BELLWAY P.L.C. ('BELLWAY' OR THE 'GROUP'), THE NATIONAL HOUSEBUILDER, ANNOUNCES TODAY, TUESDAY 17 OCTOBER 2023, ITS PRELIMINARY RESULTS FOR THE YEAR ENDED 31 JULY 2023.

Summary

Resilient performance while maintaining operational strength in a challenging market

	Year ended 31 July 2023	**Year ended 31 July 2022**	**Movement**
Housing completions	10,945	11,198	(2.3%)
Revenue	£3,406.6m	£3,536.8m	(3.7%)
Underlying performance measures:			
Gross profit (underlying)	£687.3m[2,3]	£787.0m[2,3]	(12.7%)
Gross margin (underlying)	20.2%[2,3]	22.3%[2,3]	(210 bps)
Operating profit (underlying)	£543.9m[2,3]	£653.2m[2,3]	(16.7%)
Operating margin (underlying)	16.0%[2,3]	18.5%[2,3]	(250 bps)
Profit before taxation (underlying)	£532.6m[2,3]	£650.4m[2,3]	(18.1%)
Earnings per share (underlying)	328.1p[2,3]	420.8p[2,3]	(22.0%)
RoCE (underlying)	15.8%[2,3]	19.4%[2,3]	(360 bps)
Statutory and other measures:			
Net legacy building safety expense	£49.6m	£346.2m	(85.7%)
Profit before taxation	£483.0m	£304.2m	+58.8%
Earnings per share	297.7p	196.9p	+51.2%
Proposed total dividend per share	140.0p	140.0p	-
Net asset value per share	2,871p[2]	2,727p[2]	+5.3%
Net cash	£232.0m[2]	£245.3m[2]	(5.4%)
Land bank (total plots)	98,164[5]	97,706[5]	+0.5%

Jason Honeyman, Group Chief Executive, commented:

"Bellway has delivered a resilient performance against a backdrop of rising mortgage interest rates and challenging market conditions. Looking ahead, our operational strength and experienced teams will enable the Group to successfully navigate a changing market, and we will maintain a clear focus on delivering high-quality homes to our customers and making further progress against the priorities set out in our 'Better with Bellway' sustainability strategy.

The depth of our land bank and robust balance sheet provide ongoing strategic flexibility and scope for outlet growth in the year ahead. Notwithstanding the near-term market challenges, Bellway remains very well-placed to capitalise on future growth opportunities and to continue creating long-term value for all our stakeholders."

Robust housing output and financial performance in line with our expectations

- Near record housing completions of 10,945 homes (2022 – 11,198), at an overall average selling price of £310,306 (2022 – £314,399).
- Total revenue of £3,406.6 million (2022 – £3,536.8 million), a reduction of 3.7%.
- The Group's programme of accelerating the construction of social homes partially offset weaker private demand, which was impacted by higher mortgage interest rates, cost-of-living pressures and the end of Help-to-Buy.
- The overall reservation rate reduced by 28.4% to 156 per week (2022 – 218) and the private reservation rate decreased by 35.9% to 109 per week (2022 – 170), representing a private reservation rate per site per week of 0.46 (2022 – 0.70).
- The underlying operating margin was 16.0%[2,3] (2022 – 18.5%), with the reduction mainly reflecting the effect of build cost and overhead inflation, extended site durations because of slower reservation rates and the increased use of targeted selling incentives.
- Underlying profit before taxation was £532.6 million[2,3] (2022 – £650.4 million) and in line with our expectations.
- Underlying RoCE was 15.8%[2,3] (2022 – 19.4%) with the reduction predominantly driven by the lower underlying operating margin.

Strong balance sheet and value-driven approach to capital allocation

- Strong balance sheet, with year-end net cash of £232.0 million[2] (2022 – £245.3 million) and low adjusted gearing, inclusive of land creditors, of 4.0%[2] (2022 – 4.4%) provides resilience and strategic flexibility.
- The net asset value per share ('NAV') increased by 5.3% to 2,871p[2] (2022 – 2,727p), with the growth supported by the share buybacks undertaken during the year.
- The proposed total dividend per share has been held at 140.0p (2022 – 140.0p), representing dividend cover of 2.3 times[2,3] underlying earnings and in line with previous guidance.
- In the current financial year and in line with Board's previously stated target, underlying dividend cover will be around 2.5 times[2,3].
- The £100 million share buyback programme launched on 28 March 2023 is progressing well, with 3.8 million shares purchased at a cost of around £83 million as at 1 October 2023.
- Looking ahead, the strength of our land bank and balance sheet provide the Group with optionality, and the reinvestment of capital into compelling land opportunities will continue to be balanced with future shareholder returns.

High-quality land bank supports outlet opening programme and long-term growth ambitions

- The strength of our overall land bank, which comprises 98,164 plots[5] (2022 – 97,706 plots), enables our land teams to remain highly selective with investment in the year ahead, without hindering the Group's long-term growth ambitions.
- Investment activity remains focused on securing land interests which offer compelling and enhanced financial returns and where possible, have significant flexibility in the contract terms.
- Bellway has a strong owned and controlled land bank which provides good visibility with regards to sales outlet growth in the current financial year and beyond.
- Reflecting the challenging market backdrop and the depth of our land bank, investment in new land was significantly lower than the prior year, with only 4,715 plots[4] contracted (2022 – 19,089 plots) across 35 sites[4] (2022 – 107 sites). We have also continued to review previously contracted land and decided not to proceed with the purchase of 886 plots across 4 previously approved sites.
- Further expansion of our strategic land bank during the year, which grew to 43,600 plots (2022 – 35,600 plots), underpins the Group's longer-term prospects.

'Better with Bellway' – our responsible and sustainable approach to business

- Supported by several research projects underway across the business, strong progress has been made in laying the foundations for a lower carbon footprint as we work towards a significant reduction in the Group's emissions by 2030.
- Our ongoing focus on providing high-quality homes and service for our customers has resulted in Bellway retaining its position as a five-star[6] homebuilder for the seventh consecutive year.
- We are delighted that our colleagues have raised over £3.1 million for Cancer Research UK over the last seven years, exceeding our target of £3.0 million.
- The Group signed the Government's Self-Remediation Terms ('SRT') in March 2023 and has also recently been confirmed as a member of the Responsible Actors Scheme ('RAS') by the Department of Levelling Up, Housing and Communities ('DLUHC').
- The SRT has provided improved clarity on the standards required for internal and external works on legacy buildings. As a result, we expect a step up in the level of remediation work carried out by our Building Safety division on legacy schemes in the current financial year.
- We have provided an additional net £49.6 million in relation to legacy building safety, as an adjusting item, which includes a net £43.4 million charge in the second half. The charge in the second half includes a provision of £30.5 million in relation to an isolated design issue identified with an apartment scheme built 12 years ago in Greenwich, London.

Recent trading and outlook

- Since the start of the new financial year, customer demand continues to be affected by mortgage affordability constraints, with reservations below the comparative rates in the prior year.

- In the nine weeks since 1 August, overall weekly reservations were 133 per week (1 August to 2 October 2022 – 191) and the private reservation rate was 99 per week (1 August to 2 October 2022 – 136).
- The private reservation rate includes a bulk sale to a private rental sector investor, on compelling financial terms, comprising 71 homes (1 August to 2 October 2022 – nil). The private reservation rate per site per week in the period was 0.41 (1 August to 2 October 2022 – 0.58), including a contribution of 0.03 (1 August to 2 October 2022 – nil) from the bulk sale.
- The Group has a lower, yet still sizeable forward sales position with a value of £1,232.3 million[2] as at 1 October (2 October 2022 – £2,093.8 million). The order book comprised 4,636 homes (2 October 2022 – 7,257 homes), of which 71% were exchanged (2 October 2022 – 71%).
- Given the reduced order book and prevailing lower reservation rates, there will be a material reduction in volume output in the current financial year. Based on the average private reservation rate per site per week of 0.46 achieved in financial year 2023, the Group is targeting to deliver completions of around 7,500 homes (2023 – 10,945 homes), and to end the year with a higher order book (2023 – 4,411 homes) to serve as a platform for a return to growth beyond the current financial year.
- The Board notes however, that a wider than usual range of outcomes are possible, and the final volume outturn will depend on the trajectory of mortgage interest rates and the strength of demand in the autumn and spring selling seasons.
- Overall, headline pricing has remained firm across our regions, although targeted incentives continue to be used to attract customers and secure reservations. In financial year 2024 we currently expect the overall average selling price to be around £295,000 (2023 – £310,306), with the moderation from 2023 primarily reflecting a higher expected proportion of social housing completions and a continued use of incentives.
- In the near term, we anticipate headwinds from lower volume output, ongoing pressures of cost inflation and the use of sales incentives to persist. Overall, we expect these factors, together with the effect of extended site durations, to lead to a reduction in the underlying operating margin[2,3] of at least 600 basis points in the current financial year.
- There is a shortage of high-quality and energy efficient homes across the country and the long-term fundamentals of the UK housebuilding industry remain attractive. The Group's balance sheet and operational strengths combined with the depth of our land bank provide an excellent platform for Bellway to capitalise on future growth opportunities when they arise.

1 All figures relating to completions, order book, reservations, cancellations, and average selling price exclude the Group's share of its joint ventures, unless otherwise stated.
2 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, are included in note 13.
3 Underlying refers to any statutory performance measure or alternative performance measure before net legacy building safety expense and exceptional items (note 3).
4 Includes the Group's share of land contracted through joint venture partners comprising nil plots (2022 – 237 plots), with a contract value of nil (2022 – £12.7 million) across no sites (2022 – 1 site).
5 Includes the Group's share of land owned and controlled through joint venture partners comprising 935 plots (2022 – 962 plots).
6 As measured by the Home Builders' Federation using the eight-week NHBC Customer Satisfaction survey.
7 Comparatives are for the year ended 31 July 2022 or as at 31 July 2022 ('2022') unless otherwise stated.

Analyst presentation, webcast and conference call

There will be an analyst presentation held at the offices of Numis at 9.30am today. The presentation will be hosted by Jason Honeyman, Group Chief Executive and Keith Adey, Group Finance Director.

A listen-only webcast and conference call will accompany the presentation. To join the webcast, go to the Bellway p.l.c. corporate website, www.bellwayplc.co.uk/investor-centre.

To join via the conference call, participants should dial +44 (0)33 0551 0200 and quote 'Bellway Full Year Results' when prompted by the operator.

A playback facility will be available on our corporate website shortly after the presentation has finished.

For further information, please contact:

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Chair's Statement

Introduction

Bellway has delivered a resilient performance, during a year which was disrupted by periods of challenging trading conditions. Our strong order book at the start of the financial year was decisive in allowing us to weather a period of uncertainty and supported the delivery of 10,945 much needed new homes – very close to the prior year's record output. Notwithstanding this, the industry has faced several headwinds, which combined with higher levels of taxation, led to a reduction in the Group's underlying earnings per share to 328.1p[2,3] (2022 – 420.8p).

The performance in the year was achieved whilst maintaining a focus on quality and customer service and reflects the dedication and hard work of our colleagues, subcontractors and supply chain partners. On behalf of the Board, I would like to express our gratitude to all those who have contributed to these results, for their resilience, resourcefulness, and ongoing commitment.

Strategic priorities

Our immediate priority is to ensure the Group remains well-positioned for a prompt return to sustainable growth as the wider economy recovers and clarity emerges over future housing policy. All political parties recognise there is a growing shortfall of good quality homes but remain divided as to how this can be best addressed. The situation is exacerbated by a challenging planning system which would benefit from reform and a longer-term approach to addressing housing need.

As previously announced, due to the uncertain market backdrop, we recently reorganised our operational structure which resulted in some headcount reductions across the Group. These measures were carefully considered to protect the health of the business, and they will not hinder the Group's long-term growth ambitions.

