Building for the future

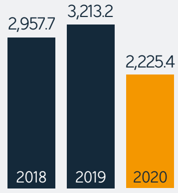
Bellway p.l.c.
Annual Report and Accounts 2020

Financial and Strategic Summary

Group revenue (£m)

£2,225.4m

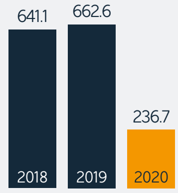
(30.7%)



Profit before taxation (£m)

£236.7m

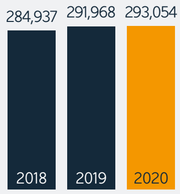
(64.3%)



Average selling price (£)

£293,054

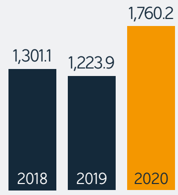
+0.4%



Order book value as at 31 July (£m)(~)

£1,760.2m

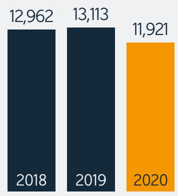
+43.8%



Plots contracted in the year (plots)

11,921 plots

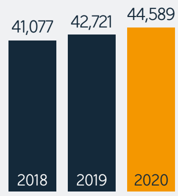
(9.1%)



Owned and controlled land bank (plots)

44,589 plots

+4.4%



In this report

For further details on our business please visit:

www.bellwayplc.co.uk

Note:

Unless otherwise stated all numbers throughout the Annual Report and Accounts exclude joint ventures.

~ Bellway uses a range of statutory performance measures and alternative 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 can be found on pages 134 to 136. Throughout this report '~' refers to alternative performance measures.

Who we are

We are building for the future of…

…our customers.
We are building quality and sustainable homes.

…our people.
We are building careers for almost 3,000 people.

…our communities.
We build trust by working in a sustainable and responsible way.

…our shareholders.
We are building value.

Why Bellway

Our **homes**

We build high quality homes designed to complement the style of existing local architecture in communities, meet local demand and enhance the area in which they are built. With a range that extends from one-bedroom apartments to six-bedroom family homes, we offer an extensive choice from which customers can choose a property that meets their individual requirements. We also provide homes to housing associations for social housing.

Our focus is to provide desirable, traditional family housing across all our divisions and in addition provide apartments in the more affordable outer commuter zones of London.

Our **brands**

Bellway and Ashberry are the main brands we use to sell our homes with Bellway being the most recognisable brand. Our Ashberry brand, which was launched a few years ago, is only offered on larger sites, with the purpose of providing two differentiated outlets and therefore offering 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'). We will plot different house types and/or elevations and offer different internal specifications for each brand, with little differentiation in standard of finish or pricing.

Bellway London was launched in 2018 to provide the London market with a modern and consistent identity that is recognisable across the capital. This covers all of our developments in London boroughs, with our main focus being outer London boroughs and commuter towns within the M25. Properties range from one-bedroom apartments to four-bedroom townhouses.

Our **people**

Our people are the key to our success and we aim to provide them with a rewarding and fulfilling career.

Bellway has long had a reputation as a good employer, taking an interest in its workforce and supporting career development. As a result, many employees have spent a large proportion of their working lives with us. However, we are not complacent and strive to be an employer of choice.

Our **customers**

We pride ourselves on understanding the aspirations of all of our customers, not just in the type of home that suits their needs, but the environment in which they want to live. All of our customers are treated to the same high level of customer service. Our high standard of service and build quality is endorsed by our customers, with 9 out of 10 customers saying they would recommend Bellway to a friend buying a new home. Our Customer First Committee drives improvements to quality and works to develop and share best practice across the Group to further enhance our service to customers.

Award Winning Homes

5 Star

Rating from the Home Builders Federation Customer Satisfaction survey

Our **business**

We are committed to being a responsible homebuilder. Our aim is to operate our business in an ethical and sustainable manner while at the same time building attractive, desirable and sustainable developments in which customers want to live, in harmony with existing communities.

As one of the UK's largest homebuilders, we have an important role to play in addressing the national housing shortage by building high quality homes in desirable locations. We work with a range of stakeholders to build trust so that we can fulfil this role whilst at the same time operating our business in a socially responsible, ethical and sustainable way.

We currently operate from 22 divisions covering the main population centres across England, Scotland and Wales. Our divisional structure allows local management teams to respond to specific demands in their area and, through their detailed local knowledge, acquire land on which to design and build homes that meet or exceed the expectations of our customers and contribute to creating strong local communities. The divisional teams are supported by our Regional Chairmen and by our specialist Group teams.

Our capacity for **growth**

Despite these challenging times, Bellway is in a robust position, with a motivated and dedicated workforce. It benefits from a strong, ungeared 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.

Bellway Ashberry Homes

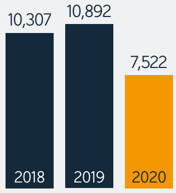
Principal KPIs

The Group has seven principal KPIs, which are shown below. Our secondary performance measures, which support these KPIs, are shown on pages 18 to 22.

Number of homes sold (homes)

7,522 homes

(30.9%)



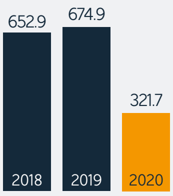
This KPI demonstrates how well the business model is able to support the Group's strategy of delivering volume growth.

Operating profit (£m)[1] [~]

£321.7m

(52.3%)

-R-

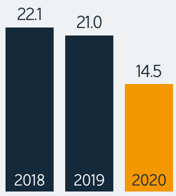


Operating profit is another measure of how efficiently the business is being operated and of the profitability of the Group's core business. This KPI is one of the measures used to determine the directors' annual bonus payment.

Operating margin (%)[1] [~]

14.5%

(650bps)

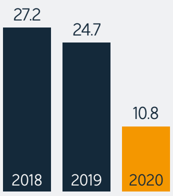


Operating margin demonstrates how efficiently the business is being operated.

Return on capital employed (%)[1] [~]

10.8%

(1,390bps)

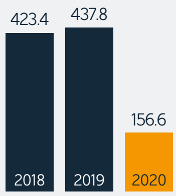


Return on capital employed ('RoCE') is a key indicator of how we are delivering our strategy of building shareholder value, which is reliant on land acquisition and the subsequent performance of our developments.

Earnings per ordinary share (p)

156.6p

(64.2%)

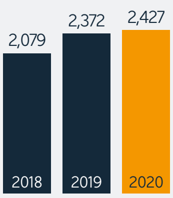


Earnings per ordinary share ('EPS') is a useful measure of how profitable Bellway is, year on year.

Net asset value per ordinary share (p)[~]

2,427p

+2.3%

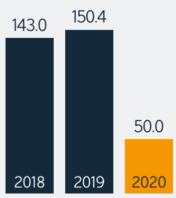


The directors consider net asset value per ordinary share ('NAV') to be a useful proxy when reviewing whether shareholder value, on a share by share basis, has increased or decreased in the period.

Total dividend per ordinary share (p)

50.0p

(66.8%)



This is another useful indicator of how the directors are delivering the strategy of generating shareholder value, particularly when combined with NAV. Note that the 2020 final dividend figure is proposed.

Note:

1 Before exceptional items (note 3, page 115 to 116).

~ Bellway uses a range of statutory performance measures and alternative 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 can be found on pages 134 to 136. Throughout this report '~' refers to alternative performance measures.

-R- Link to remuneration – see pages 72 to 92.

Chairman's Statement

Paul Hampden Smith
Chairman

With its long-term and conservative approach to managing the business, Bellway is in a robust position, benefiting from a resilient balance sheet.

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 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 Coronavirus Job Retention Scheme ('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 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

Building for the future...

...for our people

Graduate Programme

January 2020 saw the first ever cohort of graduates join Bellway on our Graduate Programme. 38 graduates joined the business across all disciplines from head office to site roles. Bellway continues to focus on gender equality and diversity at all levels of the organisation; 50% of the graduates on the programme were female and 13.2% were from a BAME background. The two-year programme allows graduates to specialise in a field whilst undertaking cycles of experience outside of this area to generate a well-rounded knowledge of the business.

The programme has been such a success that the recruitment process is already well underway for the September 2021 intake.

38
Graduate recruits

50%
Female graduates

Our Marketplace

Despite the challenges arising from COVID-19, conditions in the new build UK housing market remain positive, with strong demand for affordably priced homes, good access to affordable mortgage finan e and the continued availability of Help to Buy.

As highlighted in the Chairman's Statement on page 6, conditions in the wider economy have changed as the country emerges from the initial extended COVID-19 '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. 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 JSS. In addition, a risk is posed by the uncertain outcome of future trade deals with both the European Union and the rest of the world.

Despite these headwinds, we believe that the market fundamentals for housebuilders remain positive, as set out below.

The affordability of mortgages

Mortgage affordability is a crucial ingredient for a successful and sustainable housing market. Access to affordable finance assists potential purchasers in securing a new home. Competition in the mortgage market and low interest rates ensure new homes remain affordable. Average mortgage repayments, as a percentage of income, have gradually fallen from a peak in 2007, following the downturn in the housing market in 2008/09.

The chart at the bottom of the page demonstrates the affordability of houses in the UK.

The availability of mortgages

Mortgage availability is an important component in a successful housing market. Following the introduction of the Government's Help to Buy scheme in April 2013 for new build homes, the availability of 75% loan to value mortgage finance has increased significantly, thereby assisting in an increase in the sale of new homes, particularly for first-time buyers or purchasers in London where affordability is most constrained. Since the COVID-19 'lockdown' commenced, the lending institutions have continued 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 this period.

The Government announcement that the equity loan element of the Help to Buy scheme in England will be supported up to 31 March 2023, although with lower regional limits, provides certainty for the new build housing market and will greatly assist purchasers of new homes.

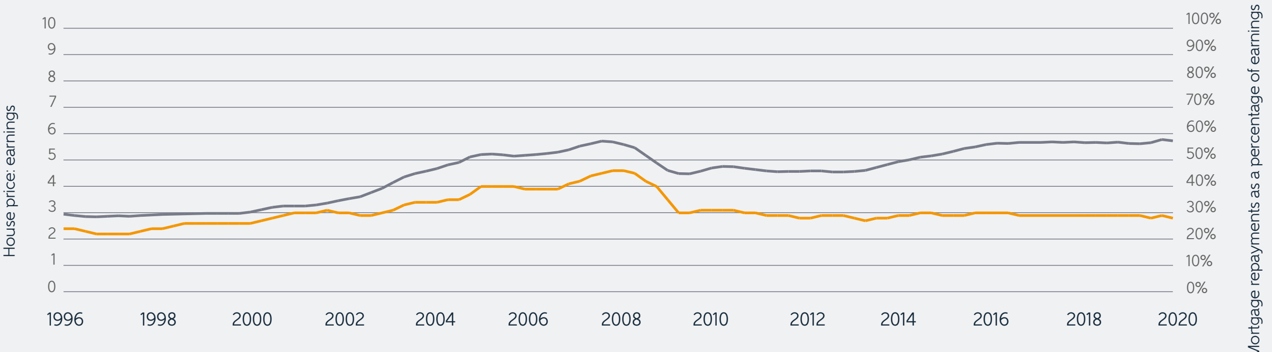
Help to Buy now accounts for 29% of all homes sold in the new build sector, and 35% of homes we sold in the year. Undoubtedly, this has helped boost new build output, which represents an increasing proportion of the overall market.

The continued success and extension of the Help to Buy scheme supports market confidence which, coupled with low interest rates, mean lenders are offering a range of competitive products to buyers. The Mortgage Market Review has resulted in a more sustainable mortgage market.

The stamp duty holiday

The Government has temporarily increased the stamp duty threshold on which no tax is payable to £500,000 for property sales in England and Northern Ireland, until 31 March 2021. This will save buyers up to £15,000, if they are buying a property of £500,000 or less.

Affordability of houses in the UK



Source: Halifax

Demand

Help to Buy provides ongoing support to the sector's ability to grow output, providing access to mortgage finance for those with at least a 5% deposit. Additionally, the ongoing environment of low interest rates ensures that new homes remain affordable in a historical context, further supporting the strong underlying demand.

Supply

Land supply and planning permissions

The land market continues to provide good buying opportunities, particularly since the 'lockdown', as there is generally less competition due to reduced liquidity across the country. House prices remain firm, supporting land values and hence vendors' appetite to sell.

The availability of land is supported by a positive planning environment. This is evidenced in the chart below, which shows a record number of planning permissions granted in England, Scotland and Wales over recent years.

The availability of land at attractive margins

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

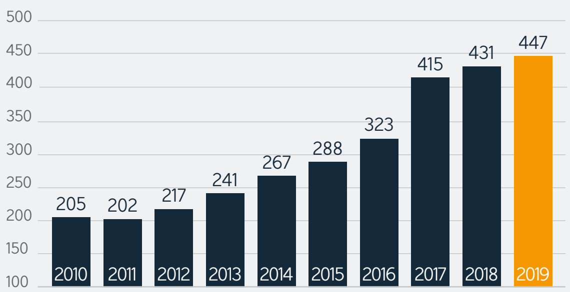
The market for land in the UK, particularly in the main conurbations, remains competitive.

The planning system

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

The National Planning Policy Framework system ('NPPF') introduced in March 2012, working in parallel with the Localism Act 2011, has had a positive effect on the planning environment. This is evidenced by an increase in the number of planning permissions over recent years.

Planning permissions granted in England, Scotland and Wales



Source: HBF New Housing Pipeline Report (Q1 2020 - Published August 2020)

Further changes as a result of the revised NPPF, published in February 2019, and the Government's housing white paper, which includes favourable proposals such as 'brownfield' first, a standard method for calculating housing need and a requirement to publish 'ambitious' local plans, has resulted in an uplift in housing demand in many locations across the UK, however, it has resulted in more difficult circumstances in the north of England with many local authorities reducing their housing target.

Availability of labour and materials

Labour and material availability remain a constraint to growth in the sector, with pressures tending to be specific to certain trades, locations and supplies of items such as structural timber, plastics, bricks and blocks. These pressures are a result of the growth in housebuilding, an industry-wide lack of investment in training over the long-term and the cyclical nature of the industry. As a result, good forward planning disciplines, longer lead-in times and extended build periods over recent years all need to be considered when planning construction and sales programmes. Prior to entering 'lockdown', the Group reported that industry-wide build cost increases were having a moderating effect on the operating margin, currently cost inflation is negligible for both labour and materials.

Summary of market backdrop

There is wider economic uncertainty due to COVID-19, but the market fundamentals for Bellway remain strong with:

- The ongoing imbalance between supply and demand for affordably priced, good quality homes continuing to be a feature across many parts of the country.
- Strong demand for new homes continues to be supported by the ongoing availability of Help to Buy, together with an environment of low interest rates.
- The land market remaining attractive and the planning environment favourable, with the Group continuing to identify value-enhancing opportunities which meet or exceed our requirements in respect of both gross margin and RoCE.
- Cross-party support to deliver an increased supply of new homes.

Bellway is mindful of the wider economic uncertainty caused by COVID-19, but continues to draw upon these sector-specific favourable market conditions, retaining its clear strategy to deliver long-term and disciplined volume growth. This, together with the continued focus on quality and customer care, enables all stakeholders to benefit from our continued success.

The Group's strategic priorities take into consideration this synopsis of the market backdrop.

COVID-19 – Our Journey

COVID-19 has had a significant and unp ecedented effect on the world as a whole. We set out below an insight into Bellway's efforts to support our employees, customers, suppliers, subcontractors and other stakeholders during this period.

Early warnings

By mid-March we were having regular management team meetings to prepare the Group. We implemented a rotation system to minimise the number of staff in the office to ensure their safety.

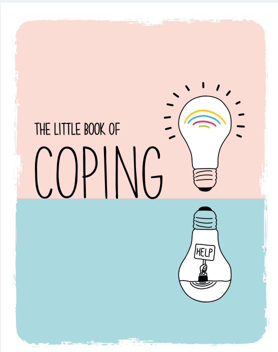
Communication is key

Throughout the pandemic we ensured our colleagues were provided with regular updates from our Chief Executive, including a dedicated video message in April, and from Group HR and Group Technical teams.

Closing our offices and sites

Following the UK Prime Minister's announcement on 23 March, we followed Government guidelines and closed our divisional and site offices with immediate effect. All onsite construction activity ceased by 27 March.

We assured employees from the outset that they would be paid in full.



Stay home stay safe

The Group HR team developed a series of information and tips for employees, starting with a Homeworking – 'Work Smart Work Safe' guide. This was then followed by a regular flow of guides on various topics throughout 'lockdown'.

Safeguarding careers

Bellway was amongst one of the few companies who having put 75% of its staff on furlough still continued to pay full basic salary from its own resources, therefore not obtaining any CJRS grant funding.

A phased and cautious return

The construction industry is a significant contributor to the UK economy and as such, the Government issued guidance stating that sites should continue to operate where they comply with the Construction Leadership Council's Site Operating Procedures and Public Health England guidance. We responded by recommencing some construction work, initially on a phased basis, from 4 May 2020.

> **Your health, safety and general wellbeing is my priority and will remain so as we move through our recovery plans.**
>
> **Jason Honeyman,** one of the reassuring messages from our Group Chief Executive

Mental wellbeing

We dedicated the full month of May to highlight the importance of mental wellbeing with our Group HR department providing colleagues with useful guidance and links to ensure they looked after both their physical and mental wellbeing.

Supporting the economy

We unfurloughed the remainder of our workforce in mid-May, and continued to have staff working from home where possible whilst ensuring the highest standards of safety and social distancing in both our offices and sites to do our part in supporting the recovery of the UK housing and broader economy.

Our Group HR team continued to provide all employees with updated and useful communications on topics such as 'Back to Work' and 'COVID Safe' working procedures.

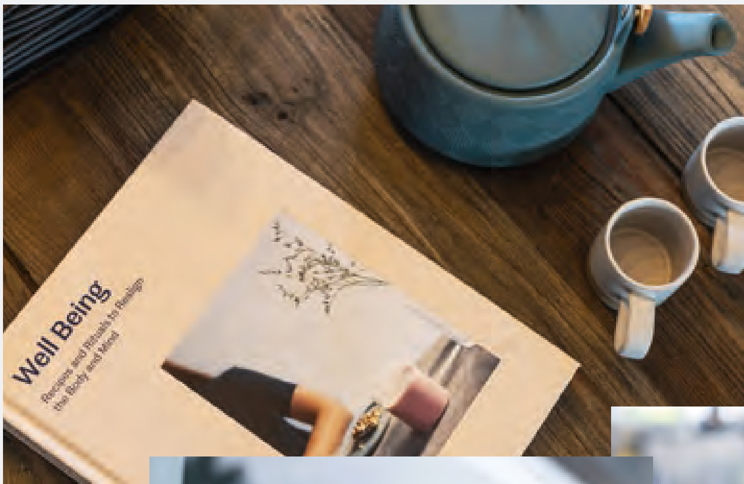
Looking Forward

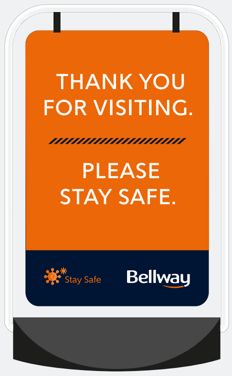
Bellway continues to monitor Government guidelines on all aspects of operations.

Our priority is ensuring the safety of all our employees, customers, suppliers and subcontractors.

I would like to take the opportunity to thank you all for your extraordinary efforts in the face of such unusual and unprecedented circumstances.

Jason Honeyman, Group Chief Executive





Key Stakeholder Relationships

Maintaining good relationships with our stakeholders is important to what we do.

The Board of Directors confirm that during the year under review, it has acted to promote the long-term success of the Company for the benefit of shareholders, whilst having due regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006, being:

(a) the likely consequences of any decision in the long term,

(b) the interests of the Group's employees,

(c) the need to foster the Group's business relationships with suppliers, customers and others,

(d) the impact of the Group's operations on the community and the environment,

(e) the desirability of the Group maintaining a reputation for high standards of business conduct, and

(f) the need to act fairly between members of the Group.

On pages 12 to 15 we set out how we have engaged with various stakeholders during the year, the key issues raised and outcomes.

Customers

How we engage

We pride ourselves on our excellent customer service and place our customers first. Our reputation is built on trust and we help thousands of people to buy their dream home every year.

Our highly trained and dedicated team of Sales Advisers engage and communicate with customers from the first time they contact us, throughout the sales process and ensure their moving-in day is a memorable one.

Once our customers have moved into their new home, our Customer Charter sets out the process of engagement to ensure the after-sales experience continues to be a positive one.

Our Sales Advisers receive feedback from customers throughout the process and we place significant emphasis on the HBF Customer Satisfaction Survey. This annual survey allows our customers the opportunity to rate us on build quality, design, sales and customer care.

We use a variety of different channels to allow customers to engage with us via their preferred method.

We analyse how our customers engage with us through marketing data to ensure we are responding to their needs.

We drive engagement through social media channels to encourage customers to enter into discussion with our official accounts and share content about their experience.

Outcomes

We achieved 5 star homebuilder status in the national HBF awards for the fourth consecutive year. This reflects our commitment to delivering exceptional quality as standard to our customers, throughout our construction process, in the homes we create, and in our aftercare and customer service.

To be voted a 5 star homebuilder is an honour because it is independently decided by our customers – more than 9 out of 10 of whom would recommend us to a friend.

Our focus on customer service excellence has led to the launch of our new 'Customer First' programme. The programme is being developed following extensive consultation with customers in order to understand where we get things right and importantly where we can improve to meet and exceed their requirements.

We have created our new standard house type range, The Artisan Collection, which has been developed using feedback from our customers to create a new generation of properties which are suited to homebuyers reflecting our expertise in delivering the highest standard of modern living.

At the start of FY20, Bellway launched on social media channels, giving customers the opportunity to engage with our brand and share their experiences of buying a home from Bellway.

Key issues raised

- Customer service
- Affordability and supply of housing
- Sustainability and efficiency of homes
- Quality of construction
- Innovation
- Legacy building and safety improvements
- Help to Buy

Colleagues

How we engage

We ensure that our colleagues are well informed and have the knowledge they need to operate successfully in the best interests of Bellway, our customers and other stakeholders.

Our employees receive regular communications and training in relation to changes to policies, procedures, services and advice. We promote quarterly Employee Listening Groups which we use to gain feedback from employees in order to improve processes and procedures within the business. These are reported to the Board to agree follow-up action.

The focus of our dedicated Group HR team continues to be on the attraction, development and retention of talent across the business, and improving the diversity of our workforce.

Senior management regularly present to the Board and divisional visits by directors help to inform the Board of matters important to our employees.

Key issues raised

- Wellbeing
- Employee communications
- Flexible working
- Diversity and inclusion
- Employee benefits

Outcomes

Our Employee Listening Groups have resulted in several new policies being introduced relating to flexible working.

We have made improvements to employee communications by introducing a centralised Group strategy to enable a more consistent level of communication for key Group-wide initiatives. As part of this strategy we have recruited an experienced Group Head of Communications.

Our focus on employee wellbeing has received a positive reaction from employees with the introduction of mental health first aiders, training and awareness raising campaigns, all having a positive impact, particularly during 'lockdown'.

Our focus on diversity and inclusion saw the Group awarded The Financial Times Diversity Leaders 2020 award, where we ranked 286 out of 700 companies across Europe. Following employee feedback, the Group is looking to implement several diversity and inclusion groups which will help drive further improvements across the business, primarily focusing on gender and race diversity.

The Group has increased the number of graduates, trainees and apprentices across the business by 42% to develop and grow new talent. At the end of FY20 we had 8.3% of colleagues in a 'learning and earning' position.

Shareholders

How we engage

As a publicly listed company we need to provide our shareholders with fair and balanced information on the business in order to instil trust and allow informed investment decisions to be made.

Our executive management team meets with major shareholders and analysts at least twice a year to discuss interim and full year financial results and we provide trading updates to investors to update them on progress within the business.

Executive directors develop external relationships with institutional investors, prospective investors and analysts – particularly when we release results to the City via meetings and phone calls.

The Board receives reports from its brokers and PR advisers following our trading updates, interim and full year results and presentations that provide feedback from investors and analysts. We regularly communicate with our brokers to understand the positioning of the business to the investor community.

We seek the views of shareholder representative bodies where necessary, especially on the areas of director remuneration and Board succession.

We respond to ad hoc queries from shareholders wherever possible.

During the year the Chair of the Audit Committee wrote to our top 12 shareholders to inform them of the outcome of the external audit tender process.

Our Senior Independent Director is available to attend meetings with major shareholders.

Our corporate website is updated on a timely basis.

Shareholders will have the opportunity to ask questions in advance of the 'closed door' virtual AGM. Where possible the Board will respond before the meeting or during the course of the AGM. Shareholders will be able to listen to the AGM live via a web-link.

Key issues raised

- Business ethics and corporate governance
- Remuneration policies
- General market conditions, including affordability, Help to Buy and the land market
- Expected recovery following the COVID-19 'lockdown'
- Dividend policy
- Quality and customer care
- Public policy
- The environment and sustainability

Outcomes

We have provided additional information in announcements to cover points raised during these meetings and we have demonstrated our financial position and performance through interim and full year results, trading updates and our Annual Report.

The Board understands shareholder sentiment and the Group has delivered TSR above the median in both the last 12 months and three years.

The business continues to deliver cost savings through standard house type range and Bellway 2020.

Key Stakeholder Relationships continued

Partners

How we engage

Our size means we can engage with our suppliers and subcontractors in order to work with them in helping achieve our goals and bring efficiencies to all parties where possible.

We regularly hold meetings and communicate with our suppliers and subcontractors, passing on relevant information to each division as appropriate. Where there is new product information, this is communicated in a timely manner to each division.

Our Group Commercial team oversees the development of our relationships with and management of our supply chain.

The impact of COVID-19 on our supply chains and subcontractors has meant we have had to work closely with all of our partners to ensure the supply of trades and essential construction materials to sites.

We strive to maintain long-term working relationships with reputable subcontractors to reduce health and safety risks and to ensure the availability and quality of materials and labour and further strengthen the long-term interests of our business.

Effective partnerships with a range of public bodies and agencies is central to the success of Bellway's business. We value the opportunities that partnerships bring and the benefits these relationships deliver to the communities in which we build.

We have long-established relationships with housing association ('HA') partners across the country, ranging from large national and regional organisations to small rural providers. Together we work to build communities and improve the affordability of housing for local people.

Our local teams of specialist land buyers work directly with private landowners, commercial vendors and the public sector to realise land opportunities. They can consider any site regardless of current planning status, and have direct access to substantial funds. This allows for highly competitive offers to be arrived at quickly, subject to the appropriate approval process.

Through our divisional offices, we have extensive knowledge of local planning policies and frameworks and have proven expertise in guiding challenging sites through the planning system.

In addition to acquiring land outright, we are also able to consider joint venture and partnership agreements.

Key issues raised

- COVID-19
- Health and safety
- Efficiencies and environmental management
- Land and planning
- Affordable housing
- Supply chain management

Outcomes

Improving our relationship with suppliers by engaging with them regularly as we build on new developments.

Increase in the use of the Artisan standard house type range has brought efficiencies through standardisation to supply chain and subcontractors.

Improved health and safety and COVID-19 working practices have received positive feedback from subcontractors and suppliers.

Our communities

How we engage

Bellway recognises the impact on the local communities in which we develop and therefore we actively seek engagement with them to ensure we demonstrate the value we can bring through investment, job creation and the provision of safe and secure homes.

Prior to the submission of a planning application, we undertake comprehensive consultation with the local community in accordance with the public engagement policy of the local authority. This frequently involves informing communities about the proposed development and attending public meetings and exhibitions.

We utilise local PR activity and digital media to engage communities on proposed developments in order to communicate our plans.

In consultation with the local authority, we listen and act on feedback received where reasonable and practicable.

This process allows us to ensure that the views of the local community and neighbouring landowners are taken into account as far as is reasonable and practicable.

We operate the Considerate Constructors Scheme on developments where appropriate.

We also have a Group-wide charitable partnership with Cancer Research UK, which has been running for four years. Our fundraising activity is supported by our 22 divisions with colleagues, suppliers and subcontractors participating in various fundraising events throughout the year.

Our divisions also engage with local community organisations in supporting charitable fundraising activities and community initiatives. The Group matches any fundraising done by employees in order to encourage community engagement.

Key issues raised

- Affordability and the supply of housing
- Planning and community engagement
- Jobs and skills
- Biodiversity
- Home efficiency
- Environmental issues
- Impact on existing communities and infrastructure
- Charitable giving

Outcomes

The number of housing completions was 7,522 of which 22% were social housing, providing much needed affordable homes to communities throughout the UK.

We are able to respond to local community queries relating to planning applications whilst demonstrating our consideration for local issues as part of the process.

We are able to provide skilled jobs within local communities.

To date, over £1.6 million has been raised and donated to our charity partner, Cancer Research UK since Aug 2016.

Our employees have continued to engage in local fundraising activities with £110,551 being raised during FY20, an increase on previous years despite the impact of COVID-19.

Government and regulators

How we engage

Our relationship with national and local government, regulators and key housing industry representative bodies is vitally important as policies and regulatory changes provide opportunities and risks for our business.

National and local government policy has a significant influence on the operation of our business and we seek to work collaboratively with local authorities and key statutory bodies, ensuring that developments are brought forward efficiently and with regard to local needs.

In London we work closely with the Greater London Authority ('GLA') and London Borough Councils, and elsewhere engage at a senior level with both the Welsh Assembly and the Scottish Parliament, working closely on their respective Help to Buy programmes.

Bellway also engages at a strategic level with senior officials within the Ministry of Housing, Communities & Local Government, HM Treasury and The Cabinet Office to address the pressing issues of accelerating housing delivery, fire safety remediation post Grenfell, widening home ownership opportunity and the regeneration of communities.

Bellway maintains national and regional representation with Homes England, working closely on their public land and housing investment agendas. We are a significant partner in the Government's Help to Buy programme and, through our presence on national forums, we contribute to the efficient delivery of this major policy initiative.

We are an active participant in the Homes and Communities Agency's Delivery Partner Panel ('DPP3'). We have national coverage through representation in all five regional frameworks and are also a member of the GLA London Development Panel.

We also engage and respond to Government directly and through our membership of industry trade organisations.

Key issues raised

- Help to Buy
- Fire safety
- Local planning issues
- Construction and environmental issues
- Leasehold reform

Outcomes

We responded to national, regional and local government policies, regulatory changes and provide affordable homes to meet local needs.

We are able to work with relevant government departments in delivering programmes such as Help to Buy in order to enable more people to own their own homes.

We are able to contribute to the regeneration of local communities through proactive engagement with Local Authorities.

Our Business Model

The following timeline demonstrates how we create value from purchasing land to selling homes.

Selecting the right land

What we do

- Land opportunities are identified by our divisional and Group land and planning teams using their local knowledge and contacts. A viability assessment and appraisal is prepared by the division, which is assessed in detail at divisional, regional and then Group level, where the final decision is taken on whether to purchase the site. Board approval may also be required depending upon the value and nature of the proposed acquisition.
- The number of large, long-term sites that we own is strictly controlled to avoid having too much capital tied up or concentrated in one location.
- We often secure land without the benefit of an implementable detailed planning permission ('DPP'), typically brownfield sites with an outline planning consent or on a 'subject to planning' basis. We use the expertise of our land and planning teams to obtain DPP which thereby reduces risks, adds value and enables higher returns.
- We aim to increase the number of homes sold through continued investment in land and in our divisional teams.

For more information see page 18.

Managing the planning process

What we do

- Our land bank is comprised of three tiers:
  i) Owned or unconditionally contracted land with DPP.
  ii) Pipeline plots of land owned or controlled pending DPP, with development expected to commence within the next three years.
  iii) Strategic land, which is longer-term plots typically held under option.
- Our divisional and Group planning teams work closely with local authorities and communities to obtain DPP to construct homes which reflect local planning and vernacular requirements. The divisional and Group planning teams progress a combination of medium-term 'pipeline' land and land from our strategic land bank through the planning system.

For more information see page 19.

Constructing the right product

What we do

- We construct a wide range of homes to suit a variety of budgets and lifestyles. Our homes are built to a high standard in compliance with specific building, technical and health and safety regulations and other regulatory requirements, as well as to our own quality standards.
- Our priority is the health and safety of our employees, subcontractors and visitors to any of our locations.
- We strive to maintain long-term working relationships with reputable sub-contractors to reduce health and safety risks and to ensure the availability and quality of materials and labour.
- We seek to ensure that we have suitable building materials available at competitive prices to enable us to construct homes to the high standards expected of us by our customers, within budget and on time.
- We closely monitor work-in-progress to ensure that build rates are consistent with sales rates.

For more information see page 20.

Delivering an excellent customer experience

What we do

- From the moment our customers first engage with Bellway to the day they move into their new home and beyond, we strive to provide an excellent customer experience and to deliver a home which people aspire to live in.
- We have earned a reputation for delivering an excellent experience to our customers throughout the home buying process and beyond.
- Our customer care teams are located within each division and supported at a Group level by our Head of Customer Care.
- Our Customer First Committee continues to drive future improvements to quality and customer care.
- We work hard to retain our HBF 5 star homebuilder status.

For more information see page 21.

Investing in our people

What we do

- Our people are key to the success of our business and we aim to provide them with a rewarding and fulfilling career.
- We aim to continue attracting and hiring top-quality people to complement our existing workforce.
- We provide opportunities for employees to develop and grow by delivering structured training programmes for graduates, apprentices and trainees through our new Bellway Academy and relevant training for other employees. We were pleased to welcome our first ever cohort of graduates on our graduate training programme 'Great Careers Built With Us' in January 2020.
- We provide career pathways to enable long-term development, progression and succession planning.
- We provide information and organise events to promote and encourage our employees to lead a healthy and balanced lifestyle.

For more information see page 22.

How we are building for the future

- Earnings for employees of £180.1 million (2019 – £188.2 million).
- Payments to subcontractors and suppliers of £1.4 billion (2019 – £1.7 billion).
- Investment in communities of £60.5 million (2019 – £77.3 million).
- Payments to national and local government of £135.4 million (2019 – £210.9 million).
- Dividends to shareholders of £123.1 million (2019 – £178.9 million).

Over the next few pages we explain our business model in more detail, including how this is aligned with our three corporate responsibility pillars.

Environment

Construction

Society and economy

Selecting the right land

What we do and how we manage risk

Where sites require planning consent it may take many months to progress a parcel of land through the planning consent promotion process before we can start building and selling homes. We therefore require our land teams to purchase sufficient sites to ensure that we have the necessary amount of land to meet our short-term volume growth targets as well as a pipeline of land for subsequent years.

Alignment with our corporate responsibility pillars

By building a significant number of quality homes on brownfield land we are contributing to the regeneration of areas in mainly urban locations.

