BELLWAY P.L.C. ("BELLWAY" OR THE "GROUP"), THE NATIONAL HOUSEBUILDER, ANNOUNCES TODAY, TUESDAY 20 OCTOBER 2020, ITS PRELIMINARY RESULTS FOR THE YEAR ENDED 31 JULY 2020.

Summary

Financial strength and record order book provide flexibility for the year ahead

	Year ended 31 July 2020	Year ended 31 July 2019	Movement
Revenue	£2,225.4m	£3,213.2m	(30.7%)
Gross profit (pre-exceptional)	£422.2m[1,4]	£790.2m	(46.6%)
Gross margin (pre-exceptional)	19.0%[1,4]	24.6%	(560 bps)
Operating profit (pre-exceptional)	£321.7m[1,4]	£674.9m	(52.3%)
Operating margin (pre-exceptional)	14.5%[1,4]	21.0%	(650 bps)
Exceptional costs	£72.6m	-	n/a
Profit before taxation	£236.7m	£662.6m	(64.3%)
Earnings per share	156.6p	437.8p	(64.2%)
Proposed total dividend per share	50.0p	150.4p	(66.8%)
Net cash	£1.4m[1]	£201.2m	(99.3%)

Lower revenue and profit in 2020 because of COVID-19, supported by a resilient balance sheet

- The financial performance in the year was significantly affected by the COVID-19 pandemic:
  - The number of housing completions fell by 30.9% to 7,522 (2019 – 10,892);
  - There was a non-exceptional COVID-19 expense of £18.9 million in relation to extended site durations and enhanced health and safety requirements;
  - Pre-exceptional operating profit fell to £321.7 million[1,4] (2019 – £674.9 million) and the pre-exceptional operating margin was 14.5%[1,4] (2019 – 21.0%);
  - In addition, there was an exceptional COVID-19 related expense of £25.8 million, principally comprising abnormal, non-productive site-based costs of £14.5 million, arising from the interruption to construction activity during the 'lockdown', together with impairment costs of £9.9 million on several aborted land deals.
- The Group set aside £46.8 million as an exceptional charge as part of its commitment to help owners of legacy apartment schemes undertake fire safety improvements.
- After considering exceptional items, profit before tax fell by 64.3% to £236.7 million (2019 – £662.6 million).
- The balance sheet remains robust, with net cash of £1.4 million[1] (2019 – £201.2 million) and committed long-term bank facilities of £545 million, providing resilience and strategic flexibility. Land creditors remain low, at £343.6 million (2019 – £297.9 million).
- Dividend payments resumed, with a Board proposal to pay a reduced final dividend of 50.0p per share (2019 – 100.0p). The Board expects to increase the quantum of future dividend payments over time, commensurate with the Group's recovery in earnings.

Ongoing operational strength

- A continued focus on quality and customer care resulted in Bellway achieving five-star homebuilder[3] status for the fourth consecutive year.
- Further progress on several cost control initiatives including our 'Artisan Collection' standard house type range, which is progressing well. This reflects the high quality throughout our product range and will enable further long-term cost savings through standardisation, having been plotted across 164 developments (2019 – 97 developments).
- All of our colleagues have returned to work, either in offices, on sites or at home and have been supported on full basic pay throughout the pandemic without using the Government's Coronavirus Job Retention Scheme ('CJRS').
- A disciplined, but proactive return to the land market has helped the Group secure an additional 14 sites since the introduction of 'lockdown' measures until 31 July 2020. These opportunities are in good locations and are expected to generate attractive rates of return.

Outlook

- An encouragingly strong start to trading in the new financial year, with overall reservations up by 30.6% to 239 per week (1 August to 29 September 2019 – 183 per week) in the nine weeks since 1 August.
- A record forward order book at 4 October with a value of £1,869.6 million[1] (29 September 2019 – £1,311.6 million), supported by a strong work-in-progress position, provides a solid platform for recovery in the year ahead.
- Productivity levels are improving and are currently between 85% and 90% of those achieved in the year ended 31 July 2019. Aside from the risk of a further, widespread national 'lockdown', this should help the Group complete the sale of around 9,000 homes at an expected average selling price of around £290,000 for the year ending 31 July 2021.
- Strategy and platform in place to deliver long-term and sustainable growth.

[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 12.

[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] Before exceptional items (note 3).

Analyst and investor conference call and webcast

There will be an analyst and investor presentation via webcast, hosted by Jason Honeyman, Group Chief Executive and Keith Adey, Group Finance Director, at 9.30am today. To join the presentation, go to the Bellway p.l.c. corporate website, www.bellwayplc.co.uk/investor-centre. There is also a facility to join the presentation and Q&A session via a conference call. Participants should dial +44 (0) 330 336 9411 and use confirmation code 9021845. A playback facility will be available shortly after the presentation has finished.

For further information, please contact:-

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Chairman's Statement

Introduction

After reporting a strong set of Interim Results in March, COVID-19 led to an unprecedented period of disruption, with a significant negative impact on our full year financial performance.

Nevertheless, with its long-term and conservative approach to managing the business, Bellway is in a robust position, benefiting from a resilient balance sheet. Not only can the Group protect shareholder value during times of uncertainty, but together with its underlying operational strength, Bellway is well placed to continue investment in its long-term growth strategy.

A swift and responsible approach to COVID-19

The introduction of 'lockdown' measures in March resulted in the priorities of the business being quickly reshaped, with the Board taking several actions intended to ensure safe working practices, support our colleagues and preserve the Group's liquidity and balance sheet strength.

We began the gradual process of resuming limited construction activity in early May, followed by a measured reopening of onsite sales centres later in the month. Significant investment in IT over recent years enabled most of our office-based employees to work effectively from home, thereby supporting the reopening of all previously active sales outlets by the end of June.

A moratorium on all new land deals was initially introduced, with the intention of preserving liquidity and balance sheet value until such time as market conditions became clearer. Subsequently, the improving sales market has enabled Bellway to recommence land buying activity in a disciplined manner, thereby supporting the recovery and longer-term growth at attractive rates of return.

Placing customers first

Our continued prioritisation of both build quality and customer service resulted in the Group being recognised as a five-star homebuilder[3] by the Home Builders Federation ('HBF') for the fourth consecutive year, a testament to our significant and continued efforts in this crucial aspect of the business. In addition, 44 of our site managers were recognised for their focus on quality, obtaining National Home Building Council ('NHBC') 'Pride in the Job' Awards which underline the high standard of their work.

Despite the disruption to the business during the 'lockdown', our internal 'Customer First' initiative is gathering momentum and will help us further build upon our reputation as a leading national homebuilder in the years ahead.

Resilience of our people

The hard work, dedication and efforts of those who have worked for, and with, Bellway over the past year have enabled us to respond positively to the challenges of COVID-19. Their resilience and flexibility in quickly adapting to new methods of working have served the Group well and have undoubtedly kept the business in operation.

On behalf of the Board, I would like to express our gratitude to all those who have contributed for their hard work, support and ongoing commitment, in this year of unforeseen challenges.

Economic uncertainty remains but underlying demand is strong

As the country emerges from the initial extended national 'lockdown' and adapts to ongoing restrictions at both a national and local level, there is substantial economic damage and an ongoing threat of a more widespread resurgence in the virus. In addition, we are yet to see the extent to which unemployment will rise as the unprecedented support offered by the Government's CJRS ends and is replaced with the Job Support Scheme ('JSS'). The Board also recognises the risk posed by the uncertain outcome of future trade deals with both the European Union and the rest of the world.

Notwithstanding this, there remains an imbalance between the supply and demand of affordably priced, good quality housing, across many parts of the country. As a result of this underlying requirement for new homes, customer interest is strong and, for those with access to adequate deposits, affordability is good, supported by historically low interest rates.

The lending institutions continue to process mortgages, but there has been a considerable contraction in higher loan-to-value lending, as banks have re-allocated their internal resources during 'lockdown'. In that regard, Government stimuli, such as the current stamp duty holiday and the Help-to-Buy shared equity scheme are important, providing a valuable deposit contribution to those looking to access the housing ladder. A continuation of these schemes not only encourages home ownership, helping the housing sector to boost output, but also creates employment and aids the wider economic recovery.

Dividend payments resumed

Given the unprecedented uncertainty and the extent of 'lockdown' restrictions, which had a substantial downward effect on completions, the Board previously announced the cancellation of the interim dividend, instead prioritising cash generation and the continued health of the balance sheet.

Since reopening sites, the sales market has remained resilient and the strong order book has enabled Bellway to continue its focus on cash collection. Recognising the dividend as an important component of shareholder returns, the Board is therefore recommending the payment of a reduced final dividend of 50.0p per share (2019 – 100.0p). This will continue Bellway's unbroken record of annual dividend payments, which was also maintained throughout the global financial crisis of 2008 to 2009, while retaining the underlying strength of the Group's balance sheet.

In light of the economic backdrop, the Board will keep the Company's dividend policy under review. Subject to unforeseen circumstances, however, the Board expects to increase the quantum of future dividend payments over time, commensurate with the Group's recovery in earnings. This approach will balance ongoing shareholder returns with growth, arising from opportunities in the land market.