Bellway's robust balance sheet provides the financial flexibility to successfully navigate the near-term market challenges, and the capacity to invest in the future to deliver long-term volume growth. To drive a long-term improvement in RoCE, the Board has a sharp focus on margin discipline and will maintain a value-driven approach to capital allocation. Together with our responsible approach to business practices, the delivery against these priorities will help support ongoing value creation for shareholders. Further details of our strategic priorities are set out below:

- Deliver long-term volume growth
- Drive a long-term improvement in RoCE
- Operate responsibly and sustainably through our 'Better with Bellway' strategy

Long-term volume growth

Bellway's successful organic growth strategy has supported the delivery of a near-doubling of volume output over the last decade. While we expect a decrease in legal completions in financial year 2024, beyond the near-term, the Board is confident that the strength of our land bank and balance sheet can help build on our long-term track record. Our front-footed approach to land investment in recent years has provided good visibility on the Group's sales outlet opening programme and, further supported by our healthy work-in-progress position, we are focused on driving a recovery in volume output beyond the current financial year.

The long-term housing market fundamentals remain positive and there is a shortage of high-quality, energy efficient and affordable homes across many parts of the country. Bellway has a strong operational structure, now with 20 trading divisions, which provide the capacity to organically grow volume in the longer-term to over 13,000 homes per annum. The Group has the ability to scale up this structure when market conditions allow, and this will ensure that Bellway continues to play an important role in increasing housing supply in the years ahead.

Long-term improvement in RoCE

A core part of the Group's strategy is to maintain a sharp focus on RoCE, which is a key indicator of operating efficiency and performance. Bellway's RoCE is currently being affected by several industry headwinds, including higher mortgage interest rates, cost inflation and planning delays. In the year ahead, these factors will lead to a further reduction in underlying RoCE from the 15.8%[2,3] reported in financial year 2023 (2022 – 19.4%). Notwithstanding these near-term challenges, the Board is optimistic that the backdrop of our cyclical industry will improve and combined with our strategic focus on growth and operating margin, the Group is well-placed to again deliver an underlying RoCE of between 15%[2,3] and 20%[2,3] over the longer term.

To help achieve this, and in addition to our ongoing focus on margin protection, the expansion of our strategic land bank will support both our long-term volume growth aspirations and an improvement in asset turn. Strategic land can also generate margin enhancement, in some instances, due to land values typically being agreed at a discount to open market cost, once planning permission has been obtained. In addition, we are increasing the use of timber frame construction across the Group, which can improve build efficiencies and asset turn, as well as reducing carbon emissions in the supply chain.

The Group is determined to drive benefits from these areas of focus and together with our value-driven approach to capital allocation, we have a strong platform to begin to deliver a recovery in returns beyond the current financial year.

'Better with Bellway'

During the year we have made further progress, through a range of initiatives, to embed the 'Better with Bellway' sustainability strategy across the Group's operations. The strategy includes ambitious targets in respect of our three flagship areas of Carbon Reduction, Customers and Communities, and becoming an Employer of Choice.

Supported by several research projects underway across the business, strong headway has been made in laying the foundations for a lower carbon footprint as we work towards a significant reduction in the Group's emissions by 2030. The Group's scope 1 and scope 2 carbon emissions have reduced by 10.0% compared to the prior year and by 35.6% since our base year of 2019, and we are in an excellent position to meet our target of a 46% reduction by 2030.

Reflecting our focus on build quality and customer service, we are proud to have retained our position as a five-star[6] homebuilder for the seventh consecutive year. There has also been an excellent response to our most recent employee engagement survey and despite challenging circumstances and uncertainty in the market, 89% of colleagues (2022 – 95%) said they would recommend Bellway as 'a great place to work'.

In addition to the flagship priority areas, the 'Better with Bellway' strategy includes targets in respect of biodiversity, resource efficiency, charitable engagement, sustainability throughout the supply chain and building quality homes safely. More details are set out later in this report and are also available on our website at www.bellwayplc.co.uk/sustainability.

Our ongoing focus on the serious issue of building safety is reflected by the remediation work being carried out through our dedicated Building Safety division. Bellway also signed the SRT with DLUHC on 13 March 2023, and has recently been confirmed as a member of the RAS by DLUHC, which further reinforce our approach to acting responsibly on matters relating to building safety in legacy apartment schemes.

Delivering value creation for shareholders

The successful delivery against our strategic priorities will ensure the Group continues to generate long-term value for shareholders, and the Board believes this is best gauged through increasing NAV per share and supplemented by capital returns.

In the year ended 31 July 2023, NAV rose by 5.3% to 2,871p[2] (2022 – 2,727p) and in line with previous guidance, the Board is pleased to recommend that the final dividend is maintained at 95.0p per share (2022 – 95.0p). This brings the total proposed dividend to 140.0p per share (2022 – 140.0p) and, if approved, the overall dividend will be covered 2.3 times[2,3] by underlying earnings (2022 – 3.0 times). In the current financial year and in line with Board's previously stated target, underlying dividend cover will be around 2.5 times [2,3].

The Group has maintained its disciplined approach to capital allocation and the £100 million share buyback programme launched on 28 March 2023 is nearing completion with 3.8 million shares purchased at a cost of around £83 million as at 1 October 2023.

Looking ahead, the strength of our land bank and balance sheet provide the Group with optionality, and the reinvestment of capital into compelling land opportunities will continue to be balanced with future shareholder returns.

Competition and Markets Authority Market Study

The UK Competition and Markets Authority ('CMA') launched a market study into the housebuilding sector in England, Scotland and Wales on 28 February 2023. The CMA has since announced on 25 August 2023 that it will be looking into five areas of the study in greater detail, including barriers to entry and expansion in the industry and if the planning system is impeding the effective functioning of the housebuilding market.

Bellway has already contributed positively to the study, by providing information on how the industry operates through the key stages of land acquisition, planning, construction and sales. We will continue to engage openly with the CMA through this process, which also provides an opportunity to help inform the CMA of the current challenges facing the sector.

Future long-term success

Bellway has an experienced and proven leadership team with operational strength-in-depth throughout the organisation. Its dedicated team and loyal supply chain partners are well-placed to adapt and successfully navigate through changing market conditions. The strategic flexibility afforded by our strong land bank and balance sheet also provides the Group with ongoing resilience and a platform to capitalise on future growth opportunities.

We remain committed to our responsible and sustainable approach to business and, by building new communities and delivering against the Group's strategic priorities, I am confident that Bellway will add further value and create a positive outcome for our stakeholders over the long term.

John Tutte
Chair
16 October 2023

Chief Executive's Market and Operational Review

Market

Bellway's focus on traditional two-storey family housing attracts a wide range of customers, with underlying demand for our high-quality homes partly supported by wage growth and low levels of unemployment throughout the year. Notwithstanding the broader market requirement for new homes, trading conditions were challenging, with cost-of-living pressures and both higher and more volatile mortgage interest rates leading to significant variations in reservation rates.

A slower than usual start to the financial year was followed by a period of challenging trading in the autumn of 2022, when sales rates were impacted by sharp increases in borrowing costs. By early 2023, mortgage interest rates began to moderate, and we were encouraged by the levels of demand during the spring selling season. By June and July, however, there were further rises in borrowing costs for customers and the resulting uncertainty and pressure on affordability impacted customer confidence and reservation rates through the summer.

The overall reservation rate was 28.4% lower than the prior year at an average of 156 per week (2022 – 218) and, to help mitigate weaker private demand, we continued with our programme of accelerating the construction of social homes. The average private weekly reservation rate reduced by 35.9% to 109 (2022 – 170), representing a private reservation rate per site per week of 0.46 (2022 – 0.70). The overall cancellation rate rose to an average of 18% (2022 – 13%), with the increase largely driven by softer private customer demand in the autumn and summer, when mortgage interest rates were at their highest levels.

The Group operated from an average of 238 outlets (2022 – 242) with a closing position of 240 outlets (2022 – 235), broadly in line with our expectations. Outlet growth during the year has been achieved because of our front-footed approach to investment prior to financial year 2023, and has been secured notwithstanding a challenging planning environment, which is fraught with delays.

In general, there remains good availability of mortgage products, although lenders' re-pricing activity in response to changes in the Bank of England base rate has affected the shorter-term availability of mortgage finance at certain points during the year. Affordability has been impacted by the increase in mortgage interest rates, which more than offset the effect of wage increases. Consequently, while average mortgage payments as a percentage of take-home pay are currently within historical norms, they remain elevated compared to the levels over the last decade and we expect this to continue to weigh on reservation rates in the near-term.

During the year we have continued to see relatively healthy levels of underlying demand from second-time buyers, which accounted for 63.8% of private reservations (2022 – 59.4%). The impact of rising interest rates, however, has been particularly acute for customers requiring a higher loan-to-value mortgage, and for first-time buyers this has been exacerbated by the expiry of Help-to-Buy in England in March 2023. Sales to investors have remained low and represented around 1% of total reservations (2022 – 1%). In the year ahead, to support construction programmes and operational efficiency, the Group will continue to consider investor sales on a disciplined basis, particularly at larger sites and slower selling outlets.

Overall headline pricing remained robust across our regions, although the rise in customer borrowing costs in the year has required our sales teams to increase the use of targeted incentives on certain sites to secure reservations. The use of selling incentives generally increased through the summer of 2023 and in order to encourage further sales, we expect this trend to continue in the current financial year. Customer demand was generally more resilient where affordability remains good in the context of the local market and in areas with healthy employment levels. These factors, together with our land investment in recent years, have particularly benefitted our divisions in Manchester, the East Midlands and Northern Homes Counties, which were notable strong performers.

Strong land bank provides near-term flexibility and a platform for long-term volume growth

Bellway has a strong and high-quality land bank which has enabled our land teams to remain highly selective in the current economic environment, without hindering the Group's long-term growth ambitions. The land bank has been enhanced in recent years by the proactive investment in new sites from the summer of 2020, when overall activity in the land market was depressed following the onset of COVID-19.

Given the cyclical nature of the housebuilding industry, maintaining Bellway's financial strength forms the foundation of our capital allocation policy, and enables the Group to swiftly respond to attractive land opportunities when they arise. Ongoing disciplined investment in land will be essential to achieving our strategic priority of long-term volume growth, and our value-driven approach to capital allocation is regularly reviewed by the Board to ensure an optimal balance between land investment and capital returns.

Our cautious and targeted approach to investment and rigorous approval process remains focused on securing land interests which offer compelling and enhanced financial returns and where possible, have significant flexibility in the contract terms. There is a well-established Group-wide oversight for land approval at Bellway which ensures we focus our investment resource in the areas of strongest demand. As part of this disciplined process, all contracted sites are assessed by our divisional teams and again by the Group's Head Office land acquisition team, which in order to optimise the margin, challenges acquisition assumptions and reviews layouts and engineering designs.

Bellway's experienced land teams continue to engage with vendors although, as previously guided, overall plots contracted have been significantly lower than the prior two financial years. During the year, the Group contracted to purchase 4,715 plots[4] (2022 – 19,089 plots) across 35 sites[4] (2022 – 107 sites) with a total contract value of £378.2 million[4] (2022 – £1,300.3 million). We have also continued to review previously contracted land and decided not to proceed with the purchase of 886 plots across 4 previously approved sites.

The table below analyses the Group's land holdings:

	2023	2022
DPP: plots with implementable detailed planning permission	**32,229**	32,344
Pipeline: plots pending an implementable DPP	**21,400**	28,800
Bellway owned and controlled plots	**53,629**	61,144
Bellway share of land owned and controlled by joint ventures	**935**	962
Total owned and controlled plots	**54,564**	62,106
Strategic land holdings	**43,600**	35,600
Total land bank[5]	**98,164**	97,706

Since the early stages of the COVID-19 pandemic, the planning system has been impacted by staffing and resource shortages at local authorities and exacerbated by the uncertainty caused by the proposed reforms to the Government's National Planning Policy Framework. In addition to these delays, the sector has been tasked with accommodating the increasing regulations around water and nutrient neutrality, and biodiversity. Bellway's Head of Biodiversity is leading on this area and working with our land teams to help the Group navigate the associated complexities.