By paying section 106 and Community Infrastructure Levy ('CIL') contributions we provide local authorities with revenue for community investment.

Local authorities benefit from additional revenue under the New Homes Bonus.

For more information see pages 43 to 50.

The risks

The inability to source suitable land that meets our financial and non-financial acquisition criteria, including minimum gross margin and RoCE hurdle rates. There has been no change to this risk during the year.

For more information see pages 36 to 39.

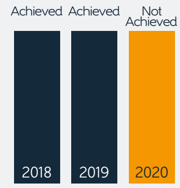
How we measure our performance

Acquiring high-quality sustainable sites in areas of strong customer demand that meet or exceed both our financial and non-financial acquisition criteria is key to the success of the business. Failure to have an adequate supply of land would put our ability to achieve our volume growth targets under pressure. We therefore link part of the executive directors' bonuses to the delivery of a sufficient land bank to meet our growth aspirations. RoCE is a key indicator of how we are delivering our strategy of building shareholder value, which is reliant on land acquisition and the subsequent performance of our developments. Gross margin enables us to monitor the robustness of our land purchasing process and the level of profit on land purchases regularly review the pipeline to ensure that our land bank remains appropriate.

Sufficient land bank of plots with DPP

Not achieved

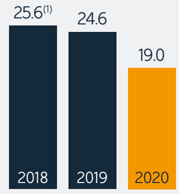
-R-



Gross margin (%)[(2)(~)]

19.0%

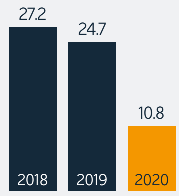
(560bps)



RoCE (%)[(2)(~)]

10.8%

(1,390bps)



Note:

1. Restated following the adoption of IFRS 15 'Revenue from contracts with customers'.
2. Pre-exceptional.

-R- Link to remuneration – see pages 72 to 92.

Managing the planning process

What we do and how we manage risk

Our planning teams build collaborative relationships with local councils, residents and interest groups so that our completed developments benefit the communities in which they are built and reflect local needs. We also rely on Government support to the planning process such as the continuation of the NPPF.

Alignment with our corporate responsibility pillars

We consult with local residents as part of the planning process to help us build the homes our customers desire locally.

We make contributions to local communities through section 106 and CIL payments and through the provision of the New Homes Bonus.

For more information see pages 43 to 50.

The risks

Delays and increasing complexity and cost in the planning process. There has been no change in this risk during the year.

For more information see pages 36 to 39.

How we measure our performance

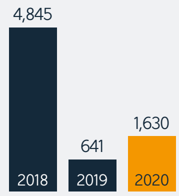
These KPIs enable us to monitor the number of plots in each tier of our land bank to ensure they remain sufficient to help us deliver our strategy of volume growth.

At the end of the year we had an appropriate number of plots in each land bank tier to meet our strategy.

Number of plots acquired with DPP (plots)

1,630 plots

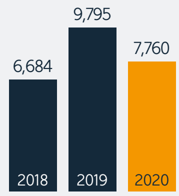
+154.3%



Number of plots converted from medium-term 'pipeline' (plots)

7,760 plots

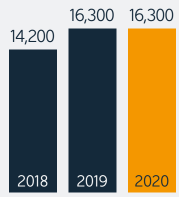
(20.8%)



Number of plots in 'pipeline' (plots)

16,300 plots

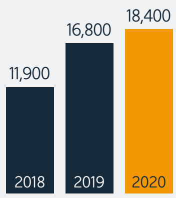
0.0%



Number of plots in strategic land bank – longer-term interests (plots)

18,400 plots

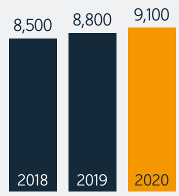
+9.5%



Number of plots in strategic land bank – positive planning status (plots)

9,100 plots

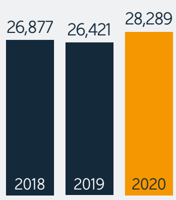
+3.4%



Number of plots in owned and controlled land bank with DPP (plots)

28,289 plots

+7.1%



Constructing the right product

What we do and how we manage risk

Experienced construction people, strong relationships with skilled subcontractors and consultants, together with Group purchasing arrangements with suppliers and manufacturers, are key to enabling us to deliver homes built to the right standard, at the right time and at the right price.

Alignment with our corporate responsibility pillars

The health and safety of everyone who works on and visits any of our locations is paramount.

Reducing waste on-site, in divisional offices and in sales centres delivers cost savings for the business and reduces the amount of waste sent to landfill.

Building strong long-term relationships with subcontractors, consultants, and suppliers and manufacturers of materials generates benefits for us, those we do business with and the communities in which we operate.

For more information see pages 43 to 50.

The risks

- Shortage of building materials at competitive prices.
- Shortage of appropriately skilled construction people and subcontractors.
- Significant health and safety risks inherent in the construction process.

There has been no change to these risks during the year.

For more information see pages 36 to 39.

How we measure our performance

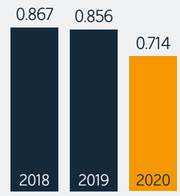
The health and safety of our employees, subcontractors and visitors on site is paramount. Health and safety performance is taken into account as part of the overall assessment of the executive directors' potential bonus payment. Improvements in health and safety performance are indicated by a lower NHBC health and safety incident rate and by a reduction in the RIDDOR seven-day reportable incident rate per 100,000 site operatives.

The number of NHBC Pride in the Job Awards increased by two against last year and the NHBC Health and Safety Awards were cancelled due to the COVID-19 pandemic.

NHBC health and safety incident rate

0.714

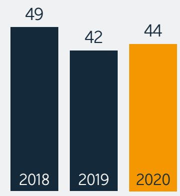
(16.6%)



Number of NHBC Pride in the Job Awards (awards)

44 awards

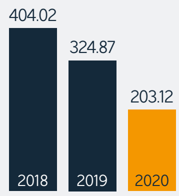
+4.8%



Number of RIDDOR seven-day reportable incidents per 100,000 site operatives (accidents)

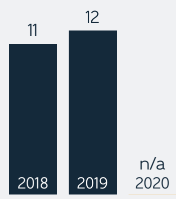
203.12 accidents

(37.5%)



Number of NHBC Health and Safety Awards (awards)

n/a due to COVID-19



Delivering an excellent customer experience

What we do and how we manage risk

Our well-trained and motivated team members throughout all disciplines within the business have the necessary skills and enthusiasm to deliver the highest levels of customer service. We also rely on our construction teams being committed to build quality homes to be proud of.

Alignment with our corporate responsibility pillars

We continue to improve energy efficiency by building homes that are, on average, more energy-efficient than is required by building regulations.

Customer handover folders contain information on sustainable travel, local recycling centres and energy efficiency advice.

For more information see pages 43 to 50.

The risks

There are a number of risks, which if not appropriately mitigated, will negatively impact customer experience. Our risk management processes, including the initiatives being delivered by our Customer First project, seek to reduce the impact of all of these risks.

These risks are not regarded as principal risks and so have not been included in our principal risk table on pages 36 to 39. These risks have not changed during the year.

How we measure our performance

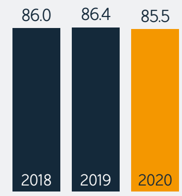
We have chosen the following KPIs as they demonstrate progress made in delivering our strategy of volume growth alongside customer satisfaction. These include "Would Recommend a Friend" and Overall Satisfaction which is measured as an average across six more detailed KPIs. This remains an integral part of the bonus matrix for relevant Bellway employees, including the executive directors.

Our, recommend a friend, score has increased by 0.5% from the previous year. While the survey year completed on the 30 September 2020, customers who completed on this date have until 17 February 2021 to return their surveys. The trend from previous years has shown a minimal drop-off during this period and we therefore remain confident that we will retain our 5 star status when the results are announced in March 2021. Understandably, due to COVID-19 we were unable to build as many homes this year which reflects the drop in the reservation rate, however the order book value has increased significantly.

Customer satisfaction score (%)

85.5%

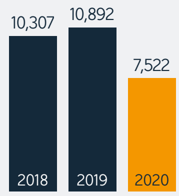
(90bps)



Number of homes sold (homes)

7,522 homes

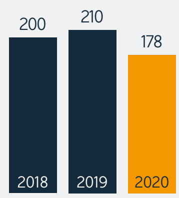
(30.9%)



Reservations rate (homes per week)

178 homes per week

(15.2%)



HBF homebuilder status (star)

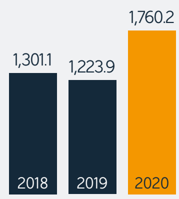
5 star

No change

Order book value at 31 July (£m)(~)

£1,760.2m

+43.8%



Investing in our people

What we do and how we manage risk

Our skilled, professional and dedicated employees are provided with the right level of training, support and resources to succeed. We also rely on our dedicated Group HR team, which focuses on the attraction, development and retention of diverse talent across the business. We ensure that the human rights of our employees and of those who work with us are respected and protected, and we ensure that we provide a workplace and environment for our employees to succeed, which looks after their safety as well as their health and wellbeing.

Alignment with our corporate responsibility pillars

We have continued with our employee listening groups, made further improvements in training and development and have improved parental leave. We have designated Diversity and Inclusion Champions in all operating divisions as well as mandatory diversity and inclusion training for all employees.

For more information see pages 43 to 50.

The risks

The inability to attract and retain appropriate people remains a principal risk to the business. There has been a decrease in this risk during the year due to the strengthening of the recruitment and engagement process.

For more information see pages 36 to 39.

How we measure our performance

We use the following KPIs as indicators of how successful we have been during the year in managing and developing our people.

We have increased the number of graduates and apprentices within the business, and continue to develop our staff through increased levels of training. However, employee turnover in the first 12 months of employment still remains above where we would like it to be, and we are taking steps to address this (see our strategy on page 25). We have policies and training in place to protect the human rights of our employees and those who work for us. These are overseen by our Group HR team to ensure these policies are adhered to, and any concerns are reported through our whistleblowing hotline (see pages 47 and 71 for further information). The Board continues its focus on the number of women in its senior management team with an increase in female presence to 19.7% (2019 – 18.9%).

Employees who have worked for the Group for 10 years or more (%)

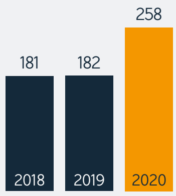
16.4%

+130bps

Number of graduates, trainees and apprentices (number)

258

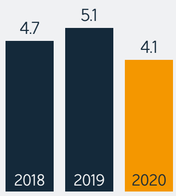
+42.0%



Training days per employee (days)

4.1 days

(19.6%)



Employee turnover (%)

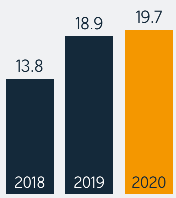
20.1%

(230bps)

Senior management gender split (%)

19.7%

+70bps



Building for the future...

...for our people and the environment

New Group Office

In August 2020 Bellway moved to our new purpose-built Group Office, Woolsington House in Newcastle upon Tyne. This was a significant milestone in the history of Bellway after being based at Seaton Burn House for nearly 30 years.

Woolsington House was developed with sustainability and staff wellbeing at its heart. Solar reflective glass helps keep the building cool in the summer and proximity to public transport will contribute to the management of our carbon footprint.

Staff benefit from indoor and outdoor exercise space as well as a social hub for meetings and downtime. The facility also houses our brand-new Bellway Academy which further enhances our commitment to the development of all colleagues.

Bellway Group Office

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Employees

Bellway's strategy is to grow shareholder value through sustainable and disciplined volume growth, utilising the Group's operational and balance sheet capacity, combined with a strong focus on RoCE.

To achieve our overall strategy we have identified the following seven key strategic priorities.

The metrics we use to measure our performance are on pages 18 to 22.

Strengthening the brand

Overview

Bellway maintains its reputation for building quality homes in desirable locations at attainable prices. By personally guiding our customers through the buying process, we ensure buying their new Bellway home is a memorable experience, individual to their needs. We work hard to ensure that a high level of customer service continues throughout the completion process and beyond.

How we performed in 2019/20

- We retained our HBF 5 star homebuilder status.
- We have embarked on a Customer First project to review and improve all aspects of the customer journey.
- We continue to review and improve our website, recently making changes to expand the information available to our customers and to enhance the user experience.
- We are about to launch a dedicated Bellway London website specifically designed around the unique requirements of the London market.

Our plans for 2020/21

- We will remain focused on improving the service we provide to our customers which we are confident will have the added benefit of retaining our HBF 5 star homebuilder status.
- We will continue to develop and improve our communications with prospective customers, those who are in the buying process and those who own a Bellway home.
- As a result of the customer-focused project which is currently in progress, we aim to become the market leader in customer service levels, putting our customers at the heart of every aspect of our business.

Volume growth

Overview

Delivering disciplined growth through our national divisional structure, selecting the right land and managing the planning process despite COVID-19 headwinds.

How we performed in 2019/20

- 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 'anchor' sites.
- 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.
- The COVID-19 'lockdown' resulted in a rapid decline in reservations.
- Sales demand began to resume, commensurate with our gradual and cautious programme of site reopenings.
- We continued to focus our land buying in areas of strong customer demand and in sustainable locations.

Our plans for 2020/21

- We will maintain our current disciplined growth strategy, whilst being mindful of market conditions.
- We will task newer divisions with delivering ambitious long-term growth plans.
- We will seek to purchase land where possible with the benefit of an existing DPP consent or subject to such consent being granted prior to acquisition.

Driving down costs

Overview

Providing an appropriate product range on housing and apartment developments, at prices that are affordable for our customers and which are built efficiently and to a high quality.

How we performed in 2019/20

- We have made further design improvements to The Artisan Collection of standard house types and secured cost savings through standardisation and procurement efficiencies and improved build times.
- We have increased the use of technology to improve benchmarking and secure savings.
- We continued to implement our BWY2020 cost-saving initiative.
- We have introduced detailed value-engineering reviews of our sites and best practice is being shared across divisions.

Our plans for 2020/21

- We will continue to design and develop the introduction of standard house types into The Artisan Collection.
- We will ensure the momentum from our BWY2020 initiative is maintained and new cost-saving initiatives are introduced, whilst improving standardisation and procurement efficiencies.
- We will continue to research and trial the use of innovative new products.
- We will train our divisions on cost control and commercial fundamentals.

Appointing the right people

Overview

Providing our people with a rewarding and fulfilling career, enabling them to achieve their full potential and deliver high levels of performance, contributing to the success of the business.

How we performed in 2019/20

- We have launched a new graduate recruitment programme with 38 new graduates.
- We have updated and refined our divisional management progression and retention plan.
- We have continued to improve our focus of diversity and inclusion across the Group.
- We have continued to use employee listening groups.
- We have trained 160 Mental Health First Aiders across the Group.
- We have continued with the Bellway Employee Awards celebrating apprenticeship, graduate and long service achievements across the Group.

Our plans for 2020/21

- We will continue to improve the focus on diversity and inclusion across the Group.
- We will continue to promote the benefit of employee listening groups and conduct our first employee engagement survey.
- We will continue to train Mental Health First Aiders and roll out Mental Health Awareness training across the Group.
- We will continue to invest in the Bellway Academy, site manager training and apprenticeships and graduate training programmes.

Value creation through capital and dividend growth

Overview

Reinvestment of earnings into financially attractive land opportunities, whilst maintaining a focus on RoCE, has led to a substantial increase in value for shareholders through a combination of the ongoing growth in NAV and dividend payments.

How we performed in 2019/20

- Until the onset of COVID-19, Bellway continued to invest capital into land and work in progress in areas with high demand, without compromising the RoCE and margin requirements, to ensure that the Group is well placed to deliver growth.
- Following the onset of COVID-19, a short moratorium was introduced, with the intention of preserving liquidity until such time as market conditions became clearer. When construction sites reopened, the initial focus was on completing homes that were largely built to convert inventory into cash and to train our staff how to work within COVID-19 safe parameters.
- Paid dividends of £123.1 million.
- Increased NAV by 2.3% to 2,427p.

Our plans for 2020/21

- We will continue to invest capital into land and work in progress in a controlled manner in areas of high demand to ensure that the Group is well placed to deliver further growth. This will be done without compromising our gross margin and RoCE requirements.
- The dividend is determined following careful consideration of capital requirements, as well as the Group's operational capability to deliver further long-term volume growth. If the final 2019/20 dividend is approved, the total dividend will be covered by earnings by 3.1 times.

Focus on return on capital employed

Overview

Ensuring that our assets are used in the most efficient way to deliver shareholder returns.

How we performed in 2019/20

- We have maintained our focus on balance sheet management, with particular emphasis on large capital-intensive sites and a drive to increase sales through the use of the Ashberry brand.
- We have maintained RoCE as a key assessment when buying land.
- We have closely monitored and controlled work-in-progress.

Our plans for 2020/21

- We will continue to maintain a focus on balance sheet management, with particular emphasis on large capital-intensive sites.
- We will continue to maintain RoCE as a key assessment when buying land.
- We will continue to monitor and control work-in-progress.

Maintaining a flexible capital structure

Overview

We use a combination of cash, bank facilities and equity to provide us with access to finance in a balanced and flexible way. This enables us to deliver our growth strategy while managing the cash flow requirements of the business, including delivering dividends to our shareholders.

How we performed in 2019/20

- We extended the maturity date of bank debt tranches totalling £125 million, which were otherwise due to expire by 31 July 2020.
- Obtained 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.
- We have maintained our other current banking arrangements.
- We have maintained our current investor relations activities.

Our plans for 2020/21

- We will maintain our current banking arrangements.
- We will maintain our current investor relations activities.

Operating Review

Jason Honeyman
Group Chief Executive

> **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.**

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)

	Private		Social		Total	
	2020	2019	**2020**	2019	**2020**	2019
North	**3,182**	4,397	**526**	803	**3,708**	5,200
South	**2,669**	4,045	**1,145**	1,647	**3,814**	5,692
Group	**5,851**	8,442	**1,671**	2,450	**7,522**	10,892

Average selling price (£000)

	Private		Social		Total	
	2020	2019	**2020**	2019	**2020**	2019
North	**281.8**	264.0	**112.4**	108.8	**257.7**	240.1
South	**394.0**	409.1	**172.2**	168.3	**327.4**	339.4
Group	**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.

Site Safety

Creating industry-leading safety guidance for our site workers and construction partners

Safety is a core principle of how we do business and the wellbeing of everyone who works for and with Bellway is the number one priority for the Company. We work with all our employees and subcontractors to ensure that safe working practices are promoted and embedded on all of our sites, utilising training, toolbox talks, informal and formal inspections and the sharing of best practice.

0.714

NHBC health and safety incident rate

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 industry-wide 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 apartment 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.

Total land bank

71,889

+5.2%

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 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 marshalls, 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 we hope to resume our activity to previous levels in the year ahead.

Charitable donations

£537,000

+5.2%

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 (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 (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

Financial Review

Keith Adey
Group Finance Director

> **Beyond the present uncertainty, industry fundamentals remain positive, with continued underlying demand for affordably priced new homes.**

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][~] (2019 – £790.2 million) representing a gross margin of 19.0%[1][~] (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.

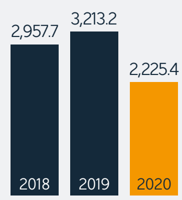
The pre-exceptional administrative expense reduced significantly to £97.4 million[1] (2019 – £109.7 million), primarily reflecting a cessation of payments arising under the staff and divisional management incentive schemes. As a proportion of revenue, administrative expenses were 4.4%[1][~] (2019 – 3.4%), 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][~] (2019 – £674.9 million) and the pre-exceptional operating margin was 14.5%[1][~] (2019 – 21.0%).

Group revenue (£m)

£2,225.4m

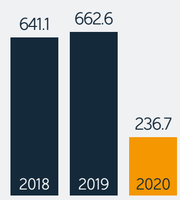
(30.7%)



Profit before taxation (£m)

£236.7m

(64.3%)



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(~) (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(~) (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(~) (2019 – £201.2 million), representing an ungeared 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%(~) (2019 – 3.3%).

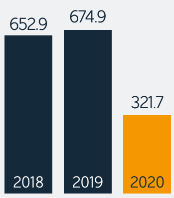
The Group has committed bank facilities of £545 million. Since the start of 'lockdown', Bellway has extended the maturity date of tranches totalling £125 million, which were otherwise due to expire in the financial year, to July 2021. These extensions help to ensure the ongoing liquidity of the Group 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.

Operating profit (£m)(1)

£321.7m

(52.3%)

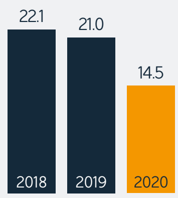
R



Operating margin (%)(1)(~)

14.5%

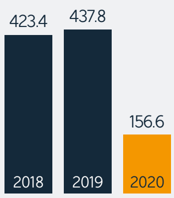
(650bps)



Earnings per ordinary share (p)

156.6p

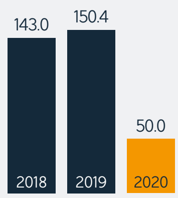
(64.2%)



Total dividend per ordinary share (p)

50.0p

(66.8%)



R Link to remuneration – see pages 72 to 92.

Financial Review continued

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[~].

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[~] (2019 – 2,372p).

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

Note:

1 Before exceptional items (note 3, page 115 to 116).

~ Bellway uses a range of statutory performance measures and alternative 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 can be found on pages 134 to 136. Throughout this report '~' refers to alternative performance measures.

Building for the future...

...for our communities

Ant and Dec's Saturday Night Takeaway

During the year Bellway gave away a dream home at the Moorfields development, Newcastle upon Tyne, to a deserving family on Ant and Dec's Saturday Night Takeaway.

Petra and Simon Williams founded a charity to support grieving parents and siblings after the devastating loss of their baby daughter Darcey Leigh in 2017. They were nominated for the prize by a family friend and were surprised on the show after being plucked from the audience.

The couple were given a fully furnished three-bedroom home which is the biggest individual prize ever to be given away on the ITV show.

£260,000

Value of home and interior

Principal Risks

The Board has completed its assessment of the Group's emerging and principal risks.

The following ten principal risks to our business have been identifi d:

Risk and description	Strategic relevance	KPIs	Mitigation
Land			
Inability to source suitable land at appropriate gross margins and RoCE. No change	• 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.
Planning			
Delays and complexity in the planning process. No change	• 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.
Construction resources			
Shortages of both appropriately skilled subcontractors and building materials at competitive prices. No change	• 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.

Risk and description	Strategic relevance	KPIs	Mitigation
Health and safety			
There are significant health and safety risks inherent in the construction process. No change	• 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.
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.** There is an increase in this risk given the economic uncertainty brought about by the COVID-19 pandemic.	• 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.

Principal Risks continued

Risk and description	Strategic relevance	KPIs	Mitigation
Human resources			
Inability to attract and retain appropriate people. There is a decrease in this risk due to the strengthening of recruitment and engagement processes during the period.	• 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 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.
IT and security			
Failure to have suitable systems in place and appropriate back-up, contingency plans and security policies. No change	• 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.
Legal and regulatory compliance			
Failure to comply with legislation and regulatory requirements. No change	• 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 advisers and subject matter experts (e.g. fire safety consultants) including ongoing co-operation 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.

Risk and description	Strategic relevance	KPIs	Mitigation
Climate change			
Failure to evolve business practices and operations in response to climate change including physical impacts, reporting requirements and social expectations. **New Risk**	• 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.
COVID-19			
Ongoing uncertainty over the impact of COVID-19 on the Group's operational and financial performance. **New Risk**	• The economic uncertainty brought about by COVID-19, in addition to the factors below, affects 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 homeworking. • Safe working practices and arrangements implemented across offices and sites for staff, subcontractors and customers with Marshalls appointed to monitor social distancing.

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.

Risk Management

Our established framework for managing risks has continued to be in place across the business throughout this financial year, with responsibility to implement the Board's policies on risk management and internal control sitting with management.

Our risk management objectives continue to be:

- Assess emerging and principal risks against an agreed appetite for risk, which is regularly reviewed.
- Improve the balance of risk and return through developing and maintaining a proactive, risk-aware culture.
- Ensure there is a consistent approach for the identification, assessment, control, monitoring, follow-up and reporting of risks.
- Develop and implement action plans to ensure that risks are mitigated where required, are within our agreed risk appetite and that improvements are made to our control environment.
- Ensure the approach to risk management meets the needs of the business, senior management and all key stakeholders.

Risk management framework

The Board

- Overall responsibility for risk management.
- Review, challenge and approve the risk management framework and corresponding policy, processes and annual risk plan.
- Review and agree risk appetite.
- Conduct a robust assessment of the emerging and principal risks facing the Company.
- Review and challenge risk reports.

Audit Committee

- Oversee risk management framework, policy and processes.
- Review routine risk reports and utilise risk information to review and approve assurance plans and priorities.
- Provide assurance over risk management to the Board.
- Monitor the progress of risk mitigating actions and recommendations.

Executive Management

- Review, challenge and approve the risk management framework and corresponding policy and processes.
- Review and challenge risk information against stated business objectives.
- Approve risk treatments and actions.
- Approve risk reports for the Board.
- Review and agree risk appetite.

Head of Risk

- Design and implement the risk management framework and corresponding policy and processes.
- Facilitate and implement the risk management framework, policy and processes.
- Undertake risk management activities and produce reports in accordance with risk management policy.

Key

- - -> Reports to
→ Directs and monitors

Risk management roles and responsibilities

In all businesses, responsibility for managing risk sits with every employee. In undertaking their roles, employees are assisting in identifying, assessing and managing risks. Specific roles and responsibilities, as set out in our risk management framework and corresponding policy, are set out in the diagram below:

Risk management process

Identify all business areas → **Evaluate** severity of risks → **Treat** to bring within risk appetite → **Action** mitigate risks (where needed) → **Report** monitor risks and report progress of mitigation

Risk management process

A risk register is maintained, detailing all of our potential risks, categorised between strategic, operational, financial, 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.

More information on risk management and internal controls is included within the Audit Committee Report on pages 62 to 71.

Financial risk management

The Group's financial instruments comprise cash, bank loans and overdrafts and various items such as trade receivables and trade payables that arise directly from its operations.

The main objective of the Group's policy towards financial instruments is to maximise returns on the Group's cash balances, manage the Group's working capital requirements and finance the Group's ongoing operations.

Capital management

The Board's policy is to maintain a strong capital base to underpin the future development of the business in order to deliver value to shareholders. The Group finances its operations through reinvested profits, bank borrowings, cash in hand and the management of working capital.

The dividend is determined following careful consideration of capital requirements, as well as the Group's operational capability to deliver further long-term volume growth. If the final dividend is approved, the total dividend will be covered by earnings by 3.1 times (2019 – 2.9 times).

Management of financial risk

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

Credit risk

The Group's exposure to credit risk is largely mitigated as the vast majority of the Group's sales are made on completion of a legal contract, at which point monies are received in exchange for transfer of legal title. There is no specific concentration of credit risk in respect of home sales as the exposure is spread over a number of customers.

In respect of trade and other receivables, the amounts presented in the balance sheet are measured at amortised cost less a loss allowance for expected credit losses which are assessed on the basis of an average weighting of the risk of default (see note 15 to the accounts). For this purpose, a default is determined to have occurred if the Group becomes aware of evidence that it will not receive all contractual cash flows that are due. Trade and other receivables includes £12.4 million (2019 – £39.3 million) due from Homes England relating to the Help to Buy scheme. As Homes England is a UK Government agency, the Group considers the risk of default to be minimal.

No credit limits were exceeded during the reporting period or subsequently and the Group does not anticipate any losses from non-performance by these counterparties.

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

Liquidity risk

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

The Group's Treasury Policy has, as its principal objective, the maintenance of flexible bank facilities in order to meet anticipated borrowing requirements. The Group's banking arrangements outlined in note 18 to the accounts are considered to be adequate in terms of flexibility and liquidity for its medium-term cash flow needs. Relationships with banks and overall cash management are co-ordinated centrally. The Group is operating well within its financial covenants and available bank facilities.

Short-term cash surpluses are placed on deposit at competitive rates with high-quality counterparties. Other than those disclosed, there are no financial instruments or derivative contracts. The Board therefore considers the Group's liquidity risk to be mitigated.

In relation to land payables, certain payables are secured on the respective land asset held (see note 16 to the accounts). No other security is held against any other financial assets of the Group.

Interest rate risk

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

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

During the year ended 31 July 2020, it is estimated that an increase of 1% in interest rates applying to the full year would have decreased the Group's profit before taxation by £0.5 million (2019 – £1.7 million).

Housing market risk

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

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

Going concern statement

After conducting a full review, the Directors have a reasonable expectation that the Group has adequate resources to fund its operations for at least the next 12 months. For this reason, they continue to adopt the going concern basis in preparing the accounts as discussed further on page 96.

Viability statement

In accordance with provision 31 of the UK Corporate Governance Code, the Directors have assessed the viability of the Group over a period of three years, which is longer than required by the going concern assumption. The three-year period is consistent with the Group's detailed bottom-up forecasts which assess future profitability and cash flows.

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. These incorporate lower sales volumes and slower build rates as we continue to prioritise the health and safety of our colleagues and site visitors as a result of the increased risk profile arising from COVID-19. Furthermore, the base forecast takes into consideration changes to both the Help to Buy scheme, with effect from April 2021, and the expiry of the stamp duty holiday, in March 2021.

The viability assessment is based on the Group's current position and the potential effect of the principal risks facing the Group, which are summarised on pages 36 to 39. The principal risks that have been incorporated into a combination of the various scenarios include:

Risk	Relevance to scenarios
External environment – including housing demand, mortgage availability and government housing policy.	A reduction in private completions and private ASP due to a decline in demand.
Health and safety	A nationwide COVID-19 'lockdown' on a similar basis to that experienced in H2 of FY20.

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.

None of the mitigating actions included within the scenarios would hamper the long-term growth aspirations of the Group.

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.

The output of this review considered the profitability, cash flows and funding requirements of the Group over a period of three years. The assessment included an assumption that existing banking facilities remained in place, but were not renewed at the end of their term.

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. Based on the results of this review, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over this three-year period.

Corporate Responsibility

Bellway's aim to operate the business in a responsible and ethical manner goes hand in hand with our commitment to delivering high-quality homes in desirable locations, helping to address the ongoing housing shortage in the UK. Notwithstanding the reduced completions this year due to the COVID-19 'lockdown', our growth over the past fi e years has delivered sustainable homes and communities across the UK, as well as providing long-term bene ts to our customers, employees, shareholders and supply chain.

We continue to operate our Corporate Responsibility ('CR') activities under the three core pillars of environment, construction, and society and economy. This ensures that we consider the interests of our diverse stakeholder groups and make positive social, environmental and economic contributions across our business.

We operate our CR programme at a Group level via a CR Steering Committee, led by the Group Finance Director. This focused group of functional heads meets quarterly to assess, discuss and manage CR-related activities across the business, as well as monitoring relevant targets and KPIs.

Our key achievements in 2019/20

Progress has continued on our overall CR agenda and specifically against the 13 public targets that were set for the 2019/20 year. Some key achievements are highlighted to the right and full details of our performance can be found on our CR website, along with our targets for the coming 2020/21 year: www.bellwayplc.co.uk/corporate-responsibility

Of our 13 public targets, six are multi-year targets that still have at least 12 months to run while a further six targets were achieved during the year. The final target, to develop a schools engagement pack, was delayed by the COVID-19 pandemic and will now be completed in 2020/21.

6	6	1
targets achieved	targets are multi-year and progress will continue into 2020/21	target missed

Environment

Biodiversity and Ecology, Carbon Emissions, Energy, Transport, Water

- Continued to reduce our carbon emissions per employee through the introduction of additional green energy supplied into the business.
- Maintained our office waste diversion above 54%.

For more information see pages 44 to 45.

Construction

Planning, Procurement, Research and Development, Site Management, Waste

- Continued to increase our construction waste diversion rate to 99.1% (2019 – 98.4%).
- Achieved our HBF 5 star homebuilder status for the fourth year running.

For more information see pages 46 to 47.

Society and Economy

Charities, Customers, Economic Development, Employees, Health and Safety, Stakeholders

- Continued our partnership with Cancer Research UK, increasing our 4-year total fundraising and donation total to £1.6 million, well on our way to achieving our 5-year target of £2 million.
- Achieved a reduced RIDDOR seven-day reportable incident rate per 100,000 site operatives of 203.12 (2019 – 324.87), the fourth year in a row we have reduced this rate.

We continue to contribute to the Carbon Disclosure Project's ('CDP') 'Climate Change' and 'Forests' programmes and our latest scores for both were 'Awareness – C', in line with the CDP programme global average.

For more information see pages 48 to 49.

For full details of our CR activity visit

www.bellwayplc.co.uk/corporate-responsibility

Environment

Climate change, protection of the environment and waste continue to represent significant challenges th t we as a company, and society as a whole, continues to face. They remain at the core of our CR activities and we aim to minimise our impacts through our sustainable approach to development.

Our targets

1 target achieved	3 targets are multi-year	0 targets missed

Waste
We will assess the use of single-use plastic in our offices, construction processes and supply chain to understand where we can reduce or eliminate usage by 2021.

Water
We will seek to reduce water consumption across all households to 115 litres per person per day by 2022.

Carbon
We will aim to reduce our direct carbon emission intensity (scope 1 & 2) from our construction operations, offices and business mileage by 10% by 2022/23 (measured by CO_2e per home sold; 2017/18 as a base year).

Supply chain
We will maintain 100% timber sourced from sustainable sources and maintain our score in the WWF Timber scorecard as 3.

Biodiversity and ecology

Housebuilding can be an intrusive process. We continue to build a proportion of our new homes on brownfield sites, with 36% built on such land this year (2019 – 43%). This type of redevelopment can help to improve the local environment, as well as having a positive effect on the local community, helping to increase local employment and create green spaces. Greenfield sites are also developed and it is in these areas that our impact is potentially greater. We aim, wherever possible, to mitigate these impacts as we create sustainable and attractive places to live. New sites continue to undergo a risk assessment in which biodiversity and ecology issues will be included where necessary. Environmental impact assessments are carried out if required and issues such as biodiversity mitigation, enhancement and offsetting will be included where necessary and in agreement with the planning authority.

Examples of recent measures include the provision of bat boxes, relocation of badger sets, migration of protected species to new habitats and the construction of on-site and off-site ponds for both drainage and to support and promote biodiversity. In total, 224 of our developments had Sustainable Urban Drainage Systems implemented (2019 – 255), 186 active sites had a biodiversity plan in place (2019 – 150) and we planted over 12,700 trees (2019 – 17,676).