Looking ahead

Despite these challenging times, Bellway is in a robust position, with a motivated and dedicated workforce. It benefits from a strong, ungeared[1] balance sheet, a record order book and has the capability to respond to evolving market conditions. Our underlying operational strength and focus on quality, together with a conservative and responsible approach to managing the business, will serve the Group well over the longer-term.

Paul Hampden Smith
Chairman
19 October 2020

Chief Executive's Operating Review

COVID-19 response

Bellway reported a strong set of Interim Results for the half year ended 31 January 2020, delivering further volume and revenue growth, while making additional investment in land to continue its long-term growth strategy.

As 'lockdown' restrictions were introduced across the country, Bellway responded quickly and purposefully, taking action to support and ensure the safety of our colleagues and maintain balance sheet strength. In doing so, the Board introduced measures including:

- Paying all employees full basic pay from our own resources, without making a claim for grant monies under the Government's CJRS;
- Launching several internal wellbeing and mental health campaigns to support employees during the pandemic;
- Closing all sites and sales centres by 27 March;
- Deferring discretionary land expenditure;
- Obtaining eligible issuer status for the Government's Covid Corporate Financing Facility ('CCFF'), subject to continuing compliance with the Bank of England's eligibility criteria, with an undrawn issuer limit of £300 million;
- Extending the maturity date of bank debt tranches totalling £125 million, which were otherwise due to expire by 31 July 2020;
- A voluntary 20% reduction in base salary and fees for all Board members during April and May. The saving was donated to various charities and a matching contribution was made by Bellway to its national charity partner, Cancer Research UK; and
- Postponing and then subsequently cancelling the payment of the interim dividend to preserve liquidity.

After working carefully and collaboratively with our supply chain partners, and closely following Government guidelines, construction activity has recommenced across all our sites, with strict social distancing measures in place. In addition, all sales outlets reopened by the end of June and all office-based employees had either returned to work on a rotational basis or, given evolving Government guidance, have continued to support our construction efforts via homeworking. Our approach has been carefully considered, with firm protocols and enhanced safety procedures to ensure the health and wellbeing of our colleagues.

Market backdrop

Bellway enjoyed a strong trading performance in the earlier part of the financial year. Reservations in the period from 1 August 2019, until the Prime Minister's announcement introducing widespread 'lockdown' restrictions on 23 March 2020, averaged 211 per week (1 August 2018 to 24 March 2019 – 201), a rise of 5% compared to the same period in the prior year. Thereafter, the reservation rate rapidly declined as the country entered 'lockdown' and our sales presence was limited to telephone and online customer interactions.

Sales demand then began to resume, commensurate with our gradual programme of site re-openings, which commenced on 18 May, following the easing of Government restrictions. In addition, the temporary stamp duty holiday, effective from 8 July, and the subsequent resurgence in the second-hand market, have since helped to boost customer confidence. As a result, private sales demand continued to gather pace and reservations throughout the typically quiet month of July averaged 140 per week (July 2019 – 162 per week), 13.6% below the same period last year. Upward momentum has continued and resulted in overall average weekly sales rising by 30.6% to 239 per week in the first nine weeks of the new financial year (1 August to 29 September 2019 – 183 per week). This performance has been achieved while still operating an appointment only system in our sales centres in order to maintain safe social distancing, thereby protecting our customers and colleagues.

Overall, for the full year ended 31 July 2020, reservations averaged 178 per week (2019 – 210 per week), a decline of 15.2%. Selling prices have remained firm, with no discernible movement throughout the year.

Lending institutions continue to process mortgages, although initially there were understandable delays with regards to obtaining valuations following the introduction of social distancing measures. In addition, there has been a considerable reduction in the availability of higher loan-to-value mortgages, as banks have reallocated internal resources since the start of 'lockdown', not least to deal with the increase in demand across the wider housing sector. Help-to-Buy has therefore been an important selling tool in assisting the Group to maintain its reservation rate, with 57% of customers accessing this scheme in the period since 23 March, an increase compared to the full year average of 40% (2019 – 35%).

Trading performance

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	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
North	**3,182**	4,397	**526**	803	**3,708**	5,200	**281.8**	264.0	**112.4**	108.8	**257.7**	240.1
South	**2,669**	4,045	**1,145**	1,647	**3,814**	5,692	**394.0**	409.1	**172.2**	168.3	**327.4**	339.4
Group	**5,851**	8,442	**1,671**	2,450	**7,522**	10,892	**332.9**	333.5	**153.4**	148.8	**293.1**	292.0

The Group completed the sale of 7,522 new homes (2019 – 10,892), including 6,013 which completed in the period prior to 23 March (1 August 2018 to 24 March 2019 – 5,620). This is a significant reduction due to the considerable effect that COVID-19 has had on business operations.

The average selling price of completions was £293,054 (2019 – £291,968), comparable to the prior year, with the proportion of lower value social completions remaining unchanged at 22% (2019 – 22%). In addition, we are pleased to report that over a quarter of our new homes were sold to first time buyers, with 77% of these accessing the housing ladder using the Government's Help-to-Buy scheme.

Aside from the constraints to trading activity as a result of COVID-19, the market remained strong for good quality, affordably priced homes. Our Manchester division reported a particularly resilient performance, still managing to complete the sale of in excess of 500 new homes in the year, despite the prolonged period of inactivity. Likewise, our Northern Home Counties and Essex divisions, both close to London, but with comparatively affordable average selling prices of around £326,000 and £299,000 respectively, also delivered robust performances given the circumstances, each also reporting in excess of 500 completions.

Our widespread geographical presence, with 22 divisions covering England, Scotland and Wales is a strength, enabling the Group to pursue land opportunities in areas of strong demand, while limiting exposure to localised market volatility.

Additional brands to support demand

In addition to our core Bellway brand, Bellway also trades using the Bellway London and Ashberry brands. The Group has recently centralised its marketing function to support divisions with brand consistency across all marketing channels, thereby allowing us to achieve a more cost-effective deployment of resources across the Group.

Our Bellway London brand is intended to provide the London market, where our output is generally low-to-mid-rise apartments, with a modern and consistent identity, that is recognisable across the Capital. While there have been opportunities for investment in London, the trading environment there has remained more challenging, with overall demand generally less pronounced. This is particularly the case for properties close to the £600,000 London Help-to-Buy price cap, where affordability is a constraint for some purchasers. As a result, the Board has reduced invested capital in London over recent years to focus on opportunities elsewhere in the Group.

Nonetheless, London remains an integral part of our business, accounting for 6% of completions (2019 – 9%), with an overall average selling price of £449,466 (2019 – £499,617). This reflects our focus on more affordable outer commuter zones, such as our developments at Poplar, Bexleyheath and Hornchurch, where demand is stronger.

Our Ashberry brand is only offered on larger sites, with the purpose of providing two differentiated outlets and therefore greater customer choice. This has the advantage of improving sales rates, often more than can be achieved through using two Bellway outlets, with a resultant improvement in return on capital employed ('RoCE'). Our Ashberry brand continues to make an important contribution to output, accounting for 5.7% of completions (2019 – 5.2%).

The cost environment

Prior to entering 'lockdown', the Group reported that industrywide build cost increases were having a moderating effect on the operating margin. These pressures were most pronounced in and around London and the South East, with rising subcontract tender prices experienced across several trades and developments.

In addition, amendments to building regulations, effective from August 2019, resulted in design and material changes for new apartments blocks, particularly those over 18 metres in height. This has had a further negative effect on site margins in the year, as projected whole site cost estimates were updated to reflect the additional costs associated with ensuring that building envelopes fully comply with revised fire safety regulations. In some cases, the amended elevational designs required alterations to extant planning permissions. This process has caused delays in site commencement dates which, in an environment where revenues have generally been flat and subcontract prices have been rising, has resulted in a further deterioration in site margins.

The Group has consulted with the Government in respect of new building regulations that are now likely to be effective for sites where construction commences in the new calendar year. These evolving standards are intended to improve the energy efficiency of new homes, whilst encouraging lower carbon heating solutions. The estimated cost of achieving these standards is likely to be £3,000 to £4,000 per plot, depending upon the outcome of the consultation.

In relation to COVID-19, an incremental, exceptional charge of £14.5 million was recognised in relation to abnormal, non-productive site-based costs arising from the interruption to construction activity, which would have ordinarily been capitalised into work-in-progress. These costs were borne during the period when developments were closed, with the period of inactivity typically lasting between six weeks and three months. This reflects the gradual roll-out of safe working practices across the Group, which was in line with the separate guidance applying to the jurisdictions of England, Scotland and Wales. The deployment of these safe working practices will help to mitigate the likelihood of incurring further significant non-productive site-based costs, notwithstanding the possible risk of an additional nationwide or localised 'lockdown'.

Further costs arising from extended site durations, together with enhanced health and safety requirements relating to social distancing measures, have led to an additional non-exceptional charge of £18.9 million. These incremental site-based costs will continue to influence the operating margin in the year ahead, but with production capacity currently around 85% to 90% and improving, we are hopeful that the negative impact will gradually reduce, save for the risk of additional localised 'lockdowns'.