As noted earlier, the Group operated from an average of 238 outlets in the year (2022 – 242) with 240 active outlets at 31 July 2023 (2022 – 235). Reflecting the robust volume output and lower level of land buying during the year, Bellway's owned and controlled land bank has decreased yet remains strong at 53,629 plots (2022 – 61,144 plots). This represents a land bank length of 4.9 years (2022 – 5.5 years) when based on the last 12 months' legal completions.

Within our land bank we have 32,229 plots (2022 – 32,344 plots) with an implementable detailed planning permission ('DPP') and our pipeline land bank comprises 21,400 plots (2022 – 28,800 plots). The reduction in the number of pipeline plots reflects our lower land activity and several pipeline sites receiving an implementable DPP in the year. As the Group's pipeline plots achieve planning permission, they will provide further support for our plans to grow outlet numbers in the years ahead.

We have good visibility on the expected timing of near-term planning decisions and, notwithstanding the risks of further planning delays in the run up to next year's General Election, we currently expect to open up to 80 new outlets (2023 – 70) in financial year 2024. Overall, the Group is well-positioned to increase the average number of outlets by around 3% during the year to 31 July 2024, with the outcome also dependent on sales rates and therefore the number of outlets closing during the year.

The proactive and disciplined land investment in recent years positions us well to help offset planning headwinds and begin to reverse the reduction in outlet numbers that has affected the wider industry. This will help mitigate the effects of a slower sales market and we are targeting a further increase in outlet numbers by the end of financial year 2025 and beyond.

Overall, the depth of our land bank will allow the Group to continue with a highly selective approach to land buying in the year ahead. We will remain cautiously active by assessing sites with compelling returns, however, given the uncertain market backdrop we currently expect to contract a limited number of plots in financial year 2024. We will maintain financial discipline and as we demonstrated in summer 2020, our balance sheet strength also provides the Group with the flexibility to respond to changes in the market, increase investment and capitalise on growth opportunities when they arise.

Strategic land investment to further support our long-term growth ambitions

There has been further growth in our strategic land bank during the year, which has enhanced our overall land supply for a relatively low initial capital outlay. Bellway's longer-term land opportunities are primarily sourced through option agreements by the Group's dedicated strategic land function, with commercial terms that will reflect future market values and conditions, while also allowing for prevailing planning policy requirements at the time of acquisition.

The Group's experienced strategic land team is focused on promoting and delivering sustainable sites through the planning system, and is adept at navigating emerging planning policies and other legislative changes. To complement our team of land specialists, Bellway also has an ongoing programme of structured graduate training which will ensure the continued success of the function.

Our land sourcing was enhanced in October 2022 when the Group completed the acquisition of a strategic land company, focused on the South East and Midlands regions. The total consideration was £25.4 million and as part of the transaction, Bellway acquired promotion agreements in relation to around 6,000 potential plots. During the year and including the benefit of this acquisition, the Group entered into option and promotion agreements for 71 sites (2022 – 46 sites). As at 31 July 2023 the strategic land bank comprised 43,600 plots (2022 – 35,600 plots) and has grown by around 60% over the last three years (31 July 2020 – 27,300 plots).

Overall, the Group's ongoing investment in strategic land continues to provide balance sheet efficiency and financial flexibility through the use of option and promotion agreements, while also supporting our longer-term growth prospects, with plots usually expected to obtain planning permission over a period of five years or more.

Range of brands for our broad customer base

Bellway continues to operate under three distinctive brands – Bellway, Ashberry and Bellway London. Our core Bellway brand remains the foundation of the business and contributed 83.8% of legal completions (2022 – 83.7%).

Ashberry is primarily used on larger sites, alongside our Bellway brand, where there is capacity and market demand for two selling outlets. The use of two brands provides customers with greater choice through a wider range of elevations and internal layouts. This can drive higher sales rates and RoCE, while also acting as a mitigant to slower market conditions. Reflecting this approach, Ashberry represented a growing proportion of our active selling sites during 2023 and was used in 11.2% of completions (2022 – 8.6%).

Bellway London is marketed as a standalone brand for our operations across the Capital where our product range, specification and customer approach to buying a home differs to other parts of the country. The Group has intentionally reduced its London exposure in recent years due to relative affordability constraints, and the brand contributed 5.0% of completions (2022 – 7.7%), the large majority of which were apartments. Our strategy in London remains focused on the more affordable outer transport zones and, primarily due to changes in mix, the total average selling price of our Bellway London completions reduced to £347,669 (2022 – £389,684), an affordable level in the context of the Capital's residential market.

Production and cost control

During the year, average overall build cost inflation was in the range of 9% to 10%, with the increase driven by both labour and materials. We experienced upward pressure on subcontract labour costs, reflecting both underlying wage inflation and the elevated level of construction activity required to deliver our robust volume output. Overall materials inflation was also driven by building materials manufacturers' own labour cost pressures together with the pass through of previously elevated energy prices. In the second half of the financial year, the combined effect of the fall in energy costs from their peak in summer 2022 and lower industry order books led to a slight moderation in cost rises.

Bellway has well-established relationships with its supply chain and subcontract partners and together with our strong commercial disciplines and controlled approach to production expenditure, some of the underlying build cost pressures have been alleviated. The Group's programme of accelerating the construction of social homes has also provided good visibility on pipeline work and remained beneficial when negotiating new labour and materials pricing.

The increased use of our Artisan Collection house-types has delivered a range of benefits across the Group, including improved site layouts, national procurement deals and our subcontractors becoming more familiar with the range. To drive further efficiency, and reflecting several value-engineering initiatives, we have rationalised the Artisan range since its launch in 2018 and the house-types have been plotted across a total of 49,000 plots (2022 – 43,000 plots) on 355 developments (2022 – 295 developments). As a result of this approach, the proportion of Artisan homes within Group completions rose to 45% of total completions in financial year 2023 (2022 – 26%) and we expect further growth in the current year. As part of our strategy, we are also increasing the use of timber-frame construction across the Group, further details of which are covered in the 'Better with Bellway' section of this report.

The industry-wide reduction in reservation rates and order books has impacted demand for construction materials and as the year progressed, this resulted in an improving trend of product availability across the Group. Bellway's experienced procurement teams continue to work closely with our wide range of supply chain partners, and where necessary, we have sourced alternative products whilst maintaining the high standard of our homes.

Since early 2023, build cost inflation has moderated and the visibility on costs has also improved as, following a period of temporary energy surcharges and short-term price fluctuations, many suppliers are reintroducing normalised fixed price periods of between 9 and 12 months. As weaker industry sales rates continue to feed through to lower levels of construction activity, the Group expects overall build cost pressures to ease further in the months ahead.

Beyond this financial year, as the industry works towards building to the requirements of the Future Homes Standard, our Artisan Collection standard house-types and centralised approach to design, procurement and site layout reviews will continue to help the Group maintain efficiency and mitigate cost pressures.

To protect the long-term health of the business, we continue to focus on maintaining balance sheet resilience and tight control over production expenditure. As previously announced, given the weaker trading backdrop, we have taken steps to reduce headcount across the Group, which has unfortunately led to job redundancies and the closure of two divisional offices. As part of this process, the sites of the closed divisions have been transferred to neighbouring divisions, where their ongoing development will be managed by our experienced teams. Importantly, these changes will not compromise the Group's ability to return to growth when trading conditions improve.

Recent trading

The combination of strong volume output and lower reservation rates during the year led to a reduction in the value of the forward order book at 31 July 2023. This comprised 4,411 homes (2022 – 7,223 homes) and had decreased in value by 43.6% to £1,193.5 million[2] (2022 – £2,114.3 million).

Since the start of the new financial year customer demand continues to be affected by mortgage affordability constraints, with reservations below the comparative rates in the prior year. Overall, headline pricing has remained firm, although targeted incentives continue to be used to attract customers and secure reservations.

In the nine weeks since 1 August, overall weekly reservations were 133 per week (1 August to 2 October 2022 – 191) and the private reservation rate was 99 per week (1 August to 2 October 2022 – 136). The private reservation rate includes a bulk sale to a private rental sector investor, on compelling financial terms, comprising 71 homes (1 August to 2 October 2022 – nil). The private reservation rate per site per week in the period was 0.41 (1 August to 2 October 2022 – 0.58), including a contribution of 0.03 (1 August to 2 October 2022 – nil) from the bulk sale.

Reflecting recent trading and our construction programmes, the forward order book has increased slightly since the financial year end and comprised 4,636 homes as at 1 October (2 October 2022 – 7,257 homes), of which 71% were exchanged (2 October 2022 – 71%). The order book had a value of £1,232.3 million[2] as at 1 October (2 October 2022 – £2,093.8 million).

Outlook

The stubborn inflationary environment and resulting increase in mortgage interest rates over the last year continues to impact affordability and customer demand. Against this backdrop, Bellway is well-placed to deliver growth in outlets, however, given the reduced order book and prevailing lower reservation rates, there will be a material reduction in volume output in the current financial year.

Based on an average private reservation rate per site per week of 0.46 achieved in financial year 2023, the Group is targeting to deliver completions of around 7,500 homes (2023 – 10,945 homes), and to end the year with a higher order book (2023 – 4,411 homes) to serve as a platform for a return to growth beyond the current financial year. The Board notes however, that a wider than usual range of outcomes are possible, and the final volume outturn will depend on the trajectory of mortgage interest rates and the strength of demand in the autumn and spring selling seasons.

While current trading is challenging, we have been encouraged by the more recent fall in UK Consumer Price Inflation. If this trend continues, there are grounds for cautious optimism that this could lead to a moderation in mortgage interest rates and an improvement in customer demand.

Over the long term, Bellway's divisional structure has significant capacity to deliver sustainable volume growth. The Group's balance sheet and operational strengths combined with the depth of our land bank provide an excellent platform for Bellway to capitalise on future growth opportunities when they arise, and to ensure ongoing value creation for our shareholders.

Jason Honeyman
Group Chief Executive
16 October 2023

Group Finance Director's Review

Trading performance

In a challenging market, the Group has delivered robust housing revenue of £3,396.3 million (2022 – £3,520.6 million), representing a 3.5% reduction on the prior year. Other revenue was £10.3 million (2022 – £16.2 million) and comprises ancillary items such as a land sale, commercial sales and management fee income earned on our joint venture schemes. Total revenue was 3.7% lower at £3,406.6 million (2022 – £3,536.8 million).

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

	Homes sold (number)						Average selling price (£000)					
	Private		Social		Total		Private		Social		Total	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
North	**4,453**	4,637	**1,020**	817	**5,473**	5,454	**331.1**	312.1	**131.7**	118.7	**293.9**	283.1
South	**3,713**	4,503	**1,759**	1,241	**5,472**	5,744	**392.4**	387.3	**188.0**	187.5	**326.7**	344.1
Group	**8,166**	9,140	**2,779**	2,058	**10,945**	11,198	**359.0**	349.1	**167.3**	160.2	**310.3**	314.4

Volume output was supported by the strong order book at the start of the financial year, and notwithstanding the reduction in reservation rates during the year, total completions reduced by only 2.3% to 10,945 homes (2022 – 11,198). Due to our build programmes and relative affordability constraints affecting customer demand in some areas in the South, the Group's private output in this region reduced by 17.5% to 3,713 homes (2022 – 4,503 homes). Overall private output reduced by 10.7% to 8,166 homes (2022 – 9,140 homes) and was partly offset by the accelerated construction of social housing homes. This resulted in the proportion of social completions increasing to 25.4% of the total (2022 – 18.4%). We have good visibility on our near-term build programmes and given the lower private order book and prevailing sales rates, we expect a further increase in the proportion of social homes in the current financial year.