Energy

Our energy consumption continues to be a lesser financial impact for our business compared to land, labour and materials. However, as a responsible business we have a duty to minimise usage where possible and to look for greener options. In previous years we have focused on introducing energy-saving initiatives in our site compounds, with our telehandler fleet and in our showhomes. We are also undertaking a trial of a generator fitted with photovoltaic panels to understand the carbon and costs benefits of this type of hybrid technology.

We continue to design our new homes to be energy-efficient, allowing our customers to benefit from reduced running costs as well as reducing the operating carbon footprint of their new home. On average, the Dwelling Emission Rate (a measure of energy efficiency) of new Bellway homes this year was 4.7% better than required by the relevant building regulations (2019 – 4.5%). All new homes benefit from energy-efficient lighting along with double glazing and energy-efficient 'white goods'. We also included renewable energy technology in 28% of our new homes (2019 – 36%), further helping customers to reduce their energy consumption, bills and carbon emissions.

Streamlined Energy and Carbon Reporting ('SECR') disclosure for the period 1 August 2019 – 31 July 2020

We have reported on the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (SECR), apart from the exclusions noted below.

Methodology

We have used the operational control approach to determine our organisational boundary for emissions purposes and calculated these emissions based on the UK Government's Environmental Reporting Guidelines (2013) and emission factors from the 2019 GHG Conversion Factors for Company Reporting. Scope 2 emissions have been reported using both the location-based method of calculation and, to account for our use of renewable electricity, the market-based method for calculation. Our underlying energy use figure has been reported in kWh and includes fuel used in on-site generators and company vehicles as well as business mileage undertaken in company vehicles. This data has been converted to kWh using the GHG Conversion Factors for Company Reporting (2019) and Department for Transport figures for average new car fuel consumption.

The reported emission sources include all those which we are responsible for, with the exception of the following which were excluded from this report:

- Gas and electricity from part-exchange properties due to immateriality and difficulty in accurately reporting and recording this data.
- Emissions from air conditioning units in office buildings due to immateriality and difficulty in data collection.
- Emissions from site-based combined heat and power units for which we do not have operational control.

An element of carbon estimation is undertaken in the following areas:

- Diesel fuel usage on a small number of sites where fuel is provided by our groundworks contractors. Bellway's share of the usage is estimated based on fork lift usage.
- Divisional offices where gas and electricity usage is included within landlord charges. Bellway's usage is estimated using a kWh per square metre of occupied floor space figure derived from other divisional offices with utility billing in place.

Performance

COVID-19 has had an impact on emissions as construction sites and divisional offices shut from late March through to early May. Scope 1 emissions fell by 17.8% with reduced site activity the key driver. Scope 2 emissions (market-based) fell by 20.5% through a combination of reasons – COVID-19 shutdown, the ongoing decarbonisation of the UK electricity mix and our increasing use of REGO (Renewable Energy Guarantee of Origin) electricity supplies. Our use of 'green electricity' has saved 1,753 tonnes of carbon from entering the atmosphere in the past year and discounting the benefit of our REGO supplies, location-based Scope 2 emissions fell by 11.6%. Overall, total Scope 1 and 2 emissions (market-based) fell by 18.4% although with the 30.9% fall in completions (due to COVID-19 shutdown), our carbon per home sold metric rose by 16.7% to 2.8 tonnes (2019 – 2.4). However, with employee numbers largely static, our market-based emissions per employee have fallen by 22.1% to 6.7 tonnes (2019 - 8.6), broadly in line with the reduction in absolute emissions.

For the first time (under SECR) we have reported on certain Scope 3 emissions (waste and business mileage) and our total underlying energy use. Waste emissions fell by 26.9% due to the temporary shutdown of sites, while business mileage emissions fell by 23.6% as staff were at first furloughed then adopted remote meeting technology to adhere to social distancing. Underlying energy use (market-based) fell by 17.7%, while using the location-based method to remove the impact of 'green electricity', the fall was 15.5%.

In addition we undertook ESOS Phase 2 during the year which delivered a range of potential energy efficiency initiatives that will be assessed in the coming year to determine which, if any, are applicable for introduction into the business. During the year we have continued installing energy-saving technology in new compounds and maintained the use of more efficient engines in our telehandler fleet. LED lighting continues to be installed in showhomes and new guidance has been issued on the use of heating in showhomes and in homes under construction to minimise unnecessary energy usage.

Both the 2018/19 and 2019/20 emissions have been externally verified by Zeco Energy to a 'reasonable assurance level' using the ISO-14064-3 verification standard.

Greenhouse Gas Emissions ('GHG') (tonnes of CO_2e)[1]	**2020**	2019
Scope 1 – Combustion of fuel and operation of facilities (including diesel and petrol used on-site and in company cars on Group business)	**16,892**	20,560
Scope 2 – Electricity purchased for our own use (market-based)[2]	**4,097**	5,155
Total scope 1 and 2 GHG emissions (market-based)[2]	**20,989**	25,715
Energy consumption used to calculate above emissions (kWh)	**88,061,917**	107,006,160
GHG intensity (market-based) per Bellway home sold	**2.8**	2.4
GHG intensity (market-based) per Bellway employee[3]	**6.7**	8.6
Scope 1 – Combustion of fuel and operation of facilities (including diesel and petrol used on-site and in company cars on Group business)	**16,892**	20,560
Scope 2 – Electricity purchased for our own use (location-based)[4]	**4,877**	5,518
Total scope 1 and 2 GHG emissions (location-based)[4]	**21,769**	26,078
Energy consumption used to calculate above emissions (kWh)	**92,663,081**	109,622,315
GHG intensity (location-based) per Bellway home sold	**2.9**	2.4
GHG intensity (location-based) per Bellway employee[3]	**7**	8.8
Scope 3 – Disposal of waste	**1,932**	2,642
Scope 3 – Emissions from employee business travel in non-company vehicles	**1,799**	2,354

Notes:

1. Carbon dioxide equivalent as per the meaning given in section 93(2) of the Climate Change Act 2008.
2. Scope 2 emissions reported using the market-based method to account for electricity supplies purchased under REGO contracts.
3. Based on the average number of employees during the year.
4. Scope 2 emissions reported using the location-based method for total electricity used which does not account for the zero carbon nature of electricity supplies purchased under REGO contracts.

Construction

As the fourth largest housebuilder in the UK, Bellway is well placed to deliver the much needed new homes to address the country's ongoing housing shortage. Working in partnership with local authorities, communities, suppliers and subcontractors, we create attractive new developments that leave a positive legacy for residents and wider society.

Our targets

2 targets achieved	2 targets are multi-year	0 targets missed

Waste
We will maintain the proportion of waste diverted from landfill on construction sites at 98% or above.

Waste
We will aim to reduce the quantity of waste we generate (excluding groundworks waste) per home under construction by 2021.

Sustainable construction
We will complete research into six sustainable construction methods and products, undertake trials at a division level and implement successful outcomes across the Group by 2021.

Customer and quality
We will deliver quality homes and customer satisfaction and maintain a recommend score of at least 90% in the HBF new home buyers' survey, equating to a five-star rating.

Communities

At Bellway our aim is not just to build new houses, it is to create attractive and sustainable communities in which people want to put down roots and live for many years to come. Successful developments must meet the needs of not just potential residents, but also of existing neighbouring communities. Therefore we consult on new developments through tailored engagement with local communities and stakeholders, and where appropriate, incorporating feedback into our plans to ensure local people have the opportunity to help shape developments within their community.

This year we completed our assessment work on the potential benefits of the 'Building for Life 12' design standards, using The Priory development in Thringstone as a pilot. The feedback from residents has been positive around the design and desirability of the development, and the process has provided insight for our teams around certain 'placemaking' aspects of development design. However, the merits of a universal use of Building for Life 12 remain unproven and we feel that opportunities afforded by our 'Artisan' house type programme offer a more consistent way to deliver improved urban design.

As we build new homes, our investment in local communities and economies extends beyond the developments we create. Through the planning process, we provide investment via section 106, affordable housing and community infrastructure levy contributions. This provides additional investment in education, healthcare facilities, sports facilities, transport infrastructure improvements and the creation of recreational space, and in the past year we contributed £60.5 million (2019 – £77.3 million). Our construction activities also deliver employment opportunities across the country and we estimate that between 19,700 and 23,400 direct, indirect and induced jobs were supported by Bellway in the past year.

Waste

One of our aims as a responsible housebuilder is to effectively manage the resources we use in the construction process, minimising the waste we produce, and where waste is unavoidable, reusing or recycling to avoid landfill. Not only is this beneficial to the environment, it also delivers a business benefit through cost and efficiency savings.

We continue our focus on waste diversion to ensure as little waste as possible enters landfill. For the current year our diversion rate was 99.1% (2019 – 98.4%), the sixth year we have improved our rate, achieving our target of maintaining rates at 98% or above. There remains the potential for some small improvements in certain divisions, which will be targeted in 2021.

We have also continued work on reducing the amount of waste we generate. This year the focus has been on rubble waste, with divisions, where possible, instructed to look into crushing rubble, aggregate and demolition waste on-site for reuse in road and pavement foundation. Our target to reduce 'waste per home built' by 2021 is ongoing with the metric currently at 11.18 tonnes (2019 – 10.97 tonnes), so more work is required to reach the target of 9.31 tonnes.

Supply chain

Our subcontractors and suppliers are an integral part of what makes Bellway a success. Our aim is to develop long-term partnerships as we believe this is the best route to delivering the high construction standards our customers expect. Procurement continues to be managed by a central function supported by individual divisional teams and our supply chain spend this year was £1.4 billion (2019 – £1.7 billion), resulting in a £1.2 billion investment in the UK economy (based on the HBF estimating that 90% of housebuilders' supply chain spend remains in the UK). Given that a significant proportion of our supply chain spend is via our divisions, this has delivered a significant boost to local companies and communities.

We continue to audit suppliers and subcontractors on a range of issues, including environmental issues, safety matters, and quality and security of supply. Working with many smaller businesses and companies local to specific development sites, we are committed to paying our suppliers and subcontractors within agreed terms and remain a signatory to the Prompt Payment Code.

We do not tolerate any form of slavery, servitude and forced compulsory labour or human trafficking in our supply chain or in any part of our business. Our Anti-Slavery Policy reflects this commitment and is available to view on our website, along with our latest Slavery and Human Trafficking Statement which sets out the actions being taken. We require all applicable suppliers and subcontractors to confirm that they either have their own modern slavery policies in place or that they adopt Bellway's policy. Relevant staff receive training to help them identify signs of slavery and compliance activity is monitored throughout the year.

Bellway's zero tolerance approach to bribery and corruption has been adopted by the Board. It extends to all of the Group's business dealings and transactions and our policy and procedures set out the standards expected of all of our employees. Those who work for and with Group management are responsible for enforcing compliance and additional checks are carried out via Group Office functions.

Our whistleblowing procedure enables concerns of any wrongdoing to be reported in confidence.

There were a small number of reports made during the year where sadly the behaviour of a few employees fell short of the standards required of them, and appropriate disciplinary action was taken.

Quality

At Bellway we pride ourselves on providing our customers with quality homes built to a high standard. This attention to quality has again been recognised in the NHBC Pride in the Job Awards which recognise site managers who have achieved the highest standards in housebuilding. This year 44 Bellway and Ashberry site managers collected Pride in the Job awards (2019 – 42), recognising their technical knowledge, leadership qualities and organisational skills. The quality of our homes is also benchmarked in the NHBC 'reportable items per inspection' measure, and in the past year our performance was 0.24 (2019 – 0.19), below our internal target of 0.3.

NHBC Pride in the Job Awards

44 awards

+4.8%

Society and economy

The UK housebuilding industry is a key component of the national economy, with investment in new homes helping to drive economic prosperity. As the UK's fourth largest housebuilder, we are well placed to help address the current housing shortage while delivering a range of benefits to our stakeholders.

Our targets

3 targets achieved	1 target is multi-year	1 target missed

Health and safety

Maintain a safe working environment at our sites and in our offices by:

- Maintaining RIDDOR rates at 2018 levels or below.
- Delivering 'slips, trips and falls' and 'working from ladders' safety briefings at 100% of sites with the aim of reducing accident trends in this area compared to 2019.

Health and wellbeing

We will train 75 Mental Health First Aiders by July 2020.

Employee development

We will increase the number of graduates, trainees and apprentices in the business compared to 2019, helping to address the industry-wide issue of skills shortages.

Community engagement

We will develop a schools engagement pack for primary and secondary schools for use by divisions by July 2020.

Charitable giving

We will extend our partnership with Cancer Research UK for a further two years and aim to increase our fundraising and donation total across the combined five-year period to at least £2 million by July 2021.

Economy

The importance of housebuilding to the social and economic sustainability of the UK should not be underestimated. According to an assessment by the HBF, housebuilding contributed £38 billion in economic output, supported almost 700,000 direct and indirect jobs and contributed £2.7 billion in tax revenues to central and local government in 2017[1].

We have estimated Bellway's own role in this industry-wide economic contribution, again using the HBF's, Lichfield's and other publicly available metrics:

- £782.5 million in estimated gross value added generated by our construction activities.
- 19,700 – 23,400 direct, indirect and induced jobs supported.
- £135.4 million contribution to public finances.
- £69.2 million in New Homes Bonus and council tax payments to local authorities.

Customers

Delivering a quality home with exceptional service will always be our principle aim at Bellway. The pre and post sales experience is central to buyer satisfaction and we strive to provide the best possible experience for each and every customer, reinforcing our reputation as a high-quality national homebuilder. Our continued focus in this area has seen us retain our 5 star home builder status from the HBF for the fourth year running (2019 – 5 star), meaning that at least 9 out of 10 of our customers would recommend Bellway to a friend.

Affordability

With the recognised ongoing shortage of new homes in the UK, we are seeing falling home ownership levels amongst the younger generation with affordability often seen as a significant obstacle to getting onto the first rung of the property ladder. Supporting the affordability of new homes is therefore vital to the continued success of our business, the housing market as a whole and therefore the UK economy. In the past year the average selling price for a Bellway home was £293,054 (2019 – £291,968).

As part of our developments, we continue to build a comprehensive range of houses and apartments to give customers the choice of a new home meeting their needs and budget, be they first-time buyers, those looking to move as their families grow or those looking to downsize as their circumstances change. While 6% of our new homes were sold to unassisted first-time buyers (2019 – 7%), 35% were sold

to those customers requiring additional help from the various Help to Buy schemes (2019 – 36%), important government mechanisms to support home ownership.

In total, 27% of our homes were sold to first-time buyers (2019 – 30%), representing 2,041 individuals and families whom Bellway helped to get their first step on the property ladder (2019 – 3,258).

As part of our drive to create balanced, mixed and diverse communities, we have continued to incorporate affordable housing into developments and this year 22% of our new homes were sold to affordable housing providers (2019 – 22%).

Employees

Our continued reputation for delivering high-quality homes and exceptional customer service depends upon our employees and subcontractors. In the past year we directly employed an average of 3,119 people (2019 – 2,980). When we factor in the thousands who work with Bellway via subcontractors and suppliers, or in derived jobs connected to our operations, we estimate that between 19,700 and 23,400 people are supported by Bellway, all of whom play a role in the continuing success of the business.

With the continuing skills shortage in the industry, Bellway is investing for the future and has increased the number of apprentices, graduates and trainees to 258 (2019 – 183), an increase of 42%, and we continue to be an active member of 'The 5% Club', maintaining over 5% of our workforce employed in developmental roles. Our new two-year Graduate Programme 'Great Careers Built With Us' launched this year, with 38 new graduates working across a range of disciplines.

RIDDOR

203.12

(37.5%)

Bellway continues to work to become a more diverse and inclusive organisation and this year we were named Financial Times Diversity Leaders 2020, ranking 286 out of 700 companies across Europe. Our employee listening groups have continued to meet with a range of suggestions being adopted by the Company, including working patterns for sales advisers, more flexible working practices incorporating 'core hours' and site visit inductions for all new employees to gain a better understanding of the business. In addition, our work on employee wellbeing has focused on mental health, with 160 Mental Health First Aiders trained in the year.

With the impact that COVID-19 has had on the business over the past few months, the reduction in business activity had led to a review of our business model and resulted in a small number of roles across the business being put at risk of redundancy. Overall we expect to reduce roles by around 170, although this may fall following consultations and natural attrition and we expect this to be complete early in the new financial year. Despite this, over the past year our employee turnover rate has fallen to 20.8% (2019 – 22.4%), 17.2% when removing the impact of the redundancies.

As a responsible employer we are committed to ensuring that all of our people are treated with fairness, consideration and respect, and we operate a range of policies and provide training to ensure equal opportunities are provided to all existing and prospective employees, including modern slavery and diversity and inclusion training. These policies are listed on our website, and staff may report any concerns to our HR department or through our SpeakUp procedure via an independent provider.

Safety

Safety is a core principle of how we do business and the wellbeing of everyone who works for and with Bellway is the number one priority for the Company. We work with all our employees and subcontractors to ensure that safe working practices are promoted and embedded on all of our sites, utilising training, toolbox talks, informal and formal inspections and the sharing of best practice. Given the COVID-19 pandemic, the NHBC Health and Safety Awards were unable to take place this year, as site closures and social distancing prevented fair and accurate judging to take place.

Our continued focus on safety has seen our RIDDOR seven-day reportable incident rate fall to 203.12 incidents per 100,000 site operatives (2019 – 324.87), the fourth year in a row that we have successfully reduced this rate. We also consistently outperform the industry average on the NHBC health and safety incident rate, achieving a score of 0.714 (2019 – 0.856).

1 'The Economic Footprint of House Building in England and Wales' (July 2018), prepared for the HBF by Lichfields.

Corporate Responsibility continued

Charitable engagement

This year we have continued our support for local and national charities, as well as the communities in which we develop. This is the right approach for a responsible company to take and our aim to support those sections of society less fortunate than ourselves remains a key aspect of our approach to CR.

We continued our support for Cancer Research UK ('CRUK'), our national charity partner, as we work towards our target of £2 million in fundraising and donations by 2021. Our support for CRUK is more important than ever, with the charity forecasting a £150 million fall in income as a result of COVID-19, funds that would normally have been spent on research into cures for cancer. The COVID-19 'lockdown' severely impacted on our employees', opportunities to fundraise in the second half of the year, and as a result £140,134 was raised by employees, subcontractors and suppliers (2019 – £283,841). When combined with Bellway's 'double matching' of employee fundraising, the total raised this year was £239,820. To support CRUK in this difficult time Bellway has made an additional donation of £88,673 to the charity, lifting the full year total to £328,493 (2019 – £494,812). This brings the total raised over the life of our four-year partnership to £1,603,672.

We also support our employees when they undertake personal fundraising for charities close to their hearts with matched funding from the Company, and this year employees have raised an additional £110,551, slightly up on last year despite the COVID-19 'lockdown' (2019 – £107,895).

Our divisions have also continued to support charities and community groups local to their operating area, with some specific focus on the NHS, local food banks and other charities supporting communities during the pandemic. In total, across all our charitable activities, Bellway, our employees, subcontractors and suppliers have raised and donated a total of £537,338 to good causes this year (2019 – £754,793), of which £237,338 was raised by our employees, subcontractors and suppliers (2019 – £391,736).

Looking forward

In the coming year work will continue on our existing and new targets, and more details on our 2020 performance can be found on our website: www.bellwayplc.co.uk/corporate-responsibility.

Some of our key objectives for the coming year are outlined below:

- Continue work on reducing carbon emissions by 10% by 2023.
- Fit electric vehicle charging points as standard in 50% of new homes by 2023.
- Reduce employee business mileage by 10% through remote meeting technology and a working from home policy.
- Retain our HBF '5 star homebuilder, status'.
- Implement an employee engagement survey and achieve a 60% response rate.
- Increase our fundraising and donation total for CRUK to at least £2 million.

2020 has been another successful year in terms of CR performance, notwithstanding the additional challenges that the COVID-19 pandemic has brought. We remain committed to operating our business in a responsible and sustainable way, meeting the needs of our customers and shareholders while also delivering benefits to our wider stakeholder groups.

Non-financial information statement

The table below identifies the pages of this Annual Report where we discuss the information required to comply with the Non-Financial Reporting Regulations set out in sections 414CA and 414CB of the Companies Act 2006. Relevant policies are available on our website, together with our Economic and Social Impact report.

Non-financial information	Pages
Environmental matters	44 to 45
Employees	13, 17, 22 and 49
Social matters	48 to 49
Human rights	22, 47 and 49
Anti-bribery and corruption	47
Risks	36 to 42
Business model	16 to 22
Non-financial KPIs	IFC, 18 to 22

Approval of the Strategic Report

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

Jason Honeyman
Group Chief Executive

19 October 2020

Governance

Contents

Board of Directors and Group General Counsel & Company Secretary

Paul Hampden Smith
Chairman

N* R

Appointed to the Board on 1 August 2013.

Background and experience

Paul, a Chartered Accountant, was appointed as Chairman on 12 December 2018, having previously been a non-executive director since 1 August 2013, and Audit Chair since 1 February 2014 until his appointment as Chairman. Paul was Group Finance Director of Travis Perkins plc from 1996 until his retirement in February 2013, having worked for Travis Perkins since 1988. He was previously senior independent non-executive director and Chairman of the Audit Committee of Clipper Logistics plc and a non-executive director and Chairman of the Audit Committee of Pendragon PLC and Redrow plc.

Other appointments

Grafton Group plc – senior independent non-executive director, Chairman of the Audit & Risk Committee and a member of the Nomination and Remuneration Committees.

Delapre Abbey Preservation Trust – Treasurer and Chair of the Finance Committee.

Cumberland Lodge, Windsor Great Park – Chairman of the Audit Committee.

Chairman of Dallington Lawn Tennis Club.

Denise Jagger
Senior Independent Non-Executive Director

A N R

Appointed to the Board on 1 August 2013.

Background and experience

Denise, a solicitor, was appointed as a non-executive director on 1 August 2013 and became senior independent non-executive director on 1 November 2018. Until 30 April 2020, Denise was a consultant at Eversheds-Sutherland LLP , having been a partner from 2004 to April 2019. Previously she was Company Secretary and General Counsel at ASDA Group plc, and prior to this she worked in corporate finance with Slaughter and May. Denise's previous non-executive directorships include Redrow plc and SCS Upholstery plc.

Other appointments

CLS Holdings plc – non-executive director, Chair of the Remuneration Committee and a member of the Audit Committee.

Pool Reinsurance Limited – non-executive director and Chair of Remuneration Committee and Nominations and Conflicts Committee.

University of York – Chairman and pro Chancellor.

St Giles Trust – Chairman.

Jason Honeyman
Group Chief Executive

NR*

Appointed to the Board on 1 September 2017.

Background and experience

Jason commenced employment with the Group in January 2005 as Managing Director of the Thames Gateway division, becoming Southern Regional Chairman in December 2011. Jason joined the Board as Chief Operating Officer and was promoted to Group Chief Executive on 1 August 2018.

Keith Adey
Group Finance Director

NR

Appointed to the Board on 1 February 2012.

Background and experience

Keith, a Chartered Accountant, joined Bellway in December 2008 as Group Chief Accountant, becoming Group Finance Director on 1 February 2012. Prior to joining Bellway he worked at KPMG and Grainger plc.

Jill Caseberry
Independent
Non-Executive Director

A N R*

Appointed to the Board on 1 October 2017.

Background and experience

Jill was appointed to the Board as a non-executive director on 1 October 2017. Jill has extensive sales, marketing and general management experience across a number of blue-chip companies including Mars, PepsiCo and Premier Foods.

Other appointments

Halfords Group plc – non-executive director, Remuneration Committee Chair and a member of the Audit and Nominations Committees.

C&C Group plc – non-executive director and a member of the Remuneration Committee.

St. Austell Brewery Company Limited – non-executive director and a member of the Audit, Nomination and Remuneration Committees.

Ian McHoul
Independent
Non-Executive Director

A* N R

Appointed to the Board on 1 February 2018.

Background and experience

Ian, an accountant, was appointed to the Board as a non-executive director on 1 February 2018, and appointed as Chairman of the Audit Committee on 12 December 2018. He was Finance & Strategy Director of the Inntrepreneur Pub Company Limited from 1995 to 1998 and then served at Scottish & Newcastle plc from 1998 to 2008, first as Finance Director of Scottish Courage and later as Group Finance Director of Scottish & Newcastle plc. From 2008 to 2017 he was Chief Financial Officer of Amec Foster Wheeler plc. He was also a non-executive director of Premier Foods plc from July 2004 to April 2013.

Other appointments

The Vitec Group plc – Chairman.

Britvic plc – senior independent non-executive director, Chairman of the Audit Committee and member of the Nomination and Remuneration Committees.

Young & Co's Brewery, P.L.C. – non-executive director and Chairman of the Audit Committee.

Simon Scougall
Group General Counsel
& Company Secretary

Appointed on 1 February 2016.

Background and experience

Simon, a solicitor, was appointed Group General Counsel & Company Secretary in February 2016. Simon joined Bellway in March 2011 and has held senior positions within the Group including that of Group Commercial Director. He has over 20 years' experience in the housebuilding sector, working either in-house or for clients in private practice.

Key:

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- NR Board Committee on Non-Executive Directors' Remuneration
- * Denotes Committee Chair

Chairman's Statement on Corporate Governance

Paul Hampden Smith
Chairman

The COVID-19 pandemic has had an unprecedented impact across the construction sector, the wider economy and our communities. At the height of the pandemic 75% of the Company's workforce were furloughed on 100% pay and no Government support has been claimed under the Coronavirus Job Retention Scheme.

Dear Shareholder

COVID-19

The COVID-19 pandemic has had an unprecedented impact across the construction sector, the wider economy and our communities. At the height of the pandemic 75% of the Company's workforce were furloughed on 100% pay and no Government support has been claimed under the CJRS. The Board was pleased to safely welcome employees back to work from early May 2020. In recognition of the challenges faced by the Company during this time the Board made the decision to take a 20% pay cut for two months. More details on the Company's response to COVID-19 can be found on pages 10 to 11.

Diversity

The Board is committed to making appointments on merit against objective criteria and the Board strongly supports the principle of boardroom diversity in all its aspects. I am pleased to report that women continue to make up 33% of our Board. The Board also recognises the importance of diversity beyond gender diversity and is aware of the recommendations of the Parker Review and these will be taken into consideration with any future Board appointments. Our Board Diversity Policy is available to view on our website.

The Board continues to focus on gender diversity at all levels of the Company and 2020 saw the launch of Bellway's first Graduate Programme. Across all disciplines, 38 graduates joined the Company, of which 50% were women and 13% were from a BAME background.

Training

As part of the Company's risk culture and focus on Health and Safety the Board is committed to ensuring the workforce are provided with sufficient training and development to ensure they maintain the required levels of competence. During the COVID-19 pandemic the delivery of training was moved online with 29,832 hours of training being completed in April and May 2020, including NHBC webinar training. In addition, the Site Management Programme, Apprenticeships and Pilot Leadership and Management Programme have continued to operate. More details on the Company's employee programmes can be found on page 22.

Charitable giving

As a responsible business we are proud to support both the local communities where we build and less fortunate sections of society. During the year the Company gave away the life-changing prize of a fully furnished three-bedroom home to a deserving family with the help of Ant and Dec's Saturday Night Takeaway. The home on the Moorfields development was given to the Williams family in recognition of their charitable work establishing 'Darcey's Dream – My Family and Siblings Matter' after the devastating loss of their baby daughter in 2017. The charity offers a range of support services and counselling for bereaved families, with a special focus on siblings.

Whilst the show aired there was a 112% increase in hits to the website and the Board were delighted with the positive response from staff and the sense of pride they felt in working for Bellway.

The Company continues to support its national charity partner Cancer Research UK and has raised £1.6 million over the last four years towards the £2 million target by August 2021. More details on the Company's contribution to charitable causes can be found on page 50.

Board effectiveness and evaluation

In line with the UK Corporate Governance Code, we undertake a formal and rigorous annual evaluation of our own performance and that of our Committees and individual directors. We operate a three-year cycle of Chairman's, Group General Counsel and Company Secretary's and externally facilitated reviews. Bellway's last externally facilitated evaluation took place in 2017, and for 2020 we appointed Trusted Advisors Partnership ('TAP'), a specialist consultancy which has no other business or connection to the Group or individual directors, to facilitate the evaluation.

Having been provided with a comprehensive briefing by the Chairman and Group General Counsel and Company Secretary, TAP conducted an evaluation process in March 2020, involving:

- Main Board and Chairman's questionnaires and the Chairman's and SID's concluding memo from the internal 2019 review, together with the concluding report from the last external evaluation in 2017.
- Access to Board and Committee papers and minutes to enhance TAP's understanding of how the Board and its Committees operate.
- Whilst unfortunately attendance and observation at the Board and Committee meetings was not possible due to COVID-19 restrictions, individual virtual meetings were held with each executive and non-executive Board director and with the Group General Counsel & Company Secretary.

TAP reviewed the Board and its Committees' effectiveness to fulfil its duties considering:

a. Board structure, capability and performance.

b. Quality of Board discussion and review to support the delivery of Bellway's sustainable growth strategy.

It was found that the Bellway p.l.c Board is well constituted with a cohort of experienced, capable, and engaged non-executive directors able and willing to fulfil their responsibilities, without any conflict of interest; the Board Committees operate well, and the Board is also well chaired. The Board is constructive, respectful and allows for open and honest discussion and debate.

Their report identified certain nuances to further improving the Board's performance, including focusing on the long- term strategy and ensuring an effective pipeline for executive succession. An action plan has been put in place to address these challenges. The Board has also set targets focused around allocating more time to the rapidly emerging ESG agenda, non-executive director succession and the continued development of senior executive management.

The areas highlighted for improvement in last year's Board evaluation and progress made are set out in the table to the right.

Compliance with the UK Corporate Governance Code (the 'Code')

I am pleased to confirm that the Board considers that it has complied throughout the year with the detailed provisions of the Code published in July 2018. The Code is available, free of charge, from the Financial Reporting Council, online at www.frc.org.uk or by telephoning 020 7492 2300.

Shareholder engagement

The Company encourages active dialogue with its private and institutional shareholders, and the directors communicate with both existing and prospective institutional shareholders on a regular basis and as requested.

As a result of COVID-19 there has been increased interest from institutional investors in the Company. During the year our executive directors hosted virtual presentations attended by institutional investors, analysts and shareholders, with other members of the senior management team being present.

We also consulted with a number of shareholders on our Remuneration Policy. The Board receives regular updates from our advisers on investors' and analysts' views on the Company.

Shareholders are also kept up-to-date with our progress throughout the year through the Annual Report and announcements to the Stock Exchange for the full year and half year results and trading updates. To keep the shareholders informed we provided an additional trading update this year around the impact of the COVID-19 pandemic.

The whole Board is available for questions at the AGM, to which institutional and private investors are invited to attend. I am pleased to report that at the last AGM over 98% of the votes cast were cast in favour of the resolutions put to shareholders by the Board.

The Senior Independent Non-Executive Director and I are always available to discuss issues with current and prospective shareholders and institutions, as and when required. In addition, the whole Board is regularly updated at Board meetings on shareholder and investor views and activities by the Group Chief Executive and the Group Finance Director.

Further information for shareholders is available on our website at www.bellwayplc.co.uk.

Paul Hampden Smith
Chairman

19 October 2020

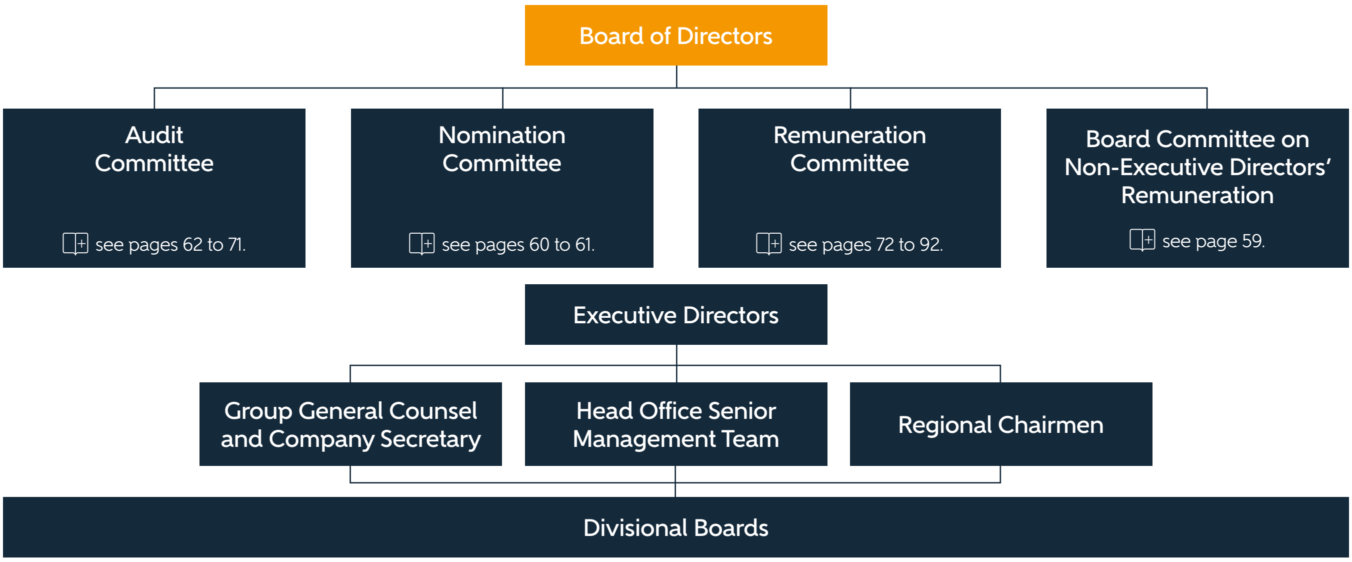
Board evaluation 2018/19 update

Action	Progress
Continue to focus on strategy as a top priority.	Strategy is discussed at every Board meeting and at our annual strategy day. This work continues to be a top priority for the Board.
Introduce employee survey with feedback to the Board.	The first employee survey was successfully launched in August 2020. Results and proposed action points for approval will be put to the Board later in the year.
Additional resource for Risk and Internal Audit.	The team has been restructured with an additional level of resource and a new Head of Risk and Audit has been appointed.
Improved visibility of customer complaints.	Now a standing agenda item with a separate report from the Group Head of Customer Care.

Board Leadership and Company Purpose

Corporate Governance Report

Left to Right: Ian McHoul Denise Jagger Simon Scougall Jason Honeyman Paul Hampden Smith Jill Caseberry Keith Adey



Statement about applying the Principles of good governance

The Board acknowledges the importance of, and is committed to the principle of, achieving and maintaining a high standard of corporate governance and in promoting a positive culture within the Group.

We have applied the Principles of good governance, including both the Main Principles and the Supporting Principles, by complying with the Code. Further explanations of how the Main Principles and Supporting Principles have been applied are set out below and in the Remuneration Report.