Bellway has continued to progress a number of initiatives, such as the roll out of COINS, an industry leading accounting and valuation software solution, and our BWY2020 cost saving programme, designed to reinforce a culture of cost control, while improving processes across the business.

Going forward, the Board is continuing to prioritise several further cost control initiatives in order to help lessen potential cost pressures in the future. Our centralised procurement team is working with supply chain partners in order to secure future material availability at competitive rates. We are also working collaboratively with our divisional subcontractors, with the intention of mitigating labour cost pressures, given the wider uncertainty in the economic environment.

Furthermore, our increased use of the 'Artisan Collection' standard house type range will contribute to greater efficiencies in the years ahead, as familiarity with working drawings reduces design fees and aids construction rates. The house types have been well received by our customers, with the range now plotted across 21,000 plots on 164 developments.

We will build upon all these initiatives, preserving quality, but with a renewed commercial focus, particularly in the areas of groundwork engineering solutions, professional fees and layout optimisation.

Legacy building safety improvements

The Grenfell tragedy understandably increased the focus on fire safety across the industry and more specifically on apartment blocks, with subsequent Government guidance setting out detailed processes to ensure adequate fire protection measures and limit combustibility in external wall systems on buildings.

As a consequence, the document 'Advice for Building Owners of Multi-storey, Multi-occupied Residential Buildings' was issued by the Ministry of Housing, Communities and Local Government ('MHCLG') in January 2020. This required that all buildings above 18 metres in height should be risk assessed to determine whether the presence of potentially combustible materials could contribute to external fire spread, in which case they may need to be replaced. This consolidated advice note clarifies the Government's interpretation of the building regulations insofar as it is applicable to properties pre-dating its issuance.

As previously reported, Bellway has identified a number of developments, which were given building regulation approval at the time of construction, where the building materials used may not fully comply with this most recent Government guidance. As a responsible developer, we have undertaken further site-by-site assessments of our portfolio of legacy apartment schemes, reviewing the specific circumstances of each building individually. While ascertaining legal liability is a complex process, we have used these reviews to determine whether any safety improvements are needed in order to reflect the current guidance. As a result of this evaluation, Bellway has made an additional provision and recognised an exceptional charge of £46.8 million as part of its commitment to help building owners where fire remedial works are required.

We understand that by adopting this proactive and responsible approach there could be some disruption to customers as remediation works are undertaken. We therefore apologise to all customers affected. Going forward, Bellway has renewed its efforts to ensure that all future apartment schemes fully comply with the most up-to-date interpretation of building regulations.

A considered approach to land buying

Prior to the onset of COVID-19, our land teams were successful in buying compelling opportunities, in good quality locations, with their efforts including the acquisition of a small number of larger sites. The purpose was to carefully extend the land supply in established divisions and in areas with high demand, without increasing the overall risk profile of the business.

With the onset of COVID-19, the Board initially introduced a moratorium on all new land contracts, with the intention of preserving liquidity until such time as market conditions became clearer. It also aborted or indefinitely suspended several land deals, resulting in an exceptional charge of £9.9 million, where it assessed that the expected financial returns were insufficient given the required capital outlay and the evolving risk profile in the wider market.

While there is still uncertainty with regards to the future economic outlook, the strengthening sales rate has allowed Bellway to cautiously resume its land buying activity, securing an additional 14 sites in good locations since the introduction of ‘lockdown’ measures until 31 July 2020.

Overall, for the year ended 31 July 2020, Bellway exchanged contracts to acquire 11,921 plots (2019 – 13,113 plots), across 68 sites (2019 – 93 sites), with a wide geographical spread and a total contract value of £762.4 million (2019 – £782.0 million). The expected average selling price of the contracted plots, assessed at the time of acquisition, is under £280,000, slightly lower than the average selling price achieved in the period. The intention of this land buying approach is to ensure that future sales outlets offer our customers an affordable product, with less reliance on Help-to-Buy. This should help to mitigate any potential downward effect on sales rates that may arise as the Help-to-Buy rules change in the new calendar year. Notwithstanding this land buying approach, the Board still expects that the overall average selling price in the current financial year will be around £290,000.

The table below analyses the Group’s land holdings:

	2020	2019
Owned and controlled plots		
DPP: plots with implementable detailed planning permission	**28,289**	26,421
Pipeline: plots pending an implementable DPP	**16,300**	16,300
Total owned and controlled plots	**44,589**	42,721
Strategic land holdings	**27,300**	25,600
Total land bank	**71,889**	68,321

The total owned and controlled land bank represents 5.9 years forward land supply (2019 – 3.9 years), with the increase a result of the reduction in completions during the year. There are 28,289 plots (2019 – 26,421 plots) with an implementable detailed planning permission (‘DPP’) and this includes all required plots to meet the current year’s anticipated legal completion forecast. This healthy position enables the Group to be selective when acquiring land in the year ahead, yet with the support of a strong underlying balance sheet, Bellway has substantial resource in order to target further, high return opportunities in the land market.

As well as investing in land that meets the Group’s immediate needs, we have also continued to invest in our strategic land bank, entering into option agreements to buy an additional 15 sites (2019 – 29 sites) throughout the country. As a result, the Group’s strategic land bank now comprises 27,300 plots (2019 – 25,600), providing a useful long-term source of future land supply.

Quality and our Customer First agenda

We continue to work hard to ensure that the Bellway brand is one which our customers can trust. Our approach is to nurture a culture of excellent service throughout the organisation which, in turn, enables us to meet our customers' expectations with the delivery of high-quality homes.

We are therefore proud to have been recognised as a five-star homebuilder[3] in the HBF's Customer Satisfaction survey for the fourth consecutive year. In addition, the high standards achieved by our Site Managers were again recognised, with 44 committed individuals receiving NHBC 'Pride in the Job' Awards (2019 – 42), a testament to their dedication to building a high-quality product. The Group also continues to focus on improving an extended range of metrics, such as Construction Quality Review scores ('CQRs'), which have improved to 80.2% in the year (2019 – 75.2%).

We recognise that there is more to do, and in that regard, we are pleased to report that our 'Customer First' initiative, launched in the first half of the financial year, is gathering momentum. The purpose is to re-emphasise the importance of every customer's experience to all individuals across our organisation, whatever their role. In doing so, our aim is to further improve the customer journey, instilling confidence and a consistent level of quality and service, from the initial site visit, through to our post-completion aftercare provision. Initiatives include clearer, more timely customer communications throughout the buying process and more widespread training across a range of different roles. We are also making further investment in our online customer care system in order to better manage our aftercare service.

Homes sold on a leasehold basis

During the year, the Competition and Markets Authority ('CMA') commenced an investigation into the provision of leasehold housing and has since reported its initial findings in relation to potential contraventions of consumer protection law concerning ground rents and mis-selling of leasehold properties. The CMA has not launched an enforcement action against Bellway, but the Group does retain assets with a cost of £3.0 million in relation to houses that were historically sold on a leasehold basis. While the terms of these leases do not include onerous ground rent doubling clauses, the market demand for bulk freehold portfolio disposals in relation to houses is now severely limited. The Board therefore considers that these assets are impaired and has recognised a charge of £3.0 million during the year.

In line with Government guidance, Bellway has not sold houses on a leasehold basis since January 2018.

A safe working environment

Ensuring the health and safety of our colleagues and site visitors remains a priority for Bellway, with additional focus during the year as a result of the increased risk profile arising from COVID-19.

With the initial reopening of construction sites in May, and after considering guidance from Government and the Construction Leadership Council, our working practices adapted considerably to address the issues posed by the pandemic. Measures such as enhanced training procedures, the introduction of site marshals, a restriction in the number of workers allowed on site, additional sanitising stations, prominent signage and clearly marked-out access and egress routes were amongst several introduced to ensure safe social distancing and help prevent the spread of the virus. The Board recognises the potential requirement to adjust working practices on a regional basis as localised 'lockdown' measures continue to evolve.

The importance of good mental health amongst our workforce has also grown in prominence since the onset of COVID-19. Recognising the prevalence of mental health concerns in the wider construction sector, Bellway has enhanced its efforts in this important area, building upon the initiatives already in place. As a result, we have trained an additional 160 mental health first aiders in the year and have deployed widespread training courses and awareness campaigns to promote good mental and physical health.

More widely within the business, our internal health and safety team continue to work alongside the NHBC to help promote high standards and safe working practices across all our sites. This year's NHBC Health and Safety Awards were cancelled due to the pandemic, but we continue to use several KPIs to monitor onsite performance. In that regard, we have again reduced the time from lost accidents, with a further reduction in the seven-day reportable incident rate.

Attracting talent for the longer-term

Our colleagues have shown great resilience throughout the pandemic, quickly adapting to new methods of working, while balancing the challenges of family life with ongoing professional commitments. Our significant investment in IT systems over recent years has enabled the Group to respond effectively to remote working requirements and in doing so, revise previously established routines.