The Group's volume output had a broadly even contribution from divisions located in the North and South of the country. Each of our four strongest operating divisions delivered in excess of 700 completions, all of which demonstrated the capability of a well-run, mature division. While total completions will be lower in the current financial year, all our divisions have capacity for future growth and Bellway's high-quality land bank and experienced teams will help to drive a recovery in volume output over the medium term.

The overall average selling price was £310,306 (2022 – £314,399), and this modest 1.3% reduction was primarily driven by the lower proportion of private completions. The overall average selling price in the year ending 31 July 2024 is currently expected to be around £295,000 with the moderation from the level in the prior year reflecting a further increase in the proportion of social homes and a continued use of incentives, together with geographic and mix changes.

Underlying operating performance

The Group's commercial disciplines and proactive management of site-based overheads helped mitigate some of the headwinds faced in the challenging operating environment during the year. Notwithstanding this, the impact of build cost inflation, extended site durations because of slower reservation rates and the increased use of targeted sales incentives led to a 210 basis point reduction in the underlying gross margin to 20.2%[2,3] (2022 – 22.3%). As a result, underlying gross profit decreased by 12.7% to £687.3 million[2,3] (2022 – £787.0 million).

Other operating income and expenses, which net to an expense of £1.2 million (2022 – £0.2 million net income), relate to the running of our part-exchange programme. Part-exchange activity remained low and was used for only 1.7% of completions (2022 – 1.1%), with a balance sheet investment as at 31 July 2023 of £18.0 million (2022 – £5.4 million). The Group has strong controls around the use of part-exchange as a selling tool, and we have the financial capacity to increase its use in the year ahead, in a disciplined manner, if market conditions require it.

The administrative expense was £142.2 million (2022 – £134.0 million), and the increase of 6.1% reflects underlying cost inflation, rises in pay and employee benefits and a full year of overhead costs for our Building Safety division. As a proportion of revenue, administrative expenses were 4.2%[2] (2022 – 3.8%).

Given the uncertain outlook, we have a conducted a review of overheads during the year and continued with a freeze on recruitment. Two operating divisions have also been closed as part of our wider workforce planning, and it is anticipated that this difficult decision will result in a headcount reduction across the Group of around 5%. In the current financial year, we will maintain a sharp focus on costs, and due to ongoing underlying cost and salary inflation, we expect full year administrative expenses to be similar to the prior year.

The underlying operating margin for the full year decreased by 250 basis points to 16.0%[2,3] (2022 – 18.5%). In the near term, we anticipate headwinds from lower volume output, ongoing pressures of cost inflation and the use of sales incentives to persist. Overall, we expect these factors, together with the effect of extended site durations, to lead to a reduction in the underlying operating margin[2,3] of at least 600 basis points in the current financial year.

As future growth opportunities arise, overhead recovery will improve, and we will continue with our disciplined approach to land investment and cost management. Together with the support of stable conditions in the housing market, the Board believes an underlying operating margin in the mid-to high-teens[2,3] is sustainable over the longer-term.

Adjusting item: Net legacy building safety expense

Bellway continues to act responsibly with regards to building and resident safety, and this is reflected by the significant resource and funding the Group has committed to remediate its legacy apartments.

During the year, the Group signed the SRT with the DLUHC and has been confirmed as a member of the RAS by the DLUHC. We have also signed up to the Welsh Government Building Safety Developer Remediation Pact and the Scottish Safer Buildings Accord, reinforcing our responsible UK-wide approach to legacy building safety.

In total, for the year ended 31 July 2023 Bellway set aside a net £49.6 million (2022 – £346.2 million) for legacy building safety improvements. The table below shows the primary components of the net adjusting charge, split by half year and together with the full prior year comparative:

	H1 2023 £m	**H2 2023 £m**	**FY2023 £m**	FY2022 £m
SRT and associated review – cost of sales expense	53.0	5.1	**58.1**	347.0
SRT and associated review – cost of sales recoveries	(50.0)	-	**(50.0)**	(2.8)
Structural defects – cost of sales expense	-	30.5	**30.5**	-
Net cost of sales	3.0	35.6	**38.6**	344.2
SRT and associated review – finance expenses	3.2	7.8	**11.0**	2.0
Total net legacy building safety expense	6.2	43.4	**49.6**	346.2

In the first half of financial year 2023, the Group recognised a net adjusting charge of £6.2 million, including one-off cost recoveries of £50.0 million which had been pursued for several years across a number of sites. In the second half, the net adjusting charge was £43.4 million and included an adjusting finance expense of £7.8 million which was in line with previous guidance.

The second half charge includes £35.6 million provided through cost of sales, of which £5.1 million reflects the refinement of overall cost estimates in relation to the SRT and associated review. It also comprises a £30.5 million structural defects provision in relation to an isolated design issue identified with the reinforced concrete frame of an apartment scheme built 12 years ago in Greenwich, London. We intend to seek recoveries from the entities involved in the development of the Greenwich apartment scheme, however, given the complexity of this process, these have not yet been recognised as an asset.

The Group is carrying out a review of other buildings constructed by, or on behalf of Bellway, where the same third parties responsible for the design of the frame in the Greenwich development have been involved. To date, no other similar design issues with reinforced concrete frames have been identified.

The total amount Bellway has set aside for legacy buildings in England, Scotland and Wales since 2017 is £613.3 million, with a remaining provision of £508.2 million at 31 July 2023. Costs have been provided regardless of whether Bellway still retains ownership of the freehold interest in the building or whether warranty providers have a responsibility to carry out remedial works.

The development of remediation strategies is a complex exercise, involving many third parties, and there is often a requirement to obtain planning and regulatory approval before works commence. Against this backdrop and despite the changes to regulations through the year, the Group's dedicated Building Safety division has made further progress with remediation. Work is now completed on 9 developments, underway on 12 developments and works are due to commence on a further 2 developments in the first half of the current financial year.

Looking ahead, while the precise timings of cash outflows for building safety improvements are uncertain, the SRT has set out the standards required for internal and external works on legacy buildings, therefore providing greater clarity for future remediation. In the current financial year, we anticipate a cash outflow for building safety to be in the range of £60 million to £80 million (2022 – £32.9 million).

Bellway has a strong, well-capitalised balance sheet with net cash of £232.0 million[2], a net asset value of £3,461.6 million and committed debt facilities of £530 million as at 31 July 2023. In this regard, the Group is well-placed to meet its commitments for legacy building remediation and importantly, the expected level and timings of the costs will not be detrimental to our long-term strategic priorities.

Operating profit

After taking the cost of sales adjusting items into consideration, total operating profit increased by 63.5% to £505.3 million (2022 – £309.0 million).

Net finance expense

The net finance expense was £20.9 million[2] (2022 – £14.1 million) and comprises an underlying net interest expense of £9.9 million[2,3] (2022 – £12.1 million) and as highlighted earlier, an adjusting finance expense of £11.0 million (2022 – £2.0 million) in relation to the unwinding of the discount on the SRT and associated review provision. During the year, a higher discount rate was applied to the provision due to the rise in gilt rates, and this was the primary driver of the increase in the adjusting finance expense.

The underlying net finance expense principally includes notional interest on land acquired on deferred terms, interest on the Group's fully drawn US Private Placement ('USPP') loan notes and bank interest. Notional interest on land acquired on deferred terms was £13.1 million (2022 – £7.3 million), with the increase largely reflecting the rise in interest rates. The interest charge on the fixed rate USPP debt was £3.4 million (2022 – £3.4 million). Net bank interest income, which includes interest receivable on cash balances, commitment fees and refinancing costs, was £4.4 million (2022 – £2.0 million net expense) and again, this reflects the rise in interest rates in the period.

Based on prevailing interest rates, the net underlying interest expense in financial year 2024 is currently expected to be around £10 million[2,3].

The adjusting finance expense in relation to the discount unwind of the legacy building safety improvements provision is subject to a range of assumptions, and based on the 31 July 2023 forward looking discount rate, we currently anticipate an adjusting expense of under £10 million in the first half of financial year 2024. The expense in the second half of the year will, in part, be dependent upon the movement in gilt rates.

Share of results of joint ventures

Our share of loss from joint ventures was £1.4 million (2022 – £9.3 million share of profit). The movement in the year primarily reflected a lower number of completions as a previously active development came to an end. In the year to 31 July 2024, we anticipate a modest loss of around £4 million for our share of results from joint ventures, with this driven by higher interest rates on a longer-term scheme.

Profit before taxation

Underlying profit before taxation was 18.1% lower at £532.6 million[2,3] (2022 – £650.4 million). Reported profit before taxation increased by 58.8% to £483.0 million (2022 – £304.2 million), with the decrease in underlying profitability more than offset by the lower net legacy building safety expense in the year.

Taxation

The income tax expense was £118.0 million (2022 – £61.6 million), reflecting an effective tax rate of 24.4% (2022 – 20.2%). The effective tax rate increased in the period, following the full year effect of the Residential Property Developer Tax ('RPDT'), which was introduced in April 2022 and charged at a rate of 4% of relevant taxable profits.

In addition, the increase in the standard rate of UK corporation tax to 25% in April 2023 has contributed to the rise in the tax rate and its full year effect means that the Group's effective tax rate is expected to approach 29% in financial year 2024.

Profit for the year

The underlying profit for the year decreased by 22.4%, to £402.2 million[2,3] (2022 – £518.5 million) and underlying earnings per share was 22.0% lower at 328.1p[2,3] (2022 – 420.8p).

After considering taxation charged at the increased effective rate and the lower net legacy building safety expense, reported profit for the year rose by 50.5% to £365.0 million (2022 – £242.6 million). Basic earnings per share ('EPS') increased by 51.2% to 297.7p (2022 – 196.9p).

Net cash and financial position

Bellway has maintained a strong balance sheet and ended the year with net cash of £232.0 million[2] (2022 – £245.3 million), representing an ungeared[2] position (2022 – ungeared). Average net cash was £192.0 million[2] (2022 – £223.9 million), demonstrating the resilience of the financial position throughout the year.

Cash expenditure on land, including payment of land creditors, was £467 million (2022 – £1,090 million), primarily comprising cash payments on contracts approved in the previous two financial years. Committed land obligations remain modest and following further analysis of the Group's land creditor contracts, we now assess the year-end balance to be £368.8 million (2022 – £393.4 million). This represents low adjusted gearing, inclusive of land creditors, of only 4.0%[2] (2022 – 4.4%).

In addition to the net cash position, the Group has access to significant levels of committed, medium and long-term debt finance, totalling £530 million. This comprises undrawn bank facilities of £400 million and £130 million of fully drawn sterling USPP loan notes, which have maturity dates that extend in tranches to February 2031. We remain focused on preserving Bellway's balance sheet resilience and notwithstanding a lower anticipated volume output and profit, we expect to maintain an average net cash balance in the year ahead.

Strong balance sheet

The Group's well-capitalised balance sheet principally comprises amounts invested in land and work-in-progress, with total inventories increasing by 3.4% to £4,575.6 million (2022 – £4,423.6 million). The carrying value of land was 7.5% lower at £2,578.8 million (2022 – £2,786.4 million) and the reduction was primarily driven by a fall in the number of pipeline plots, following a period of lower land activity and several pipeline sites gaining an implementable detailed planning permission during the year.

Work-in-progress increased by 22.1% to £1,861.6 million (2022 – £1,524.8 million) with the higher balance reflecting underlying build cost inflation and our investment in site infrastructure and early-stage foundation work, in preparation for site openings in the year ahead. While this provides a platform for outlet growth to help mitigate a slower sales market, work-in-progress rose to 54.8% (2022 – 43.3%) as a proportion of housing revenue, and we expect a further increase in the current financial year, principally due to an anticipated lower volume output.