Leadership

At the date of this report the Board consists of six directors whose names, responsibilities and other details appear on pages 52 to 53. Currently two of the directors are executive and four are non-executive.

The Board sets the strategic aims, ensures that the necessary resources (including finances, people and materials) are in place for the Company to meet these objectives and also reviews management performance. It defines the Company's values and standards and ensures that its obligations to its shareholders are understood and met.

The Board has put in place the following structure which allows it to provide entrepreneurial leadership of the Group and to delegate authority for operational matters through a framework of prudent and effective controls, which enable risk to be assessed and managed.

Chairman

- Promoting the highest standards of integrity, probity and corporate governance throughout the Group and particularly at Board level including ensuring that the correct cultural tone is set from the top.
- Ensuring that the Company complies with the requirements of the UK Corporate Governance Code and adheres to the highest standards of governance.
- Leading the Board and ensuring its effectiveness.
- Setting the Board's agenda.
- Ensuring the directors receive accurate, timely and clear information.
- Ensuring effective communication with shareholders.
- Ensuring the effective conduct of Board meetings and facilitating the effective contribution of all directors and the Group General Counsel & Company Secretary.
- Leading the evaluation of the performance of the Board, its committees and individual directors.
- Overseeing the induction of any new directors and the development of existing directors.
- Ensuring that the views of shareholders are communicated to the Board as a whole.
- Encouraging constructive relations between the executive and non-executive directors and the Group General Counsel and Company Secretary.
- Approving land purchases over specified limits in conjunction with the wider Board.

Group Chief Executive

- Implementing the strategy agreed by the Board.
- Leading the executive directors and the senior management team in the day-to-day running of the Group's business.
- Ensuring the effective implementation of Board decisions.
- Reviewing the Group's organisational structure and recommending changes as appropriate.
- Supervising the activities of the Regional Chairmen and divisional senior management, overseeing their development and succession planning.
- Overseeing Group operations.
- Overseeing the activities of subsidiary companies.
- Approving land purchases within specified limits.
- Overseeing divisional expansion plans.
- Together with the Chairman, providing coherent leadership of the Group, including representing the Group to customers, suppliers, government, shareholders, financial institutions, employees, the media, the community and the general public.
- Keeping the Chairman informed of all important matters.
- Overseeing the purchase of strategic land.
- Overseeing the health and safety, sales and marketing and technical departments.

Group Finance Director

- Devising and implementing the financial strategy and policies of the Group including treasury and tax.
- Developing budgets and financial plans.
- Responsible for the Group's investor relations activities.
- Overseeing the CR, finance, IT and risk departments.

Senior Independent Non-Executive Director

- Acting as a sounding board for the Chairman, executive directors and the Group General Counsel and Company Secretary.
- Being available to shareholders.
- Leading the annual appraisal of the Chairman.
- Holding meetings with the non-executive directors without the Chairman present.

Non-executive directors

- Constructively challenging management.
- Contributing to the development of strategy.
- Scrutinising the performance of management.
- Ensuring integrity of financial information and financial controls and ensuring systems of risk management are robust.
- Determining appropriate levels of executive director and Group General Counsel and Company Secretary remuneration.
- Appointing and removing executive directors and succession planning.
- Serving on Board committees.

Division of Responsibilities

Group General Counsel & Company Secretary

- Supporting the Chairman and Group Chief Executive in fulfilling their duties.
- Keeping the Board regularly updated on corporate governance, legal, commercial and HR matters.
- Responsible for legal compliance throughout the Group including ensuring policies and procedures are maintained and updated on a regular basis.
- Providing support to the Board and committees.
- Overseeing the legal, company secretarial, HR and Group Office land and planning departments.
- Managing the Group's external legal panel.

Board effectiveness

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

In accordance with the Code, all of the directors will retire from the Board and offer themselves for re-election or election at the forthcoming AGM. None of the executive directors hold external directorships.

The Board, its committees and the individual directors are subject to annual performance evaluation and all directors are subject to annual re-election by shareholders. The Board regularly reviews the directors' other interests and appointments to ensure that there are no conflicts of interest.

The Chairman is responsible for leading the Board and ensuring it operates effectively. The directors possess an appropriate balance of skills and experience to meet the requirements of the business.

During the year there were seven full Board meetings, including one meeting dedicated almost entirely to strategy. Additionally, four formal and several informal Board meetings were arranged in respect of the COVID-19 pandemic.

The number of committee meetings are set out in each committee report. There were no absences from any Board or committee meetings.

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

The non-executive directors meet to review the performance of management and they also meet without the Chairman being present to appraise his performance. This latter meeting is chaired by the Senior Independent Non-Executive Director.

Conflicts of interest

Pursuant to the provisions of the Companies Act 2006 relating to conflicts of interest, the Board has put in place a register to deal with the notification, authorisation, recording and monitoring of directors' interests and these procedures have operated throughout the year.

Board activity during the year

The Board meets formally and informally during the year to consider strategy, performance, risk, major land acquisitions, potential conflicts of interest and reports from senior employees and external advisers.

One meeting a year is devoted entirely to the consideration of strategy where the Board agrees the way forward and ensures that the necessary financial, human, land and other resources are in place to meet its objectives. Areas focussed on during the strategy day were the seven key strategic priorities of:

1. Strengthening the brand.
2. Volume growth.
3. Driving down costs.
4. Appointing the right people.
5. Focus on return on capital employed.
6. Value creation through capital and dividend growth.
7. Maintaining a flexible capital structure.

Each year we hold separate annual conferences for the divisional Managing Directors, Finance Directors, Sales Directors, Technical Directors and Commercial Directors and Planning Managers which are attended by the executive directors or members of the Group Office senior management team.

We also host informal Board dinners where senior management meet members of the Board. The Chairman meets with executive management and individual directors on a regular basis outside of Board meetings. This process allows for two-way discussion enabling the Chairman to act as necessary to deal with any issues relating to Board effectiveness.

The executive directors and Group General Counsel & Company Secretary regularly visited the divisions during the year and the Chairman also visited some divisions and met separately with the Regional Chairmen. The Board also received presentations from the Regional Chairmen and certain Group function heads on the opportunities and challenges they face.

Each non-executive director separately visits at least one division during the year, independent of the executive directors, and reports their key findings and observations at the next Board meeting.

The meetings with operational management ensured that the Board's standards and values for integrity and honesty are disseminated. Each of our divisions has its own management team and staff who manage and take pride in the success of their own operational business within the strategy set by the Board. In this way we create a culture that motivates and rewards our colleagues. We promote a supportive culture that enables our employees to develop their talents and skills.

The Board has adopted a schedule of matters that are specifically reserved for its decision, which includes strategy and management, structure and capital, financial reporting and controls, internal controls covering both financial and operational areas of the business, land acquisition above specified limits, contracts and agreements, communication, Board membership and other appointments, remuneration, delegation of authority, corporate governance matters, Group policies and other miscellaneous items.

In addition, it has a series of matters that are dealt with at regular Board meetings including both an operational and a strategic review, a financial review, major land acquisitions, major projects, risk, health and safety, HR, reporting requirements, corporate governance and internal control (including any whistleblowing issues).

We also receive presentations and reports from Group Office, regional and divisional management and external advisers throughout the year. The Board also takes a report from the Group General Counsel & Company Secretary on legal, HR, commercial and corporate governance matters at each Board meeting.

In between Board meetings the directors receive updates from the Chairman or the Group General Counsel & Company Secretary to advise them of any significant matters affecting the Group or its performance.

During the year the work carried out by the Board included:

- Strategy.
- Considering regular reports on KPIs from the Group Chief Executive.
- Risk and internal control.
- Consideration of recommendations from the Board committees.
- Scrutiny of reports from the Group Chief Executive, Group Finance Director, Group General Counsel & Company Secretary and senior management at each Board meeting.
- Considering regular reports on health and safety matters from the Group Chief Executive.
- Approval of major land purchases.
- Board evaluation.
- Approval of bank facility agreements.
- Receiving presentations from three of the four Regional Chairmen on the performance of the divisions under their responsibility.
- Receiving presentations from Finance, HR, IT, Land, Procurement, Sales and Marketing and Technical Head Office departments.
- Approval of the updated Group Anti-Bribery and Corruption Policy.
- Approval of revised terms of reference for Board committees.
- Approval of major IT expenditure.
- Approval of the Group's insurance programme.
- Approval of the Group's Slavery and Human Trafficking Statement for 2019.
- Approval of the Annual Report and Accounts for 2018/19.
- Approval of preliminary announcement, interim results and trading updates.
- Recommending the final dividend for 2018/19.
- Approval of tax strategy.

Training and development

The Board receives appropriate training and updates on various matters relevant to its role and responsibilities. Training needs are reviewed as part of the performance evaluation process and on an ongoing basis.

Following this year's evaluation no specific training needs were identified.

Non-executive directors attend external training sessions designed specifically for non-executives and members of Board committees as and when required.

Board balance and independence

The roles of Chairman and Group Chief Executive are separate, with a clear division of responsibilities ensuring a balance of responsibility and authority at the head of the Group.

The Company considers all of its non-executive directors, including the Chairman, to be independent, as defined in the Code. Each of the independent non-executive directors has, at all times, acted independently of management and has no relationship that would materially affect the exercise of his or her independent judgement and decision-making.

The senior independent non-executive director is Denise Jagger, with whom shareholders may raise any queries or concerns they may have.

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

The Board committees

The Board has formally constituted Audit, Nomination and Remuneration Committees. The terms of reference for these committees are available either on request from the Group General Counsel & Company Secretary, at the AGM or on our website: www.bellwayplc.co.uk.

Other committees of the Board are formed to perform certain specific functions as and when required.

The work carried out by each of the Board committees during the year is described in the reports of the committee chair which follow.

Board Committee on Non-Executive Directors' Remuneration

The Board Committee on Non-Executive Directors' Remuneration comprises the executive directors and is chaired by the Group Chief Executive.

This committee meets at least once a year. Last year it met on one occasion to review the fees and terms of appointment of the non-executive directors (excluding the Chairman) and received advice from the Group General Counsel & Company Secretary and external remuneration consultants when required.

Nomination Committee Report

Composition, Succession and Evaluation

Paul Hampden Smith
Chairman of the Nomination Committee

> **The Committee's focus during the year was to develop, with support from the executive management and Group Human Resources, the succession plan for those immediately below Board level.**

Membership and meeting attendance

Director	Date appointed to the Committee	Number of meetings attended during the year
Paul Hampden Smith (Chairman)	1 August 2013, appointed Committee Chairman on 1 November 2018	2/2
Denise Jagger	1 August 2013	2/2
Jill Caseberry	1 October 2017	2/2
Ian McHoul	1 February 2018	2/2

Main focus in 2019/20

- To monitor the effectiveness of the recent appointments and role changes at Board level, including my role as Chairman of the Board.
- To continue to develop, with support from the executive management and Group Human Resources, the succession plan for those immediately below Board level.
- To increase the focus on diversity and inclusion throughout the Group.

Focus areas for 2020/21

- To continue our work to improve diversity within the Group, taking into account the recommendations from the Parker Review.
- To continue to develop, with support from the executive management and Group Human Resources, the succession plan for those immediately below Board level.

Responsibilities and terms of reference

The main areas of the Nomination Committee's (the 'Committee') responsibilities are:

- To review the structure, size and composition of the Board, in accordance with the Board's Diversity Policy, and recommend to the Board any changes it considers appropriate. This encompasses membership of the Board committees and the reappointment, if appropriate, of non-executive directors at the end of their term of office.
- To consider succession planning not only within the Board but also immediately below Board level and ensure appropriate plans are in place.
- To identify candidates to fill Board vacancies and nominate these to the Board for approval. Appointments to the Board are made on merit using a formal, rigorous and transparent process against objective criteria recommended by the Committee. These criteria take into account the skills, knowledge and experience of existing members of the Board and the importance of diversity, in all its aspects, within the Board. The Committee is aware of the recommendations of the Parker Review and will take these into consideration when making future Board appointments. The appointment of a non-executive director is for a specified term and reappointment is not automatic, rather it is made on the recommendation of the Committee.
- To carry out an annual performance evaluation of the Committee and review the results of the Board performance evaluation in relation to the composition of the Board.

The Committee meets at least twice a year and operates under its own terms of reference. These have been agreed by the Board and are available at www.bellwayplc.co.uk/investor-centre/governance/committees.

The members of the Committee are shown in the table to the left.

Activities in 2019/20

The Committee's focus during the year has been on the action plan to improve engagement and diversity within the Group.

- The successful launch of the Bellway Graduate Recruitment Programme saw 38 graduates join the Group across all disciplines.
- Equality, diversity and inclusion e-learning has been issued to employees and forms part of the mandatory training a new employee must undertake on commencing their new role. 99.6% of employees have completed this training within three months of this being issued to them.
- Each division has nominated at least one Diversity and Inclusion Champion. All champions are completing NCFE Level 2 Equality and Diversity qualification.
- Preparation for the launch of the first Bellway Employee Engagement Survey. The survey gave every employee the opportunity to provide feedback on working for Bellway.
- The following policies have been updated:
  - Equality Policy
  - Flexible Working Policy
- After the success of the flexi-time trial the initiative has been rolled out for all office-based staff at Group and divisional offices.
- Use of the Group recruitment panel to include partners with a particular focus on improving diversity.
- We have been working with www.workingmums.co.uk. We will use this site to advertise professional and senior roles in order to encourage more women to come and work for Bellway.
- Working with the Regional Chairmen and Managing Directors to develop their progression and retention plans for the key employees within each division, promoting diversity where possible.
- We have introduced Personal Protective Equipment ('PPE') specifically designed for females, namely high-vis jackets, blouses and trousers.
- The Group HR Director is a member of the HBF Equality, Diversity and Inclusion Group that was formed to understand what the housebuilding industry is doing to improve diversity and inclusion.
- Also during the year the Committee continued to develop, with support from the executive management and Group Human Resources, the succession plan for those immediately below Board level. This exercise will look to promote diversity and inclusion where possible.

Focus in 2020/21

Building on the success of the 2020 Bellway Graduate Recruitment Programme, work has started on attracting the best graduates for the September 2021 intake. As part of this recruitment selection we are taking the opportunity to recruit female and BAME candidates where possible.

We will review and create job descriptions and person specifications to make them (a) more inclusive, (b) include gender neutral language to attract more females into the business and (c) remove certain barriers, such as the requirement to hold a driving licence regardless of the role, which may have discouraged potential applicants with disabilities.

We will run a national campaign to recruit more women into the construction side of the Group.

We are running a series of case studies in our staff newsletter focusing on female employees who are progressing their careers within the business.

Director and employee profile

The following table shows the gender split in the Group as at 31 July 2020:

	Male No.	Male %	Female No.	Female %	Total No.	Total %
Board of directors	4	67	2	33	6	<1
Senior managers	139	80	34	20	173	6
Other employees	1,889	70	821	30	2,710	94
Total	2,032	70	857	30	2,889	100

Paul Hampden Smith
Chairman

19 October 2020

Governance

Audit Committee Report

Audit, Risk and Internal Control

Ian McHoul
Chairman of the Audit Committee

I consider the Committee to be effective and provide a robust and independent oversight over the financial reporting, internal control and risk and external audit activities of the Group.

Membership and meeting attendance

Director	Date appointed to the Committee	Number of meetings attended during the year
Ian McHoul (Chairman)	1 February 2018, appointed Committee Chairman on 12 December 2018	5/5
Denise Jagger	1 August 2013	5/5
Jill Caseberry	1 October 2017	5/5

Main focus in 2019/20

- Financial reporting.
- Internal control and risk management.
- Audit effectiveness.
- Exceptional items including COVID-19.
- External audit tender.

Focus areas for 2020/21

- Financial reporting.
- Internal control and risk management.
- Audit effectiveness.
- Oversee transition to new external auditor.

I am pleased to provide you with our Audit Committee Report to provide you with an update of the work undertaken by the Audit Committee (the 'Committee') during the period.

The Committee supports the Board in achieving its governance framework, with its principal activities focused on the integrity of financial reporting, the quality and effectiveness of internal controls, risk management and reviewing the performance of the external auditor.

Committee membership and meetings

The Committee currently comprises three independent non-executive directors shown in the table to the left. I believe that between us we have an appropriate and relevant combination of experience and knowledge.

I am currently Chair of the Audit Committee of both Britvic plc and Youngs & Co.'s Brewery P.L.C. and was Chief Financial Officer of Amec Foster Wheeler plc until 2017. The Board considers that I have recent and relevant financial experience as required by the Code. As part of the effectiveness review the Nomination Committee has also confirmed that it is confident that the collective and broad experience of the Committee members enables them to act effectively as an audit committee.

Further information on the experience and knowledge of the Committee members is included in the directors' biographies on pages 52 and 53.

The terms of reference require the Committee to meet at least three times a year. During the year there were two additional meetings as part of the external audit tender process, and all members of the Committee attended each meeting.

The Chairman, Group Chief Executive, Group Finance Director, Group General Counsel and Company Secretary, Group Financial Controller and Group Head of Risk and Audit attend meetings by invitation. The Committee is supported by the Deputy Group Company Secretary who acts as secretary to the Committee.

Representatives of KPMG LLP ('KPMG') attended all of the meetings during the year, with the exception of those relating to the external auditor appointment, and also met the Committee independently of management. No significant concerns were raised during these discussions. I also had further discussions, independently of each other, with the Group Finance Director, Group Head of Risk and Audit and KPMG, and reported relevant information to other members of the Committee. Following the external audit tender process, Ernst & Young LLP ('EY') were present at the March 2020 and October 2020 meetings to ensure a smooth transition from KPMG.

Detailed papers are prepared and circulated in advance of Committee meetings by both management and KPMG, thereby allowing informed discussions and decisions to take place.

Responsibilities and terms of reference

A comprehensive version of the Committee's terms of reference is available on the Group's website at www.bellwayplc.co.uk/investor-centre/governance/committees.

Main activities during the year

The Committee has been in regular contact with management since the onset of COVID-19 to consider how COVID-19 has impacted the key judgement and accounting areas. This has included a review of the approach taken with regards to site valuations, land values, the treatment of exceptional items and the presumption that the Group remains a going concern.

In addition, the Committee met on five occasions during the financial year. The activities undertaken at the October 2020 meeting concluded the Committee's activities in relation to the Group's financial reporting for the year ended 31 July 2020.

The main activities performed by the Committee at these meetings are described below:

Meeting date	Activities
October 2019	The Committee: • reviewed the final draft of the 2019 Annual Report and Accounts, together with a report produced by KPMG which detailed their findings both on areas of key financial reporting judgements/matters and other areas of audit focus. • reviewed and concluded that the 2019 Annual Report and Accounts presented a fair, balanced and understandable assessment of the Group's position and prospects after considering reports from the external auditor. The Committee recommended the 2019 Annual Report and Accounts to the Board for approval. • reviewed the draft viability statement to appear in the 2019 Annual Report and Accounts. • received a paper on significant judgemental areas prepared by management and provided appropriate challenge to their assumptions. • reviewed a paper which analysed notable one-off items that affected profit during the year. • considered and challenged management about the use of Alternative Performance Measures ('APMs') and whether they are appropriate or whether GAAP measures would be more relevant. • reviewed a paper setting out the external audit tender process and correspondence that will be issued to various parties. • considered a paper produced by management setting out management's assessment in relation to potential risks associated with fire safety and work that will be performed and whether appropriate provisions and disclosures were included in the financial statements of the Group, including the contingent liability note. • reviewed a paper produced by management considering the Brexit risk associated with the supply chain. • reviewed and approved the Slavery and Human Trafficking Statement 2019. • received a Risk and Internal Audit update. • considered the findings of the performance evaluation of the Committee.
December 2019 (two meetings)	The Committee: • interviewed senior members of the proposed external audit teams of the two firms participating in the tender process. • recommended to the Board the appointment of EY as the new external auditor of the Group and Company for the financial year beginning on 1 August 2020.

Audit Committee Report continued

Main activities during the year continued

Meeting date	Activities
January 2020	The Committee: • received a risk management update from the Group Head of Risk and Audit and reviewed the Risk Management Policy. • received an update on the Internal Audit activities undertaken in the previous calendar year and provided feedback on the proposed 2020 Internal Audit plan. • reviewed the terms of reference of the Committee, number of meetings and skills and experience of the Committee. • reviewed the Group's policies and procedures in relation to Whistleblowing, Anti-Bribery and Corruption, Anti-Slavery and Data Protection. • assessed the performance of the external auditor, including obtaining an update from KPMG in relation to the general annual Audit Quality Review ('AQR') findings the firm had received compared to their peers and understanding the effect, if any, this had on the Bellway audit. • reviewed the Independent Auditor Policy. • held a private meeting with KPMG.
March 2020	The Committee: • received a paper on significant judgemental areas prepared by management and provided appropriate challenge to their assumptions. • reviewed the final draft of the 2020 Interim Announcement. • reviewed KPMG's audit plan, including the proposed Group, subsidiary and divisional materiality for the 2020 audit. • received a Risk and Internal Audit update. • reviewed changes to the Independent Auditor Policy. • reviewed a new policy in relation to the recruitment of staff from the external auditor. • held a private meeting with KPMG.
October 2020	The Committee: • reviewed and challenged papers produced by management in relation to the impact the COVID-19 pandemic has had on key judgements and accounting areas. These included a review of the approach taken with regards to site valuations, land values, the treatment of exceptional items and the presumption that the Group remains a going concern. • reviewed the final draft of the 2020 Annual Report and Accounts, together with a report produced by KPMG which detailed their findings both on areas of key financial reporting judgements/matters and other areas of audit focus. • reviewed and concluded that the 2020 Annual Report and Accounts presented a fair, balanced and understandable assessment of the Group's position and prospects after considering reports from the external auditor. The Committee recommended the 2020 Annual Report and Accounts to the Board for approval. • reviewed the draft viability statement to appear in the 2020 Annual Report and Accounts, together with the supporting assumptions and financial forecasts. • received a paper on significant judgemental areas prepared by management and provided appropriate challenge to their assumptions, including what is exceptional. • reviewed a paper which analysed notable items, both exceptional and non-exceptional, that affected profit during the year and provided challenge of the treatment of these. • considered and challenged management about the use of APMs and whether they are appropriate or whether GAAP measures would be more relevant. • considered a paper produced by management setting out management's assessment in relation to potential risks associated with legacy building safety improvements and work that will be performed and whether appropriate provisions and disclosures were included in the financial statements of the Group, including the contingent liability note. • reviewed and approved the Slavery and Human Trafficking Statement 2020. • received a Risk and Internal Audit update. • considered the findings of the performance evaluation of the Committee. • received a report from KPMG on the outcomes of the Kingman, Brydon and CMA consultations into the audit market. • held a private meeting with KPMG.

Financial reporting

Significant and key financial reporting matters

The Committee confirmed that they believe the key financial reporting judgements and issues for the Group are:

- Cost of sales recognition;
- Carrying amount of land held for development and work in progress;
- Going concern (new);
- Legacy building safety improvement provision (new); and
- Exceptional items (new).

In addition, the Committee considers the carrying value of investments by the Company a significant financial reporting matter.

The table below sets out the matters considered and the action performed by the Committee during the year in relation to these key financial reporting judgements and issues.

Key financial judgements, issues or significant financial reporting matter	Action performed by the Committee
Cost of sales recognition (Group)	
Matters considered	
Pre-exceptional cost of sales of £1,803.2 million has been recognised on housing and other revenue. Cost of sales for completed housing sales is recognised based on the latest whole site/phase margin, which is derived as part of the site/phase valuation process. These valuations are updated frequently throughout the life of the site/phase and include both actual and forecast selling prices, land costs and construction costs. The forecast costs and revenues are estimates and are inherently uncertain due to potential changes in market conditions.	The Committee understands the Group's revenue and gross profit recognition policy and the related systems and controls. During the year the Committee reviewed a paper produced by management setting out the revenue recognition policy and adherence with this around reporting periods. Management outlined the existing systems and controls surrounding gross profit recognition and the valuation process. The Committee discussed these controls, challenging management where appropriate. The external auditor explained to the Committee the work they have undertaken in relation to the systems and controls surrounding revenue recognition, gross profit recognition and the valuation process and provided an explanation of the detailed substantive testing performed. The Committee also reviewed a summary prepared by KPMG explaining their findings from their work testing the design, implementation and operating effectiveness of the Group's systems and controls pertaining to revenue recognition and the valuation process. In the current year, during the 'lockdown' of construction sites due to COVID-19, certain costs that would normally be capitalised in to WIP have been expensed and included within the gross profit of housing and other revenue. Further details are included within the exceptional expense section. Following enquiries with management and the external auditor, the Committee concluded that there are appropriate systems and internal controls in place to assess and quantify both actual and forecast selling prices and costs, and that the Group's profit recognition policy is appropriate and has been properly applied in these financial statements.

Audit Committee Report continued

Key financial judgements, issues or significant financial reporting matter	Action performed by the Committee
Carrying amount of land held for development and work in progress (Group)	
Matters considered	
Land and work in progress are the most significant assets on the Group's balance sheet and at 31 July 2020 had a book value of £3,712.3 million. The carrying value of land and work in progress is affected by the profit recognition policy of the Group, as set out to the left. In addition, all inventory is held at the lower of cost and net realisable value, which is determined by the whole site/phase margin as set out in the 'profit recognition' column. The risk is that for any site/phase, currently trading or not, that the whole site/phase margin may be negative resulting in a net realisable value that is below cost. Divisional management review all sites/phases to ensure any with a forecast negative whole site/phase margin have an appropriate provision, and this has been reassessed at regular intervals during the year.	The Committee understands the Group's methodology in reviewing the carrying value of the Group's land and work in progress and the surrounding controls. Management provided a summary of the work undertaken which was considered by the Committee. The external auditor explained to the Committee the work they performed in relation to the carrying value of the Group's land and work in progress. This included the procedures identified in relation to profit recognition and a review of the latest site/phase valuation for all sites/phases active during the year and those that are yet to commence production. Following enquiry with management and the external auditor, the Committee concluded that there are appropriate systems and internal controls in place to assess the carrying value of the Group's land and work in progress, and that the carrying value of these assets in the financial statements is appropriate. In the current year, impairments have been recognised in relation to certain land balances. These are considered within the exceptional expense section.
Going concern (Group)	
Matters considered	
The financial statements have been prepared on a going concern basis. If the financial statements were not prepared on this basis, significant adjustments and presentational changes would be required to the balance sheet.	The Committee reviewed a paper produced by management setting out detailed forecasts and adverse scenarios against the base case. These were then compared against the Group's banking facilities to show the expected headroom and bank covenant compliance. Following a review of this paper and challenge of both management and the external auditor, the Committee concluded that the going concern basis of preparation continues to be appropriate in the context of the Group's expected funding and liquidity position. Further details in relation to the Group's going concern and viability assessment can be found on pages 42 and 96.

Key financial judgements, issues or significant financial reporting matter	Action performed by the Committee

Exceptional items (Group)

Matters considered

An exceptional expense of £72.6 million has been recognised in the year. 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.

The Committee understands the Group accounting policy in relation to exceptional items, the accounting requirements of IAS 1 relating to the separate disclosure of material items of income or expense together with the FRC Company Guidance in relation to COVID-19 (updated 20 May 2020).

The Committee reviewed a paper produced by management using the above frameworks, which set out the treatment of certain items as either exceptional or non-exceptional. The Committee ensured consistent principles were established and applied, and that the external auditor agreed with the conclusions reached early in the reporting process.

The Committee gave careful consideration to the judgements made in the disclosure of exceptional items, ensuring the Annual Report and Accounts as a whole provides a balanced view, including the presentation of GAAP measures and APMs.

Following enquiries with management and the external auditor, the Committee concluded that the appropriate items are disclosed as exceptional items and that the associated disclosures in the financial statements are appropriate.

Legacy building and safety improvement provisions (Group)

Matters considered

Legacy building and safety improvement provisions totalling £70.3 million were recognised in the balance sheet as at 31 July 2020.

The Committee reviewed a paper setting out the latest building regulation and Government guidance in the complex area of fire safety, the IAS 37 requirements for recognising a provision, and how this applies to the developments that management are currently aware of that may require replacement cladding and/or related fire safety works.

The paper set out the utilisation of the provision during the year, estimates of the remaining provision and the expense recognised in the income statement during the year.

Following a review of this paper and enquiry with management and the external auditor, the Committee concluded that the fire related provision held in the balance sheet is appropriate.

In the current year, the recognition of the additional fire provision has been treated as an exceptional item. This is considered within the exceptional expense section.

The carrying value of investments (Company)

Matters considered

Investments in joint ventures and subsidiaries ('investments') is a significant asset on the Company's balance sheet and at 31 July 2020 had a carrying value of £37.8 million. Investments are held at cost less impairment. The risk surrounds the matter about whether an impairment is required given the inherent uncertainty involved in forecasting future cash flows of an investment.

The Committee reviewed a paper comparing the carrying value of the investments held by the Company to their associated net assets.

Following a review of this paper and enquiry with management and the external auditor, the Committee concluded that the carrying value of investments is appropriate.

Audit Committee Report continued

Viability statement

In accordance with provision 31 of the Code and the FRC guidance on Risk Management, Internal Control and Related Financial and Business Reporting, the Committee challenged management on the assumptions, methodology and timespan that the viability statement covers.

A paper by management was considered by the Committee which set out the resilience of the Group to the emerging and principal risks and uncertainties to various adverse sensitivities. These scenarios included a second 'lockdown' due to COVID-19, 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 results were then compared to the Group's financing facilities to ensure sufficient headroom exists.

The paper concluded that the viability statement and going concern basis of preparation is appropriate. This was then recommended to the Board for approval.

2020 Annual Report and Accounts: fair, balanced and understandable

Group Risk and Audit provided a paper to the Committee to assist them in concluding whether the 2020 Annual Report and Accounts is fair, balanced and understandable. This independent review of the Annual Report and Accounts ensured the various components satisfied the requirements when read as a whole.

In addition, the Committee performed a comprehensive review of the Annual Report and Accounts considering items such as:

Fair	Balanced	Understandable
• Provide a comprehensive review of the Group's strategy and activities during the year which is consistent with the business model.	• Provide a balanced view of the performance and position of the entity, with both significant positive and negative points disclosed.	• The Annual Report and Accounts are understandable and have consistent messaging throughout.
• The narrative section is both consistent throughout and also with the financial results and performance.	• The key accounting judgements considered by the Committee are appropriately disclosed and are consistent with those considered by KPMG.	• There are clear links between the strategy and KPIs.
• Market conditions are clearly described, and the emerging and principal risks and uncertainties are both accurate and complete.		• The KPIs and APMs have remained consistent and there has been no change in the methodology.
• All material transactions and issues faced by the Group are included within the financial statements and disclosed where required.		

Internal control and risk management

The Committee is responsible for reviewing and assessing the Group's internal controls and risk management systems and providing guidance on these to the Board. The Board is responsible for reviewing the effectiveness of the system of internal controls.

Throughout the year the risk register for the Group has been reviewed and updated by management. This review includes ensuring the completeness of risks, assessing their likelihood, their impact and the effectiveness of the control environment to mitigate the risks.

Risk is considered by the Board, with a full review of the risk register taking place throughout the business at least annually. The internal control and risk management process only reduces the risk of material misstatement or loss, and does not eliminate this risk completely.

The emerging and principal risks facing the Group, which are described in the Strategic Report on pages 36 to 39, are regularly reviewed and cover all aspects of Bellway's operations including land acquisition, planning, construction, health and safety, sales, HR, IT and legal and regulatory compliance.

In Spring 2020, the COVID-19 pandemic emerged as a new risk. This caused disruption to the business as a result of government imposed restrictions which adversely affected various aspects of the Group's operations. A number of actions were taken to reduce this risk as set out in the principal risks and uncertainties section on page 39. These have been factored into the viability statement.

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

The key areas of control are as follows:

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

Where any control recommendations are made by the external auditors, these are considered, and where relevant are implemented to further strengthen the control environment.

The Group has a risk and audit function which, in part, performs internal audit reviews. The Group Head of Risk and Internal Audit has a direct reporting line into both the Group Finance Director and myself. During the year the Risk and Audit function undertook a number of internal audit reviews, utilising specialists from within relevant functions. The Group Head of Risk and Audit provided the Committee with a summary of the findings together with recommendations to further enhance the control environment. A register is maintained centrally which monitors progress against any system and control enhancements to ensure they are implemented appropriately and in a timely and controlled manner.

External audit

Audit effectiveness

The external auditor of the Group is KPMG. Their performance is regularly reviewed by both management and the Committee, and this is done formally on an annual basis.

The Committee considered a paper produced by management which used the FRC guidance note titled 'Audit Quality' as the basis.

This review consisted of:

- considering the robustness and appropriateness of KPMG's approach to auditing the significant risk areas facing the Group.
- considering whether KPMG's materiality proposal for the 2018/19 financial year, which was the most up-to-date information held at the date of the review, was set at an appropriate level for the component parts of the Group.
- discussions with management who were involved in the financial reporting processes.
- an understanding of the findings of the Audit Quality Review ('AQR') team of the FRC following their inspection of audit firms including KPMG. This included understanding whether any of the findings would have affected the Bellway audit.
- an understanding of the AQR and internal KPMG quality review findings, specifically in relation to the engagement partner, John Pass.
- considering KPMG's independence, objectivity and professional scepticism.
- reviewing the performance of KPMG against their audit strategy for the 2018/19 financial year, the most recent fully completed audit cycle, and their interaction with the Committee during the process.
- considering where KPMG have added value and demonstrated proactivity.

As part of this review a few areas of improvement were identified which have been fed back to KPMG who have incorporated them into their audit for the year ended 31 July 2020.

Following this review, the Committee recommended to the Board, which is in turn recommending to the shareholders, that KPMG be reappointed as the auditor of the Group.

Audit tender

KPMG has been the auditor of the Group since 1979 when Bellway was listed and the audit has not been tendered in the intervening period. In line with the Order of the Competition and Markets Authority in relation to FTSE 350 companies, the Company undertook a formal tender process for the appointment of a new external auditor. The FRC's guidance note 'Audit Tenders: Notes on Best Practice' (February 2017) was considered throughout this process.

During the year, the Committee:

- agreed the audit tender process, request for proposal and a detailed scorecard for assessing the tenders.
- selected and invited three firms to invite to join the tender process, although one declined.
- interviewed key members of the proposed external audit teams.
- made a recommendation to the Board on the appointment of the replacement external auditors.

Following the conclusion of the audit tender process, the Board approved the appointment of EY as the Company's external auditor for the financial year commencing 1 August 2020, although this is subject to shareholder approval at the Annual General Meeting to be held on 11 December 2020. Should shareholder approval be received, EY will be appointed as external auditors at the conclusion of that meeting.