Throughout ‘lockdown’, we have supported our colleagues with full basic pay from our own resources, without making a grant claim using the Government’s CJRS. In addition, we have introduced several support initiatives, including flexible working, to help balance work and family responsibilities and we intend to evolve these further in the year ahead.

Bellway is also committed to becoming a more diverse and inclusive employer, enabling individuals with different experiences and from varied backgrounds to succeed in their career. Through our employee ‘listening groups’, we continue to gain feedback from our colleagues, with this contributing to the development of several initiatives intended to widen both gender and race diversity. We have launched our first ever employee engagement survey and the initial feedback is very positive. We look forward to reviewing the full results in the first half of the new financial year.

We also have a focus on ensuring that Bellway has the right skills to grow in the future. In that regard, the number of apprentices, graduates and trainees across our business has risen by 42% to 258 (2019 – 182), with the result that 8.3% of the workforce (2019 – 6.1%) are now employed in these crucial developmental roles and are therefore able to benefit from the investment in our new Bellway Training Academy. The rise has been bolstered by the successful introduction of our two-year graduate programme ‘Great Careers Built with Us’, launched in January. This year’s annual intake included 38 new graduates across a range of disciplines and had an equal gender split, with 13.2% from ethnic minority backgrounds.

In response to reduced output and the suspension of divisional expansion plans, Bellway has undertaken a measured and responsible workforce rationalisation programme. Notwithstanding this, the Group continues to adopt a long-term approach, retaining both the skills and workforce to respond positively as the market recovers.

A sustainable approach to building new homes

Bellway is committed to being a responsible homebuilder, operating in an ethical and sustainable manner for all its stakeholders, including customers, employees, shareholders, suppliers and local communities.

Energy efficiency and carbon reduction remain a focus for the business. Notwithstanding this, although there was a significant reduction in total output, scope 1 and 2 carbon emissions increased to 2.8 tonnes per legal completion (2019 – 2.4 tonnes). This is primarily a reflection of continued carbon production from offices, owned part-exchange properties and showhomes during the ‘lockdown’ period. We expect to improve on this measure in the year ahead as output begins to rise.

We are taking positive actions such as sourcing our office electricity, where possible, from Renewable Energy Guarantee of Origin (‘REGO’) suppliers, building upon our work last year, when we commenced sourcing construction-site compound electricity from REGO suppliers. In doing so, we estimate that this has saved a further 1,800 tonnes of carbon in the year. Bellway has also been trialling a generator fitted with photovoltaic panels to determine whether this technology can deliver further cost-effective carbon savings on those construction sites which are not yet connected to the National Grid.

All timber purchased by Bellway is from sustainable sources and we mandate that all supplies have Forest Stewardship Council (‘FSC’) or Programme for the Endorsement of Forest Certification (‘PEFC’) timber certification. As a result, Bellway holds the highest rank in the World Wildlife Foundation’s (‘WWF’) Timber Scorecard 2019.

Our efforts to reduce the proportion of construction waste sent to landfill have also continued, with 99.1% of waste being reused on site, diverted to recycling or used as refuse derived fuel (2019 – 98.4%).

Lastly, while in its early stages, Bellway has undertaken a review to understand the impact of single use plastic in the business, with the intention that we will reduce usage in future years.

Charitable support

We are committed to continuing our support for local and national charities, as well as the communities in which we develop.

Our support for Cancer Research UK (‘CRUK’), our national charity partner, is more important than ever, and despite COVID-19, our colleagues and business partners were still able to raise and donate £328,000 to CRUK (2019 – £495,000), taking total donations over the past four years to a noteworthy £1.6 million.

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 £537,000 (2019 – £755,000), of which £237,000 (2019 – £392,000) was raised by employees, subcontractors and suppliers.

We recognise that donations were reduced during the 'lockdown' period, during which charitable fundraising events were frequently curtailed and hope to resume our activity to previous levels in the year ahead.

Recent trading

The reduction in the number of completions contributed to the Group ending the year with a substantial forward order book, comprising 6,588 homes (2019 – 4,878 homes) with a value of £1,760.2 million[1] (2019 – £1,223.9 million). In the first nine weeks of the new financial year, trading has been robust, with overall average weekly reservations rising by 30.6% to 239 per week (1 August to 29 September 2019 – 183 per week). Site numbers at the start of the new year were modestly ahead at 276 (2019 – 271). Pent-up demand arising from the prolonged period of lockdown inactivity, together with Government support through the stamp duty holiday and provision of Help-to-Buy, have contributed to this reassuringly strong performance.

As a result of this positive start, the order book at 4 October was further strengthened, rising by 42.5% to £1,869.6 million[1] (29 September 2019 – £1,311.6 million) and comprises 6,624 homes (29 September 2019 – 5,190 homes). This growth has been achieved notwithstanding the higher number of completions recorded in this short trading period.

Outlook

The exceptionally strong forward sales position offers resilience for the year ahead, providing some operational certainty and visibility with regards to cash generation in the coming months. Output for the full year will depend upon the continuation of sales demand, which could be affected by sector wide risks such as rising unemployment and the forthcoming changes in both the stamp duty and Help-to-Buy rules. The Board also recognises the risk posed by the uncertain outcome of future trade deals with both the European Union and the rest of the world.

Nevertheless, productivity, currently running at 85% to 90% of output achieved in the year ended 31 July 2019, is continuing to improve. Subject to the risk of a further widespread 'lockdown', this should enable the Group to complete the sale of around 9,000 homes for the year ending 31 July 2021. The strong order book and investment in work-in-progress is likely to mean that completions will be more heavily weighted towards the first half trading period than is the case in a typical year.

Despite the wider economic uncertainty, the fundamentals of the business are robust. Our strong balance sheet not only instils confidence in times of uncertainty, but it also provides substantial capacity for disciplined land and work-in-progress investment. There is a structural shortage of new homes in the UK and beyond the period of recovery, Bellway, with its long-term approach, operational strength and focus on quality is well set to continue its long track record of delivering growth.

Jason Honeyman
Group Chief Executive
19 October 2020

Group Finance Director's Review

Operating performance

The impact of COVID-19 has been significant and ended Bellway's track record of ten consecutive years of revenue growth. As a result, housing revenue fell by 30.7% to £2,204.4 million (2019 – £3,180.1 million), principally driven by a 30.9% reduction in the number of housing completions, which fell to 7,522 (2019 – 10,892). The average selling price of completions was £293,054 (2019 – £291,968), comparable to the prior year, with the proportion of lower value social completions remaining unchanged at 22% (2019 – 22%).

Other revenue, which includes land, commercial and ground rent sales, reduced to £21.0 million (2019 – £33.1 million), with the prior year benefitting from additional land sales. Together with the reduction in housing revenue, total revenue decreased by 30.7% to £2,225.4 million (2019 – £3,213.2 million).

Gross profit, before considering exceptional items, fell to £422.2 million[1,4] (2019 – £790.2 million) representing a gross margin of 19.0%[1,4] (2019 – 24.6%). The decline was mainly driven by the reduced volume output and less efficient absorption of site overheads and selling costs. There was also a non-exceptional charge of £18.9 million in relation to site extensions and enhanced health and safety requirements due to COVID-19. Costs associated with extended site durations are expected to be ongoing, resulting in lower anticipated future site margins and this will continue to influence the operating margin in the year ahead.

The Group did not benefit from any grant income under the CJRS, instead supporting colleagues on full basic pay from its own resources throughout the pandemic.

The costs of rising subcontract tender prices across a variety of trades and several developments, particularly in and around London and the South East, together with costs associated with complying with revised building regulations in relation to fire safety and expected new carbon reduction targets, had a further negative effect on the gross margin.

Gross profit is also stated after a charge of £3.0 million in relation to the impairment of ground rents assets relating to houses historically sold on a leasehold basis.

Other operating income and expenses, which net to an expense of £3.1 million (2019 – £5.6 million), relate to the cost of running our part-exchange programme, with activity initially suspended as transactions in the wider housing market declined substantially with the onset of 'lockdown' restrictions.

The pre-exceptional administrative expense reduced significantly to £97.4 million[4] (2019 – £109.7 million), primarily reflecting a cessation of payments arising under the staff and divisional management incentive schemes. As a proportion of revenue, administrative expenses were 4.4%[1,4] (2019 – 3.4%), with this run rate expected to continue at a similar level in the new financial year.

Overall, pre-exceptional operating profit reduced by 52.3% to £321.7 million[1,4] (2019 – £674.9 million) and the pre-exceptional operating margin was 14.5%[1,4] (2019 – 21.0%).

Exceptional items

COVID-19 costs

The Group incurred total exceptional COVID-19 related costs of £25.8 million, comprising £14.5 million of abnormal, non-productive site-based costs arising from the interruption in construction activity, which would have ordinarily been capitalised into work-in-progress. In addition, an impairment charge of £9.9 million was also recognised in relation to several aborted or indefinitely suspended land deals, where the expected financial returns were insufficient given the evolving risk profile in the wider market. A charge of £1.4 million was also incurred in relation to a measured workforce rationalisation programme enacted in response to reduced output and the suspension of divisional expansion plans.