In relation to its legacy, defined benefit pension scheme, the Group had a retirement benefit asset of £2.5 million (2022 – £7.1 million) at 31 July 2023, reflecting an ongoing commitment to fund this future, long-term obligation.

Ongoing value creation

During the year, the Group's net asset value rose by 2.8% to £3,461.6 million (2022 – £3,367.8 million). The increase was mainly driven by profit for the year of £365.0 million being partly offset by cash dividend payments of £171.7 million, and after accounting for the £100 million irrevocable share buyback programme announced on 28 March 2023. The uplift in net asset value combined with the effect of the share buybacks undertaken during the year resulted in a 5.3% increase in NAV per share to 2,871p[2] (2022 – 2,727p).

The Board recognises the value creation opportunity presented by additional share buybacks and reflecting our disciplined approach to capital allocation, we will continue to review the Group's cash requirements as trading evolves in the year ahead.

Underlying post-tax return on equity was 11.7%[2,3] (2022 – 15.4%) and underlying RoCE was 15.8%[2,3] (2022 – 19.4%), or 14.3%[2,3] (2022 – 17.4%) when including land creditors as part of the capital base. The moderation in these returns metrics was predominantly driven by the lower underlying operating margin, and a further reduction is expected in the current financial year given an anticipated lower volume output and underlying operating profit. Looking beyond the near-term and given Bellway's financial strength and high-quality land bank, the Board is confident that through improvements in both asset turn and operating margin, the Group can deliver a normalised, longer-term recovery in underlying RoCE to between 15%[2,3] and 20%[2,3].

Over the longer-term, our current land bank alongside disciplined investment in new land is essential to drive volume output, to ensure the continued success of the Group and to generate NAV growth. To support this future investment, we will maintain our financial strength and the Board remains sharply focused on delivering against the Group's strategic priorities to generate ongoing value creation for shareholders.

Keith Adey
Group Finance Director
16 October 2023

‘Better with Bellway’

Our responsible and sustainable approach to business

‘Better with Bellway’ is the Group’s strategy and long-term commitment with regards to acting responsibly and sustainably, which encompasses issues around people and the environment. The strategy covers eight priority areas each with their own specific targets and KPIs linked to the underlying operations of the Group, and since its launch in March 2022, we have made good progress, through a range of initiatives, to embed the framework across the business.

The ‘Better with Bellway’ strategy includes ambitious targets in respect of our three flagship priority areas of Carbon Reduction, Customers and Communities, and becoming an Employer of Choice. It is designed to be a continuously evolving strategy and the following section details our ambitions and progress made towards the respective targets for the three flagship areas.

Carbon Reduction

To achieve a lower carbon footprint at Bellway, we have committed to a significant reduction in scope 1 to 3 greenhouse gas emissions by 2030. We have already made strong headway in laying the foundations to meet our stretching targets, which were validated by the Science Based Targets initiative (‘SBTi’) in 2022.

Scope 3 emissions – targeting a 55% reduction by 2030

Around 99% of the Group’s carbon footprint arises from scope 3 emissions, which are from sources which Bellway does not own or control, including the products used for the construction of our homes. By 2030 we are targeting a reduction in scope 3 carbon intensity by 55% from our 2019 base line.

In financial year 2023, the Group’s scope 3 carbon emissions rose slightly to 1.52 tonnes per m^2 of floor area (2022 – 1.51 tonnes per m^2). We expect to drive meaningful improvements in scope 3 carbon emissions in the years ahead as the industry transitions towards building to the requirements of the Future Homes Standard 2025, which will require new homes to be future-proofed with low carbon heating and built to a very high standard of energy efficiency.

As we work towards reducing the level of embodied carbon in the supply chain, we will need to adopt new construction practices and the use of alternative materials. In this regard, we have increased the use of timber-frame construction across the Group, as compared to other mainstream building materials, timber requires minimal processing and has very low relative levels of embodied carbon. Timber-frame construction is now being increasingly used in five of Bellway’s divisions, including its long-established use in our two Scottish divisions.

During the year we have continued to actively engage with several of our supply chain partners on joint sustainability solutions, and we are aiming to complete meetings with our top 50 suppliers by the end of 2024. In advance of the Future Homes Standard 2025, we are also trialling air source heat pumps at sites in each of Bellway’s 20 trading divisions, as homes built to the Future Homes Standard building regulations will not be reliant on fossil fuels for their water and space heating.

We have several research projects underway across the business, where we are trialling new technologies and working with our customers, to drive best practice for scope 3 carbon reduction. Our flagship research project is at the University of Salford where a Bellway ‘Future Home’ has been constructed in the ‘Energy House 2.0’ environmental chamber, which can recreate a range of temperatures and weather conditions. In this controlled environment, testing is underway for a variety of innovative technologies and the results will help to inform how Bellway will build homes in the years ahead and achieve the requirements of the Future Homes Standard. In addition, the projects will help us to decide which products are both practical and cost-effective for our customers and construction teams.

Scope 1 and 2 emissions – targeting a 46% reduction by 2030

The Group’s scope 1 and scope 2 emissions are those generated by Bellway in our own operations, and combined, these account for around 1% of our total carbon footprint. These include direct emissions from diesel used in onsite machinery and gas used in office and construction site heating systems. They also include indirect emissions generated remotely, from activities undertaken by Bellway, such as our use of electricity in offices, sales centres and show homes.

To align to the ‘1.5 degrees Celsius’ pathway in the Paris Agreement, Bellway is targeting a 46% reduction in these emissions by 2030 and we have a range of initiatives underway to achieve this.

The Group is targeting 100% of its purchased electricity to be Renewable Energy Guarantees of Origin (‘REGO’) certified by December 2023 and we have made excellent progress towards achieving this, with 85% of the Bellway’s electricity on REGO tariffs as at 31 July 2023. We have also completed a successful trial to use hydrotreated vegetable oil (‘HVO’) biodiesel on over 50 of our construction sites. The use of HVO can reduce carbon emissions by over 90% compared to fossil diesel and the Group is now planning a large-scale switch to HVO across all divisions, which will play a significant role in our scope 1 and 2 reductions.

During the year we launched the Group's green car salary sacrifice scheme, which is open to all monthly paid employees and only offers cars with emissions of 75g/km or under. Since the scheme commenced in August 2022 the proportion of leased vehicles which are electric or hybrid has risen to over 50%. We have been encouraged by the strong levels of take-up as we work towards achieving the target of our entire company car fleet being 100% electric or hybrid by July 2025.

As a result of our initiatives, the Group's scope 1 and scope 2 carbon emissions have reduced by 10.0% compared to the prior year and by 35.6% since our base year of 2019, and we are in an excellent position to meet our target of a 46% reduction by 2030.

While scope 1 and 2 direct emissions account for a relatively small proportion of our total carbon footprint, the initiatives to reduce emissions within Bellway are helping to foster a positive cultural change, increase colleague engagement and create a strong platform to deliver sustainability solutions with our supply chain partners.

To achieve our ambitious targets and in addition to the measures highlighted, we are considering several further initiatives to reduce scope 1 to 3 carbon emissions in the years ahead.

Customers and Communities

Bellway aims to provide a consistently high service and quality homes to all our customers, and the efforts under our Customer First programme have resulted in the Group retaining its position as a five-star[6] homebuilder for the seventh consecutive year. This was awarded with a score of 91.1% (2022 – 93.6%) in the HBF's most recent Customer Satisfaction survey, which asks customers whether they would recommend Bellway to a friend, when surveyed eight weeks after their moving date.

We are also proud to report an improvement in our NHBC Construction Quality Review score, a measure of underlying construction quality. Our score has risen to 87.9% at 31 July 2023 (2022 – 84.5%) and ahead of the challenging target of 85.0% we set for the year.

Bellway's overall drive to deliver high-quality homes has been reflected by 34 of our site managers winning NHBC Pride in the Job Awards during the year (2022 – 36). This is the NHBC's flagship competition for build quality across the UK and, from a field of over 8,000 site managers entering, only around 5% receive these awards.

While the Group maintained its five-star[6] status for the eight-week HBF survey, we have seen a moderation in our score in the nine-month survey to 80.6% (2022 – 82.1%). This was in part driven by the challenging operating environment and pressures in the supply chain throughout the year, which led to extended response times to minor snagging issues in our new homes. We recognise that there are areas where we can do better and, in this regard, we have introduced a new customer care telephone system and service level KPIs to improve communications with our customers.

We are working hard to continually improve levels of customer service and there are a range of other initiatives underway within the business to achieve this, including additional training across our sales, customer care and construction teams. During 2023, we also successfully rolled out Bellway's 'Meet the Builder' days across our developments. This enables customers to visit their new home prior to taking ownership and provides an insight into the construction process and an opportunity to have any questions answered by our site managers.

As part of our Customer First programme, we are introducing Bellway's 'House to Home' on all new sites starting construction in financial year 2024. On each of these sites, a 'House to Home' standardised demonstration plot will be divided into areas showing different construction stages to help develop customers' knowledge of the materials used in the build process, our sustainability principles, our commitment to energy efficiency and the benefits of buying a Bellway home. We believe this initiative will enhance the overall customer experience and underpin confidence in the quality of our new homes.

Employer of Choice

Bellway is aiming to be an 'Employer of Choice' in the industry by creating a safe, diverse and inclusive environment that our colleagues can thrive in. Notwithstanding the challenging and uncertain market backdrop, we are proud that 89% of colleagues (2022 – 95%) said they would recommend Bellway as 'a great place to work' in our 2023 employee engagement survey. The Group is aiming to improve on this high level of employee satisfaction, and we continue to seek feedback from our colleagues to attract talent and improve staff retention.

We are delighted that, well in advance of our July 2024 target, we have been awarded full accreditation as a Living Wage Employer, which covers both directly employed and subcontracted staff. A standard, consistent induction and onboarding process has also been introduced for all new starters at Bellway and we have seen a reduction in voluntary staff turnover during the year to 21.9% (2022 – 25.7%).

The Group also has a range of initiatives in place to promote inclusion, improve ethnic and gender diversity and to increase the proportion of colleagues in 'earn and learn' roles. Reflecting our commitment to create an inclusive workplace for all employees, we are working towards achieving 'Clear Assured' Silver Standard in 2024, which is awarded to businesses that demonstrate that diversity and inclusion are reflected across all of its company policies and processes.

Bellway has already been awarded Gold membership status from the '5% Club' which recognises employers with 5% or more of their employees in 'earn and learn' positions. At 31 July 2023 the Group had 8.3% of the workforce employed in 'earn and learn' roles and we remain committed to increase this to 12% by 31 July 2024. Reflecting this ambitious target, we are aiming to achieve the new Platinum membership status of the '5% Club' in 2024, which is awarded to participants which have achieved Gold Membership in three consecutive years, including 10% or more staff members in 'earn and learn' positions in the third year.

Against the backdrop of ongoing rises in the cost-of-living, we have taken further steps to support our colleagues financially by awarding increases in pay. This demonstrates our commitment to social responsibility and together with a range of opportunities for career progression through our Bellway Academy, will help to ensure Bellway continues to be a rewarding place to work in the years ahead.

Further initiatives

The Group has made good progress against the targets and KPIs set for the other priority areas of the 'Better with Bellway' strategy.

At Bellway, the health, safety, and wellbeing of our colleagues and subcontractors is our highest priority and we have set ambitious targets to raise the quality and safety of our work to even higher levels. Bellway's standards and practices are subject to continual review to challenge unsafe behaviours and drive improvements and during the year we rolled-out improved safety inductions and training across the Group.

Biodiversity is also a key focus within Bellway and to meet new legal requirements we are aiming to achieve a 10% biodiversity net gain on all new sites submitted for planning from July 2023 and onwards.

