plus cumulative ordinary dividends paid per ordinary share since 31 July 2016 (as detailed above) divided by the net asset value per ordinary share at 31 July 2016. The directors use this as a proxy for the increase in shareholder value since 31 July 2016.

Net asset growth per ordinary share	850.0p
Dividend paid per ordinary share	389.4p
Total growth in value per ordinary share	1,239.4p
Net asset value per ordinary share at 31 July 2016	1,522.0p
Total value per ordinary share	2,761.4p
Annualised accounting return $= \left(\frac{2,761.4}{1,522.0}\right)^{1/3} - 1$	22.0%

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

- **Average net debt** – This is calculated by averaging the net debt/cash position at 1 August and each month end during the year. The directors consider this to be a good indicator of the financing position of the Group throughout the year.

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

	2019 £m	2018 £m
Cash from operations	**419.1**	375.6
Add: increase in capital invested in land, net of land creditors, and work in progress (as described above)	**243.1**	272.5
Cash generated from operations before investment in land, net of land creditors, and work in progress	**662.2**	648.1

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

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

- **Order book** – This is calculated as the total expected sales value of current reservations that have not legally completed. The directors consider this to be an important indicator of the likely future operating performance of the Group.

Principal risks and uncertainties

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

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

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

We have identified the following principal risks to our business:

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

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

IT and security				
Failure to have suitable systems in place and appropriate back up, contingency plans and security policies	▪ Poor performance of our systems would affect operational efficiency, profitability and our control environment.	▪ EPS.	▪ Group-wide systems are in operation which are centrally controlled with an outsourced support function in place. ▪ Continued investment in systems. ▪ Regular review and testing of our security measures, contingency plans and IT security policies. ▪ Group-wide Cyber Security Committee in place.	No change.
Legal and regulatory compliance				
Failure to comply with legislation and regulatory requirements, including changes to Building Regulations, Fire Safety Regulations and leasehold reform legislation as a result of ongoing government consultations	▪ Lack of appropriate procedures and compliance would result in delays in land development, construction and sales completions plus possible re-work to sites, all of which could have a detrimental impact on profitability and reputation, potentially leading to financial penalties and other regulatory consequences. ▪ We await the outcome of the government's review under the Building Safety Programme. We are cooperating with the CMA regarding their leasehold investigation into the sale of homes in the new build housing market and await the government's detailed proposals and leasehold reform legislation.	▪ Volume growth. ▪ EPS. ▪ Number of homes sold. ▪ RoCE. ▪ Gross margin.	▪ In-house expertise from Group Company Secretariat, Legal, Health and Safety and Technical functions who advise and support divisions on compliance and regulatory matters. ▪ Consultation with government agencies, specialist external legal advisors and subject matter experts (e.g. fire safety consultants) including ongoing cooperation with the CMA. ▪ Strengthened group-wide policies, procedures and training for key regulatory matters. ▪ Continual monitoring and review of changes to legislation and regulation, including any supporting guidance and advice notes. ▪ Continual liaison with the HBF on regulation and compliance matters.	No change.

The Group continues to invest in its control environment, with a significant IT implementation project and developments to both IT and business processes ongoing. The risks associated with these changes, including those relating to the adjustment of employees to new processes, are regularly monitored by management and the Board.