Legacy building safety improvements

As a responsible developer, we have undertaken further assessments of our portfolio of legacy apartment schemes to determine whether any safety improvements are required to comply with the most recent Government guidance. As a result, Bellway has incurred an exceptional charge of £46.8 million and in doing so has put aside a provision to help remediate certain properties, notwithstanding that those developments secured building regulations certification at the time of construction. This is a highly complex area, with judgements and estimates in respect of the cost of rectification works, and the extent of those properties within the scope of the latest Government guidance, likely to evolve. The Group is also pursuing recoveries from third parties, but as these are not certain, an asset has not been recognised on the balance sheet.

After taking these exceptional items into consideration, reported operating profit reduced by 63.1% to £249.1 million (2019 – £674.9 million).

Net finance expense

The net finance expense was £13.4 million[1] (2019 – £14.4 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, decreased to £6.0 million (2019 – £6.3 million), principally reflecting a reduction in LIBOR and average net bank debt, which decreased to £55.4 million[1] (2019 – £165.4 million). Notional interest on land acquired on deferred terms decreased by £0.9 million to £6.9 million (2019 – £7.8 million).

Profitability

Profit before taxation, post exceptional items, fell by 64.3% to £236.7 million (2019 – £662.6 million). The corporation tax charge was £43.8 million (2019 – £124.0 million), reflecting an effective tax rate of 18.5% (2019 – 18.7%).

Basic earnings per share fell by 64.2% to 156.6p per share (2019 – 437.8p).

Net cash and financial position

Bellway has a strong balance sheet, with net cash of £1.4 million[1] (2019 – 201.2 million), representing an ungeared[1] position (2019 – ungeared). Committed land obligations remain low at £343.6 million (2019 – £297.9 million), with £226.5 million due within the next financial year. Including land creditors, net debt stood at £342.2 million (2019 – £96.7 million), representing very modest adjusted gearing of 11.4%[1] (2019 – 3.3%).

The Group has committed bank facilities of £545 million. Since the start of 'lockdown', Bellway has extended the maturity date of tranches totalling £125 million, which were otherwise due to expire in the financial year, to July 2021. These extensions help to ensure the ongoing liquidity of the Group and evidence the good, long-term relationships that Bellway has with each of its UK based banking partners. The Group has operated comfortably within its bank covenants during the year.

Bellway has also been confirmed as an eligible issuer for the CCFF, subject to continuing compliance with the Bank of England's eligibility criteria, with an issuer limit of £300 million. This remains undrawn, but available as a prudent back-up facility in the unlikely event that it is needed, providing Bellway with access to total funds of £846.4 million. This robust overall position ensures that the Group can respond positively should there be a further prolonged period of economic disruption.

Notwithstanding the significant period of inactivity when the ability to collect completion monies was severely curtailed, Bellway remained cash generative, producing £55.8 million from operations in the year (2019 – £419.1 million).

Taxation payments were £107.7 million (2019 – £119.3 million) and represented 45.5% of profit before taxation (2019 – 18.0%). The disproportionately high cash outflow follows a one-off change in legislation accelerating the timing of quarterly payments. Dividend payments were £123.1 million (2019 – £178.9 million), with the reduction a consequence of the cancelled interim dividend which was withdrawn in order to preserve liquidity.

The liquidity position has further improved since the year end as the Group continues to convert its strong order book into cash. As a result, the net cash balance at 4 October was £61.2 million[1].

The Directors remain of the view that the Group's financing arrangements and balance sheet strength provide sufficient liquidity and covenant headroom for at least the next twelve months. They have therefore prepared the consolidated financial statements on a going concern basis.

A robust balance sheet provides strength and flexibility

The balance sheet principally comprises amounts invested in land and work-in-progress, with total inventories rising by 11.1% to £3,863.0 million (2019 – £3,477.6 million). The carrying value of land rose to £2,216.2 million (2019 – £2,004.4 million) reflecting the lower number of completions in the period. Work-in-progress rose by 15.2% to £1,496.1 million (2019 – £1,298.2 million) and was 67.9% (2019 – 40.8%) as a proportion of housing revenue. Again, the increase reflects the lower number of completions in the second half of the financial year, but this strong investment should help benefit the first half of the year ending 31 July 2021.

The Group had a modest retirement benefit asset of £1.3 million (2019 – £2.8 million) at 31 July reflecting an ongoing commitment to fund this future, long term obligation.

Following the final dividend payment of 100.0p per share in respect of the year ended 31 July 2019, the net asset value rose by 2.5% to £2,994.0 million (2019 – £2,921.2 million), representing a net asset value per share of 2,427p[1] (2019 – 2,372p).

As a result of the reduction in profitability and reduced asset turn, RoCE reduced to 10.8%[1,4] (2019 – 24.7%), or 9.8%[1,4] (2019 – 22.1%) when including land creditors as part of the capital base. Post-tax return on equity was 6.5%[1] (2019 – 19.8%).

Beyond the present uncertainty, industry fundamentals remain positive, with continued underlying demand for affordably priced new homes. The evolving economic landscape will provide challenges in the future, but the strength of our balance sheet and flexible capital structure ensures Bellway remains well positioned to respond positively and position itself for a return to growth.

Keith Adey
Group Finance Director
19 October 2020

Group Income Statement
For the year ended 31 July 2020

	Note	2020 Pre-exceptional items £m	2020 Exceptional items (note 3) £m	2020 Total £m	2019 Total £m
Revenue		**2,225.4**	**-**	**2,225.4**	3,213.2
Cost of sales		**(1,803.2)**	**(71.9)**	**(1,875.1)**	(2,423.0)
Gross profit		**422.2**	**(71.9)**	**350.3**	790.2
Other operating income		**153.0**	**-**	**153.0**	169.9
Other operating expenses		**(156.1)**	**-**	**(156.1)**	(175.5)
Administrative expenses		**(97.4)**	**(0.7)**	**(98.1)**	(109.7)
Operating profit		**321.7**	**(72.6)**	**249.1**	674.9
Finance income	4	**0.2**	**-**	**0.2**	0.6
Finance expenses	4	**(13.6)**	**-**	**(13.6)**	(15.0)
Share of result of joint ventures		**1.0**	**-**	**1.0**	2.1
Profit before taxation		**309.3**	**(72.6)**	**236.7**	662.6
Income tax expense	5	**(57.6)**	**13.8**	**(43.8)**	(124.0)
Profit for the year *		**251.7**	**(58.8)**	**192.9**	538.6
Earnings per ordinary share – Basic	7			**156.6p**	437.8p
Earnings per ordinary share – Diluted	7			**156.1p**	436.4p

Group Statement of Comprehensive Income
For the year ended 31 July 2020

		2020 £m	2019 £m
Profit for the period		**192.9**	538.6
Other comprehensive (expense)/income			
Items that will not be recycled to the income statement:			
Remeasurement (losses)/gains on defined benefit pension plans		**(1.8)**	1.3
Income tax on other comprehensive expense/(income)	5	**0.3**	(0.2)
Other comprehensive (expense)/income for the period, net of income tax		**(1.5)**	1.1
Total comprehensive income for the period *		**191.4**	539.7

* All attributable to equity holders of the parent.

Group Statement of Changes in Equity
At 31 July 2020

	Note	Issued capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 1 August 2018		15.3	173.7	20.0	1.5	2,346.6	2,557.1
Total comprehensive income for the period							
Profit for the period		-	-	-	-	538.6	538.6
Other comprehensive income **		-	-	-	-	1.1	1.1
Total comprehensive income for the period		-	-	-	-	539.7	539.7
Transactions with shareholders recorded directly in equity:							
Dividends on equity shares	6	-	-	-	-	(178.9)	(178.9)
Purchase of own shares		-	-	-	-	(0.5)	(0.5)
Shares issued		-	2.1	-	-	-	2.1
Credit in relation to share options and tax thereon		-	-	-	-	1.7	1.7
Total contributions by and distributions to shareholders		-	2.1	-	-	(177.7)	(175.6)
Balance at 31 July 2019		15.3	175.8	20.0	1.5	2,708.6	2,921.2
Total comprehensive income for the period							
Profit for the period		-	-	-	-	192.9	192.9
Other comprehensive expense **		-	-	-	-	(1.5)	(1.5)
Total comprehensive income for the period		-	-	-	-	191.4	191.4
Transactions with shareholders recorded directly in equity:							
Dividends on equity shares	6	-	-	-	-	(123.1)	(123.1)
Shares issued		0.1	2.6	-	-	-	2.7
Credit in relation to share options and tax thereon		-	-	-	-	1.8	1.8
Total contributions by and distributions to shareholders		0.1	2.6	-	-	(121.3)	(118.6)
Balance at 31 July 2020		**15.4**	**178.4**	**20.0**	**1.5**	**2,778.7**	**2,994.0**