Charitable engagement is a core part of Bellway's culture and during the year we have launched partnerships with several charities to support disabled and disadvantaged people, which include opportunities for work placements within Bellway. We are also delighted that our colleagues have raised over £580,000 for Cancer Research UK in the year to 31 July 2023. Over the last seven years we have raised over £3.1 million for this important charity and exceeded our target of £3.0 million. We have since extended our partnership with Cancer Research UK and we are targeting an increase in the cumulative amount raised to £4.0 million by December 2024.

We look forward to reporting further progress on our sustainability strategy with our interim results in March 2024.

Jason Honeyman
Group Chief Executive
16 October 2023

Group Income Statement
for the year ended 31 July 2023

	Note	2023 £m	2022 £m
Revenue	2	**3,406.6**	3,536.8
Cost of sales		**(2,757.9)**	(3,094.0)
Analysed as:			
Underlying cost of sales		**(2,719.3)**	(2,749.8)
Adjusting item: net legacy building safety expense	3	**(38.6)**	(344.2)
Gross profit		**648.7**	442.8
Other operating income		**29.1**	25.3
Other operating expenses		**(30.3)**	(25.1)
Administrative expenses		**(142.2)**	(134.0)
Operating profit		**505.3**	309.0
Finance income	8	**9.9**	1.6
Finance expenses	8	**(30.8)**	(15.7)
Analysed as:			
Underlying finance expenses		**(19.8)**	(13.7)
Adjusting item: net legacy building safety expense	3	**(11.0)**	(2.0)
Share of result of joint ventures		**(1.4)**	9.3
Profit before taxation		**483.0**	304.2
Income tax expense	5	**(118.0)**	(61.6)
Profit for the year *		**365.0**	242.6
Earnings per ordinary share – Basic	4	**297.7p**	196.9p
Earnings per ordinary share – Diluted	4	**296.3p**	196.2p

* All attributable to equity holders of the parent.

Adjusting items

	Note	2023 £m	2022 £m
Gross profit			
Gross profit per the Group Income Statement		**648.7**	442.8
Adjusting item: net legacy building safety expense	3	**38.6**	344.2
Underlying gross profit		**687.3**	787.0
Operating profit			
Operating profit per the Group Income Statement		**505.3**	309.0
Adjusting item: net legacy building safety expense	3	**38.6**	344.2
Underlying operating profit		**543.9**	653.2
Profit before taxation			
Profit before taxation per the Group Income Statement		**483.0**	304.2
Adjusting item: net legacy building safety expense	3	**49.6**	346.2
Underlying profit before taxation		**532.6**	650.4
Profit for the year			
Profit for the year per the Group Income Statement		**365.0**	242.6
Adjusting item: net legacy building safety expense	3	**49.6**	346.2
Adjusting item: income tax on net legacy building safety expense	3	**(12.4)**	(70.3)
Underlying profit for the year		**402.2**	518.5

Group Statement of Comprehensive Income
for the year ended 31 July 2023

	Note	**2023** **£m**	2022 £m
Profit for the year		**365.0**	242.6
Other comprehensive expense			
Items that will not be recycled to the income statement:			
Remeasurement losses on defined benefit pension plans		**(4.9)**	(3.5)
Income tax on other comprehensive expense	5	**1.4**	0.5
Other comprehensive expense for the year, net of income tax		**(3.5)**	(3.0)
Total comprehensive income for the year *		**361.5**	239.6

* All attributable to equity holders of the parent.

Group Statement of Changes in Equity
at 31 July 2023

	Note	Issued capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 1 August 2021		15.4	179.8	20.0	1.5	3,071.1	3,287.8
Total comprehensive income for the year							
Profit for the year		-	-	-	-	242.6	242.6
Other comprehensive expense *		-	-	-	-	(3.0)	(3.0)
Total comprehensive income for the year		-	-	-	-	239.6	239.6
Transactions with shareholders recorded directly in equity:							
Dividends on equity shares	11	-	-	-	-	(157.2)	(157.2)
Purchase of own shares	10	-	-	-	-	(7.4)	(7.4)
Shares issued		-	2.2	-	-	-	2.2
Credit in relation to share options and tax thereon	5	-	-	-	-	2.8	2.8
Total contributions by and distributions to shareholders		-	2.2	-	-	(161.8)	(159.6)
Balance at 31 July 2022		15.4	182.0	20.0	1.5	3,148.9	3,367.8
Total comprehensive income for the year							
Profit for the year		-	-	-	-	365.0	365.0
Other comprehensive expense *		-	-	-	-	(3.5)	(3.5)
Total comprehensive income for the year		-	-	-	-	361.5	361.5
Transactions with shareholders recorded directly in equity:							
Dividends on equity shares	11	-	-	-	-	(171.7)	(171.7)
Credit in relation to share options and tax thereon	5	-	-	-	-	4.5	4.5
Share buyback programme and cancellation of shares	10	(0.4)	-	0.4	-	(100.5)	(100.5)
Total contributions by and distributions to shareholders		(0.4)	-	0.4	-	(267.7)	(267.7)
Balance at 31 July 2023		**15.0**	**182.0**	**20.4**	**1.5**	**3,242.7**	**3,461.6**

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

Group Balance Sheet
at 31 July 2023

	Note	2023 £m	2022 £m
ASSETS			
Non-current assets			
Property, plant and equipment		**31.7**	34.2
Financial assets		**38.6**	20.9
Equity accounted joint arrangements		**4.9**	9.3
Deferred tax assets	5	**1.7**	0.1
Retirement benefit assets		**2.5**	7.1
		79.4	71.6
Current assets			
Inventories		**4,575.6**	4,423.6
Trade and other receivables		**88.3**	114.6
Corporation tax receivable		**8.8**	-
Cash and cash equivalents	7	**362.0**	375.3
		5,034.7	4,913.5
Total assets		**5,114.1**	4,985.1
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	7	**130.0**	130.0
Trade and other payables		**107.3**	106.6
Deferred tax liabilities	5	**6.2**	8.9
Provisions	6	**403.5**	400.8
		647.0	646.3
Current liabilities			
Corporation tax payable		**-**	0.1
Trade and other payables		**900.8**	930.2
Provisions	6	**104.7**	40.7
		1,005.5	971.0
Total liabilities		**1,652.5**	1,617.3
Net assets		**3,461.6**	3,367.8
EQUITY			
Issued capital		**15.0**	15.4
Share premium	10	**182.0**	182.0
Capital redemption reserve	10	**20.4**	20.0
Other reserves		**1.5**	1.5
Retained earnings	10	**3,242.7**	3,148.9
Total equity		**3,461.6**	3,367.8

Group Cash Flow Statement
for the year ended 31 July 2023

	Note	2023	2022
		£m	£m
Cash flows from operating activities			
Profit for the year		**365.0**	242.6
Depreciation charge		**6.0**	6.1
Finance income	8	**(9.9)**	(1.6)
Finance expenses	8	**30.8**	15.7
Share-based payment expense		**4.5**	3.1
Share of post tax result of joint ventures		**1.4**	(9.3)
Income tax expense	5	**118.0**	61.6
Increase in inventories		**(152.0)**	(391.4)
Decrease/(increase) in trade and other receivables		**28.7**	(33.2)
Decrease in trade and other payables		**(75.3)**	(104.5)
Increase in provisions	6	**55.7**	325.5
Cash from operations		**372.9**	114.6
Interest paid		**(6.9)**	(5.8)
Income tax paid		**(129.8)**	(63.8)
Net cash inflow from operating activities		**236.2**	45.0
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(2.7)**	(0.5)
Proceeds from sale of property, plant and equipment		**0.1**	0.1
Increase in loans to joint ventures		**(15.6)**	(2.1)
Repayment of loans by joint ventures		**-**	21.6
Dividends from joint ventures		**3.0**	15.7
Interest received		**6.9**	0.5
Net cash (outflow)/inflow from investing activities		**(8.3)**	35.3
Cash flows from financing activities			
Payment of lease liabilities		**(3.5)**	(2.9)
Proceeds from the issue of share capital on exercise of share options		**-**	2.2
Purchase of own shares		**-**	(7.4)
Share buyback programme		**(66.0)**	-
Dividends paid	11	**(171.7)**	(157.2)
Net cash outflow from financing activities		**(241.2)**	(165.3)
Net (decrease)/increase in cash and cash equivalents		**(13.3)**	(85.0)
Cash and cash equivalents at beginning of year		**375.3**	460.3
Cash and cash equivalents at end of year	7	**362.0**	375.3

Notes

1. Basis of preparation and accounting policies

a) Basis of consolidation

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

The financial information set out above does not constitute the Group’s statutory financial statements for the years ended 31 July 2023 or 2022, but is derived from those financial statements. Statutory financial statements for 2022 have been delivered to the registrar of companies, and those for 2023 will be delivered in due course. The auditor, Ernst & Young LLP, has reported on those financial statements; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Whilst the financial information included in this announcement has been prepared in accordance with Adopted IFRSs, this announcement does not itself contain sufficient information to comply with Adopted IFRSs. The Group expects to send its 2023 Annual Report and Accounts to shareholders on 8 November 2023.

b) Other financial statement considerations

In preparing the Group financial statements, management has considered the impact of climate change, and the possible impact of climate-related and other emerging business risks. A rigorous assessment of the impact of climate-related risks has been performed. This included an assessment of inventories and how they could be affected by measures taken to address global warming. No issues were identified that would materially impact the carrying values of the Group’s assets or liabilities, or have any other material impact on the financial statements.

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

The accounting policies set out within the notes to the financial statements have, except as noted below, been applied consistently to all periods presented in these consolidated financial statements.

The Group recently acquired a number of contractual arrangements with landowners in order to promote their land through the planning process to obtain detailed planning permission, and to subsequently market the sites for residential property development on behalf of the landowner. These agreements are accounted for in inventory and the amended inventories policy of the Group is set out below:

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 comprises: land held for development; options purchased in respect of land; investments in land without the benefit of planning consent; and, promotion agreements in respect of land without the benefit of planning consent.

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.

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

Notes (continued)

1. Basis of preparation and accounting policies (continued)

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.

Promotion agreements in respect of land without the benefit of planning consent comprise initial costs of entering into the agreements. These costs are capitalised initially at cost. Regular reviews are carried out for impairment in the values of these costs incurred and provisions made accordingly to reflect loss of value. The impairment reviews consider the likelihood of securing planning permission, the successful marketing of the site and the remaining life of the promotion agreement.

c) Going concern

The Group's activities are financed principally by a combination of ordinary shares and cash in hand less debt. At 31 July 2023, Bellway had net cash of £232.0 million[2] (note 7), having utilised cash of £13.3 million (note 7) during the year, including £372.9 million of cash generated from operations.

The Group has operated within all its debt covenants throughout the year, and covenant compliance was considered as part of the going concern assessment. In addition, the Group had bank facilities of £400.0 million at 31 July 2023, expiring in tranches up to December 2027. Furthermore, in February 2021 the Group entered into a contractual arrangement to issue a sterling US Private Placement ('USPP') for a total amount of £130.0 million, as part of its ordinary course of business financing arrangements, which has maturity dates in 2028 and 2031. In aggregate, the Group had committed debt lines of £530.0 million at 31 July 2023.

Including committed debt lines and cash, Bellway had access to total funds of £762.0 million, along with net current assets (excluding cash) of £3,667.2 million at 31 July 2023, providing the Group with appropriate liquidity to meet its current liabilities as they fall due.

The Group's internal forecasts have been regularly updated, incorporating our actual experience along with our expected future outturn. The latest available base forecast has been sensitised, setting out the Group's resilience to the principal risks and uncertainties in the most severe but plausible scenario. The sensitivity includes 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.

This sensitivity includes the following principal assumptions:

- Private completions in H1 FY24 are supported by the forward order book, but still fall to 55% of that achieved in H1 of FY23. In the 12 months to 31 January 2025, private completions reduce by around 50% compared to the 12 month pre-stress peak achieved in FY22. This is followed by a gradual recovery based on the lower base position.