From the start of the 2020 audit cycle, EY have sat alongside KPMG and have attended key meetings throughout the audit process to ensure a smooth transition.

The Committee confirms that the Company is complying with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Auditor independence and non-audit fees

The Independent Auditor Policy, which seeks to preserve the independence of the external auditor by defining those non-audit services which the external auditor may and may not provide, was reviewed during the year and was updated to bring it in line with latest guidance.

Any engagement with the external auditor needs to be approved, in advance, by the Audit Committee.

The Group's external auditor is not engaged for any non-audit related services such as:

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

For an analysis of fees paid to KPMG see note 4 to the accounts.

The ratio of non-audit fees for the year to the external audit fee was 0:1. KPMG provides written confirmation on at least an annual basis that they remain independent. The Committee monitors all fees paid to the external auditor at each Committee meeting.

During the year a formal policy was introduced which includes certain restrictions on the recruitment of employees from the external auditor.

The Committee confirms there are no independence issues in relation to the external auditor and that these policies have been adhered to throughout the year.

Audit Committee assessment

During the year the Committee assessed both the performance of the Committee as a whole and that of its individual members, both utilising a questionnaire that was internally facilitated and via an independent, externally facilitated assessment. No major areas of improvement were identified.

Following a review of these results, I consider the Committee to be effective and provide a robust and independent oversight over the financial reporting, internal control and risk and external audit activities of the Group. The Committee has an appropriate and complementary set of skills and experience that enables it to deliver the aforementioned.

Other legislative requirements

Whistleblowing

The Group's Whistleblowing Policy is well publicised at all locations and allows all employees and members of the supply chain to raise concerns in confidence to either the Group General Counsel & Company Secretary, Deputy Group Company Secretary or, alternatively, an independent third party. The Group encourages employees and members of the supply chain to raise any concerns in an open and honest way. These concerns could be in relation to possible wrongdoing in financial reporting, breaches of Group policies and procedures, or other matters such as harassment, bullying, money laundering, modern slavery or discrimination.

All whistleblowing reports are investigated and confidentially investigated by senior, independent personnel and the findings are reported to the Board.

During the year the Committee approved minor changes to the Whistleblowing Policy.

Bribery Act

The Group's Anti-Bribery and Corruption Policy and procedures are circulated throughout the Group and are included on the Group's intranet.

Ian McHoul
Chairman of the Audit Committee

19 October 2020

Jill Caseberry
Chair of the Remuneration Committee

> **The Committee continues to operate a remuneration structure… which it considers closely aligns management interests with those of shareholders.**

Annual Statement

Dear Shareholder

I am pleased to present the Report of the Remuneration Committee (the 'Committee'). This report consists of this Annual Statement and the Annual Report on Remuneration for the 2019/20 financial year, which will be subject to a single advisory shareholder vote at the forthcoming AGM.

In addition, given this has been the third year of operating under the 2017 Directors' Remuneration Policy, the Policy is also included and is to be presented as a resolution to our shareholders at the 2020 AGM (resolution 3). The Committee decided that it would not be appropriate to be undertaking this review in 2020 whilst our Company and you, our shareholders, have other more urgent issues to deal with due to the COVID-19 pandemic. We will however undertake a review in 2021 taking into account developments in market practice and corporate governance best practice, including post-cessation shareholding requirements and bonus deferral during 2021, with an updated Policy being presented at the 2021 AGM.

The proposals in relation to the Policy renewal are:

- We will seek approval for a renewal of the current Policy for 12 months, making minimal changes limited to the introduction of a new bonus metric relating to employee engagement and a slight adjustment to the other metric ratings.
- We will make changes to directors' pensions so that new appointments participate at the rate available to the Company's wider workforce and our Group Chief Executive and Group Finance Director's benefit level will fall to that rate at the end of 2022.
- All other changes, including the introduction of formal bonus deferral, the extension of our current post-employment shareholding guidelines and a review of the performance measures and targets we use in our incentive plans will take place in conjunction with consulting with you next year.

Performance and reward in 2019/20

The Committee continues to operate a remuneration structure based on the three core elements of basic salary, annual cash bonus and a share-based long-term incentive plan, which it considers closely aligns management interests with those of shareholders.

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), pre-exceptional operating profit fell to £321.7 million (2019 – £674.9 million). Basic earnings per share fell by 64.2% to 156.6p per share (2019 – 437.8p) and pre-exceptional RoCE reduced to 10.8% (2019 – 24.7%).

In light of the COVID-19 crisis and its extraordinary impact on the business and the wider economy, the Board of Directors agreed to a voluntary, temporary 20% reduction in basic salary and fees effective from 1 April until 31 May 2020, which was donated to various charities. The Company match-funded the donations with a contribution to its national charity partner, Cancer Research UK, whose important work and fundraising capacity has been adversely impacted by the COVID-19 pandemic.

With the negative impact that COVID-19 has had on the financial performance of the business there will be no bonus in respect of the year. The long-term incentive plan awards granted in November 2017 will vest at 47.7% of the maximum award based on performance over the three financial years to 31 July 2020. These shares are required to be held for a further two years following vesting. The Committee considers that these outcomes are reflective of the overall business performance, recognising both the negative impact of the pandemic on the business over the past year, along with the relative outperformance of our peers over the last three years.

How we will implement the remuneration policy in 2020/21

There will be no increases to the directors' salaries in 2020/21 and pension and benefits will also remain in line with the current provision. As previously noted, the pension rates for the directors will be aligned with those of the workforce at the end of 2022.

The 2020/21 annual bonus will continue to be based mainly on financial performance, with a bonus opportunity of 85.2% of salary based on operating profit. The remaining bonus opportunity of 34.8% of salary will be based on the same strategic measures as last year of land bank and customer care, and supplemented for the first time by an employee engagement measure. This new measure will attract a bonus opportunity of 6% of basic salary and will be based on the results of the annual employee engagement survey. There will be a re-weighting of the land bank and customer care metrics to 16.8% and 12% of salary respectively to allow the inclusion of the employee metric. Health and safety performance will be taken into account as part of the Committee's overall assessment of the bonus payment which it does every year before making a final determination.

As we disclosed last year, whilst not a requirement of the policy, the Group Chief Executive informed the Committee that he will invest 25% of his 2019 and 2020 bonuses (after income tax and national insurance) in Bellway shares which he will keep for a minimum of three years. Jason purchased 2,687 shares using his 2019 bonus in March 2020. Jason has also agreed to invest all bonus he receives for FY21 above 90% of salary (after paying tax and national insurance) in Bellway shares.

The Committee did not exercise discretion in relation to Directors' remuneration arrangements during the year. The Committee believes that the manner in which it sets and operates this policy is clear to executives and is aligned to our corporate culture. We operated it with regard to risks inherent in the business and marketplace, providing the opportunity for executives to earn rewards in a manner which is proportionate to the value delivered against clear targets.

The normal PSP award level is 150% of salary for executive directors, measured by relative TSR performance against the same two peer groups. The Committee considers this level of award provides a strong focus on incentivising long-term, sustained performance. However, if the share price is significantly below the price at which awards were made last year, the Committee will, at the time of grant, consider whether it would be appropriate to scale the grant back.

Concluding remarks

The Committee continues to monitor changes in best practice and corporate governance to ensure the policy, how it is operated and our disclosures remain appropriate. We hope you are supportive of the approach we have taken during these unprecedented times and will support the resolutions approving this report and the policy at the 2020 AGM.

We will be engaging with shareholders over the coming year as we prepare an updated policy to be presented to shareholders at the 2021 AGM. If you have any questions or would like to discuss any remuneration-related topics, please contact me through the Group General Counsel & Company Secretary.

Jill Caseberry
Chair of the Remuneration Committee

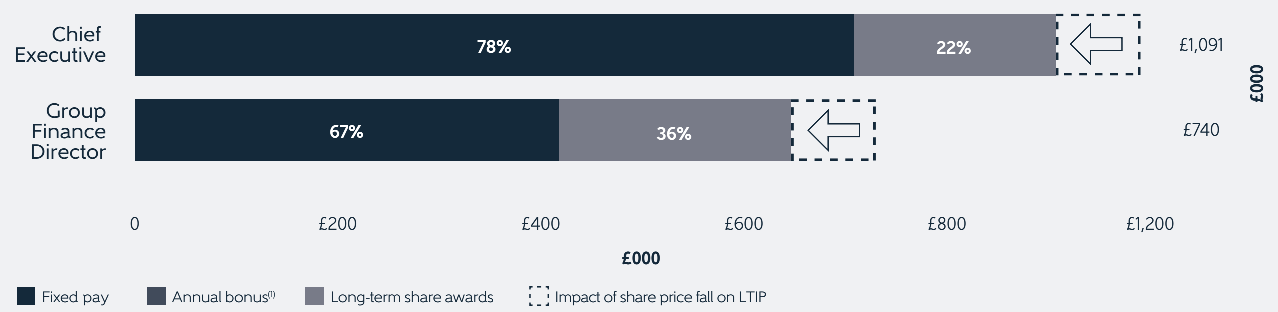
19 October 2020

Remuneration at a glance

How remuneration links to our strategy (see pages 24 and 25 for details of our performance).

Strategic objective	Link to remuneration	Metric	Performance against metric
Volume growth and driving down costs	Annual bonus	Operating profit	Not achieved
Volume growth and focus on RoCE	Annual bonus	Sufficient land bank of plots with DPP	Not achieved
Strengthening the brand	Annual bonus	Achieve 5 star homebuilder status	Achieved
Strengthening the brand	Annual bonus	Customer satisfaction score	Not achieved
Appointing the right people	Underpin to annual bonus	Overall health and safety performance	Achieved
Value creation through capital and dividend growth	Long-term incentive plan	Relative TSR against two comparator groups	Partly achieved

How our executive directors were paid during 2019/20



1. No annual bonus payable.

Bonus outcomes – see page 76

The 2019/20 bonus was based on financial and strategic targets. Whilst the strategic measures were achieved in part, given that the threshold operating profit target was not met, there will be no payment under these metrics.

Strategic objective	Weighting (% of salary)	Threshold (39% pays out)	Maximum value (100% pays out)	Actual[(1)(2)]	Payment (% of maximum)	Payment (% of salary)
Operating profit (pre-exceptional)	85%	£620 million	£680 million	£322.7 million	Nil%	Nil%

Strategic objectives and performance against target		Score
Land bank	The land bank of plots with DPP (available for completion in the following financial year) fell below the base target.	Not achieved – Nil% of salary awarded.
Customer care	We retained our 5 star homebuilder status.	Achieved in full – Nil% of salary awarded.
	The Group's customer satisfaction score in 2020 was 85.5% compared with the base of 86.4%.	Not achieved – Nil% of salary awarded.
	We achieved a 80.2% score for our eight-week 'standard of finish' target compared with the base of 82.6%.	Not achieved – Nil% of salary awarded.

Note:

1. For operating profit and land bank bonus purposes, targets and outcomes include joint ventures.
2. Pre-exceptional.

LTIP outcomes – see page 77

The PSP awards granted in 2017/18 were based on a three-year TSR performance for the period to 31 July 2020.

Metric	Performance condition	Threshold target	Stretch target	Actual	% vesting
50% of awards	Relative TSR against an index of peer housebuilders	–3.7% TSR (median)	18.8% TSR (median +22.5%)	0.2% Bellway TSR	18.9%
50% of awards	Relative TSR against the FTSE 250 (excluding financial services companies and investment trusts)	Rank 79 (median)	Rank 40 (upper quartile)	Rank 62 Bellway	28.8%
Total					**47.7%**

Annual Report on Remuneration

Committee membership and activity

The Committee met seven times during the year and details of the Committee members and their attendance are set out in the table below.

Membership and meeting attendance

Director	Date appointed to the Committee	Number of meetings attended during the year
Jill Caseberry (Chair)	1 October 2017 (appointed as Committee Chair on 13 December 2017)	7/7
Paul Hampden Smith	1 August 2013	7/7
Denise Jagger	1 August 2013	7/7
Ian McHoul	1 February 2018	7/7

The operation of the Committee is conducted by reference to its terms of reference which have been prepared to comply with relevant statutory, regulatory and corporate governance requirements and best practice and are available at www.bellwayplc.co.uk/investor-centre/governance/committees.

None of the Committee members have a personal financial interest, other than as shareholders, in the matters to be decided. There are no conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business.

The Committee appointed Korn Ferry as independent external advisers following a competitive tender process on 1 January 2019. Korn Ferry do not provide any other services to the Company other than to the Remuneration Committee and the Board Committee on Non-Executive Directors' Remuneration. They are members of the Remuneration Consultants Group and abide by its Code of Conduct. The Committee is satisfied that Korn Ferry are independent. The total fee paid to Korn Ferry for advice to the committees during the year was £78,052 (2019 – £66,225 consisting of £41,043 to Korn Ferry and £25,182 to the previous adviser, New Bridge Street). The Committee also benefited from advice received from the Group General Counsel & Company Secretary on issues other than those relating to his own remuneration.

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

Main focus in 2019/20

- Approve the bonus payments and long-term incentive awards vesting levels for the 2018/19 year.
- Approve the 2018/19 Remuneration Report.
- Set the bonus targets for the 2020/21 year.
- Make awards under the long-term incentive scheme.
- Review and determine the remuneration packages for the executive directors and the Group General Counsel and Company Secretary, and the first tier of management below Board level.
- Review remuneration policies for senior management below Board level and the wider workforce.
- Consider impact of COVID-19 and reflect on executive remuneration

Focus areas for 2020/21

- Approve the bonus payments and long-term incentive awards vesting levels for the 2019/20 year.
- Approve the 2019/20 Remuneration Report.
- Set the bonus targets for the 2021/22 year.
- Make awards under the long-term incentive scheme.
- Review and determine the remuneration packages for the executive directors and the Group General Counsel & Company Secretary, and the first tier of management below Board level.
- Review remuneration policies for senior management below Board level and the wider workforce.
- Conduct a review of the Directors' Remuneration Policy for approval at the 2021 AGM.

Implementation of remuneration policy in 2019/20

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

Salary and fees for the year ended 31 July 2020

For 2019/20, Jason Honeyman received a salary of £689,000 and Keith Adey received a salary of £400,427. Following the impact of the COVID-19 pandemic, the Board agreed a 20% reduction of salary and fees effective from 1 April until 31 May 2020, which were donated to various charities. The Company match-funded the donations with a contribution to its national charity partner, Cancer Research UK, whose important work and fundraising capacity has been adversely impacted by the pandemic.

Remuneration Report continued

Annual bonus for the year ended 31 July 2020

The annual bonus is payable in November 2020 for performance during the year ended 31 July 2020. The performance targets for the 2019/20 bonus comprised operating profit and two strategic targets.

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

Strategic objective	Weighting (% of salary)	Threshold (39% pays out)	Maximum value (100% pays out)	Actual[(1)(4)]	Payment (% of maximum)	Payment (% of salary)
Operating profit (pre-exceptional)	85%	£620 million	£680 million	£322.7 million	Nil%	Nil%

The threshold profit target was not met meaning there was no payout under the operating profit element. In addition, as this threshold was not met no bonus was payable under the strategic elements.

The basis for payment of the actual bonus against the two strategic measures is set out below:

Strategic pillar	Objectives and performance against target	Opportunity and score
Land bank	Level of land bank plots with detailed planning permission ('DPP') (available for completion in the following financial year) to ensure our growth aspirations are not frustrated by land shortages in future years. A threshold payment of 10% of salary would be triggered for a threshold number of plots with DPP, with an additional 1% payment for further improved performance, up to a maximum of 15% of salary. The land bank targets are commercially sensitive and will be disclosed one year in arrears.[(2)]	Maximum – 15% of salary
	The land bank of plots with DPP (available for completion in the following financial year) fell below the base target.	Not achieved– Nil% of salary awarded
Customer care	Achievement of 5 star homebuilder status (as measured by the HBF).	Maximum – 7.5% of salary
	We retained our 5 star homebuilder status.	Achieved in full – Nil% of salary awarded[(3)]
	Overall customer satisfaction score (as measured by NHBC): No deterioration of the previous year's customer satisfaction score would result in a minimum payment of 3.25% of salary, with an additional bonus opportunity of 1% of salary for each additional 0.5% improvement in the score up to a maximum of 6.25% of salary.	Maximum – 6.25% of salary
	The Group's customer satisfaction score in 2020 was 85.5% compared with the base of 86.4%.	Not achieved – Nil% of salary awarded
	Eight-week survey 'standard of finish' score (as measured by NHBC): Threshold target of 82.6% would result in a payment of 3.25% of salary, with the maximum payment of 6.25% of salary for a score of 84.1%.	Maximum – 6.25% of salary
	The Group's eight-week survey 'standard of finish' score in 2020 was 80.2% and below the threshold target of 82.6%.	Not achieved – Nil% of salary awarded

Note:

1. For operating profit and land bank bonus purposes, targets and outcomes include joint ventures.
2. The 2018/19 base target was set at 11,675 plots with a maximum target of 11,925 plots. The actual performance achieved was 12,033 plots. .
3. Although the 5 star homebuilder status was achieved, no bonus is awarded under the strategic measures where the threshold target for operating profit is not met.
4. Pre-exceptional.

Health and safety performance is taken into account by the Committee as part of its overall assessment of the bonus payment, and the Committee has discretion to reduce the overall bonus payment if it considers that health and safety standards have been unsatisfactory. The Committee is satisfied with the health and safety standards over the year with an improved RIDDOR seven-day reportable incident rate per 100,000 site operatives of 203.12 (2019 – 324.87); the fourth year in a row we have reduced this rate. Bellway also continues to outperform the industry average on the NHBC health and safety incident rate, and have improved the score this year to 0.714 (2019 – 0.856).

Long-term incentives vesting in respect of performance period ended 31 July 2020

The PSP awards granted in 2017/18 were based on a three-year TSR performance for the period to 31 July 2020. The applicable vesting percentages will be as follows:

Metric	Performance condition	Threshold target	Stretch target	Actual	% vesting
50% of awards	Relative TSR against an index of peer housebuilders comprising Barratt Developments PLC, The Berkeley Group plc, Bovis Homes Group PLC, Crest Nicholson Holdings plc, Persimmon plc, Redrow plc and Taylor Wimpey plc ('Index'): 25% of this part of an award vests at the median, increasing pro-rata, to full vesting at median +22.5% (+7.5% p.a.).	-3.7% TSR (median)	18.8% TSR (median +22.5%)	0.2% Bellway TSR	18.9%
50% of awards	Relative TSR against the FTSE 250 (excluding financial services companies and investment trusts): 25% of this part of an award vests at median, increasing pro-rata, to full vesting at the upper quartile.	Rank 79 (median)	Rank 40 (upper quartile)	Rank 62 Bellway	28.8%
Total					**47.7%**

Regardless of TSR performance, no part of an award will vest unless the Committee is satisfied that there has been an improvement in the underlying financial performance of the Group over the performance period.

The Committee agreed that this underpin had been met and considered there were no circumstances that warranted the exercise of discretion. As a result, the following awards are expected to vest in November 2020, and will be subject to a two-year post-vesting holding period whereby shares may not be sold, other than to pay tax, until November 2022.

Director	Value on award £000	Number of shares at grant	Vesting (% of max)	Guaranteed number of shares to vest	Share price change[1] £000	Dividend equivalent £000	Estimated value at vesting[1] £000
Jason Honeyman	580	16,822	47.74	8,030	(67)	27	237
Keith Adey	580	16,822	47.74	8,030	(67)	27	237

Notes:

1. Based on a share price of £26.19, being the average share price for the last quarter of the financial year i.e. 1 May – 31 July 2020 as a proxy for the share price at vesting. The estimated value at vesting includes the value of dividend equivalent shares.

Remuneration Report continued

Single figure of total remuneration (audited)

		Salary and fees[4] £	Taxable benefits[5] £	Pension[6] £	Annual bonus £	Sub-total £	Long-term incentives[7] £	Other items[8] £	Total £	Total fixed remuneration £	Total variable remuneration £
Non-executive Chairman											
Paul Hampden Smith[1]	**2020**	**213,962**	**–**	**–**	**–**	**213,962**	**–**	**–**	**213,962**	**213,962**	**–**
	2019	162,837	–	–	–	162,837	–	–	162,837	162,837	–
Executive directors											
Jason Honeyman[2]	**2020**	**666,034**	**44,905**	**137,800**	**–**	**848,739**	**237,426**	**4,500**	**1,090,665**	**848,739**	**241,926**
	2019	530,000	32,424	106,000	406,351	1,074,775	145,285	–	1,220,060	668,424	551,636
Keith Adey	**2020**	**387,079**	**33,200**	**80,085**	**–**	**500,364**	**237,426**	**2,250**	**740,040**	**500,364**	**239,676**
	2019	392,575	32,424	78,515	300,987	804,501	227,367	3,748	1,035,616	503,514	532,102
Non-executive directors											
Denise Jagger[3]	**2020**	**67,232**	**–**	**–**	**–**	**67,232**	**–**	**–**	**67,232**	**67,232**	**–**
	2019	65,700	–	–	–	65,700	–	–	65,700	65,700	–
Jill Caseberry	**2020**	**67,232**	**–**	**–**	**–**	**67,232**	**–**	**–**	**67,232**	**67,232**	**–**
	2019	68,200	–	–	–	68,200	–	–	68,200	68,200	–
Ian McHoul	**2020**	**67,232**	**–**	**–**	**–**	**67,232**	**–**	**–**	**67,232**	**67,232**	**–**
	2019	64,423	–	–	–	64,423	–	–	64,423	64,423	–
Total	**2020**	**1,468,771**	**78,105**	**217,885**	**-**	**1,764,761**	**474,852**	**6,750**	**2,246,363**	**1,764,761**	**481,602**
	2019	1,283,735	64,848	184,515	707,338	2,240,436	372,652	3,748	2,616,836	1,533,098	1,083,738

Notes:

1. Paul Hampden Smith became Chairman on 12 December 2018. Prior to that date he was a non-executive director and the Audit Committee Chairman. His remuneration for 2018/19 therefore reflects his two roles during the year. His remuneration as Chairman during the 2018/19 year was paid at a rate of £217,000 p.a.
2. Jason Honeyman was promoted to the role of Group Chief Executive with effect from 1 August 2018, with a phased increase to his salary implemented in 2019/20.
3. Denise Jagger became senior independent non-executive director on 1 November 2018 and received an additional fee from that date.
4. The 2019/20 salary and fees reflects the 20% reduction for April and May agreed by the Board due to the negative impact of the COVID-19 pandemic.
5. Taxable benefits include car allowance and health insurance and £11,705 for Jason Honeyman which relates to hotel and travel costs.
6. Pension includes both payments in lieu of pension of £207,885 and contributions to a defined contribution scheme of £10,000. None of the directors are members of the Group's defined benefit scheme and both of the executive directors are members of a defined contribution scheme.
7. The value of long-term incentives in 2020 reflects the vesting of the November 2017 PSP awards, which will be exercisable in 2020/21, including additional shares in lieu of dividends accrued from the date of grant to the date of vesting. The value shown is based on a share price of £26.19, being the average share price for the last quarter of the financial year i.e. 1 May – 31 July 2020 as a proxy for the share price at vesting. The 2019 figures for Jason Honeyman and Keith Adey have been adjusted to reflect the actual share prices at the dates of vesting, which took place after the publication of last year's report.
8. Other items refer to the discount on the awards, during the year stated, under the Group's all-employee savings-related share option scheme.

Directors' share-based rewards and options (audited)

Details all directors' interests in the Company share-based reward schemes are shown.

Jason Honeyman

Scheme	Awards/options held at 1 August 2019	Granted/awarded during the year	Exercised during the year	Lapsed during the year	**Awards/options held at 31 July 2020**	Exercise price/market price at date of award (p)	Date of grant/award	Exercisable/capable of vesting from
PSP[1],[6]	13,143	–	(4,018)	(9,125)	**–**	2,351.0	09.11.2016	09.11.2019
PSP[2],[6]	16,822	–	–	–	**16,822**	3,450.0	10.11.2017	10.11.2020
PSP[3]	28,909	–	–	–	**28,909**	2,750.0	22.10.2018	22.10.2021
PSP[4]	–	30,667	–	–	**30,667**	3,370.0	16.10.2019	16.10.2022
2013 SRSOS[6]	–	712	–	–	**712**	2,528.0	03.12.2019	01.02.2023
Totals	58,874	31,379	(4,018)	(9,125)	**77,110**			

Keith Adey

Scheme	Awards/ options held at 1 August 2019	Granted/ awarded during the year	Exercised during the year	Lapsed during the year	**Awards/ options held at 31 July 2020**	Exercise price/market price at date of award (p)	Date of grant/award	Exercisable/ capable of vesting from
PSP[1]	20,569	–	(6,288)	(14,281)	**–**	2,351.0	09.11.2016	09.11.2019
PSP[2]	16,822	–	–	–	**16,822**	3,450.0	10.11.2017	10.11.2020
PSP[3]	21,413	–	–	–	**21,413**	2,750.0	22.10.2018	22.10.2021
PSP[4]	–	17,823	–	–	**17,823**	3,370.0	16.10.2019	16.10.2022
2013 SRSOS[6],[7]	1,099	–	(1,099)	–	**–**	1,378.0	17.11.2014	01.02.2020
2013 SRSOS[6]	621	–	–	–	**621**	2,414.4	03.12.2018	01.02.2024
2013 SRSOS[6]	–	356	–	–	**356**	2,528.0	03.12.2019	01.02.2023
Totals	60,524	18,179	(7,387)	(14,281)	**57,035**			

Notes:

1. The performance period was 1 August 2016 – 31 July 2019. The TSR performance condition was in two parts. Half was measured by reference to the median of a group of UK housebuilders comprising Barratt Developments PLC, The Berkeley Group plc, Bovis Homes Group PLC, Crest Nicholson Holdings plc, Persimmon plc, Redrow plc and Taylor Wimpey plc ('Housebuilders' Index'). If Bellway's TSR matched that of the median of the companies in that group, 25% of the awards would vest. Full vesting would be achieved for 7.5% per annum outperformance of the median (22.5% in total). The other half was measured by reference to the companies in the FTSE 250 Index (excluding financial services companies and investment trusts). Awards would start to vest at 25% if Bellway's TSR matches the median of the companies in the group, increasing on a straight-line basis so that full vesting would be achieved if Bellway's TSR reached the upper quartile. Regardless of TSR performance, no part of an award will vest unless the Committee is satisfied that there has been an improvement in the underlying financial performance of the Company over the performance period. The first part of the performance condition was vested at 0% and the second at 61.14%, so 30.57% of these awards vested. Dividend equivalents shares were also delivered to the participants in respect of the shares vesting (J Honeyman: 584 shares / K Adey: 914 shares).
2. The performance period for the awards granted in November 2017 finished on 31 July 2020. Details of the vesting of these awards which will take place after this Report is published are set out in full under the heading 'Long-term incentives vesting in respect of performance period ended 31 July 2020' above.
3. The performance period is 1 August 2018 – 31 July 2021. The awards are subject to the same TSR performance condition set out in note 1 above, and these awards are also subject to clawback provisions.
4. On 16 October 2019, awards of performance shares under the PSP were made to Jason Honeyman and Keith Adey, equal to 150% of their respective salaries at the date of grant. The face values on grant of these awards were £1,033,478 and £600,635 respectively. The performance period is 1 August 2019 – 31 July 2022. The awards are subject to the same TSR performance condition set out in note 1 above, and these awards are also subject to clawback provisions. The awards were in the form of nil cost options.
5. All of the above awards set out in notes 1–4 were granted for nil consideration.
6. Further details of the 2013 SRSOS are shown in the summary of outstanding share options in note 25 to the accounts.
7. The gross gain made by Keith Adey on the exercise of his 2013 SRSOS awards in 2020 was £7,264.
8. The value of long-term incentive plans for the executive directors which were exercised in the year and those which will become exercisable in 2019/20 are shown in the single figure of total remuneration table on page 78.
9. The market price of the ordinary shares at 31 July 2020 was 2,546p and the closing range during the year was 1,879p to 4,310p.

Payments to past directors (audited)

Other than payments made to Ted Ayres, as reported in previous reports, no other past director received any payments during the year.

Payments for loss of office (audited)

No payments have been made in respect of loss of office during the 2019/20 financial year.

Statement of directors' shareholdings and share interests (audited)

The directors' interests (including family interests) in the ordinary share capital of the Company at 31 July 2020 are set out below:

Director	**Beneficially owned at 31 July 2020[3]**	% basic salary held by executive directors in shares[1][2]	Shareholding target of 200% of basic salary met?	Beneficially owned at 31 July 2019	Outstanding and unvested PSP awards	Outstanding and unvested share options	Share options exercised in the year
Jason Honeyman	**21,707**	80	In progress	16,586	76,398	712	–
Keith Adey	**69,762**	444	Yes	64,853	56,058	977	1,099
Paul Hampden Smith	**15,842**	N/A	N/A	12,548	N/A	N/A	N/A
Denise Jagger	**2.462**	N/A	N/A	1,250	N/A	N/A	N/A
Jill Caseberry	**470**	N/A	N/A	–	N/A	N/A	N/A
Ian McHoul	**–**	N/A	N/A	–	N/A	N/A	N/A

Notes:

1. Executive directors are required to accumulate a minimum shareholding equivalent to 200% of basic salary. Jason Honeyman joined the Board in September 2017 so has not yet had sufficient time to build the target shareholding from vesting share awards. Jason informed the Committee that he will spend 25% of his 2018/19 and 2019/20 bonuses buying Bellway shares that he will then hold for at least three years. On 26 March 2020 Jason Honeyman purchased the shares in relation to 25% of his 2018/19 bonus Jason has also agreed to invest all bonus he receives in FY21 above 90% of salary (after paying tax and national insurance) in Bellway shares.
2. The % shareholding is based on salaries as at 31 July 2020, these do not reflect the agreed 20% reduction in salaries due to COVID-19 which applied in April and May 2020.
3. Includes shares owned by partner.
4. There has been no change in any of the above interests between 31 July 2020 and the date of this report.

The following section of this report is not required to be audited.

Implementation of remuneration policy in 2020/21

This section sets out how the Company will implement the remuneration policy for the 2020/21 financial year. Full details of how each element will operate are set out in the remuneration policy table later in this report.

The Committee has taken into account the remuneration and related policies for the rest of the workforce generally when setting the 2020/21 targets for the executives.

Basic salaries

The Committee agreed that there shall be no salary increases for the financial year beginning 1 August 2020.

Annual bonus

For the 2020/21 financial year, the bonus opportunity will continue to be limited to 120% of basic salary. The performance conditions relate to a stretching target of adjusted (pre-exceptional) operating profit (with a maximum payment of 85.2% of basic salary achievable) and the following strategic performance measures which provide a maximum bonus opportunity of 34.8% of basic salary. A new metric based on employee engagement will be introduced under the strategic portion, under which up to 6% of salary can be earned (the customer care weighting has been reduced to accommodate this change).

Strategic measure	Objectives	Score
Land bank	Increase in the land bank of plots with DPP (available for completion in the following financial year) in the year to 31 July 2021 to ensure our growth aspirations are not frustrated by land shortages in future years.	Maximum – 16.8% of salary
Customer care	This will be in two parts: • 7.2% of salary for achieving 5 star homebuilder status (as measured by the HBF). • 4.8% of salary linked to customer satisfaction score. The customer satisfaction score element is assessed using the average of six key indicators, as measured by the NHBC. This measure is used as it reflects the metrics by which the performance of each division is managed by the executives.	Maximum – 12% of salary
Employee	Targets relating to the annual employee engagement survey.	Maximum – 6% of salary

In the event that the threshold profit criterion is not met, no bonus will be payable under the strategic targets. Health and safety performance will be taken into account as part of the Committee's overall assessment of the bonus payment.

The Committee would have discretion if, for example, health and safety standards have been unsatisfactory, or there has been a major safety failure, to reduce the overall bonus payment and could, in exceptional cases, reduce the overall bonus payment to nil. Maintaining a strong health and safety record remains a critical objective and this bonus structure allows for health and safety to have a greater influence on annual bonus outcomes.

The actual annual bonus performance targets are considered to be commercially sensitive at this time, and the Committee will disclose these retrospectively in next year's annual report on remuneration, provided they are no longer commercially sensitive.

Long-term incentives

The Company anticipates making a grant under the PSP in October 2020 with a face value equivalent up to 150% of salary to the executive directors. Awards will vest to executives after three years, subject to the achievement of performance conditions based around TSR, which measures the total return on a notional investment in Bellway shares, compared to the return on the same notional investment in shares in a group of other companies or an index. This award will be subject to a relative TSR condition with 50% of awards measured against a group of housebuilders and the other 50% against the constituents of the FTSE 250 (excluding financial services companies and investment trusts). McCarthy & Stone has been added to the housebuilders group. Regardless of the vesting outcome the Committee may adjust the level of vesting (including to nil) to such extent as it considers appropriate to ensure the level of vesting is a true reflection of the overall performance of the Company over the performance period.

Metric	Performance condition	Threshold target	Stretch target
50% of awards	Relative TSR against a group of peer housebuilders comprising Barratt Developments PLC, The Berkeley Group plc, Crest Nicholson Holdings plc, McCarthy & Stone plc, Persimmon plc, Redrow plc, Taylor Wimpey plc and Vistry Group PLC (previously called Bovis Homes Group PLC): 25% of this part of an award vests at the median, increasing pro-rata, to full vesting at median +7.5% p.a.	Median	Median +7.5% p.a.
50% of awards	Relative TSR against the FTSE 250 (excluding financial services companies and investment trusts): 25% of this part of an award vests at median, increasing pro -rata, to full vesting at the upper quartile.	Median	Upper quartile

Chairman and non-executive director fees from 1 August 2020

	Fee from 1 August 2019 £	% increase	Fee from 1 August 2020 £
Non-executive Chairman fee	221,340	**0%**	**221,340**
Non-executive director fee	58,200	**0%**	**58,200**
Senior independent Non-Executive Director, Audit and Remuneration Committee Chair fees	11,350	**0%**	**11,350**

There were no increases in fees for the Chairman and non-executive directors.

The Company's Articles of Association specify an annual limit on non-executive director fees of £500,000. This excludes the fees for the Chairman and additional fees payable to the Senior Independent Non-Executive Director and to Committee Chairs. Shareholder approval is required to amend this limit.