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

Group Balance Sheet
At 31 July 2020

	Note	**2020**	2019
		£m	£m
ASSETS			
Non-current assets			
Property, plant and equipment		**36.7**	29.8
Investment property		**-**	-
Financial assets and equity accounted joint arrangements		**60.8**	49.9
Deferred tax assets	5	**0.5**	0.7
Retirement benefit assets		**1.3**	2.8
		99.3	83.2
Current assets			
Inventories		**3,863.0**	3,477.6
Trade and other receivables		**69.9**	127.9
Cash and cash equivalents	9	**51.4**	201.2
		3,984.3	3,806.7
Total assets		**4,083.6**	3,889.9
LIABILITIES			
Non-current liabilities			
Trade and other payables		**131.2**	97.2
Deferred tax liabilities	5	**2.6**	2.2
		133.8	99.4
Current liabilities			
Interest-bearing loans and borrowings	9	**50.0**	-
Corporation tax payable		**1.5**	66.3
Trade and other payables		**834.0**	803.0
Provisions	8	**70.3**	-
		955.8	869.3
Total liabilities		**1,089.6**	968.7
Net assets		**2,994.0**	2,921.2
EQUITY			
Issued capital		**15.4**	15.3
Share premium		**178.4**	175.8
Capital redemption reserve	10	**20.0**	20.0
Other reserves		**1.5**	1.5
Retained earnings	10	**2,778.7**	2,708.6
Total equity		**2,994.0**	2,921.2

Group Cash Flow Statement
For the year ended 31 July 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Profit for the year		**192.9**	538.6
Depreciation charge		**6.3**	5.8
Finance income	4	**(0.2)**	(0.6)
Finance expenses	4	**13.6**	15.0
Share-based payment expense		**2.1**	1.7
Share of post tax result of joint ventures		**(1.0)**	(2.1)
Income tax expense	5	**43.8**	124.0
Increase in inventories		**(385.0)**	(206.0)
Decrease/(increase) in trade and other receivables		**58.0**	(11.9)
Increase/(decrease) in trade and other payables		**55.0**	(45.4)
Increase in provisions	8	**70.3**	-
Cash from operations		**55.8**	419.1
Interest paid		**(6.0)**	(7.9)
Income tax paid		**(107.7)**	(119.3)
Net cash (outflow)/inflow from operating activities		**(57.9)**	291.9
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(8.3)**	(5.1)
Proceeds from sale of property, plant and equipment		**0.1**	0.1
Increase in loans to joint ventures		**(9.9)**	(5.7)
Repayment of loans by joint ventures		**-**	1.4
Interest received		**0.3**	0.4
Net cash outflow from investing activities		**(17.8)**	(8.9)
Cash flows from financing activities			
Increase in bank borrowings		**50.0**	-
Payment of lease liabilities		**(3.7)**	(3.5)
Proceeds from the issue of share capital on exercise of share options		**2.7**	2.1
Purchase of own shares		**-**	(0.5)
Dividends paid	6	**(123.1)**	(178.9)
Net cash outflow from financing activities		**(74.1)**	(180.8)
Net (decrease)/increase in cash and cash equivalents		**(149.8)**	102.2
Cash and cash equivalents at beginning of year		**201.2**	99.0
Cash and cash equivalents at end of year	9	**51.4**	201.2

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 2020 or 2019, but is derived from those financial statements. Statutory financial statements for 2019 have been delivered to the registrar of companies, and those for 2020 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.

Going concern

The Group's activities are financed principally by a combination of ordinary shares and bank borrowings less cash in hand. At 31 July 2020, net cash was £1.4 million having consumed cash of £199.8 million (see note 9) during the year, which takes into account £55.8 million of cash from operations. The Group has operated within all its banking covenants throughout the year. In addition, the Group has bank facilities of £545.0 million, expiring in tranches up to December 2023. Furthermore, the Group has been confirmed as an eligible issuer for the Government's Covid Corporate Financing Facility ('CCFF'), subject to continuing compliance with the Bank of England's eligibility criteria, with an issuer limit of £300.0 million. This remains undrawn, but available as a prudent back-up facility that can currently be initially drawn down until 22 March 2021 for a maximum duration of 364 days thereafter.

Bellway therefore has access to total funds of £846.4 million, along with net current assets (excluding net cash) of £3,027.1 million at 31 July 2020, providing the Group with appropriate liquidity to meet its current liabilities as they fall due.

The Group's internal forecasts have been regularly updated, as usual, since the COVID-19 'lockdown', incorporating our actual experience along with our expected future outturn. The most up to date base forecast has been sensitised, setting out the Group's resilience to the principal risks and uncertainties in various adverse scenarios. These sensitivities include a second 'lockdown' due to COVID-19, and separately a recession due to economic uncertainty and a deterioration in customer confidence. This could lead to a reduction in both the total number of legal completions and private average selling price, with overheads, land spend and construction spend reducing accordingly.

The most severe but plausible downside scenario is a severe recession. It includes the following principal assumptions:

- Private completions in H1 FY21 are supported by the strong forward order book, but still fall to 75% of that achieved in H1 of FY20. In the 12 months to 31 January 2022, private completions reduce by around 50% compared to the pre-COVID-19 'lockdown' peak. This is followed by a gradual recovery based on the lower base position.

- Private average selling price in H1 FY21 remains in line with internal forecasts due to the strong order book position. In the 12 months to 31 January 2022, private average selling price reduces by 10% compared to the latest achieved pricing. This is followed by a gradual recovery based on the lower base position.

- These assumptions reflect the Group's experience in the 2008-09 global financial crisis.

A number of prudent mitigating actions were incorporated into the plausible but severe downside scenario, including:

- Plots in the land bank being replaced at the same rate that they are utilised.

- Construction spend is reduced in line with housing revenue.

Notes (continued)

1. Basis of preparation and accounting policies (continued)

All of the sensitivity analyses were modelled over the period to 31 July 2024, as used for the Director's viability assessment. In addition to the various scenarios, several additional mitigating measures remain available to management that were not included in the scenarios. These include withholding discretionary land spend and instead trading out of the substantial existing land holdings, further reducing construction spend in recognition of the strong carried forward work in progress position at 31 July 2020, and reducing or cancelling future dividend payments.

In all the scenarios, the Group had significant headroom in both its financial bank covenants and existing bank facilities, did not utilise the CCFF and met its liabilities as they fall due.

The directors consider that the Group is well placed to manage business and financial risks in the current economic environment. Consequently, the directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and have therefore prepared the Annual Report and Accounts on a going concern basis.

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 2020 to shareholders on 9 November 2020.

Effect of new standards and interpretations effective for the first time

The Group has adopted the following interpretation and amendments for the first time in these financial statements:

- IFRIC 23 'Uncertainty over Income Tax Treatments'.
- Amendments to IAS 19 'Employee Benefits'.
- Amendments to IAS 28 'Investments in Associates and Joint Ventures'.
- Annual Improvements to IFRS Standards 2015-2017 Cycle.

The adoption of these has not had a material effect on the Group's profit for the year or equity.

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.

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.

Notes (continued)

3. Exceptional items

Exceptional items are those which, in the opinion of the Board, are material by size or nature and of such significance that they require separate disclosure on the face of the income statement to allow the users of the financial statements to understand the performance of the Group and make more informed decisions. Operating profit for the year ended 31 July 2020 has been arrived at after recognising the following exceptional expenses in the income statement:

	2020 £m	2019 £m
COVID-19 related exceptional items		
(a) Aborted land contracts	**9.9**	-
(b) Abnormal, non-productive site-based costs arising from the interruption to construction activity during 'lockdown'	**14.5**	-
(c) Restructuring costs	**1.4**	-
Total COVID-19 related exceptional expense	**25.8**	-
Other exceptional items		
(a) Legacy building safety improvements	**46.8**	-
Other exceptional expense	**46.8**	-
Total exceptional expense	**72.6**	-

£71.9m of the total exceptional expense is recognised within cost of sales and £0.7m, relating to a proportion of the restructuring costs, is included within administrative expenses.

The income tax rate applied to the total exceptional expense in the income statement is the Group's standard rate of corporation tax, 19.0%.

COVID-19 related exceptional items

The COVID-19 pandemic materially affected the performance of the Group in several ways including delays to sales and incremental construction costs which do not meet the definition of an exceptional item.

In addition, costs were incurred that meet the Group's definition of an exceptional item and it is necessary to show these items separately in order to provide additional useful information to the primary users of the financial statements about the performance of Bellway and to allow comparability across reporting periods. This is consistent with how management have monitored the performance of the Group during this period. A total COVID-19 related exceptional expense of £25.8m has been recognised in the income statement:

(a) **Aborted land contracts** - A full review of inventories has been performed and land impairments have been made where the cost exceeds the expected net realisable value. Net realisable value represents the estimated selling price (in the ordinary course of business) less all estimated costs of completion and selling overheads. As a result of this review, the Group has impaired historic costs, including option fees, site investigation costs and planning fees relating to several land deals which have been aborted or indefinitely suspended due to the Board's assessment that conditions in the land market have evolved since the onset of COVID-19. Accordingly, there is likely to be no future revenue associated with these sites and this review has therefore resulted in a land impairment of £9.9m. The treatment of aborted land costs is consistent with the impairment recognised during the global financial crisis in 2008 and 2009.