- Private average selling price in H1 FY24 remains in line with internal forecasts due to the order book position. In the 12 months to 31 January 2025, the 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 within the Directors' control were incorporated into the plausible but severe downside scenario, including:

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

- Construction spend reducing in line with housing revenue.

- Dividends reducing in line with earnings.

Notes (continued)

1. Basis of preparation and accounting policies (continued)

The sensitivity analysis was modelled over the period to 31 July 2025 for the going concern assessment, but extended to the 31 July 2027 for the Directors' viability assessment. In addition to the above, several additional mitigating measures remain available to management that were not included in the scenario. These include withholding discretionary land spend and instead trading out of the substantial existing land holdings.

In the scenario, the Group had significant headroom in both its financial debt covenants and existing debt facilities and met its liabilities as they fall due. In relation to climate risks, and in particular the requirement of the Group to reduce carbon emissions, the going concern assessment is not considered to be materially affected by the Future Homes Standard.

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 Company will have sufficient funds to continue to meet its liabilities as they fall due for the period to 31 July 2025, aligning with the first year end after the minimum 12 month assessment period, and have therefore prepared the financial statements on a going concern basis.

d) Effect of new standards and interpretations effective for the first time

The Group adopted and applied the following amendments in the year, none of which had a material effect on the financial statements:

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16.
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37.
- Annual Improvements to IFRS Standards 2018-2020.
- Reference to the Conceptual Framework – Amendments to IFRS 3.
- Pillar 2 minimum tax – Amendments to IAS 12.

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 but not yet effective. These have not been applied in these financial statements and are not expected to have a material effect when adopted.

e) Accounting estimates and judgements

While preparing these financial statements, the directors are required to make significant estimates and judgements that could have a significant effect on these financial statements when applying the Group's accounting policies.

When preparing these financial statements, the major judgements in applying the Group's accounting policies and the major sources of estimation uncertainty were those applied in the Group's 2022 Annual Report and Accounts.

Notes (continued)

2. Segmental analysis

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

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

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

Revenue from contracts with customers

An analysis of the Group's revenue is as follows:

	2023 £m	2022 £m
Housing revenue	**3,396.3**	3,520.6
Non-housing revenue	**10.3**	16.2
Total revenue	**3,406.6**	3,536.8

The Group's housing revenue can be analysed as follows:

(a) Private/social

	2023 £m	2022 £m
Private	**2,931.3**	3,190.9
Social	**465.0**	329.7
Total housing revenue	**3,396.3**	3,520.6

(b) North/South

	2023 £m	2022 £m
North	**1,608.8**	1,543.9
South	**1,787.5**	1,976.7
Total housing revenue	**3,396.3**	3,520.6

Notes (continued)

3. Net legacy building safety expense

Profit before taxation for the years ended 31 July 2023 and 31 July 2022 has been arrived at after recognising the following items in the income statement:

	2023 SRT and associated review £m	**2023 Structural defects £m**	**2023 Total £m**	2022 SRT and associated review £m	2022 Structural defects £m	2022 Total £m
Provisions (note 6)	**58.1**	**30.5**	**88.6**	347.0	-	347.0
Reimbursement assets (note 6)	**(50.0)**	**-**	**(50.0)**	(2.8)	-	(2.8)
Net cost of sales	**8.1**	**30.5**	**38.6**	344.2	-	344.2
Finance expenses (notes 6, 8)	**11.0**	**-**	**11.0**	2.0	-	2.0
Total net legacy building safety expense	**19.1**	**30.5**	**49.6**	346.2	-	346.2

The net legacy building safety expense has been expanded in the current financial year to include structural defects relating to a legacy building, as explained below. In previous years, the net legacy building safety expense only included items related to the SRT and associated review.

The income tax rate applied to the total net legacy building safety expense in the income statement is the Group's standard rate of income tax, including both corporation tax and Residential Property Developer Tax ('RPDT'), of 25.0% (2022 – 20.3%).

SRT and associated review

Bellway's continued commitment to act responsibly with regards to fire safety is reflected by the level of our prudent provisions and the actions the Group has taken since the tragic events at Grenfell in 2017.

On 7 April 2022, as part of the Building Safety Pledge (the 'Pledge'), we announced that this commitment would be extended to a 30-year period to include buildings constructed by the Group since 5 April 1992 and to reimburse the Building Safety Fund and the ACM Funds in accordance with the principles set out in the Pledge. The Group signed the Self-Remediation Terms ('SRT') on 13 March 2023 which converted the principles of the Pledge into a binding agreement for the housebuilding industry. On 25 May 2023, the Group also contractually committed to remediate its legacy buildings in Wales by signing the Pact with The Welsh Ministers (the 'Pact').

In total, for the year ended 31 July 2023 Bellway set aside a net exceptional pre-tax expense of £19.1 million (2022 – £346.2 million), in relation to the SRT and associated review. Of this expense, a net £8.1 million (2022 – £344.2 million) is recognised in cost of sales and an adjusting finance expense of £11.0 million (2022 – £2.0 million) in relation to the unwinding of the discount of the provision to present value. The net amount recognised in cost of sales includes £129.7 million (2022 – £349.5 million) relating to cost estimate increases, which are in part offset by both provision releases of £38.6 million (2022 – £2.5 million) and £33.0 million (2022 – £nil) following an increase in discount rates during the year (note 6).

While the SRT and the Pact relates to developments in England and Wales, Bellway has taken a responsible, UK-wide approach to also provide for works in relation to the small number of apartment buildings the Group has developed in Scotland, where remediation is required. Taking this into consideration, the total amount Bellway has set aside in relation to the SRT and associated review since 2017 is £582.8 million (2022 – £513.7 million). Costs have been provided regardless of whether Bellway still retains ownership of the freehold interest in the building or whether warranty providers have a responsibility to carry out remedial works.

The provision has been calculated using cost estimates based on our extensive experience to date, using analysis of previously tendered works and prudent, professional estimates based on knowledge of known issues. In addition, on developments where full investigations have not yet been undertaken or cost reports obtained, costs to date on similar

Notes (continued)

3. Net legacy building safety expense (continued)

developments have been used to estimate the likely cost. We have also made assumptions with regards to the likely cost of resolving potential issues, that we have not yet been made aware of, on schemes covered by the extended 30-year period.

The provision calculation uses the expected timings of cash outflows which are adjusted for future estimated cost inflation in accordance with the Build Cost Information Service ('BCIS') index, a leading provider of cost and price information to the construction industry. The provision is discounted back to a present value using UK gilt rates with maturities which reflect the expected timing of cash outflows. The unwinding of this discount is charged through the income statement as an adjusting finance expense.

The majority of the cash outflow is expected to be over the next four years, although there will be some residual expenditure beyond this. The anticipated timing reflects the complex issues around remediation including identifying the works required, design and planning obligations, interpretation of Publicly Available Specification ('PAS') 9980:2022, liaison and negotiations with building owners, and appointment of contractors.

Notwithstanding these complexities the Group has made good progress with work now completed on 9 developments, underway on 12 developments and works due to commence on a further 2 developments in first half of the new financial year.

The net exceptional cost of sales expense includes one-off cost recoveries of £50.0 million, across several sites, which have been pursued for several years.

Total recoveries recognised since 2017 are £80.0 million (2022 – £30.0 million). Reimbursement assets of £nil (2022 – £nil) remained outstanding at the year end.

Structural defects

During the year a structural defect relating to the reinforced concrete frame was identified at a historical high-rise apartment scheme in Greenwich, London with the remediation work expected to cost £30.5 million. This cost estimate is based on an expert third-party report and reflects management's expected scope of works. A provision has been recognised as Bellway has a legal obligation to undertake the remedial work.

The provision calculation uses the expected timings of cash outflows which are adjusted for future estimated cost inflation in accordance with the BCIS index. The provision is discounted back to a present value using UK gilt rates with maturities which reflect the expected timing of cash outflows. The unwinding of this discount is charged through the income statement as an adjusting finance expense.

The Group is carrying out a review of other buildings constructed by, or on behalf of Bellway, where the same third parties responsible for the design of the frame in the Greenwich development have been involved. To date, no other similar design issues with reinforced concrete frames have been identified.

We are actively seeking recoveries in relation to the structural defect identified, but as these are not virtually certain at the balance sheet date, no reimbursement assets have been recognised.

The cash outflow is expected to be over the next two financial years.

Notes (continued)

4. 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 Company or 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 2023 £m	**Weighted average number of ordinary shares 2023 Number**	**Earnings per share 2023 p**	Earnings 2022 £m	Weighted average number of ordinary shares 2022 Number	Earnings per share 2022 p
For basic earnings per ordinary share	**365.0**	**122,593,350**	**297.7**	242.6	123,227,544	196.9
Dilutive effect of options and awards		**600,864**	**(1.4)**		416,029	(0.7)
For diluted earnings per ordinary share	**365.0**	**123,194,214**	**296.3**	242.6	123,643,573	196.2

Underlying basic and underlying diluted earnings per share exclude the effect of adjusting items and any associated net tax amounts. Reconciliations of these are outlined below:

	Underlying earnings 2023 £m	**Weighted average number of ordinary shares 2023 Number**	**Underlying earnings per share 2023 p**	Underlying earnings 2022 £m	Weighted average number of ordinary shares 2022 Number	Underlying earnings per share 2022 p
For basic underlying earnings per ordinary share	**402.2**	**122,593,350**	**328.1**	518.5	123,227,544	420.8
Dilutive effect of options and awards		**600,864**	**(1.6)**		416,029	(1.4)
For diluted underlying earnings per ordinary share	**402.2**	**123,194,214**	**326.5**	518.5	123,643,573	419.4

Notes (continued)

5. Taxation

The effective tax expense is 24.4% of profit before taxation (2022 – 20.2%). Both the standard tax rate and effective tax rate include RPDT.

As part of the UK adoption of the Organisation for Economic Cooperation and Development ('OECD') Pillar Two rules, the UK government announced two new taxes, the Multinational Top-up Tax and the Domestic Top-up Tax which are designed to ensure corporations pay tax at a rate of at least 15%. The Domestic Top-up Tax will apply to the Group from 1 August 2024. As the Group's current effective tax rate is in excess of 15%, it is expected the introduction of this tax will not affect Bellway. The Multinational Top-up Tax is not expected to affect Bellway.

The carrying amount of the gross 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.

The deferred tax assets/(liabilities) held by the Group at the start of the comparative year were revalued at the substantively enacted corporation tax rate that will be effective when they are expected to be realised. The deferred tax assets/(liabilities) were revalued at 29% following the introduction of RPDT on 1 April 2022. The deferred tax assets/(liabilities) were previously recognised at 25% to take into account the increase in the UK corporation tax rate from 1 April 2023 that was substantively enacted in May 2021.

It is expected that the Group's standard rate of tax, including RPDT, for the year ending 31 July 2024 will be 29%.

6. Provisions and reimbursement assets

	SRT and associated review			Structural defects			Total legacy building safety improvements		
	Provision	Reimbursement assets	Total	Provision	Reimbursement assets	Total	Provision	Reimbursement assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 August 2022	(441.5)	-	(441.5)	-	-	-	(441.5)	-	(441.5)
Adjusting item – cost of sales (note 3)	(58.1)	50.0	(8.1)	(30.5)	-	(30.5)	(88.6)	50.0	(38.6)
Analysed as:									
Additions	(129.7)	50.0	(79.7)	(30.5)	-	(30.5)	(160.2)	50.0	(110.2)
Released	38.6	-	38.6	-	-	-	38.6	-	38.6
Change in discount rate	33.0	-	33.0	-	-	-	33.0	-	33.0
Utilised/(received)	32.9	(50.0)	(17.1)	-	-	-	32.9	(50.0)	(17.1)
Unwinding of discount (notes 3,8)	(11.0)	-	(11.0)	-	-	-	(11.0)	-	(11.0)
At 31 July 2023	**(477.7)**	**-**	**(477.7)**	**(30.5)**	**-**	**(30.5)**	**(508.2)**	**-**	**(508.2)**

The provision is classified as follows:

	SRT and associated review	Structural defects	Total legacy building safety improvements
	£m	£m	£m
Current	(99.6)	(5.1)	(104.7)
Non-current	(378.1)	(25.4)	(403.5)
Total	**(477.7)**	**(30.5)**	**(508.2)**

The Group has established a provision for the cost of performing fire remedial works on a number of legacy developments and a structural defect relating to a historical high rise apartment scheme (note 3).