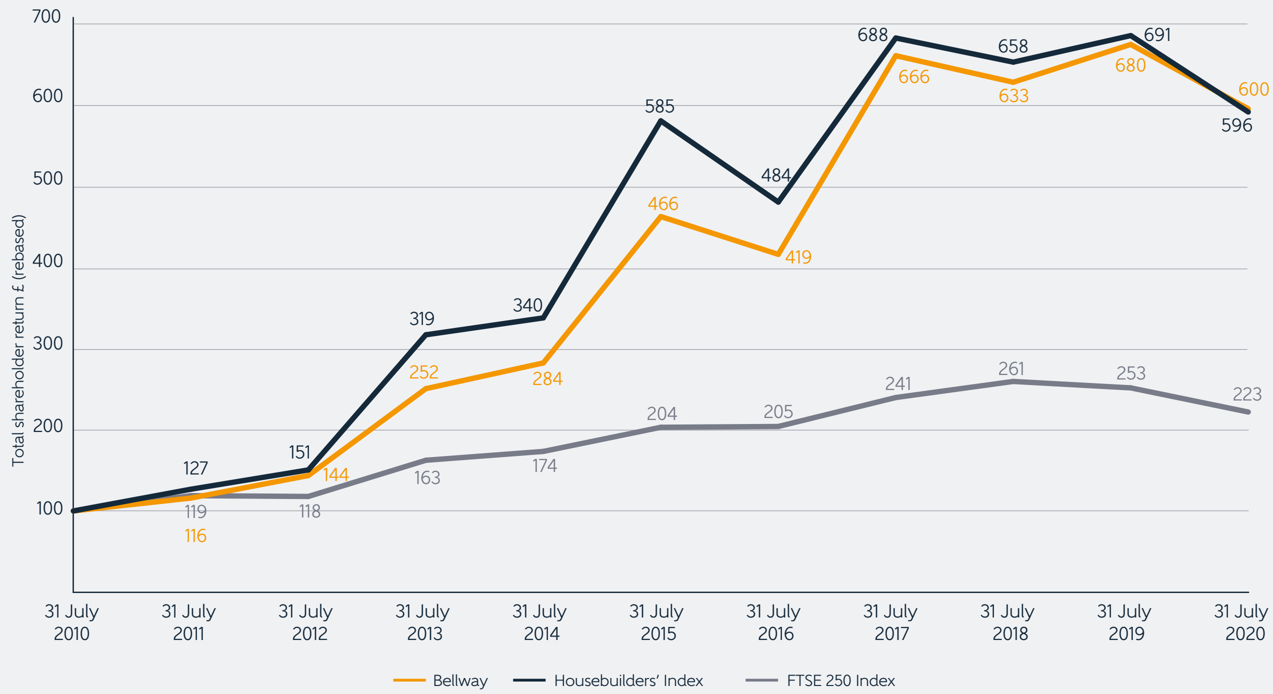
Performance graph and table

The graph below shows the TSR performance over the past ten years of the Company, the FTSE 250 Index and the bespoke Housebuilders' Index (as defined in note 1 on page 78). The FTSE 250 Index has been selected as the most appropriate 'broad equity market index' as the Company has been a constituent of the FTSE 250 Index over this period. The bespoke Housebuilders' Index has been selected as these companies have been used for the Company's long-term incentive plans.

This graph shows the value, at 31 July 2020, of £100 invested in Bellway on 31 July 2010 compared with the value of £100 invested in the FTSE 250 Index and £100 invested equally in each of the other housebuilders. The other points plotted are the values at intervening financial year ends.

Total shareholder return

Source: Datastream (Thomson Reuters)



Group Chief Executive total remuneration

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

	2011	2012	2013	2014	2015	2016	2017	2018[3]	2019[4]	**2020[5]**
Total remuneration (£000)	1,899	1,396	1,243[1]	1,450	1,960	2,785	3,468	1,737	1,220[2]	**1,091**
Annual bonus paid (as % of maximum)	100.0%	99.3%	100.0%	91.6%	88.8%	95.8%	93.8%	0.0%	76.7%	**0.0%**
PSP vesting (as a % of maximum)	99.6%	0.0%	0.0%	50.0%	50.0%	100.0%	100.0%	99.8%	30.6%	**47.7%**

Notes:

1. John Watson held the role of Group Chief Executive up until 31 January 2013 and Ted Ayres was Group Chief Executive for the remainder of the financial year from 1 February 2013 to 31 July 2013. The total remuneration for the period as Group Chief Executive was £714,053 for John Watson and £528,500 for Ted Ayres.
2. Restated as per footnote 7 to the table on page 78.
3. Ted Ayres was absent during the 2017/18 financial year due to ill health and so the figures shown are lower than would normally be expected if he had been at work during the year.
4. Jason Honeyman was appointed as Group Chief Executive on 1 August 2018.
5. The value of long-term incentives in 2020 reflects the vesting of the November 2017 PSP awards, which will be exercisable in 2020/21, including additional shares in lieu of dividends accrued from the date of grant to the date of vesting. The value shown is based on a share price of £26.19, being the average share price for the last quarter of the financial year i.e. 1 May – 31 July 2020 as a proxy for the shares at vesting.

Percentage change in remuneration of directors compared to workforce

The table below shows the percentage change in base salary, benefits and bonus between FY19 and FY20 in respect of the directors of the Company and the average for all other employees. Over time, the percentage change over five years will eventually be disclosed.

	% Change in salary/ fees FY19-FY20[2]	**% Change in Benefits FY19-FY20**	**% Change in Bonus FY19-FY20[3]**
All other employees	+2	Nil	-100
J Honeyman (Group Chief Executive)[1]	+25.6	+38.5	-100
K Adey (Group Finance Director)	-1.4	+2.4	-100
P Hampden Smith (Chair)[4]	+31.4	n/a	n/a
D Jagger (INED)	+2.3	n/a	n/a
J Caseberry (INED)	-1.4	n/a	n/a
I McHoul (INED)	+4.4	n/a	n/a

1. Upon appointment as Group Chief Executive, the Board had agreed a salary increase for Jason Honeyman to be implemented for the financial year beginning August 2019. Details of Jason's benefits are included in note 5 to the table on page 78.
2. The comparative figures used for the Board are the actual salary and fees paid as per the Single figure of remuneration table on page 78, this also reflects the 20% reduction in salary and fees in April and May 2020 due to the COVID-19 pandemic.
3. No bonus award was made in the current financial year.
4. Paul Hampden Smith was appointed Chairman on 12 December 2018 and as such his 2018/19 total fees cover both the period he was a non-executive director and also the period he was Chairman. The Chairman's fee increased by 2% with effect from 1 August 2019.

CEO pay ratio

We are publishing our CEO pay ratio figures for the current year. Over time, ten-years ratios will eventually be disclosed.

		Upper quartile			Median			Lower quartile		
Financial year	Method	Pay ratio	Total pay and benefits £	Salary component £	Pay ratio	Total pay and benefits £	Salary component £	Pay ratio	Total pay and benefits £	Salary component £
2018/19	A	19:1	62,168	50,200	28:1	42,845	22,647	40:1	29,858	23,305
2019/20	**A**	**18:1**	**60,675**	**24,400**	**27:1**	**40,415**	**22,000**	**43:1**	**25,580**	**25,200**

The pay ratios have been calculated as at 31 July 2020 using Option A of the Regulations, that is, the full-time equivalent pay and benefits for all of our employees to identify those employees on the quartiles. Employee benefits include company car, car allowance, private medical, employer pension contributions and share option gains. With the exception of the annual bonus, all other payments are included on a cash basis. The annual bonus element for the Group Chief Executive and all other employees is the bonus earned during the 2019/20 financial year which is usually paid in November 2020. The annual bonus earned by employees during the year will not be known until after the date of this report, therefore management's best estimates have been used.

Importance of remuneration relative to dividends and section 106 and CIL payments

The table below shows the relative expenditure of the Group in respect of employee remuneration, dividends and section 106 and CIL payments, together with the percentage change in each, for the financial years ended 31 July 2019 and 31 July 2020. The directors have chosen dividends and section 106 and CIL payments as comparators to employee costs as they consider that these demonstrate the relative importance of the remuneration of its employees to the returns the Group generates to shareholders and the contribution it makes to developing communities through section 106 and CIL payments.

	2020 £m	2019 £m	% charge
Employee costs(1)	**158.1**	167.1	-5.4
Dividends(2)	**61.7**	185.1	-66.7
Section 106 and CIL payments(3)	**60.5**	77.3	-21.7

Notes:

1. Employee costs are calculated as wages and salaries, bonus and taxable benefits (including the directors).
2. The dividend figures shown are the interim and final dividends paid or payable for the relevant financial year less forfeited dividends (see note 6 to the accounts).
3. The section 106 and CIL payments figures are calculated from invoices received for these payments.

Dilution limits/shares held in Trust to satisfy awards

The Bellway Employee Share Trust (1992) (the 'Trust') holds market-purchased shares to satisfy awards made under some of the Company's executive and employee share schemes. At 31 July 2020 the Trust held 43,809 shares. It is the Company's current intention to use new issue shares to satisfy awards made under the PSP. Awards made under the deferred bonus plans (to which the executive directors are not eligible) must be satisfied using market-purchased shares. The SRSOS uses new issued shares. The Company's share plans comply with the IA guidance on dilution limits and the position as at 31 July 2020 was:

Limit of 5% in any ten years under all executive share plans	Actual 0.05%
Limit of 10% in any ten years under all share plans	Actual 0.08%

Statement of voting at AGMs

The votes cast by proxy at AGMs in relation to resolutions regarding directors' remuneration are set out in the table below:

	Directors' Remuneration Policy (binding vote at AGM on 13 December 2017)		**Remuneration Report (advisory vote at AGM on 10 December 2019)**	
	Number of votes	**% of votes cast**	**Number of votes**	**% of votes cast**
For	84,362,645	97.451	92,413,256	98.612
Against	2,206,550	2.549	1,301,042	1.388
Total votes cast (excluding votes withheld)	**86,569,195**	**100.000**	**93,714,298**	**100.000**
Votes withheld	578,001		6,227	

The main shareholders were consulted with respect to the approach to rolling over the current policy for a further year, with minimal changes, with a full review and updated policy being tabled at the 2021 AGM. As a result of the feedback received it was agreed that this policy would state that the directors' pensions rate would be aligned with the workforce by the end of 2022.

At the AGM on 11 December 2020, the Company's shareholders will have an advisory vote on the Remuneration Report and a binding vote on the Directors' Remuneration Policy. I hope you are supportive of the approach we have taken and understand the rationale for the decisions we have taken.

On behalf of the Board

Jill Caseberry
Chair of the Remuneration Committee

19 October 2020

Directors' Remuneration Policy

This part of the remuneration report, the Directors' Remuneration Policy, has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The overall remuneration policy has been developed in compliance with the principles of the 2018 UK Corporate Governance Code, UK institutional investor guidance and the Listing Rules.

The remuneration policy set out on the following pages is submitted to shareholders for approval at the AGM on 11 December 2020. It is the Company's current intention that this Policy will only apply for one year, with a new policy being presented to shareholders at the AGM in December 2021.

Summary of changes

Summary of changes	
Pension	The new policy requires that the rate of pension for current incumbents will be aligned with the rate applicable to the wider workforce at the end of 2022. The recruitment policy also specifies that any new director would be appointed with a pension rate in line with the wider workforce.
Malus and clawback	The provisions were updated in 2019 to include scenarios of corporate failure and reputational damage and these are now formally included in the policy.

Policy principles

The Directors' Remuneration Policy is aligned with the principles within the 2018 UK Corporate Governance Code and these principles are taken into account in its implementation:

Principles	Considerations within the Policy
Clarity: remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	We clearly communicate our approach to remuneration in this report and in all communications with shareholders whilst providing transparency in our rationale. This also allows straightforward engagement with the wider workforce.
Simplicity: remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	We have structured the Remuneration Policy to be as simple as possible, within the confines of ensuring arrangements are in line with the business strategy, have a robust link between pay and performance and are designed with consideration of investor expectations.
Risk: remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	We mitigate against these risks through a carefully designed policy which includes a balance between financial and non-financial bonus metrics, a Performance Share Plan which is based on long-term performance, deferral of a portion of the annual bonus into shares, and shareholding requirements. The Committee also has the ability to apply discretion and clawback provisions if incentive payment levels are inappropriate.
Predictability: the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	We carefully consider the range of likely performance outcomes for incentive plans when setting performance target ranges and at the time of assessment would use discretion where necessary if the formulaic result is considered inappropriate.
Proportionality: the link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	The opportunity under incentive plans is determined based on a proportion of salary with the quantum determined to ensure that there is an appropriate link between pay and performance. The performance conditions applying to the incentives are aligned with the Company's strategy and are reviewed on an annual basis to consider whether they are working effectively. There are provisions to override the formula-driven outcome of incentive plans and clawback provisions to ensure that there is not reward for poor performance.
Alignment to culture: incentive schemes should drive behaviours consistent with company purpose, values and strategy.	The annual bonus is based on both financial and non-financial metrics aligned with the strategy incentivising the profitability of the company whilst maintaining a focus on our customers and the quality of our service.

Objectives of remuneration policy

The aim of the Committee is to ensure that the Company has competitive remuneration packages in place that will promote the long-term success of the Company and motivate executive directors in the overall interests of shareholders, the Group, its employees and its customers.

The Committee has a policy of paying a level of remuneration comparable with that at a peer group of similar UK housebuilding businesses, subject to experience and performance.

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

The structure of the performance conditions for annual bonus and long-term incentives has been designed to provide a strong link to the Group's performance, namely a focus on maximising profit in a sustainable fashion and producing superior shareholder returns, thereby generating a strong alignment of interest between senior executives and shareholders. The two-year post-vesting holding period which applies to the long-term incentive plan (which also applies to good leavers) reinforces that alignment.

Decision-making process

The Committee is responsible for the determination of the Directors' Remuneration Policy and how it is implemented. In addressing this responsibility the Committee works with management and external advisers to develop proposals and recommendations. The Committee considers the source of information presented to it, analyse the detail and ensures that independent judgement is exercised when making decisions. Information is independently verified where there are conflicts of interest and no individual is present when their remuneration is being discussed.

Consideration of employment conditions elsewhere in the Group

Whilst we do not consult directly with employees when drawing up the executive remuneration policy, our employee listening groups provide an opportunity for employees to raise issues which are reported to the Board. In determining the elements of remuneration for the executive directors the Committee takes into consideration the pay and conditions of employees throughout the Group as a whole, paying particular attention to the levels of basic pay increase awarded to the workforce generally.

All eligible employees, including the executive directors, can join the Group's savings-related share option arrangements, have life assurance benefits and have access to pension arrangements. A significant proportion of employees benefit from health insurance, a company car or car allowance and are eligible to participate in a discretionary bonus scheme.

The Committee is apprised regularly of any significant policy changes for the workforce generally and management below Board level in particular.

Clawback/malus

The time period over which clawback/malus will apply to bonuses in respect of bonus years commencing and PSP awards granted after 1 August 2018 is at any time before the third anniversary of payment of bonus or vesting of PSP award, as relevant.

Incentive plan discretions

The Committee will operate the annual bonus plan and PSP in accordance with their respective rules. As part of the rules the Committee holds certain discretions which are required for both an efficient operation and administration of these plans, and are consistent with standard market practice. Any use of the discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Choice of performance measures and approaches to target-setting

The performance measures used in the annual bonus and long-term incentive plan are aligned with the Company's KPIs and the business strategy.

For the annual bonus, operating profit is an appropriate barometer of short-term performance. Customer care and land bank are important drivers of future growth and employee metrics and maintaining a strong health and safety record is very important to our employee base and the Group. Recognising the importance of our employees, a new metric based on employee engagement, will be introduced this year.

The Committee believes that relative TSR is an appropriate long-term performance metric as it generates an alignment of interest between executives and institutional shareholders by providing a reward mechanism for delivering superior stock market performance. The TSR performance is independently calculated for the Committee by the Company's brokers.

Targets for incentive plans are set to be stretching but achievable, taking into account internal and external reference points, including internal forecasts and market consensus.

Policy table

This section of the report describes the key components of each element of the remuneration arrangements for executive and non-executive directors.

Component and link to strategy	Operation	Maximum opportunity	Framework to assess performance
Salary			
To be market competitive and therefore assist in recruiting, retaining and motivating high-quality executives. Reflects individual role and experience	Salaries are normally reviewed in July each year and changes normally take effect from 1 August. They are typically determined by reference to market levels of a peer group of similar UK housebuilding businesses, taking account of salaries at other companies of a similar size, and by taking account of the role, performance, and experience of the individual, Company performance, salary increases throughout the rest of the business and economic conditions. Where salaries of new executive directors are positioned below market levels, the Committee's policy is to progress these over time, with increases potentially higher than for the general workforce, as experience is gained, subject to performance.	No prescribed maximum. Increases are normally in line with the average for the workforce generally. Increases may be below or above this e.g. due to promotion, change in responsibility or experience, role change or a significant change in the size, value and/or complexity of the Company. Salaries are set out in the Annual Report on Remuneration.	In addition to the reviews by the Chairman, as part of the annual Board evaluation, the performance of the executives and the Company is kept under continuous review by the Board.
Pension			
To provide a structure and value that is market competitive	Pension contributions into the Company's Group Self Invested Personal Pension Plan and/or a salary supplement in lieu of pension contributions.	Up to 20% of salary. The rate for current Directors will be aligned with that of the workforce at the end of 2022.	Not applicable.
Benefits			
To provide a range and value that is market competitive	Typically comprises car or car allowance, life assurance and health insurance. Other benefits may be provided where appropriate. Any expenses incurred in carrying out duties will be fully reimbursed by the Company including any personal taxation associated with such expenses.	Not applicable.	Not applicable.

Component and link to strategy	Operation	Maximum opportunity	Framework to assess performance
Annual bonus			
To reward achievement with a combination of financial and non-financial operational-based performance targets in accordance with Group KPIs.	Annual bonuses are normally payable in cash in November following the year end on 31 July, subject to the achievement of performance targets that were set at the start of the financial year. The Company operates a recovery mechanism which allows the Company to clawback some or all of the payments made under the variable components of an individual's remuneration, in the following circumstances: (i) material misstatement of results; (ii) error in assessing a performance condition; (iii) gross misconduct by the individual; (iv) in the case of corporate failure; or (v) in the case of material reputational damage.	120% of basic salary maximum.	The bonus may be based on a combination of financial and strategic objectives, with financial performance accounting for a majority of the overall bonus opportunity. The Committee determines the choice of measure(s) and their weighting for each year to ensure alignment with the Board's priorities and Company strategy over the short to medium term. The level of payout at threshold for financial metrics will not be more than 40% of maximum, and varies for non-financial metrics. Full vesting will take place for equalling or exceeding maximum, subject to the health and safety underpin. The Committee has discretion to adjust the payment outcome to ensure it reflects the individual's contribution and/or the overall performance of the Company over the performance period. Details of the performance measures used are set out in the Annual Report on Remuneration.
Share ownership guideline for executive directors			
To align executive directors' interests with those of shareholders.	Executive directors are required to accumulate a minimum shareholding equivalent to 200% of basic salary. Within a period of three months of appointment an executive director must acquire a minimum of 1,000 ordinary shares in the Company and must retain at least 50% of any shares awarded under the PSP, after allowance for paying tax, until the requisite number of shares has been accumulated. If personal circumstances make this difficult, the Committee would exercise discretion.	Not applicable.	Not applicable.

Component and link to strategy	Operation	Maximum opportunity	Framework to assess performance
Long-term incentives ('PSP')			
To encourage long-term value creation, aid retention, encourage shareholding and promote alignment of interests with shareholders.	The Company operates a PSP as its primary long-term incentive. Annual awards of nil-cost options or conditional awards may be made under the PSP to the executive directors, at the discretion of the Committee. Awards normally vest three years after grant, subject to the achievement of stretching performance targets. Dividend equivalents (in cash or shares) may be payable, and will only accrue during the vesting and holding period on awards that ultimately vest. The Company operates recovery and withholding mechanisms which allow the Company, in exceptional circumstances, to clawback some or all of the payments made, or recover unvested awards, in the following circumstances: (i) material misstatement of results; (ii) error in assessing a performance condition; (iii) gross misconduct by the individual; (iv) in the case of corporate failure; or (v) in the case of material reputational damage. A minimum holding period of two years applies to awards post vesting.	150% of basic salary.	PSP awards are subject to stretching three-year targets. The current awards are subject to relative TSR conditions against relevant comparator companies. 25% will vest at threshold with full vesting taking place for equalling or exceeding maximum. For future awards the Committee may choose a financial measure, such as EPS, RoCE or NAV, in conjunction with or as an alternative to TSR, depending on the medium to long-term priorities of the Group at the time of grant. If the Committee decides to introduce a financial measure, it will carry out prior consultation with major shareholders. The Committee has discretion to adjust the vesting outcome in exceptional circumstances to ensure it is a true reflection of the overall performance of the Company over the performance period. Further details of the performance metrics applying to the awards are set out in the Annual Report on Remuneration.
All-employee share schemes			
To encourage employees to build a stake in the future of the Company.	The executive directors can participate in any HMRC-approved all-employee plans operated by the Company.	Subject to prevailing HMRC limits.	Not applicable.

Component and link to strategy	Operation	Maximum opportunity	Framework to assess performance
Chairman and non-executive directors			
To set appropriate fees in light of the time commitment, responsibilities, wider market and best practice.	The Chairman's fee is determined by the Remuneration Committee. The remuneration of the non-executive directors is determined by the Board Committee on Non-Executive Directors' Remuneration, which comprises the executive directors. Fee levels are normally reviewed annually, taking into account the time commitment and responsibilities of the roles including membership or chairmanship of Board committees and the level of fees for similar positions in comparable companies. Non-executive directors are not normally entitled to any benefits or pension. They do not participate in any bonus or long-term incentive plans and they are not entitled to compensation on termination of their arrangements, other than normal notice provisions of three months given by either party. Travel, accommodation and other related expenses incurred in carrying out the role will be paid by the Company including any personal taxation associated with such expenses.	Not applicable.	The performance of the non-executive directors is assessed by the Chairman. The senior independent non-executive director reviews the performance of the Chairman in conjunction with the directors.

For the avoidance of doubt, under this Directors' Remuneration Policy, authority is given to the Company to honour any commitments entered into with current or former directors that is consistent with the approved remuneration policy in force at the time the commitment was made (or, if made before the current policy was approved, as have been disclosed previously to shareholders), or was made at the time when the relevant individual was not a director of the Company. Details of any payments made to former directors will be set out in the Annual Report on Remuneration as they arise.

Approach to recruitment remuneration

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

Element	General policy	Detail
Salary	At a level required to attract the most appropriate candidate.	Discretion to pay lower basic salary with incremental increases, potentially higher than for the general workforce, as new appointee becomes established in the role.
Pension and benefits	In accordance with Company policies.	Additional benefits in relation to recruitment may be provided where considered appropriate, for example, relocation expenses or allowances, legal fees and other recruitment-related costs may be payable. Any new director's pension contributions will be in line with the wider workforce. The current employer pension contribution rate is between 5% and 10% of salary.
Bonus	In accordance with existing schemes.	Depending on the timing of recruitment, bespoke targets could be introduced for an individual within the maximum individual limits of the annual bonus plan applicable at the time. Pro-rating would be applied as appropriate for intra-year joiners.
Long-term incentives (PSP)	In accordance with Company policies and maximum limits in the PSP rules.	An award may be made in the year of joining or, alternatively, the award can be delayed until the following year. Targets would normally be the same as for other directors and grant levels consistent within the permitted individual maximum under the rules of the plan and this policy.
Buyout of forfeited remuneration	The Committee may make an award in cash or shares to replace deferred or incentive pay forfeited by an executive leaving a previous employer (and, if required, by relying on the flexibility provided in the Listing Rules to grant such replacement awards).	Awards would, where possible, be consistent with the awards forfeited in terms of the vehicle, structure, vesting periods, expected value and performance conditions.

Service contracts and loss of office payment policy

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

Executive director	First appointed as a director	Current contract commencement date	Notice period from employer	Notice period from executive
Jason Honeyman	1 September 2017	1 August 2018	6 months	6 months
Keith Adey	1 February 2012	1 February 2012	12 months	6 months

The executive directors may accept external appointments provided that such appointments do not, in any way, prejudice their ability to perform their duties as executive directors of the Company. The extent to which any executive director is allowed to retain any fees payable in respect of such appointments, or whether such fees are remitted to the Company, will be assessed on a case-by-case basis. Neither of the executive directors currently holds any outside appointments.

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

Non-executive director	First appointed as a director	Current letter of appointment commencement date	Current letter of appointment
Paul Hampden Smith	1 August 2013	12 December 2018	12 December 2021
Denise Jagger	1 August 2013	1 August 2019	31 July 2022
Jill Caseberry	1 October 2017	1 October 2017	30 September 2023
Ian McHoul	1 February 2018	1 February 2018	31 January 2021

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

The Company may pay statutory claims. Reasonable costs of legal expenses incurred by the director may be reimbursed by the Company by making direct payment to the professional adviser.

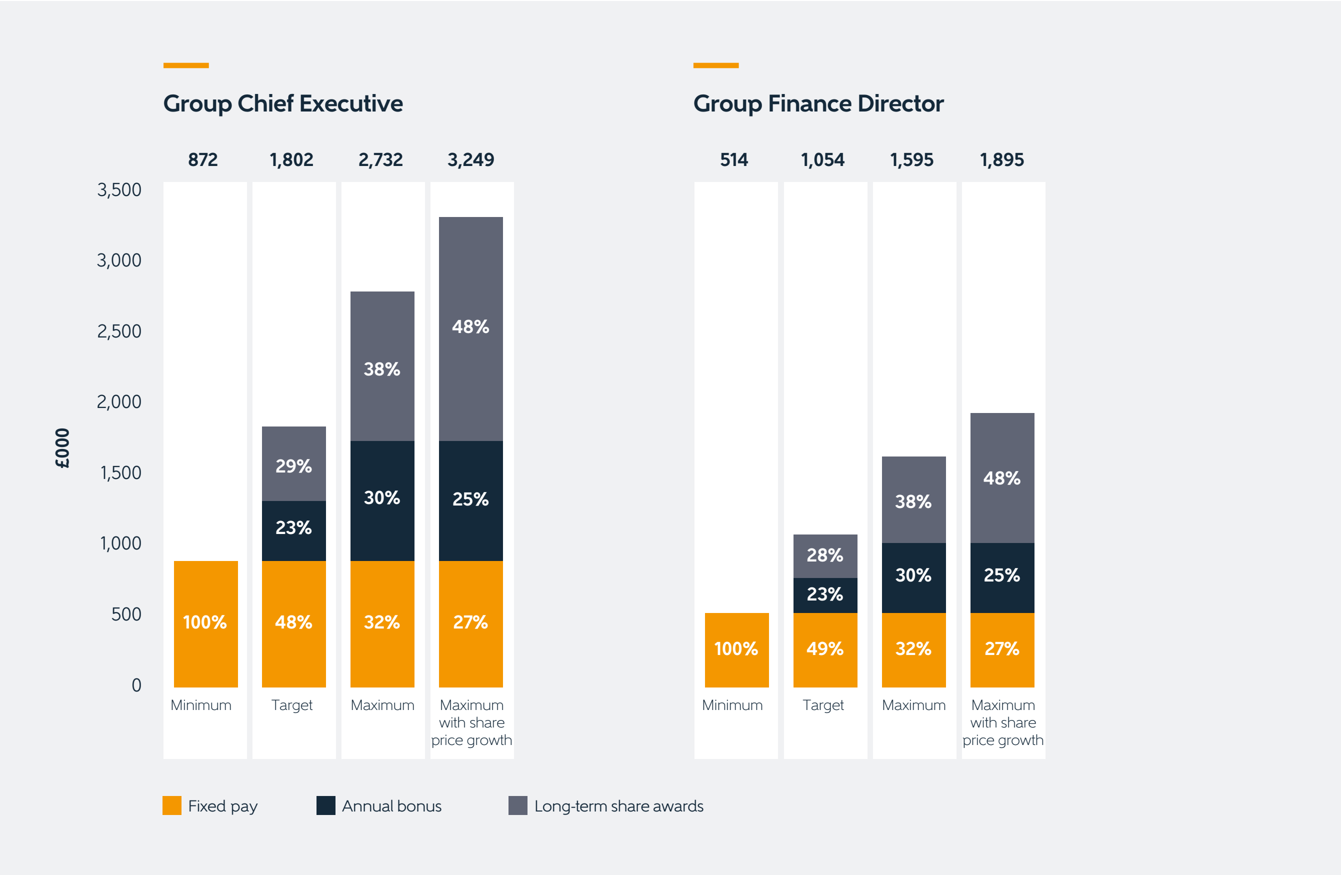
Element	Bad leaver[1]	Departure on agreed terms[2]	Good leaver[3]
Salary, pension and benefits (after cessation of employment)	Nil.	Up to 12 months' basic salary, benefits and pension. Payments may be phased and subject to offsetting against alternative income from elsewhere during the notice period.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

Notes:

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

Illustrations of application of current remuneration policy

The remuneration policy results in a significant portion of remuneration received by executive directors being dependent on the Group's performance. The chart below illustrates how the total pay opportunities for the executive directors vary under three performance scenarios: minimum, target and maximum. The chart is indicative, as share price movement and dividend accrual have been excluded unless otherwise noted.



Notes:

1. Chart labels show proportion of total package comprised of each element.
2. Assumptions:
   - Minimum: fixed pay only (salary + benefits + pension/pay in lieu of pension). Salary is based on actual for 2020/21, benefits are based on the value of actual benefits received in 2019/20 and pension/pay in lieu of pension is based on policy of 20% of salary applicable in 2020/21.
   - Target: fixed pay plus 50% of maximum bonus payment plus PSP award of 150% of salary with 50% of the award vesting.
   - Maximum: fixed pay plus 100% of maximum bonus payment plus PSP award of 150% of salary with 100% of the award vesting.
   - Maximum with share price increase: the Maximum scenario with the impact of a 50% increase in share price on the PSP illustrated.

Directors' Report

Simon Scougall
Group General Counsel & Company Secretary

The directors have proposed a final ordinary dividend for the year ended 31 July 2020 of 50.0p per share.

The directors of Bellway p.l.c. present their report in accordance with section 415 of the Companies Act 2006.

Bellway p.l.c. is the holding company of the Bellway group of companies and is a UK publicly listed company whose shares are traded on the London Stock Exchange. The main trading company is Bellway Homes Limited and this and all other subsidiaries and joint arrangements of the Group are listed in note 27 to the accounts.

The following table sets out where information can be found which is required to be reported on in the Directors' Report, but has been included elsewhere in the Annual Report and Accounts, and is simply cross-referenced here to avoid repetition.

Topic	Page number
Directors	52 to 53
Appointment and replacement of directors	58 and in the Articles
Directors' interests	79
Future developments	31 of the Strategic Report
Group undertakings	132
Environmental issues	44 and 45 of the Strategic Report
s172 statement/reporting	12 of the Strategic Report
Greenhouse gas emissions	45 of the Strategic Report
Whistleblowing	71
Financial risk management	41 of the Strategic Report
Going concern	42 of the Strategic Report

Results and dividends

The profit for the year attributable to equity holders of the parent company amounts to £192.9 million (2019 – £538.6 million).

The directors have proposed a final ordinary dividend for the year ended 31 July 2020 of 50.0p per share (2019 – 100.0p). This has not been included within creditors as it was not approved by shareholders before the end of the financial year. The directors recommend payment of the final dividend on Friday 8 January 2020 to shareholders on the Register of Members at the close of business on Friday 27 November 2020.

Dividends paid during the year comprise the final dividend of 100.0p per share in respect of the year ended 31 July 2019. No interim dividend was paid in respect to the year ended 31 July 2020 due to the global impact of the COVID-19 pandemic.

Directors' indemnities and directors' and officers' liability insurance

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

Major interests in shares

As at 31 July 2020 and as at the date of this report, the Company had been notified under DTR 5 of the following interests, amounting to 3% or more of the voting rights in the issued ordinary share capital of the Company:

	As at 31 July 2020		As at 14 October 2020	
	Number of shares with voting rights	**% total voting rights**	Number of shares with voting rights	% total voting rights
Standard Life Aberdeen plc	**7,219,186**	**5.86**	n/a	n/a
Dimensional Fund Advisors LP	**6,148,373**	**4.99**	6,148,373	4.99
Polaris Capital Management, LLC	**4,956,926**	**4.02**	4,956,926	4.02
Credit Suisse Securities (Europe) Ltd	**3,890,282**	**3.38**	3,890,282	3.38

Post balance sheet events

There were no post balance sheet events.

Information on those third parties with which the Company has contracts or arrangements essential to its business

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

Takeovers directive and change of control

The Company is party to a number of banking agreements that may be terminable in the event of a change of control of the Company. On a change of control any outstanding options and awards granted under the Group's share schemes would become exercisable, subject to any performance conditions being met.

Share capital

The Company's total issued share capital, as at 31 July 2020, consisted of 123,345,834 ordinary shares of 12.5p each. Further details of the issued capital of the Company can be found in note 19 to the accounts. The rights and obligations attaching to the ordinary shares in the Company are set out in the Articles of Association (the 'Articles'). Copies of the Articles can be obtained from Companies House or by writing to the Group General Counsel and Company Secretary at the Company's registered office.

Restrictions on the transfer of shares

The restrictions on the transfer of shares are set out in the Articles. In compliance with the Company's Share Dealing Code, Company approval is required for directors, certain employees and those persons closely associated with them to deal in the Company's ordinary shares. No person has special rights of control over the Company's share capital.

Rights in relation to the shares held in the employee benefit trust

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

Restrictions on voting rights

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

Amendments to the Articles

The Company may amend its Articles by passing a special resolution at a general meeting of its shareholders.

Powers of the Board

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

Allotment of shares

During the year, 178,006 new ordinary shares were issued to satisfy awards made under the Company's employee share schemes. The directors have authority to allot shares within limits agreed by shareholders. Details of the renewal of this authority, including the resolutions which seek to renew this authority, are set out in the Notice of Meeting of the AGM, to be held on Friday 11 December 2020.

Purchase of the Company's own shares

The Company was given authority at the AGM on 11 December 2019 to purchase its own ordinary shares. As at the date of this report, no market purchases have been made by the Company. This authority will expire at the end of the forthcoming AGM. Details of the renewal of this authority including the resolution which seeks to renew this authority for a further year are set out in the Notice of Meeting of the AGM.

Listing Rules

There are no disclosures required by LR9.8.4 that apply to the Company.

Accountability and audit

The Going Concern Statement, Long-Term Viability Statement and the Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements are shown on pages 42, 42 and 96 respectively.

The Audit Committee, whose role is detailed on pages 62 to 71, has meetings at least twice a year with the Company's auditor, KPMG LLP.

People

The important role that our people perform is described throughout the Strategic Report. The following disclosures provide additional information on how we treat our people and how we engage with them.

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

All employees, whether part-time, full-time or temporary, are treated fairly and equally. Selection for employment, promotion, training or other matters affecting their employment is on the basis of aptitude and ability. All employees are supported and encouraged to develop to their full potential and the talents and resources of the workforce are fully utilised to maximise the efficiency of the organisation. Training at each division is planned and monitored through an annual training plan.