Notes (continued)

3. Exceptional items (continued)

(b) **Abnormal, non-productive site-based costs arising from the interruption to construction activity during 'lockdown'** - Following the Prime Minister's announcement on 23 March 2020, the Board took the decision to suspend construction activity. During the 'lockdown' period, the Group continued to incur costs which would have ordinarily been capitalised into work-in-progress. These costs include abnormal amounts of wasted site-based labour, materials and other production costs which did not contribute to bringing the inventory into its current location or condition during the aforementioned period of interruption and accordingly, they have been expensed to the income statement. The charge of £14.5m includes £10.0m in relation to directly employed site-based staff, with the remaining amount of £4.5m mainly relating to equipment hire and additional site security during the 'lockdown' period. The Group did not access the CJRS government grant. The Group has since gradually recommenced production on a phased basis and has therefore subsequently capitalised site costs in line with its site re-opening programme.

These costs were borne during the period when developments were closed, with the period of inactivity typically lasting between six weeks and three months. This reflects the gradual roll-out of safe working practices across the Group, which was in line with the separate guidance applying to the jurisdictions of England, Scotland and Wales. The deployment of these safe working practices will help to mitigate the likelihood of incurring further significant non-productive site-based costs, notwithstanding the possible risk of an additional nationwide or localised 'lockdowns'.

(c) **Restructuring costs** - The Group has undertaken a modest workforce rationalisation programme in response to reduced output and the suspension of divisional expansion plans.

The items included in the COVID-19 related exceptional expense are not material individually but are on an aggregated basis. The directors believe it is most appropriate to consider these costs on an aggregated basis as they relate to the same event, and presenting them on another basis could provide obscured information to the primary users of the financial statements.

Other exceptional items

(a) **Legacy building safety improvements** - The Grenfell tragedy understandably increased the focus on fire safety across the industry and more specifically on apartment blocks, with subsequent Government guidance setting out detailed processes to ensure adequate fire protection measures and limit combustibility in external wall systems on buildings.

As a consequence, the document 'Advice for Building Owners of Multi-storey, Multi-occupied Residential Buildings' was issued by the Ministry of Housing, Communities and Local Government ('MHCLG') in January 2020. This clarified that all buildings above 18 metres in height should be risk assessed to determine whether the presence of potentially combustible materials could contribute to external fire spread, in which case they may need to be replaced. This consolidated advice note clarifies the Government's interpretation of the building regulations insofar as it is applicable to properties pre-dating its issuance.

As previously reported, Bellway has identified a number of developments, which obtained building regulation approval at the time of construction, where the building materials used may not fully comply with this most recent Government guidance. Notwithstanding the complexities in assessing legal liability, as a responsible developer, we have undertaken further assessments of our portfolio of legacy apartment schemes to determine whether any safety improvements are required in order to reflect the current guidance. As a result of this evaluation, Bellway has made an additional exceptional provision of £46.8 million as part of its commitment to help building owners remediate affected properties.

This is a highly complex area with judgements and estimates in respect of the cost of rectification works and the extent of those properties within the scope of the latest government guidance which are likely to evolve. The Group is also pursuing recoveries from third parties, but as these are not virtually certain, no assets have been recognised on the balance sheet.

Notes (continued)

4. Finance income and expenses

	2020 **£m**	2019 £m
Interest receivable on bank deposits	**0.2**	0.4
Interest on fair value through profit or loss	**-**	0.1
Other interest receivable	**-**	0.1
Finance income	**0.2**	0.6
Interest payable on bank loans and overdrafts	**6.2**	6.7
Interest on deferred term land payables	**6.9**	7.8
Interest payable on leases	**0.5**	0.5
Finance expenses	**13.6**	15.0

5. Taxation

The effective tax expense is 18.5% of profit before taxation (2019 – 18.7%) and compares favourably to the Group's standard tax rate for the year of 19.0% (2019 – 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.

The deferred tax assets/(liabilities) held by the Group are valued at the substantively enacted corporation tax rate that will be effective when they are expected to be realised. The planned reduction of the corporation tax rate to 17% was repealed in March 2020; therefore the deferred tax assets/(liabilities) held by the Group have been revalued at 19%.

6. Dividends on equity shares

	2020 **£m**	2019 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 July 2019 of 100.0p per share (2018 – 95.0p)	**123.1**	116.8
Interim dividend for the year ended 31 July 2020 of nil per share (2019 – 50.4p)	**-**	62.1
	123.1	178.9
Proposed final dividend for the year ended 31 July 2020 of 50.0p per share (2019 – 100.0p)	**61.7**	123.1

The 2020 proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 11 December 2020 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 2021 to all ordinary shareholders on the Register of Members on 27 November 2020. The ex-dividend date is 26 November 2020. At the record date for the final dividend for the year ended 31 July 2019, 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.

Notes (continued)

7. 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 2020 £m	**Weighted average number of ordinary shares 2020 Number**	**Earnings per share 2020 p**	Earnings 2019 £m	Weighted average number of ordinary shares 2019 Number	Earnings per share 2019 p
For basic earnings per ordinary share	**192.9**	**123,205,211**	**156.6**	538.6	123,012,723	437.8
Dilutive effect of options and awards		**390,245**	**(0.5)**		398,943	(1.4)
For diluted earnings per ordinary share	**192.9**	**123,595,456**	**156.1**	538.6	123,411,666	436.4

8. Provisions

	Legacy building safety improvements £m
At 1 August 2019	-
Transfer from accrued expenses	41.0
Additions (note 3)	46.8
Utilised	(17.5)
At 31 July 2020	**70.3**

The Group has established a provision for the cost of performing fire remedial works on a small number of legacy developments. These estimates may change over time as further information is assessed, building works progress and the interpretation of fire safety regulations further evolve. The majority of the provision is expected to be utilised within three years, however, the timing is uncertain so the provision has not been discounted.

This is a highly complex area with judgements and estimates in respect of the cost of rectification works and the extent of those properties within the scope of Bellway's legacy building safety improvement provision could be extended should the latest interpretation of government guidance further evolve (note 11).

9. Analysis of net cash

	At 1 August 2019 £m	Cash flows £m	**At 31 July 2020 £m**
Cash and cash equivalents	201.2	(149.8)	**51.4**
Bank loans	-	(50.0)	**(50.0)**
Net cash	201.2	(199.8)	**1.4**

Notes (continued)

10. Reserves

Own shares held

The Group holds shares within the Bellway Employee Share Trust (1992) (the 'Trust') for participants of certain share-based payment schemes. These are held within retained earnings. During the period no shares were purchased by the Trust (2019 – 20,000 shares) and the Trust transferred 20,820 (2019 – 20,911) shares to employees and directors. The number of shares held within the Trust and on which dividends have been waived, at 31 July 2020 was 43,809 (2019 – 64,629). These shares are held within the financial statements at a cost of £1.0 million (2019 – £1.3 million). The market value of these shares at 31 July 2020 was £1.1 million (2019 – £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.

11. 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 of certain Group bank accounts and of other overdrafts, loans and guarantees given by the banks to or on behalf of other Group undertakings.

At 31 July 2020 there were bank overdrafts of £nil (2019 - £nil) and loans of £50.0m (2019 - £nil). The Company has guaranteed the overdrafts of joint arrangements up to a maximum of £0.3 million (2019 - £0.3 million). It is the directors' expectation that the possibility of cash outflow on these liabilities is considered minimal and no provision is required.

Legacy building safety improvements

The Grenfell tragedy understandably increased the focus on fire safety across the industry and more specifically on apartment blocks, with subsequent Government guidance setting out detailed processes to ensure adequate fire protection measures and limit combustibility in external wall systems on buildings.

As previously reported, Bellway has identified a number of developments, which obtained building regulation approval at the time of construction, where the building materials used may not fully comply with this most recent Government guidance. Notwithstanding the complexities in assessing legal liability, as a responsible developer, we have undertaken further assessments of our portfolio of legacy apartment schemes to determine whether any safety improvements are required in order to reflect the current guidance. As a result of this evaluation, Bellway has made an additional provision of £46.8 million in order to help building owners remediate affected properties, resulting in total outstanding remediation costs of £70.3 million (note 8).

This is a highly complex area with judgements and estimates in respect of the cost of rectification works and the extent of those properties within the scope of Bellway's legacy building safety improvement provision could be extended should the latest interpretation of government guidance further evolve. The Group is also pursuing recoveries from third parties, but as there is no certainty with regards to their collectability, an asset has not been recognised on the balance sheet.

12. 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:

- **Pre-exceptional gross profit and pre-exceptional operating profit** – Both of these measures are reconciled to total gross profit and total operating profit on the face of the consolidated income statement. The directors consider that the removal of exceptional items provides a better understanding of the underlying performance of the Group.

Notes (continued)

12. Alternative performance measures (continued)

- **Pre-exceptional gross profit margin** – Pre-exceptional gross profit margin is the pre-exceptional gross profit divided by total revenue. The directors consider this to be an important indicator of the underlying trading performance of the Group.