It is our policy to give full and fair consideration to the employment needs of disabled persons (and persons who become disabled whilst employed by the Group) and to comply with any current legislation with regard to disabled persons.

The importance of good communications with employees is recognised by the directors and senior management team. A newsletter is issued to all of our employees on a regular basis and each division maintains good employee relations using a variety of means appropriate to its own particular needs, with guidance when necessary from Head Office.

All new employees, when eligible, are automatically entered into the Group's pension arrangements. In addition, we operate a savings-related share option scheme and have discretionary bonus arrangements in place. We also provide life assurance cover to all of our employees, offer a private medical scheme (depending on seniority) and offer childcare vouchers.

Health and safety at work

We promote all aspects of health and safety throughout our operations in the interests of employees, subcontractors, suppliers, customers and visitors to our sites and premises. Health and safety issues are considered at each Board meeting and are addressed in the Strategic Report and on our website at www.bellwayplc.co.uk/corporate-responsibility. The Board receives external advice and training from specialist advisers on both the directors' and the Company's regulatory obligations.

Auditor

In 2019, the Company commenced a tender process for the appointment of new auditors. The tender process was supervised by the Audit Committee, who made a recommendation to the Board on the appointment of the replacement auditor.

Following the conclusion of the formal tender process, the Board approved the proposed appointment of Ernst & Young LLP as the Company's Auditor for the financial year commencing 1 August 2020. The appointment remains subject to approval by shareholders at the Annual General Meeting to be held on Friday 11 December 2020, and should the resolution be passed, the appointment will take effect from the conclusion of that meeting.

KPMG LLP were reappointed as the external auditors by shareholders at the 2019 Annual General Meeting and will resign as auditor following the conclusion of the 2020 Annual General Meeting.

AGM – special business

Six resolutions will be proposed as special business at the AGM to be held on Friday 11 December 2020. Explanatory notes on these resolutions are set out in the Notice of Meeting of the AGM.

Disclosure of all relevant information to the auditor

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

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

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

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

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

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable, relevant and reliable.
- State whether they have been prepared in accordance with IFRSs as adopted by the EU.
- Assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Responsibility statement of the directors in respect of the Annual Report and the Financial Statements

We confirm that to the best of our knowledge:

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

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Simon Scougall
Group General Counsel & Company Secretary

19 October 2020

KPMG

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

1. Our opinion is unmodified

We have audited the financial statements of Bellway p.l.c. ("the Company") for the year ended 31 July 2020 which comprise the Group Income Statement, Statements of Comprehensive Income, Statements of Changes in Equity, Balance Sheets, Cash Flow Statements and the related notes, including the accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31July 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the Company before 1979. The period of total uninterrupted engagement is for more than 40 financial years ended 31 July 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Group financial statements as a whole	£21 million (2019: £31 million) 4.1% of normalised group profit before tax (2019: 4.7% group profit before tax)	
Coverage	100% (2019: 100%) of group profit before tax	
Key audit matters		vs 2019
Recurring risks	Cost of sales recognition on current sites and carrying amount of land held for development and work in progress	◀▶
	Recoverability of parent company's investment in subsidiaries and amounts owed by Group undertakings	◀▶
Event driven	**New:** Going concern	▲

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Group: Cost of sales recognition and carrying amount of land held for development and work in progress **Land held for development and work in progress** (£3,837 million; 2019: £3,428 million) **Cost of sales** (£1,803 million; 2019: £2,423 million) Refer to page 65 (Audit Committee Report), pages 110 and 114 (accounting policies) and note 14 on page 122 (financial disclosures).	**Subjective estimate:** The cost of sales recognised is based upon an allocation of whole site costs to each plot when it is legally completed. Cost of sales is subject to estimation uncertainty as it is reliant on the Group's estimate of future selling prices and associated build costs, both of which are uncertain and can vary with market conditions. Further, the future market uncertainties surrounding the impacts of COVID-19 may influence market conditions. The assessment of recoverability of the carrying amount of land held for development and work in progress is also dependent on these same estimates. The level of uncertainty from COVID-19 impacting the Group's assessments of the future economic environment may influence the Group's estimates of net realisable value. The effect of these matters is that, as part of our risk assessment, we determined that the cost of sales estimate of £1,803 million and carrying amount of land held for development and work in progress of £3,837 million have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements accounting policies note discloses the sensitivity estimated by the Group.	Our procedures included: • **Tests of details:** For all sites with unit sales during the year, comparing the gross profit margin recognised to the latest site valuation and determining whether variances are supported by changes in site valuations and post year end sales; • **Tests of details:** For a sample of undeveloped land sites, corroborating explanations received from divisional management as to their status by assessing underlying planning and legal documents and quantity surveyor assessments where applicable; • **Tests of details:** For a sample of sites, assessing the accuracy of inputs in to the valuations such as sales price forecasts to actual selling prices after the year end and cost forecasts to latest assessments and external evidence such as purchase and variation orders; • **Tests of details:** For a sample of sites which, due to their size and/or complexity, we considered at higher risk of misstatement comparing the period end carrying amount recorded to that determined by divisional management and performing a comparison to the actual costs incurred to verify that any abnormal costs or build variances incurred, including those related to COVID 19 disruption, have been appropriately identified and accounted for in the period; • **Tests of details:** Identifying low and negative margin sites and assessing the completeness and accuracy of related net realisable value provisions recorded, particularly in light of market conditions due to COVID 19; • **Historical comparisons:** For all sites that have been legally completed during the year performing a retrospective review to compare the budgeted gross profit margin with the margin actually achieved, and corroborating the reasons for significant variances; • **Historical comparisons:** Comparing budgeted and latest site valuations to assess the Group's ability to accurately forecast, and corroborating the reasons for significant variances; and • **Assessing transparency:** Assessing the adequacy of the group's disclosures about the degree of estimation involved in calculating cost of sales and carrying amount of land and work in progress. **Our results** • We found the carrying amount of land and work in progress to be acceptable (2019 result: acceptable). • We found the level of cost of sales recognised to be acceptable (2019 result: acceptable).

	The risk	Our response
Going concern Refer to page 66 (Audit Committee Report) and page 109 (accounting policy)	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risk most likely to adversely affect the Group's and Company's available financial resources over this period was the impact of Covid-19 on the economy as a whole leading to a significant decrease in revenue and cash inflows. There are also less predictable but realistic second order impacts, such as • Increases in build costs or delays in build programmes; • Changes in government regulation and policy; • Reductions in mortgage availability; • Uncertainty in macro political and economic factors; and • The erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: **Funding assessment:** Assessing the level of committed financing secured by the Group as at and following the year end by reference to the Group's loan agreements. **Historical comparisons:** We assessed the reasonableness of the cash flow projections by comparing the actual results to forecast results in previous years, and corroborating the reasons for significant variances. **Sensitivity analysis[1]:** • Considering sensitivities over the level of available financial resources and headroom over debt covenants indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from the rapidly changing and uncertain COVID-19 situation; • Considering the key reactive measures the Group could take in the event of a downside scenario and whether those measures were fully in the Group's control. **Tests of detail:** Testing the integrity of the cash flow projections and challenging the appropriateness of the key assumptions used therein by reference to our knowledge of the business. Assessing the projections and assumptions by reference to general market conditions and post year end trading and cash flows. **Assessing transparency:** Assessing the completeness and accuracy of the matters covered in the going concern disclosure with reference to our audit findings from the above procedures. **Our results:** We found the going concern disclosure without any material uncertainty to be acceptable (2019 result: acceptable).
Company: Recoverability of parent company's investment in subsidiaries and amounts owed by Group undertakings **Investment in subsidiaries** (£37.8 million; 2019: £41.4 million) **Amounts owed by Group undertakings** (£432.8 million; 2019: £546.5 million) Refer to page 110 (accounting policy) and pages 121 and 123 (financial disclosures).	**Low risk, high value:** The carrying amount of the parent Company's investments in subsidiaries represents 7% (2019: 6%) of the Company's total assets and carrying amount of the amounts owed by Group undertakings represents 83% (2019: 85%) of the parent Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the areas that had the greatest effect on our overall parent Company audit.	Our procedures included: • **Tests of detail:** Comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit- making. Assessing 100% of amounts owed by Group undertakings to identify, with reference to the relevant debtors' draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making. • **Assessing subsidiary audits:** Assessing the audit work performed by the subsidiary audit teams on all of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets, including assessing the liquidity of the assets and therefore the ability of the subsidiary to fund the repayment of the receivable. **Our results:** • We found the group's assessment of the recoverability of the investment in subsidiaries and amounts owed by Group undertakings to be acceptable (2019: acceptable).

In the prior year, we reported a Key Audit Matter in respect of the impact of uncertainties due to the UK exiting the European Union on our audit. As a result of developments since the prior year report, including the Group's own preparation, the relative significance of this matter on our audit work, including in relation to the cost of sales recognition on current sites and carrying amount of land held for development and work in progress which remains a key audit matter, has reduced. Accordingly, we no longer consider this a key audit matter.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £21.0 million, determined with reference to a benchmark of normalised group profit before tax, normalised by averaging over the last three years due to the impact of COVID-19, of £513.4 million, of which it represents 4.1% (2019: 4.7% of group profit before tax). We revised our evaluation of materiality as the audit progressed by reassessing the amount and percentage of the benchmark compared with that selected at the planning stage. This was a result of the impact of COVID-19 and the decrease in the forecast benchmark.

Materiality for the parent company financial statements as a whole was set at £5.4 million (2019: £10.6 million), determined with reference to a benchmark of company total assets, of which it represents 1.0% (2019: 1.7%).

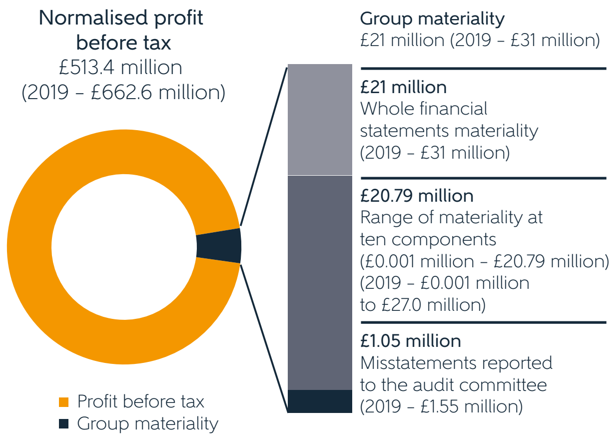
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.05 million (2019: £1.55 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's nine (2019: nine) reporting components, we subjected nine (2019: nine) to full scope audits for Group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite.

For the three (2019: three) residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team approved component materialities ranging from £0.001 million to £20.79 million (2019: £0.001 million to £27.0 million), having regard to the mix of size and risk profile of the Group across the components. The work on all of the components (2019: all components), including the audit of the parent Company, was performed by the Group team. The Group team performed procedures on the items excluded from normalised group profit before tax.



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in the accounting policies in the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 42 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Long-Term Viability Statement on page 42 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Long-Term Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Long-Term Viability Statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

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

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Based solely on our work on the other information described above:

- with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
  - we have not identified material misstatements therein; and
  - the information therein is consistent with the financial statements; and
- in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

6. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 96, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety and other relevant construction legislation, anti- bribery, anti-money laundering, employment law and certain aspects of company legislation recognising the nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non- compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non- compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Johnathan Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

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	1, 2	**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	4	**321.7**	**(72.6)**	**249.1**	674.9
Finance income	6	**0.2**	**–**	**0.2**	0.6
Finance expenses	6	**(13.6)**	**–**	**(13.6)**	(15.0)
Share of result of joint ventures	12	**1.0**	**–**	**1.0**	2.1
Profit before taxation		**309.3**	**(72.6)**	**236.7**	662.6
Income tax expense	7	**(57.6)**	**13.8**	**(43.8)**	(124.0)
Profit for the year*		**251.7**	**(58.8)**	**192.9**	538.6

	Note				
Earnings per ordinary share – Basic	9			**156.6p**	437.8p
Earnings per ordinary share – Diluted	9			**156.1p**	436.4p

Statements of Comprehensive Income

for the year ended 31 July 2020

	Note	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Profit for the period		**192.9**	538.6	**0.9**	181.8
Other comprehensive (expense)/income					
Items that will not be recycled to the income statement:					
Remeasurement (losses)/gains on defined benefit pension plans	25	**(1.8)**	1.3	**–**	–
Income tax on other comprehensive expense/(income)	7	**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	**0.9**	181.8

* All attributable to equity holders of the parent.

Statements of Changes in Equity

at 31 July 2020

Group	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	8	–	–	–	–	(178.9)	(178.9)
Purchase of own shares	20	–	–	–	–	(0.5)	(0.5)
Shares issued	19	–	2.1	–	–	–	2.1
Credit in relation to share options and tax thereon	7, 25	–	–	–	–	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	8	–	–	–	–	(123.1)	(123.1)
Shares issued	19	0.1	2.6	–	–	–	2.7
Credit in relation to share options and tax thereon	7, 25	–	–	–	–	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 Statements of Comprehensive Income.

Statements of Changes in Equity continued

at 31 July 2020

Company	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	2.1	423.1	634.2
Total comprehensive income for the period							
Profit for the period		–	–	–	–	181.8	181.8
Other comprehensive income*		–	–	–	–	–	–
Total comprehensive income for the period		–	–	–	–	181.8	181.8
Transactions with shareholders recorded directly in equity:							
Dividends on equity shares	8	–	–	–	–	(178.9)	(178.9)
Purchase of own shares	20	–	–	–	–	(0.5)	(0.5)
Shares issued	19	–	2.1	–	–	–	2.1
Credit in relation to share options	25	–	–	–	–	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	2.1	427.2	640.4
Total comprehensive income for the period							
Profit for the period		–	–	–	–	0.9	0.9
Other comprehensive income*		–	–	–	–	–	–
Total comprehensive income for the period		–	–	–	–	0.9	0.9
Transactions with shareholders recorded directly in equity:							
Dividends on equity shares	8	–	–	–	–	(123.1)	(123.1)
Shares issued	19	0.1	2.6	–	–	–	2.7
Credit in relation to share options	25	–	–	–	–	2.1	2.1
Total contributions by and distributions to shareholders		0.1	2.6	–	–	(121.0)	(118.3)
Balance at 31 July 2020		**15.4**	**178.4**	**20.0**	**2.1**	**307.1**	**523.0**

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

Balance Sheets

at 31 July 2020

	Note	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
ASSETS					
Non-current assets					
Property, plant and equipment	10	**36.7**	29.8	**–**	–
Investment property	11	**–**	–	**–**	–
Investments in subsidiaries	12	**–**	–	**37.8**	41.4
Financial assets and equity accounted joint arrangements	12	**60.8**	49.9	**–**	–
Deferred tax assets	13	**0.5**	0.7	**–**	–
Retirement benefit assets	25	**1.3**	2.8	**–**	–
		99.3	83.2	**37.8**	41.4
Current assets					
Inventories	14	**3,863.0**	3,477.6	**–**	–
Trade and other receivables	15	**69.9**	127.9	**432.8**	546.5
Cash and cash equivalents	22	**51.4**	201.2	**52.7**	52.8
		3,984.3	3,806.7	**485.5**	599.3
Total assets		**4,083.6**	3,889.9	**523.3**	640.7
LIABILITIES					
Non-current liabilities					
Trade and other payables	16	**131.2**	97.2	**–**	–
Deferred tax liabilities	13	**2.6**	2.2	**–**	–
		133.8	99.4	**–**	–
Current liabilities					
Interest-bearing loans and borrowings		**50.0**	–	**–**	–
Corporation tax payable		**1.5**	66.3	**–**	–
Trade and other payables	16	**834.0**	803.0	**0.3**	0.3
Provisions	17	**70.3**	–	**–**	–
		955.8	869.3	**0.3**	0.3
Total liabilities		**1,089.6**	968.7	**0.3**	0.3
Net assets		**2,994.0**	2,921.2	**523.0**	640.4
EQUITY					
Issued capital	19	**15.4**	15.3	**15.4**	15.3
Share premium		**178.4**	175.8	**178.4**	175.8
Capital redemption reserve	20	**20.0**	20.0	**20.0**	20.0
Other reserves		**1.5**	1.5	**2.1**	2.1
Retained earnings		**2,778.7**	2,708.6	**307.1**	427.2
Total equity		**2,994.0**	2,921.2	**523.0**	640.4

Approved by the Board of Directors on 19 October 2020 and signed on its behalf by:

Paul Hampden Smith
Director

Keith Adey
Director

Registered number 1372603

Parent Company Income Statement

In accordance with the provisions of section 408 of the Companies Act 2006, a separate Income Statement for the Company has not been presented. The Company's profit for the year was £0.9 million (2019 – £181.8 million).

Cash Flow Statements

for the year ended 31 July 2020

	Note	**Group 2020 £m**	Group 2019 £m	**Company 2020 £m**	Company 2019 £m
Cash flows from operating activities					
Profit for the year		**192.9**	538.6	**0.9**	181.8
Depreciation charge	10	**6.3**	5.8	**–**	–
Investment impairment	12	**–**	–	**5.7**	–
Finance income	6	**(0.2)**	(0.6)	**–**	–
Finance expenses	6	**13.6**	15.0	**–**	–
Share-based payment expense	25	**2.1**	1.7	**–**	–
Share of post tax result of joint ventures	12	**(1.0)**	(2.1)	**–**	–
Income tax expense	7	**43.8**	124.0	**–**	–
Increase in inventories		**(385.0)**	(206.0)	**–**	–
Decrease/(increase) in trade and other receivables		**58.0**	(11.9)	**113.7**	(4.5)
Increase/(decrease) in trade and other payables		**55.0**	(45.4)	**–**	–
Increase in provisions		**70.3**	–	**–**	–
Cash from operations		**55.8**	419.1	**120.3**	177.3
Interest paid		**(6.0)**	(7.9)	**–**	–
Income tax paid		**(107.7)**	(119.3)	**–**	–
Net cash (outflow)/inflow from operating activities		**(57.9)**	291.9	**120.3**	177.3
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	12	**(9.9)**	(5.7)	**–**	–
Repayment of loans by joint ventures	12	**–**	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	**2.7**	2.1
Purchase of own shares		**–**	(0.5)	**–**	(0.5)
Dividends paid	8	**(123.1)**	(178.9)	**(123.1)**	(178.9)
Net cash outflow from financing activities		**(74.1)**	(180.8)	**(120.4)**	(177.3)
Net (decrease)/increase in cash and cash equivalents		**(149.8)**	102.2	**(0.1)**	–
Cash and cash equivalents at beginning of year		**201.2**	99.0	**52.8**	52.8
Cash and cash equivalents at end of year	22	**51.4**	201.2	**52.7**	52.8

Accounting Policies

Basis of preparation

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

Both the Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') and have been prepared on the historical cost basis except for assets recognised at fair value through profit or loss which are stated at their fair value. On publishing the Company financial statements here together with the Group financial statements, which were approved for issue on 19 October 2020, the Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

The preparation of financial statements in conformity with Adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about 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 business activities, together with the factors likely to affect its future development, performance and position, are set out in the Operating Review on pages 26 to 31. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 32 to 34 and the Director's Report on page 93. The Risk Management section on pages 40 to 42 sets out the Group's policies and processes for managing its capital, financial risk, and its exposure to credit, liquidity, interest rate and housing market risk.

The Group's activities are financed principally by a combination of ordinary shares and bank borrowings less cash in hand. At 31 July 2020, net cash was £1.4 million (note 22) having consumed cash of £199.8 million (see note 21) 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.

All of the sensitivity analyses were modelled over the period to 31 July 2024, as used for the directors' 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 fell 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 and parent company 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 these financial statements and have therefore prepared the financial statements on a going concern basis.

Going concern continued

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

Effect of new standards and interpretations effective for the first time

The Group 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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to 31 July. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of these entities are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Joint arrangements are those entities over whose activities the Group has joint control, established by contractual agreement. A joint arrangement can take two forms:

(i) Joint venture – These entities are consolidated using the equity method of accounting.

(ii) Joint operation – The Group's share of the assets, liabilities and transactions of such entities are accounted for directly as if they were assets, liabilities and transactions of the Group.

Property, plant and equipment

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

- Plant, fixtures and fittings – 3 to 10 years.
- Freehold buildings – 40 years.

Freehold land is not depreciated.

Investment property

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

Depreciation is charged, where material, so as to write off the cost less residual value of the investment properties over their estimated useful lives. The residual values and useful lives of investment properties are reviewed at each financial year end. The useful life of investment properties has been assessed as being 10 to 100 years.

Land is not depreciated.

Investments in subsidiaries

Interests in subsidiary undertakings are valued in the Company financial statements at cost less impairment.

Inventories

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

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

Inventories continued

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

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

Trade and other receivables

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

Consideration which is contingent on future events is recognised based on the estimated amount if it is probable and can be reliably measured. Any subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

Cash and cash equivalents

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

Interest-bearing loans and borrowings

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

Trade and other payables

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

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past transaction or event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to the present value where the effect is material.

Payments on account

Payments on account, measured at amortised cost, are recorded as a liability on receipt and are released to the income statement when revenue is recognised in accordance with the Group's revenue recognition policy.

Dividends

Dividends on equity shares are recognised as a liability in the period in which they are approved by the shareholders. Interim dividends are recognised when paid.

Classification of equity instruments and financial liabilities issued by the Group

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

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

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

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

Grants

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

Accounting Policies continued

Revenue recognition

(a) Private housing sales and land sales:

Revenue is recognised in the income statement at a point in time when the performance obligation, being the transfer of a completed dwelling to a customer, has been satisfied. This is when legal title is transferred.

(b) Social housing:

Where a contract with a Registered Provider transfers both land and social housing on legal completion ('turnkey and plot sale contracts' which typically represents around one third of social housing revenue), there is one performance obligation and revenue is recognised in the income statement at a point in time when the homes are build complete and all material contractual obligations have been fulfilled. This is when legal title is transferred.

Where a contract with a Registered Provider transfers legal title of land once foundations are in place ("design and build" contracts' which typically represents around two thirds of social housing revenue) and separately transfers the social housing when they are build complete, there is a judgement as to whether the sale of land is a separate performance obligation for the purposes of revenue recognition and consequentially whether revenue should be recognised over time or on a point-in-time basis for the social housing units. Based on the contractual terms, notably those that enable the Group to retain control over the land, the Group has determined that these contracts include one performance obligation which is appropriately recognised at a point in time, when the homes are build complete and all material contractual obligations have been fulfilled. The directors recognise that there is evolving guidance in relation to the wider application of IFRS 15 – 'Revenue from Contracts with Customers'. Insofar as it is relevant, they will continue to consider the appropriateness of the Group's accounting policy, specifically with reference to any changes in the underlying contractual terms of these agreements.

Revenue is measured at the fair value of consideration received or receivable, net of incentives.

Incentives

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

Rental income

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

Part-exchange properties

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

Contingent liabilities

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

Taxation

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

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

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

Employee benefits – retirement benefit costs

The net defined benefit scheme asset or liability is the fair value of scheme assets less the present value of the defined benefit obligation at the balance sheet date. The calculation is performed by a qualified actuary using the projected unit credit method. All remeasurement gains and losses are recognised immediately in the Statement of Comprehensive Income ('SOCI'). Net interest income/(cost) is calculated on the defined benefit asset/(liability) for the period by applying the discount rate used to measure the defined benefit liability at the start of the year. Return on plan assets in excess of the amounts included in the net interest cost are recognised in the SOCI. Further details of the scheme and the valuation methods applied may be found in note 25.

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

Employee benefits – share-based payments

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

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

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

Own shares held by ESOP trust

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

Leases

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

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

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

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

Finance income and expenses

Finance income includes interest receivable on bank deposits.

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

Exceptional items

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

Accounting estimates and judgements

Management considers the following to be major sources of estimation that have been made in these financial statements:

Carrying amount of land held for development and work in progress

Inventories are carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price (in the ordinary course of business) less all estimated costs of completion and overheads. Valuations of site/phase work in progress are carried out at regular intervals and estimates of the cost to complete a site/phase and estimates of anticipated revenues are required to enable a development profit to be determined. Management is required to employ judgement in estimating the profitability of a site/phase and in assessing any impairment provisions which may be required. If a 10% increase was applied to the inventories net realisable provision, this would not have a material effect on the carrying value of work in progress and land held for development at the year end.

Accounting Policies continued

For both the years ended 31 July 2020 and 31 July 2019, a full review of inventories has been performed and write-downs have been made where cost exceeds net realisable value. Estimated selling prices have been reviewed on a site-by-site/phase-by-phase basis and have been amended based on local management's and the Board's assessment of current market conditions. For the year ended 31 July 2019, no exceptional charge resulted from the review. For the year ended 31 July 2020, an exceptional item has been recognised related to the impairment of work in progress and land held for development; further detail is given in note 3.

Cost of sales recognition

Cost of sales is recognised for completed house sales as an allocation of the latest whole site/phase gross margin which is an output of the site/phase valuation. These valuations, which are updated at frequent intervals throughout the life of the site/phase, use actual and forecast selling prices, land costs and construction costs and are sensitive to future movements in both the estimated cost to complete and expected selling prices. Forecast selling prices are inherently uncertain due to changes in market conditions. This is a key estimate made in the financial statements.

To determine the amount of cost of sales that the Group is able to recognise on its sites/phases in the year, the Group needs to allocate site/phase-wide costs between all plots, both those sold in the current year, and those plots to be sold in future periods. It is also necessary to estimate costs to complete on such sites/phases. In making these assessments certain estimates are made. In addition, the Group makes estimates in relation to future sales prices on the site/phase. The Group has a number of internal controls to assess and review the reasonableness of estimates made. If housing gross margin decreased by 200 basis points, it is estimated that the quantum of housing cost of sales would increase by around 2.5%. Conversely, if housing gross margin increased by 200 basis points it is estimated that the quantum of housing cost of sales would decrease by around 2.5%.

Legacy building safety improvements

The legacy building safety improvements provision has been set up to carry out remedial corrective works on a small number of schemes. Management has estimated the cost of the corrective works for the current anticipated scope, but this is inherently uncertain as the improvement works are at an early stage on most affected sites. If costs in the provision are understated by 10%, operating profit in the period would reduce by around 3%.

Judgements

While preparing these financial statements, the major judgements which the directors consider could have a significant effect on the financial statements when applying the Group's accounting policies are:

- whether each site that could form part of the legacy building safety improvements provision satisfies the accounting requirements of a provision at the balance sheet date. This is a highly complex area with judgements in respect of the extent of those properties within the scope of Bellway's legacy building safety improvement provision and the provision could be extended should the latest interpretation of government guidance further evolve.
- whether items should be treated as exceptional or not, the value of such items is not considered to be an area of judgement. The directors assessed each possible exceptional item against a framework incorporating the Group's accounting policy, the accounting requirements of IAS 1 'Presentation of Financial Statements' relating to the separate disclosure of material items of income or expense and the FRC Company Guidance in relation to COVID-19 (updated 20 May 2020). Further details are included in note 3. The directors considered other items when reviewing areas of the business that could give rise to a COVID-19 related exceptional item and concluded that neither of the following items satisfied all of the requirements of an exceptional item:
  - i) Extended site durations, together with enhanced health and safety requirements relating to social distancing measures – In addition to the costs set out in note 3, further costs arising from extended site durations, together with enhanced health and safety requirements relating to social distancing measures, have led to an additional cost of £18.9 million in the year. These incremental site-based costs will continue to influence the operating margin in the year ahead, but with production capacity currently around 85% to 95% and improving, we are hopeful that the negative impact will gradually reduce, save for the risk of additional localised 'lockdowns'.
  - ii) Furloughed costs for non-site-based employees – Following our decision on 23 March to close sites, the Group furloughed around 75% of its workforce, with this principally comprising directly employed site tradespeople, site managers and sales advisers. We have paid these employees full basic salary throughout April and May, and although eligible Bellway has not applied for a grant using the CJRS. The expense to the Group relating to those furloughed employees, whose cost is not capitalised to a site, was considered in the review of possible exceptional items.
- Going concern – see earlier section on page 109.

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.

1. 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 on pages 26 to 31. The Board does not, however, consider these categories to be separate reportable segments as it reviews the entire operations at a consolidated and divisional level when assessing performance and making decisions about the allocation of resources.

2. Revenue from contracts with customers

An analysis of the Group's revenue is as follows:

	2020 £m	2019 £m
Housebuilding revenue	**2,204.4**	3,180.1
Non-housebuilding revenue	**21.0**	33.1
Total revenue	**2,225.4**	3,213.2

The Group's housebuilding revenue can be analysed as follows:

(a) Private/social

	2020 £m	2019 £m
Private	**1,948.1**	2,815.6
Social	**256.3**	364.5
Total housebuilding revenue	**2,204.4**	3,180.1

(b) North/South

	2020 £m	2019 £m
North	**955.8**	1,248.3
South	**1,248.6**	1,931.8
Total housebuilding revenue	**2,204.4**	3,180.1

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:

COVID-19 related exceptional items	2020 £m	2019 £m
(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**	–

Exceptional items continued

£71.9 million of the total exceptional expense is recognised within cost of sales and £0.7 million, 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 has monitored the performance of the Group during this period. A total COVID-19 related exceptional expense of £25.8 million 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 £9.9 million. The treatment of aborted land costs is consistent with the impairment recognised during the global financial crisis in 2008 and 2009.

(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 £14.5 million includes £10.0 million in relation to directly employed site-based staff, with the remaining amount of £4.5 million 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 reopening 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.

4. Operating profit

	2020 £m	2019 £m
Operating profit is stated after charging:		
Staff costs (note 5)	**180.1**	188.2
Depreciation of property, plant and equipment	**6.3**	5.8
Hire of plant and machinery	**13.6**	14.9

Auditor's remuneration	2020 £000	2019 £000
Audit of these financial statements	**35**	30
Amounts receivable by the auditor and its associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**221**	195
Pension scheme audit	**8**	7

Amounts paid to the Company's auditor and their associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis. The relevant proportion of amounts paid to the auditor for the audit of financial statements of joint ventures is £0.018 million (2019 – £0.020 million).

All other operating income relates to the sale of part-exchange properties and all other operating expenses relate to the associated fair value of the part-exchange properties less costs to sell.

5. Employee information

Group employment costs, including directors, comprised:

	2020 £m	2019 £m
Wages and salaries	**155.2**	164.1
Social security	**16.6**	16.5
Pension costs (note 25)	**6.2**	6.0
Share-based payments (note 25)	**2.1**	1.6
	180.1	188.2

The average number of persons employed by the Group during the year was 3,119 (2019 – 2,980) comprising 1,085 (2019 – 1,023) administrative and 2,034 (2019 – 1,957) production and others employed in housebuilding and associated trading activities.

The executive directors and the Group General Counsel & Company Secretary are the only employees of the Company and the emoluments of the executive directors are disclosed in the Directors' Remuneration Report on pages 72 to 92.

Key management personnel remuneration, including directors, comprised:

	2020 £m	2019 £m
Salaries and fees	**2.9**	3.0
Taxable benefits	**0.2**	0.2
Annual cash bonus	**–**	1.9
Pension costs	**0.1**	0.2
Share-based payments	**1.0**	1.0
	4.2	6.3

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

Notes to the Accounts continued

6. 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

7. Income tax expense

	2020 £m	2019 £m
Current tax expense:		
UK corporation tax	**43.4**	126.2
Adjustments in respect of prior years	**(0.2)**	(2.1)
	43.2	124.1
Deferred tax expense/(income):		
Origination and reversal of temporary differences	**0.3**	(0.1)
Increase in tax rate	**0.2**	–
Adjustments in respect of prior years	**0.1**	–
	0.6	(0.1)
Total income tax expense in income statement	**43.8**	124.0

	2020 %	2020 £000	2019 %	2019 £000
Reconciliation of effective tax rate:				
Profit before taxation		**236.7**		662.6
Tax calculated at UK corporation tax rate	**19.0**	**45.0**	19.0	125.9
Non-taxable income and enhanced deductions	**(0.5)**	**(1.1)**	–	0.2
Adjustments in respect of prior years – current tax	**–**	**(0.2)**	(0.3)	(2.1)
– deferred tax	**–**	**0.1**	–	–
Effective tax rate and tax expense for the year	**18.5**	**43.8**	18.7	124.0

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%.

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.

	2020 £m	2019 £m
Deferred tax recognised directly in equity:		
Credit/(charge) relating to remeasurements on the defined benefit pension scheme	**0.3**	(0.2)
Charge relating to equity-settled transactions	**(0.3)**	–

8. 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. 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 (see note 20).

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

9. 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

Accounts

10. Property, plant and equipment

Group	Land and property £m	Plant, fixtures and fittings £m	Right-of-use assets £m	Total £m
Cost				
At 1 August 2018	9.6	15.8	–	**25.4**
Opening right-of-use asset recognised on adoption of IFRS 16	–	–	14.2	**14.2**
Additions	1.6	3.6	3.3	**8.5**
Disposals	–	(1.8)	(0.2)	**(2.0)**
At 1 August 2019	11.2	17.6	17.3	**46.1**
Additions	6.8	1.5	5.5	**13.8**
Disposals	–	(1.0)	(0.8)	**(1.8)**
Transfer to inventories	(0.5)	–	–	**(0.5)**
At 31 July 2020	**17.5**	**18.1**	**22.0**	**57.6**
Depreciation				
At 1 August 2018	2.4	9.9	–	**12.3**
Charge for year	0.3	2.1	3.4	**5.8**
On disposals	–	(1.7)	(0.1)	**(1.8)**
At 1 August 2019	2.7	10.3	3.3	**16.3**
Charge for year	0.4	2.4	3.5	**6.3**
On disposals	–	(0.9)	(0.7)	**(1.6)**
Transfer to inventories	(0.1)	–	–	**(0.1)**
At 31 July 2020	**3.0**	**11.8**	**6.1**	**20.9**
Net book value				
At 31 July 2020	**14.5**	**6.3**	**15.9**	**36.7**
At 31 July 2019	8.5	7.3	14.0	29.8
At 31 July 2018	7.2	5.9	–	13.1

On 1 August 2018 the Group adopted IFRS 16 'Leases' which requires lessees to recognise a lease liability and a 'right-of-use asset' for virtually all lease contracts.

The Company has no property, plant and equipment.

11. Investment property

Group	Total £m
Cost	
At 1 August 2018 and 1 August 2019	0.4
Disposals	–
At 31 July 2020	**0.4**
Depreciation	
At 1 August 2018 and 1 August 2019	0.4
On disposals	–
At 31 July 2020	**0.4**
Net book value	
At 31 July 2020	**–**
At 31 July 2018 and 31 July 2019	–

Investment properties represent homes which have been sold under a shared ownership scheme and where Bellway has retained an equity stake. They are valued under the cost model and are held at cost less accumulated depreciation and accumulated impairment losses. A formal internal valuation of investment properties was carried out at the end of the financial year. The fair value of the investment properties was assessed at £nil (2019 – £nil).