- **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.

- **Pre-exceptional operating profit margin** – Pre-exceptional operating profit margin is the pre-exceptional operating profit divided by total revenue. The directors consider this to be an important indicator of the operating performance of the Group.

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

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

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

Per balance sheet	**2020 £m**	**2019 £m**	**Mvt £m**	2019 £m	2018 £m	Mvt £m
Land	**2,216.2**	**2,004.4**	**211.8**	2,004.4	2,011.9	(7.5)
Work in progress	**1,496.1**	**1,298.2**	**197.9**	1,298.2	1,115.1	183.1
Increase in capital invested in land and work in progress in the year			**409.7**			175.6
Land creditors	**(343.6)**	**(297.9)**	**(45.7)**	(297.9)	(365.4)	67.5
Increase in capital invested in land, net of land creditors, and work in progress in the year			**364.0**			243.1

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

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

Notes (continued)

12. Alternative performance measures (continued)

- **Pre-exceptional return on capital employed ('RoCE')** – This is calculated as pre-exceptional 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.

	2020 Capital employed £m	**2020 Land creditors £m**	**2020 Capital employed including land creditors £m**	2019 Capital employed £m	2019 Land creditors £m	2019 Capital employed including land creditors £m
Pre-exceptional operating profit	**321.7**		**321.7**	674.9		674.9
Capital employed/land creditors:						
Opening	**2,921.2**	**297.9**	**3,219.1**	2,557.1	365.4	2,922.5
Half year	**3,038.9**	**274.9**	**3,313.8**	2,720.4	294.5	3,014.9
Closing	**2,994.0**	**343.6**	**3,337.6**	2,921.2	297.9	3,219.1
Average	**2,984.7**	**305.5**	**3,290.2**	2,732.9	319.3	3,052.2
Return on capital employed	**10.8%**		**9.8%**	24.7%		22.1%

- **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.

	2020 Capital employed £m	**2020 Land creditors £m**	**2020 Capital employed including land creditors £m**	2019 Capital employed £m	2019 Land creditors £m	2019 Capital employed including land creditors £m
Operating profit	**249.1**		**249.1**	674.9		674.9
Capital employed/land creditors:						
Opening	**2,921.2**	**297.9**	**3,219.1**	2,557.1	365.4	2,922.5
Half year	**3,038.9**	**274.9**	**3,313.8**	2,720.4	294.5	3,014.9
Closing	**2,994.0**	**343.6**	**3,337.6**	2,921.2	297.9	3,219.1
Average	**2,984.7**	**305.5**	**3,290.2**	2,732.9	319.3	3,052.2
Return on capital employed	**8.3%**		**7.6%**	24.7%		22.1%

- **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.

	2020 £m	2019 £m
Profit for the year	**192.9**	538.6
Net assets:		
Opening	**2,921.2**	2,557.1
Half year	**3,038.9**	2,693.8
Closing	**2,994.0**	2,921.2
Average	**2,984.7**	2,724.0
Post tax return on equity	**6.5%**	19.8%

Notes (continued)

12. Alternative performance measures (continued)

- **Total growth in value per ordinary share** – The directors use this as a proxy for the increase in shareholder value since 31 July 2017.

Net asset value per ordinary share:		
At 31 July 2020	2,427p	
At 31 July 2017	1,785p	
Net asset value growth per ordinary share		642.0p
Dividend paid per ordinary share:		
Year ended 31 July 2020	100.0p	
Year ended 31 July 2019	145.4p	
Year ended 31 July 2018	132.5p	
Cumulative dividends paid per ordinary share		377.9p
Total growth in value per ordinary share		1,019.9p

- **Annualised accounting return in NAV and dividends paid since 31 July 2017** – 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 2017 (as detailed above) divided by the net asset value per ordinary share at 31 July 2017. The directors use this as a proxy for the increase in shareholder value since 31 July 2017.

Net asset growth per ordinary share	642.0p
Dividend paid per ordinary share	377.9p
Total growth in value per ordinary share	1,019.9p
Net asset value per ordinary share at 31 July 2017	1,785p
Total value per ordinary share	2,804.9p
Annualised accounting return $= \left(\frac{2{,}804.9}{1{,}785.0}\right)^{\wedge(1/3)} - 1$	16.3%

- **Net cash** – This is the cash and cash equivalents less bank debt. The directors consider this to be a good indicator of the financing position of the Group. This is reconciled in note 9.

- **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.

	2020 **£m**	2019 £m
Cash from operations	**55.8**	419.1
Add: increase in capital invested in land, net of land creditors, and work in progress (as described above)	**364.0**	243.1
Cash generated from operations before investment in land, net of land creditors, and work in progress	**419.8**	662.2

- **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.

Notes (continued)

12. Alternative performance measures (continued)

- **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. The directors confirm that they have conducted a robust assessment of the principal risks facing the Company.

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. ▪ Targeted approach to land acquisitions, with 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 Shortages of both appropriately skilled subcontractors and 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 subcontractors and suppliers. ▪ Competitive rates and prompt payment for our subcontractors. ▪ Group-wide purchasing arrangements are in place. ▪ Continued review and monitoring of supplier and subcontractor performance and suppliers.	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 ▪ Uncertainty over post-BREXIT agreements	▪ 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. ▪ We continue to monitor business performance and build a robust future-proof business with a solid strategy and sound financial controls.	There is an increase in this risk given the economic uncertainty brought about by the COVID-19 pandemic.

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 HR Team function and implementation of our people strategy. ▪ Centralised recruitment support and employee engagement activities. ▪ 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. ▪ Graduate, apprentice and site manager programmes in place.	There is a decrease in this risk due to the strengthening of recruitment and engagement processes during the period.
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 Security Committee in place.	No change.
Legal and regulatory compliance Failure to comply with legislation and regulatory requirements.	▪ Lack of appropriate procedures and compliance would result in delays in land development, 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. ▪ Changes may occur as a result of the MHCLG's Building Safety Programme and the work being carried out by the CMA and Government on leasehold reform.	▪ Volume growth. ▪ EPS. ▪ Number of homes sold. ▪ RoCE. ▪ Gross margin.	▪ In-house expertise from Group Company Secretary, 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, guidance and training for key regulatory matters, supported by reporting and whistleblowing procedures. ▪ 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.

Climate change Failure to evolve business practices and operations in response to climate change including physical impacts, reporting requirements and social expectations.	▪ There is an increased focus on the actions taken by businesses in response to climate change and the disclosures made. Failure to improve reporting and performance in line with new regulations and heightened social expectations could lead to financial penalties and reputational damage. ▪ The physical impacts of climate change (such as extreme weather) could lead to disruptions within the supply chain and build programmes.	▪ Greenhouse gas emissions. ▪ Carbon emissions per completed home.	▪ Continual monitoring of new and evolving requirements as part of our legal and regulatory compliance framework, including the Future Homes Standard. ▪ Dedicated Head of Sustainability to assess risks relating to climate change, monitor performance and drive improvement. ▪ Investment in energy saving measures for offices and sites, including transition to REGO certified electricity. ▪ Procurement of materials (e.g. timber) from sustainable sources. ▪ Regular review of the design and features of new homes to increase energy efficiency.	New risk.
COVID-19 Ongoing uncertainty over the impact of COVID-19 on the Group's operational and financial performance.	▪ The economic uncertainty brought about by COVID-19, in addition to the factors below, affect construction and sales activity which ultimately impact the Group's liquidity. – Lack of high loan to value mortgages. – Government imposed restrictions/ guidance. – Maintaining social distancing practices. – Issues in the supply chain or high levels of staff/ subcontractor absence. ▪ Damage to reputation if the Group is not perceived to be following Government guidelines and acting responsibly.	▪ EPS. ▪ Number of homes sold. ▪ RoCE. ▪ Gross margin. ▪ Order book value. ▪ Land bank (with DPP). ▪ Operating margin. ▪ Dividend per ordinary share. ▪ Operating profit. ▪ Net asset value per ordinary share. ▪ Employee turnover. ▪ Reservations rate.	▪ Strong balance sheet as at 31 July 2020 and committed bank facilities of £545 million. The Group has also been confirmed as an eligible issuer for the Government's CCFF facility with a limit of £300 million (currently undrawn). ▪ Regular review of liquidity and cashflow at a Group level. ▪ Targeted spend on land and WIP, with a focus on homes in the latter stages of production. ▪ Maintenance of business resilience plans supported by investment in IT to enable robust home-working. ▪ Safe working practices and arrangements implemented across offices and sites for staff, subcontractors and customers with Marshalls appointed to monitor social distancing.	New risk.

Emerging Risks

The Group faces a number of emerging risks that have the potential to be significant to the achievement of our strategy, but which at present cannot be fully defined and assessed. These are considered as part of our established risk management framework, discussed by the Board regularly and elevated to principal risks when warranted. The risk from both climate change and COVID-19 has been elevated from an emerging risk early in the 2020 financial year to a principal risk facing our business.

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