The Company has no investment properties.

12. Financial assets and equity accounted joint arrangements, and investments in subsidiaries

The Group and Company have the following investments or financial assets in subsidiaries and joint ventures:

Subsidiary undertakings	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Interest in subsidiary undertakings' shares at cost	–	–	37.8	41.4
Financial assets and equity accounted joint arrangements				
Financial assets – loan to joint ventures	55.5	45.6	–	–
Interest in joint ventures – equity	5.3	4.3	–	–
	60.8	49.9	–	–
	60.8	49.9	37.8	41.4

The subsidiary undertakings and joint arrangements in which the Group has interests are incorporated in England and Wales. In each case their principal activity is related to housebuilding. The Group is made up of 39 subsidiaries and 7 joint arrangements. Further details are included in note 27.

During the year ended 31 July 2020, subsidiary undertakings in the Company were impaired by £5.7 million (2019 – £nil) following an exercise to dissolve several dormant companies across the Group. This movement is offset by the share-based payment charge of £2.1 million (2019 – £1.7 million).

Where Bellway owns 100% of the voting rights of a business, the company is considered to be controlled by Bellway and is treated as a subsidiary.

North Solihull Partnership LP, Cramlington Developments Limited and Leebell Developments Limited are classified as joint operations as the shareholders have substantially all of the economic benefit of the assets and fund the liabilities of the entities.

Ponton Road LLP, Fradley Residential LLP and Lambeth Regeneration LLP are classified as joint ventures as the Group has rights to the net assets of the arrangements rather than the individual assets and liabilities.

The movement on both the equity accounted joint ventures and related financial assets during the year is as follows:

	2020 £m	2019 £m
At the start of the year	49.9	43.5
Increase in loans	9.9	5.7
Repayment of loans	–	(1.4)
Share of result	1.0	2.1
At the end of the year	60.8	49.9

The Group's share of the joint ventures' net assets/(liabilities) and income/(expenses) are made up as follows:

	2020 £m	2019 £m
Current assets	79.3	57.6
Current liabilities	(71.0)	(50.0)
Non-current liabilities	(3.0)	(3.3)
Share of net assets/(liabilities) of joint ventures	5.3	4.3
Revenue	4.3	8.9
Costs	(3.3)	(6.7)
Operating profit	1.0	2.2
Interest	–	(0.1)
Share of result of joint ventures	1.0	2.1

Guarantees relating to the overdrafts of the joint arrangements have been given by the Company (see note 23).

The Group has assessed expected credit losses and the loss allowance for joint venture financial assets as immaterial.

Notes to the Accounts continued

13. Deferred taxation

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

Group	Capital allowances £m	Retirement benefit assets £m	Share-based payments £m	Inventory £m	Other temporary differences £m	Total £m
At 1 August 2018	–	(0.2)	1.1	–	(2.3)	**(1.4)**
Income statement (charge)/credit	(0.1)	(0.1)	(0.4)	–	0.7	**0.1**
Charge to statement of comprehensive income	–	(0.2)	–	–	–	**(0.2)**
At 31 July 2019	(0.1)	(0.5)	0.7	–	(1.6)	**(1.5)**
Reclassification	–	–	–	(1.6)	1.6	**–**
Income statement (charge)/credit	(0.4)	(0.1)	0.1	(0.2)	–	**(0.6)**
Credit to statement of comprehensive income	–	0.3	–	–	–	**0.3**
Charge to equity	–	–	(0.3)	–	–	**(0.3)**
At 31 July 2020	**(0.5)**	**(0.3)**	**0.5**	**(1.8)**	**–**	**(2.1)**

The following is an analysis of the deferred tax balances for financial reporting purposes:

	2020 £m	2019 £m
Share-based payments	**0.5**	0.7
Deferred tax assets	**0.5**	0.7
Capital allowances	**(0.5)**	(0.1)
Retirement benefit assets	**(0.3)**	(0.5)
Inventory	**(1.8)**	–
Other temporary differences	**–**	(1.6)
Deferred tax liabilities	**(2.6)**	(2.2)
Net deferred tax liability	**(2.1)**	(1.5)

The carrying amount of the deferred tax asset is reviewed at each balance sheet date and is recognised to the extent that there will be sufficient taxable profits to allow the asset to be recovered.

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

14. Inventories

Group	2020 £m	2019 £m
Land	**2,216.2**	2,004.4
Work in progress	**1,496.1**	1,298.2
Showhomes	**124.6**	125.5
Part-exchange properties	**26.1**	49.5
	3,863.0	3,477.6

Inventories of £1,780.7 million were expensed in the year (2019 – £2,376.1 million), including exceptional land and work in progress impairments of £24.4 million (see note 3).

In the ordinary course of business, inventories have been written off by a net £3.5 million in the year (2019 – net write-back of £1.0 million).

Land with a carrying value of £242.7 million (2019 – £172.3 million) was used as security for land payables (see note 16).

Land includes £1,743.3 million (2019 – £1,630.6 million) which is owned or unconditionally contracted by the Group and where there is an implementable detailed planning permission.

The directors consider all inventories to be essentially current in nature although the Group's operational cycle is such that a proportion of inventories will not be realised within 12 months. It is not possible to determine with accuracy when specific inventory will be realised as this is subject to a number of factors including consumer demand and planning permission delays.

The Company has no inventory.

15. Trade and other receivables

Current receivables

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Trade receivables	**32.3**	61.0	**–**	–
Other receivables	**32.5**	59.0	**–**	–
Amounts owed by Group undertakings	**–**	–	**432.8**	546.5
Prepayments and accrued income	**5.1**	7.9	**–**	–
	69.9	127.9	**432.8**	546.5

The Group assesses the ageing of trade receivables in accordance with the policy on page 41. None of the trade receivables are past their due dates (2019 - nil), and are therefore all rated as low risk.

Other receivables includes £14.5 million (2019 – £28.0 million) in relation to VAT recoverable.

The Group has assessed expected credit losses and the loss allowance for trade and other receivables as immaterial.

The Company has assessed expected credit losses and the loss allowance for amounts owed by Group undertakings as immaterial.

16. Trade and other payables

Non-current liabilities

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Land payables	**117.1**	85.3	**–**	–
Lease liabilities	**14.1**	11.9	**–**	–
	131.2	97.2	**–**	–

Land payables of £82.0 million (2019 – £57.7 million) are secured on the land to which they relate.

The carrying value of the land used for security is £80.6 million (2019 – £55.5 million).

Current liabilities

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Trade payables	**273.0**	328.6	**–**	–
Land payables	**226.5**	212.6	**–**	–
Social security and other taxes	**5.0**	5.1	**–**	–
Other payables	**12.1**	6.9	**0.3**	0.3
Lease liabilities	**3.0**	3.0	**–**	–
Accrued expenses	**92.4**	136.8	**–**	–
Payments on account	**222.0**	110.0	**–**	–
	834.0	803.0	**0.3**	0.3

Land payables of £165.6 million (2019 – £120.5 million) are secured on the land to which they relate.

The carrying value of the land used for security is £162.1 million (2019 – £116.8 million).

Payments on account comprises deposits received in advance which are contract liabilities. Deposits received in advance are typically held for up to 18 months before the associated performance obligations are satisfied and the revenue is recognised. The majority of the contract liabilities as at 31 July 2019 have been recognised as revenue in the current year. The approximate transaction value allocated to the performance obligations that are unsatisfied at 31 July 2020 is £1,760.2 million (2019 – £1,223.9 million), the majority of which is expected to be recognised as revenue during the next financial year.

17. Provisions

Group	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 23).

The Company has no provisions.

18. Financial instruments

Land purchased on deferred terms

The Group sometimes acquires land on deferred payment terms. In accordance with IFRS 9 'Financial Instruments' the creditor is initially recorded at fair value, being the price paid for the land discounted to present day, and subsequently at amortised cost. The difference between the nominal value and the initial fair value is amortised over the deferred term to finance expenses, increasing the land creditor to its full cash settlement value on the payment date.

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

	Balance at 31 July £m	Total contracted cash payment £m	Within 1 year or on demand £m	1-2 years £m	2-5 years £m	More than 5 years £m
At 31 July 2020	**343.6**	**350.0**	**228.3**	**98.4**	**23.3**	**–**
At 31 July 2019	297.9	305.2	214.6	51.9	31.0	7.7

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

	Balance at 31 July £m	Total contracted cash payment £m	Within 1 year or on demand £m	1-2 years £m	2-5 years £m	More than 5 years £m
Trade and other payables (excluding lease liabilities)	285.1	285.1	285.1	–	–	–
Bank loans – floating rates	50.0	50.1	50.1	–	–	–
Lease liabilities	17.1	19.3	3.4	3.1	6.1	6.7
At 31 July 2020	**352.2**	**354.5**	**338.6**	**3.1**	**6.1**	**6.7**
Trade and other payables (excluding lease liabilities)	340.6	340.6	340.6	–	–	–
Lease liabilities	14.9	18.2	3.3	3.2	5.7	6.0
At 31 July 2019	355.5	358.8	343.9	3.2	5.7	6.0

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

At the year end, the Group had £495.0 million (2019 – £575.0 million) of undrawn bank facilities available.

Cash and cash equivalents

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

The amount of cash and cash equivalents for the years ended 31 July 2020 and 31 July 2019 for both the Group and the Company are shown in note 22.

At 31 July 2020 the average interest rate earned on the temporary closing cash balance, excluding joint ventures, was 0.06% (2019 – 0.61%).

18. Financial instruments continued

Fair values

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

Financial assets and liabilities by category

	Group 2020 £m	Group 2019 £m	**Company 2020 £m**	Company 2019 £m
Loans and receivables	**120.3**	165.6	**432.8**	546.5
Cash and cash equivalents	**51.4**	201.2	**52.7**	52.8
Financial liabilities at amortised cost	**(695.8)**	(648.3)	**(0.3)**	(0.3)
	(524.1)	(281.5)	**485.2**	599.0

Reconciliation of liabilities arising from financing activities

Group	At 1 August 2019 £m	Net cash flows £m	New leases £m	Disposals £m	Interest £m	**At 31 July 2020 £m**
Bank borrowings	–	50.0	–	–	–	**50.0**
Lease liabilities	14.9	(3.7)	5.5	(0.1)	0.5	**17.1**
	14.9	46.3	5.5	(0.1)	0.5	**67.1**

There were no liabilities arising from financing activities within the Company.

Bank facilities

The Group has bank facilities of £545.0 million (2019 – £575.0 million) which expire during the course of the following financial years:

	Group 2020 £m	Group 2019 £m	**Company 2020 £m**	Company 2019 £m
By 31 July 2020	**–**	155.0	**–**	–
By 31 July 2021	**175.0**	175.0	**–**	–
By 31 July 2022	**125.0**	–	**–**	–
By 31 July 2023	**50.0**	50.0	**–**	–
By 31 July 2024	**195.0**	195.0	**–**	–
	545.0	575.0	**–**	–

Capital management

The Group is financed through the proceeds of issued ordinary shares, reinvested profits and bank borrowings less cash in hand. The following table analyses the capital structure:

	Group 2020 £m	Group 2019 £m	**Company 2020 £m**	Company 2019 £000
Equity	**2,994.0**	2,921.2	**523.0**	640.4
Net bank debt	**–**	–	**–**	–
Capital employed	**2,994.0**	2,921.2	**523.0**	640.4

Risks

Details of the risks relating to financial instruments are set out in the Risk Management section on page 41.

19. Issued capital

Group and Company	**2020 Number 000**	**2020 £m**	2019 Number 000	2019 £m
Allotted, called up and fully paid 12.5p ordinary shares				
At start of year	**123,168**	**15.3**	122,980	15.3
Issued on exercise of options	**178**	**0.1**	188	–
At end of year	**123,346**	**15.4**	123,168	15.3

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

20. Reserves

Own shares held

The Group and Company holds shares within the Bellway Employee Share Trust (1992) (the 'Trust') for participants of certain share-based payment schemes as outlined in note 25. 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 Company redeemed 20,000,000 £1 preference shares, being all of the preference shares in issue. An amount of £20 million, equivalent to the nominal value of the shares redeemed, was transferred to a capital redemption reserve on the same date.

21. Reconciliation of net cash flow to net cash

Group	2020 £m	2019 £m
(Decrease)/increase in net cash and cash equivalents	**(149.8)**	102.2
Increase in bank borrowings	**(50.0)**	–
(Decrease)/increase in net cash from cash flows	**(199.8)**	102.2
Net cash at 1 August	**201.2**	99.0
Net cash at 31 July	**1.4**	201.2

Company	2020 £m	2019 £m
Decrease in net cash and cash equivalents	**(0.1)**	–
Decrease in net cash from cash flows	**(0.1)**	–
Net cash at 1 August	**52.8**	52.8
Net cash at 31 July	**52.7**	52.8

22. Analysis of net cash

Group	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**

Company	At 1 August 2019 £m	Cash flows £m	At 31 July 2020 £m
Cash and cash equivalents	52.8	(0.1)	**52.7**
Net cash	52.8	(0.1)	**52.7**

23. Contingent liabilities

The Company is liable, jointly and severally with other members of the Group, under guarantees given to the Group's bankers in respect of overdrawn balances on certain Group bank accounts and in respect of other overdrafts, loans and guarantees given by the banks to or on behalf of other Group undertakings. At 31 July 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 17).

23. Contingent liabilities continued

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.

24. Commitments

Capital commitments

Group	2020 £m	2019 £m
Contracted not provided	1.4	6.4
Authorised not contracted	–	–

Company

The commitments of the Company were £nil (2019 – £nil).

25. Employee benefits

(a) Retirement benefit assets

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

Contributions of £6.2 million (2019 – £6.0 million) were charged to the income statement for the GSIPP.

Defined contributions have been excluded from the assets and liabilities.

Role of Trustees

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

Funding

UK legislation requires that pension schemes are funded prudently (i.e. to a level in excess of the current expected cost of providing benefits). The last full actuarial valuation of the Scheme was carried out by a qualified independent actuary as at 31 July 2017 and updated on an approximate basis to 31 July 2020.

With regard to the Scheme, regular contributions made by the employer over the financial year were £nil (2019 – £nil). The employer paid no special contributions (2019 – £nil) and reimbursed the pension fund £0.3 million (2019 – £0.4 million) for expenses incurred by the fund.

The Group is expected to make no regular contributions during the year ending 31 July 2021.

Regulation

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

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

Risk

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

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

25. Employee benefits continued

Movements in net defined benefit assets

	Defined benefit obligation		Fair value of Scheme assets		Net defined benefit asset	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Balance at 1 August	**(62.3)**	(52.7)	**65.1**	54.0	**2.8**	1.3
Included in the income statement						
Interest (expense)/income	**(1.3)**	(1.4)	**1.3**	1.4	**–**	–
Past service costs	**–**	(0.2)	**–**	–	**–**	(0.2)
	(1.3)	(1.6)	**1.3**	1.4	**–**	(0.2)
Included in other comprehensive (expense)/income						
Remeasurement (loss)/gain arising from:						
– Change in demographic and financial assumptions	**(5.4)**	(4.1)	**–**	–	**(5.4)**	(4.1)
– Recognition of insurance policies annuities	**–**	(7.1)	**–**	7.1	**–**	–
– Experience adjustments	**(0.2)**	(0.1)	**–**	–	**(0.2)**	(0.1)
Return on plan assets excluding interest income	**–**	–	**3.8**	5.5	**3.8**	5.5
	(5.6)	(11.3)	**3.8**	12.6	**(1.8)**	1.3
Other						
Contributions paid by the employer	**–**	–	**0.3**	0.4	**0.3**	0.4
Benefits paid	**2.6**	3.3	**(2.6)**	(3.3)	**–**	–
	2.6	3.3	**(2.3)**	(2.9)	**0.3**	0.4
Balance at 31 July	**(66.6)**	(62.3)	**67.9**	65.1	**1.3**	2.8

The weighted average duration of the defined benefit obligation at the end of the reporting period is 18 years (2019 – 18 years).

During the prior year assets and liabilities of £7.1 million relating to insurance policies annuities held by the Scheme on behalf of the members were recognised.

Scheme assets

The fair value of the Scheme assets is:

	2020 £m	2019 £m
Diversified growth fund	**28.6**	29.4
Equity instruments	**2.8**	2.8
Corporate bonds	**4.9**	5.0
Liability-driven instruments	**23.6**	20.6
Insurance policies annuities	**8.0**	7.1
Cash and cash equivalents	**–**	0.2
Total	**67.9**	65.1

All of the Scheme assets, with the exception of cash and cash equivalents, are considered to be level 2.

Diversified growth funds are pooled funds invested across a diversified range of assets with the aim of giving long-term investment growth with lower short-term volatility than equities.

Actuarial assumptions

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

	2020 % per annum	2019 % per annum
Discount rate	**1.50**	2.10
Future salary increases	**3.40**	2.80
Allowance for pension in payment increases of RPI or 5% p.a. if less	**2.80**	3.10
Allowance for deferred pension increases of CPI or 5% p.a. if less	**2.35**	2.30
Allowance for commutation of pension for cash at retirement	**50% of maximum**	50% of maximum

25. Employee benefits continued

The mortality assumptions adopted at 31 July 2020 are based on the S3PxA tables and allow for future improvement in mortality. The tables used imply the following life expectancies at age 65:

Male retiring in 2020	22.9 years
Female retiring in 2020	24.6 years
Male retiring in 2040	24.2 years
Female retiring in 2040	26.1 years

Sensitivities

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

Assumption	Change in assumption	Change in liabilities (%)
Discount rate	+0.10% p.a.	Decrease by 1.7
Future salary increases	+0.10% p.a.	Increase by 0.1
Inflation – RPI	+0.10% p.a.	Increase by 1.4
Mortality	+1 year life expectancy	Increase by 3.8

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

(b) Share-based payments

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

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

The Bellway p.l.c. (2014) Employee Share Option Scheme ('2014 ESOS') is an approved discretionary scheme which provides for the grant of options over ordinary shares to employees and executive directors. It is, however, the current intention that no executive directors of the Company should be granted options under this scheme. Awards will be available to vest after three years, subject to objective performance targets. As at 31 July 2020 no options had been granted under this scheme.

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

An outline of the performance conditions in relation to the LTIP is detailed under the long-term incentive scheme section on pages 77 to 79 within the Remuneration Report. No awards have been made under the SMP since 2014 and there are no awards outstanding under the SMP as at 31 July 2020.

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

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

LTIP, SMP, DBP

	2020 Number of options	2019 Number of options
Outstanding at the beginning of the year	**272,289**	256,970
Granted during the year	**103,676**	121,129
Lapsed during the year	**(60,565)**	(10,339)
Exercised during the year	**(45,710)**	(95,471)
Outstanding at the end of the year	**269,690**	272,289
Exercisable at the end of the year	**4,016**	1,845

The options outstanding at 31 July 2020 have a weighted average contractual life of 1.3 years (2019 – 1.3 years).

The weighted average share price at the date of exercise for share options exercised during the year was 3,316.5p (2019 – 2,904.5p).

25. Employee benefits continued

SRSOS

	2020 Number of options	2019 Number of options
Outstanding at the beginning of the year	**464,841**	466,441
Granted during the year	**195,607**	203,168
Forfeited during the year	**(68,972)**	(91,766)
Exercised during the year	**(153,116)**	(113,002)
Outstanding at the end of the year	**438,360**	464,841
Exercisable at the end of the year	**2,626**	721

The options outstanding at 31 July 2020 have an exercise price in the range of 1,378.0p to 2,934.4p (2019 – 1,378.0p to 2,934.4p) and have a weighted average contractual life of 2.4 years (2019 – 2.2 years). The weighted average share price at the date of exercise for share options exercised during the year was 3,838.9p (2019 – 2,919.6p).

Valuation methodology

For LTIP options, half of the performance criteria is based on TSR against comparator companies with the other half based on TSR measured against the FTSE 250 Index (excluding investment trusts and financial service companies). A simplified Monte Carlo simulation method has been used to determine the Group's TSR performance against the FTSE 250 Index (excluding investment trusts and financial service companies). In the case of the DBP, there are no market-related performance conditions and awards will be eligible to vest upon reaching a date set out in the Deed of the award. As dividends are not reinvested, the fair value of these awards is equal to the share price at the date of the grant. The Black Scholes method is used for the SRSOS due to the relatively short exercise window of six months.

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

	2020					2019				
	October 2019	December 2019	December 2019	December 2019	December 2019	October 2018	November 2018	November 2018	December 2018	December 2018
Scheme description	**LTIP**	**LTIP**	**DBP**	**3-Year SRSOS**	**5-Year SRSOS**	LTIP	LTIP	DBP	3 Year SRSOS	5 Year SRSOS
Grant date	**16-Oct-19**	**11-Dec-19**	**11-Dec-19**	**03-Dec-19**	**03-Dec-19**	22-Oct-18	22-Nov-18	22-Nov-18	03-Dec-18	03-Dec-18
Risk-free interest rate	**0.0%**	**0.0%**	**0.0%**	**0.6%**	**0.6%**	0.0%	0.0%	0.0%	0.8%	0.9%
Exercise price	**–**	**–**	**–**	**2,528.0p**	**2,528.0p**	–	–	–	2,414.4p	2,414.4p
Share price at date of grant	**3,370.0p**	**3,401.0p**	**3,401.0p**	**3,315.0p**	**3,315.0p**	2,763.0p	2,877.0p	2,877.0p	2,561.0p	2,561.0p
Expected dividend yield	**5.0%**	**5.0%**	**5.0%**	**5.0%**	**5.0%**	5.0%	5.0%	5.0%	5.0%	5.0%
Expected life	**3 years**	**3 years**	**3 years**	**3 years 2 months**	**5 years 2 months**	3 years	3 years	3 years	3 years 2 months	5 years 2 months
Vesting date	**16-Oct-22**	**11-Dec-22**	**11-Dec-22**	**01-Feb-23**	**01-Feb-25**	22-Oct-21	22-Nov-21	22-Nov-21	01-Feb-22	01-Feb-24
Expected volatility	**25%**	**25%**	**25%**	**25%**	**30%**	30%	30%	30%	30%	30%
Fair value of option	**1,656.5p**	**1,486.5p**	**2,700.0p**	**663.0p**	**729.0p**	1,264.0p	1,392.5p	2,621.0p	407.0p	430.0p

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

The Group recognised total expenses of £2.1 million (2019 – £1.7 million) in relation to equity-settled share-based payment transactions.

26. Related party transactions

The Board and certain members of senior management are related parties within the definition of IAS 24 'Related Party Disclosures'. Summary information of the transactions with key management personnel is provided in note 5. Detailed disclosure of individual remuneration of Board members is included in the Remuneration Report on pages 72 to 92.

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

Group

During the year the Group entered into the following related party transactions with its joint arrangements:

	2020 £m	2019 £m
Invoiced to joint arrangements in respect of accounting, management fees, interest on loans, land purchases and infrastructure works	**31.6**	28.2
Amounts owed to joint arrangements in respect of land purchases and management fees at the year end	**(4.5)**	(4.5)
Amounts owed by joint arrangements in respect of accounting, management fees, interest, land purchases and infrastructure works	**62.8**	50.9

Company

During the year the Company entered into the following related party transactions with its subsidiaries and joint arrangements:

	2020 £m	2019 £m
Amounts received in the year from subsidiaries for share options exercised by subsidiary company employees and dividends received	**10.5**	183.9
Amounts paid in the year by subsidiaries on behalf of the Company in respect of dividends, finance expenses and share purchases, and receivable from subsidiaries on disposal of investments	**(124.2)**	(179.4)
Amounts owed by subsidiaries in respect of dividends and shares issued net of amounts paid on behalf of the Company	**432.8**	546.5
Investments in subsidiaries and joint ventures	**37.8**	41.4

The Company has suffered no expense in respect of bad or doubtful debts of subsidiary undertakings in the year (2019 – £nil), but impaired £1.1 million of amounts owed from Group undertakings on winding up several dormant Group entities.

27. Group undertakings

The directors set out below information relating to the Group undertakings as at 31 July 2020. All of these companies are registered in England and Wales. They are engaged in housebuilding and associated activities, have coterminous year ends with the Group, 100% of their ordinary share capital is held by the Company and the registered address is the same as the Company (unless otherwise stated).

Subsidiaries – trading

Bellway Homes Limited
Bellway Housing Trust Limited
Bellway Properties Limited
Bellway (Services) Limited
Litrose Investments Limited

Subsidiaries – dormant^

Ashberry Homes Limited
Bellway (Builders) Limited
Bellway City Solutions Limited
Bellway Financial Services Limited
Bellway Homes (Anglia) Limited
Bellway Homes (Hertfordshire) Limited
Bellway Homes (North Solihull) Limited
Bellway Homes (North Solihull G P Limited)
Bellway London Limited
Bellway Marine Limited
Bellway Trustee Company Limited
Bellway Urban Renewals (Contracts) Limited^^^
Bellway Urban Renewals Limited^^^
Bulldog Premium Growth I Limited
D.F.W. Golding (Southern) Limited^^^^
D.F.W. Golding Limited
George Blackett Limited
Heron Electrical Contractors Limited^^^^
Homes2Let Limited
J. T. B. (Chapel Farm) Estates Limited
J. T. B. Estates Limited
John T. Bell & Sons (1976) Limited
Nixons Kitchens Limited
Seaton GR SPV 11 Limited
Seaton GR SPV 12 Limited
Seaton GR SPV 13 Limited
Seaton GR SPV 14 Limited
Seaton Fourteen Limited^^^^
Seaton Ten Limited^^^^
Seaton Thirteen Limited
Seaton Twelve Limited
Telvec Investments Limited^^^
Terraces Limited
Tyneside Land & Property Company Limited

Joint arrangements

Cramlington Developments Limited (50% owned, year end of 30 June)^^/1
Fradley Residential LLP (50% owned)^^
Leebell Developments Limited (50% owned, year end of 30 June)^^/1
North Solihull (GP) Limited (25% owned, year end of 31 March)^/^^/2
North Solihull Partnership LP (49.8% owned, year end of 31 March)^^/2
Ponton Road LLP (50% owned)^^
Lambeth Regeneration LLP (50% owned)^^

Other entities

HBF Insurance PCC Limited[3]
MI New Home Insurance PCC Limited[3]

Notes:
^ Dormant.
^^ These shares are held indirectly.
^^^ Dissolved on 29 September 2020.
^^^^ Dissolved on 6 October 2020.

1 Registered address is Persimmon House, Fulford, York, YO19 4FE.
2 Registered address is Council House, Manor Square, Solihull, West Midlands, B91 3QB.
3 Registered address is Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 4EY.

Five Year Record

	2016 £m	2017 £m	2018 £m	2019 £m	**2020 £m**
Income statement					
Revenue	2,240.7	2,558.6	2,957.7	3,213.2	**2,225.4**
Operating profit	492.0	571.6	652.9	674.9	**321.7***
Net finance expenses	(11.1)	(11.3)	(13.6)	(14.4)	**(13.4)**
Share of results of joint ventures	(0.3)	0.4	1.8	2.1	**1.0**
Profit before taxation	480.6*	560.7	641.1	662.6	**309.3***
Income tax expense	(95.0)	(106.6)	(121.2)	(124.0)	**(57.6)***
Profit for the year (all attributable to equity holders of the parent)	385.6*	454.1	519.9	538.6	**251.7***
Balance sheet					
ASSETS					
Non-current assets	33.3	48.0	59.0	83.2	**99.3**
Current assets	2,687.5	3,099.3	3,485.5	3,806.7	**3,984.3**
LIABILITIES					
Non-current liabilities	(96.2)	(118.4)	(84.9)	(99.4)	**(133.8)**
Current liabilities	(757.6)	(837.6)	(902.5)	(869.3)	**(955.8)**
EQUITY					
Total equity	1,867.0	2,191.3	2,557.1	2,921.2	**2,994.0**
Statistics					
Number of homes sold	8,721	9,644	10,307	10,892	**7,522**
Average price of new homes	£252.8k	£260.4k	£284.9k	£292.0k	**£293.1k**
Pre-exceptional gross margin(~)	25.7%^	25.9%^	25.6%**	24.6%	**19.0%**
Gross margin	25.7%^	25.9%^	25.6%**	24.6%	**15.7%**
Pre-exceptional operating margin(~)	22.0%	22.3%	22.1%	21.0%	**14.5%**
Operating margin	22.0%	22.3%	22.1%	21.0%	**11.2%**
Basic earnings per ordinary share	328.7p	370.6p	423.4p	437.8p	**156.6p**
Dividend per ordinary share	108.0p	122.0p	143.0p	150.4p	**50.0p**
Pre-exceptional return on capital employed(~)	28.2%	27.6%	27.2%	24.7%	**10.8%**
Return on capital employed(~)	28.2%	27.6%	27.2%	24.7%	**8.3%**
Gearing(~)	–	–	–	–	**–**
Net asset value per ordinary share(~)	1,522p	1,785p	2,079p	2,372p	**2,427p**
Land portfolio – plots with implementable DPP	24,879	25,655	26,877	26,421	**28,289**
Weighted average number of ordinary shares	122,558,261	122,511,626	122,779,199	123,012,723	**123,205,211**
Number of ordinary shares in issue at end of year	122,685,986	122,797,958	122,980,266	123,167,828	**123,345,834**

Notes:

~ APM

* Stated before exceptional item.

** Restated due to the adoption of IFRS 15 'Revenue from contracts with customers'.

^ Not restated following the adoption of IFRS 15 'Revenue from contracts with customers'.

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.
- **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 (see note 19). 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.
- **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%

- **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 = $(2,804.9/1,785.0)^{\wedge(1/3)} - 1$	16.3%

Alternative Performance Measures continued

- **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 21.
- **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.
- **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.

Glossary

Affordable Housing

Social rented and intermediate housing provided to specified eligible households whose needs are not met by the market, at a cost low enough for them to afford, determined with regard to local incomes and local house prices. It is generally provided by councils and not-for-profit organisations such as housing associations.

Average Selling Price

Calculated by dividing the total price of homes sold by the number of homes sold.

Brownfield

Land which has been previously used for other purposes.

Cancellation Rate

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

Community Infrastructure Levy ('CIL')

The CIL is a tool for local authorities in England and Wales to help deliver infrastructure to support the development of the area.

COVID-19

COVID-19 is a disease caused by a new strain of coronavirus. 'CO' stands for corona, 'VI' for virus, and 'D' for disease. Formerly, this disease was referred to as '2019 novel coronavirus' or '2019-nCoV'. COVID-19 has been characterised as a pandemic by the World Health Organization.

Earnings per Share ('EPS')

Profit attributable to ordinary equity shareholders divided by the weighted average number of ordinary shares in issue during the financial year, excluding the weighted average number of ordinary shares held by the Bellway Employee Trust (1992) which are treated as cancelled.

Furlough

A furlough is a temporary leave of employees due to special needs of a company or employer, which may be due to economic conditions of a specific employer or in society as a whole. A UK-wide furlough was implemented in first half of 2020 due to the COVID-19 pandemic. Whilst there was a government funded furlough scheme which paid 80% of an employees salary, Bellway did not apply for this and continued to pay the 75% of the workforce which it furloughed a full basic salary from its own reserves.

Home Builders Federation ('HBF')

The HBF is an industry body representing the homebuilding industry in England and Wales. It represents member interests on a national and regional level to create the best possible environment in which to deliver new homes.

Help to Buy

The Help to Buy equity loan scheme is a government scheme which provides equity loans to both first-time buyers and home movers on newly constructed homes worth up to £600,000 in England. Buyers have to contribute at least 5% of the property price as a deposit and obtain a mortgage of up to 75% (60% in London) and the government provides a loan for up to 20% (40% in London) of the price.

Land Bank

The land bank is comprised of three tiers: i) owned or unconditionally contracted land with an implementable detailed planning permission ('DPP'); ii) medium-term 'pipeline' land owned or controlled by the Group, pending an implementable DPP; iii) strategic long-term plots which currently have a positive planning status and are typically held under option.

Mortgage Market Review ('MMR')

The MMR was a comprehensive review of the mortgage market which introduced reforms to deliver a mortgage market that is sustainable and works better for consumers.

National Planning Policy Framework ('NPPF')

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

National House Building Council ('NHBC')

The NHBC is the leading warranty insurance provider and body responsible for setting standards of construction for UK housebuilding for new and newly converted homes.

New Homes Bonus ('NHB')

The NHB was introduced in 2011 by the coalition government with the aim of encouraging local authorities in England to grant planning permissions for the building of new houses in return for additional revenue. Under the scheme, the government has been matching the council tax raised on each new home built in England.

Pipeline

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

Planning Permission

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

RIDDOR

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

Section 106 Planning Agreements

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

Site/Phase

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

Social Housing

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

The 5% Club

Members of The 5% Club aspire to achieve 5% of their workforce in 'earn and learn' positions (including apprentices, sponsored students and graduates on formalised training schemes) within 5 years of joining.

See also Alternative Performance Measures section on pages 134 to 136.

Advisers and Group General Counsel & Company Secretary

Group General Counsel & Company Secretary and Registered Office

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Shareholder Analysis

Shareholders by size of holding at 31 July 2020	Holdings		Shares	
	Number	%	Holding	%
0 – 2,000	**1,913**	**69**	**1,005,576**	**1**
2,001 – 10,000	**416**	**15**	**1,842,839**	**1**
10,001 – 50,000	**183**	**7**	**4,434,381**	**4**
50,001 and over	**251**	**9**	**116,063,038**	**94**
Total	**2,763**	**100**	**123,345,834**	**100**

Shareholders by type at 31 July 2020	Holdings		Shares	
	Number	%	Holding	%
Private shareholders	**1,567**	**57**	**2,553,670**	**2**
Investment trusts	**8**	**<1**	**556**	**<1**
Pension funds	**1**	**<1**	**1,792**	**<1**
Nominee companies	**1,083**	**39**	**108,293,259**	**88**
Limited companies	**37**	**1**	**207,884**	**<1**
Bank and bank nominees	**39**	**1**	**11,815,816**	**10**
Other institutions	**28**	**1**	**472,857**	**<1**
Total	**2,763**	**100**	**123,345,834**	**100**

Financial Calendar

Final 2019/20 dividend – ex-dividend date	26 November 2020
Final 2019/20 dividend – record date	27 November 2020
AGM	11 December 2020
DRIP election date for final 2019/20 dividend	15 December 2020
Final 2019/19 dividend – payment date	8 January 2020
Trading update	9 February 2021
Announcement of 2020/21 half year results	24 March 2021

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