Notes (continued)

7. Analysis of net cash

	At 1 August 2022 £m	Cash flows £m	**At 31 July 2023 £m**
Cash and cash equivalents	375.3	(13.3)	**362.0**
Fixed rate sterling USPP notes	(130.0)	-	**(130.0)**
Net cash	245.3	(13.3)	**232.0**

8. Finance income and expenses

	2023 £m	2022 £m
Interest receivable on bank deposits	**7.2**	0.5
Net interest on defined benefit asset	**0.3**	0.1
Other interest receivable	**2.4**	1.0
Finance income	**9.9**	1.6
Interest payable on bank loans and overdrafts	**2.8**	2.5
Interest payable on fixed rate sterling USPP notes	**3.4**	3.4
Interest on deferred term land payables	**13.1**	7.3
Unwinding of the discount on the SRT and associated review provision	**11.0**	2.0
Interest payable on leases	**0.5**	0.5
Finance expenses	**30.8**	15.7

The unwinding of the discount on the SRT and associated review provision is an adjusting item (note 3).

9. Financial instruments - fair value disclosures

The fair value of financial assets and liabilities are determined based on discounted cash flow analysis using prevailing market rates for similar instruments.

The carrying values of financial assets and liabilities reasonably approximate the fair value of the instruments.

Notes (continued)

10. Reserves

Share premium

This reserve is not distributable.

Own shares held

The Group holds shares within the Bellway Employee Share Trust (1992) (the 'Trust') for participants of certain share-based payment schemes. The cost of these is charged to retained earnings. During the period nil (2022 – 268,240) shares were purchased by the Trust and the Trust transferred 3,913 (2022 - 38,978) shares to employees and Directors. The number of shares held within the Trust and on which dividends have been waived, at 31 July 2023 was 327,202 (2022 - 331,115). These shares are held within the financial statements at a cost of £8.8 million (2022 - £8.9 million). The market value of these shares at 31 July 2023 was £7.3 million (2022 - £8.1 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 £20.0 million, equivalent to the nominal value of the shares redeemed, was transferred to a capital redemption reserve on the same date.

During the year, the Company purchased 2,928,794 of its own shares which it cancelled. On cancellation of the shares, the aggregate nominal value of £0.4 million was transferred from share capital to the capital redemption reserve.

This reserve is not distributable.

11. Dividends on equity shares

	2023 £m	2022 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 July 2022 of 95.0p per share (2021 – 82.5p)	**117.0**	101.8
Interim dividend for the year ended 31 July 2023 of 45.0p per share (2022 – 45.0p)	**54.7**	55.4
	171.7	157.2
Proposed final dividend for the year ended 31 July 2023 of 95.0p per share (2022 – 95.0p)	**114.5**	117.0

The 2023 proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 15 December 2023 and, in accordance with IAS 10 'Events after the Reporting Period', has not been included as a liability in these financial statements. The proposed final dividend, subject to shareholder approval, will be paid on 10 January 2024 to all ordinary shareholders on the Register of Members on 1 December 2023. The ex-dividend date is 30 November 2023. At the record date for the final dividend for the year ended 31 July 2022, shares were held by the Bellway Employee Share Trust (1992) (the 'Trust') on which dividends had been waived (see note 10).

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

Notes (continued)

12. Contingent liabilities

SRT and associated review

We continue to take a proactive approach to nationwide concerns with regards to fire safety in high-rise buildings across the UK. Bellway recognises its responsibilities in its legacy apartment portfolio and continues to review combustion risks, in external wall systems, on past high-rise developments.

As detailed in note 3, 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 the most recent government guidance or where remedial works may need to be performed in line with the SRT. For these developments we have established that the cost of the remedial works satisfies the accounting requirements of a provision at the balance sheet date. While a prudent approach has been taken, the extent of the provision could increase or reduce, in line with normal accounting practice if new issues are identified or if estimates change, as Bellway and building owners continue to undertake their own investigative works on these and other schemes within the legacy portfolio.

Notes (continued)

13. 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:

- **Underlying gross profit and underlying operating profit** – Both of these measures are stated before net legacy building safety expense and exceptional items, and 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 the net legacy building safety expense provides a better understanding of the underlying performance of the Group.

- **Underlying gross margin** – This is gross profit before net legacy building safety expense and exceptional items, 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.

- **Underlying operating margin** – This is operating profit before net legacy building safety expense and exceptional items divided by total revenue. The Directors consider this to be an important indicator of the operating performance of the Group.

- **Net underlying finance expense** – This is the net finance expense before any directly attributable finance expense or finance income relating to the net legacy building safety expense and exceptional items. The Directors consider this to be an important measure when assessing whether the Group is using the most cost effective source of finance.

- **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.

- **Underlying profit before taxation** – This is the profit before taxation before net legacy building safety expense and exceptional items. The Directors consider this to be an important indicator of the profitability of the Group before taxation.

- **Underlying profit for the year** – This is the profit for the year before net legacy building safety expense and exceptional items. The Directors consider this to be an important indicator of the profitability of the Group.

- **Underlying earnings per share** – This is calculated as underlying profit for the year divided by the weighted average number of ordinary shares in issue during the year (excluding the weighted average number of ordinary shares held by the Company or Trust which are treated as cancelled).

- **Underlying dividend cover** – This is calculated as underlying profit for the year 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 underlying earnings paid to shareholders and reinvested in the business.

- **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.

Notes (continued)

13. Alternative performance measures (continued)

Per balance sheet	**2023 £m**	**2022 £m**	**Mvt £m**	2022 £m	2021 £m	Mvt £m
Land	**2,578.8**	**2,786.4**	**(207.6)**	2,786.4	2,483.9	302.5
Work-in-progress	**1,861.6**	**1,524.8**	**336.8**	1,524.8	1,431.4	93.4
Increase in capital invested in land and work-in-progress in the year			**129.2**			395.9
Land creditors	**(368.8)**	**(393.4)**	**24.6**	(393.4)	(455.8)	62.4
Increase in capital invested in land, net of land creditors, and work-in-progress in the year			**153.8**			458.3

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

- **Capital employed** – Capital employed is defined as the total of equity and net 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.

- **Underlying return on capital employed ('underlying RoCE')** – This is calculated as operating profit before net legacy building safety expense and exceptional items 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.

	2023 Capital employed £m	**2023 Land creditors £m**	**2023 Capital employed including land creditors £m**	2022 Capital employed £m	2022 Land creditors £m	2022 Capital employed including land creditors £m
Underlying operating profit	**543.9**		**543.9**	653.2		653.2
Capital employed/land creditors:						
Opening	**3,367.8**	**393.4**	**3,761.2**	3,287.8	455.8	3,743.6
Half year	**3,481.4**	**372.4**	**3,853.8**	3,429.8	349.0	3,778.8
Closing	**3,461.6**	**368.8**	**3,830.4**	3,367.8	393.4	3,761.2
Average	**3,436.9**	**378.2**	**3,815.1**	3,361.8	399.4	3,761.2
Underlying return on capital employed	**15.8%**		**14.3%**	19.4%		17.4%

Notes (continued)

13. Alternative performance measures (continued)

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

	2023 Capital employed £m	**2023 Land creditors £m**	**2023 Capital employed including land creditors £m**	2022 Capital employed £m	2022 Land creditors £m	2022 Capital employed including land creditors £m
Operating profit	**505.3**		**505.3**	309.0		309.0
Capital employed/land creditors:						
Opening	**3,367.8**	**393.4**	**3,761.2**	3,287.8	455.8	3,743.6
Half year	**3,481.4**	**372.4**	**3,853.8**	3,429.8	349.0	3,778.8
Closing	**3,461.6**	**368.8**	**3,830.4**	3,367.8	393.4	3,761.2
Average	**3,436.9**	**378.2**	**3,815.1**	3,361.8	399.4	3,761.2
Return on capital employed	**14.7%**		**13.2%**	9.2%		8.2%

- **Underlying post tax return on equity** – This is calculated as profit for the year before net legacy building safety expense and exceptional items, 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.

	2023 £m	2022 £m
Underlying profit for the year	**402.2**	518.5
Net assets:		
Opening	**3,367.8**	3,287.8
Half year	**3,481.4**	3,429.8
Closing	**3,461.6**	3,367.8
Average	**3,436.9**	3,361.8
Underlying post tax return on equity	**11.7%**	15.4%

- **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.

	2023 £m	2022 £m
Profit for the year	**365.0**	242.6
Net assets:		
Opening	**3,367.8**	3,287.8
Half year	**3,481.4**	3,429.8
Closing	**3,461.6**	3,367.8
Average	**3,436.9**	3,361.8
Post tax return on equity	**10.6%**	7.2%

Notes (continued)

13. Alternative performance measures (continued)

- **Total growth in value per ordinary share** – The Directors use this as a proxy for the increase in shareholder value since 31 July 2020. A period of 3 years is used to reflect medium-term growth.

Net asset value per ordinary share:		
At 31 July 2023	2,871p	
At 31 July 2020	2,427p	
Net asset value growth per ordinary share		444p
Dividend paid per ordinary share:		
Year ended 31 July 2023	140.0p	
Year ended 31 July 2022	127.5p	
Year ended 31 July 2021	85.0p	
Cumulative dividends paid per ordinary share		352.5p
Total growth in value per ordinary share		796.5p

- **Annualised accounting return in NAV and dividends paid since 31 July 2020** – 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 2020 (as detailed above) divided by the net asset value per ordinary share at 31 July 2020. The Directors use this as a proxy for the increase in shareholder value since 31 July 2020.

Net asset value growth per ordinary share	444p
Cumulative dividends paid per ordinary share	352.5p
Total growth in value per ordinary share	796.5p
Net asset value per ordinary share at 31 July 2020	2,427p
Total value per ordinary share	3,223.5p
Annualised accounting return $= \left(\frac{3{,}223.5}{2{,}427}\right)^{\wedge(1/3)} - 1$	9.9%

- **Underlying capital growth in the period** – This is calculated as capital growth in the period before net legacy building safety expense and exceptional items per share.

Capital growth in the period	284.0p
Net legacy building safety expense per share	30.9p
Underlying capital growth in the period	314.9p
Net asset value at 31 July 2022	2,727p
Underlying capital growth (314.9p/2,727p)	11.5%

- **Capital growth in the period** – This is calculated as the increase in NAV in the period combined with the ordinary dividend paid in the year.

Net asset value per ordinary share:		
At 31 July 2023	2,871p	
At 31 July 2022	2,727p	
Net asset value growth per ordinary share		144p
Dividend paid per ordinary share:		
Year ended 31 July 2023		140.0p
Capital growth in the period		284.0p

Notes (continued)

- **Net cash/(debt)** – This is the cash and cash equivalents less bank debt and fixed rate sterling USPP notes. Net cash/(debt) does not include lease liabilities, which are reported within trade and other payables on the balance sheet. The Directors consider this to be a good indicator of the financing position of the Group. This is reconciled in note 7.

- **Average net cash/(debt)** – This is calculated by averaging the net cash/(debt) 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.

	2023 £m	2022 £m
Cash from operations	**372.9**	114.6
Add: increase in capital invested in land, net of land creditors, and work-in-progress (as described above)	**153.8**	458.3
Cash generated from operations before investment in land, net of land creditors, and work-in-progress	**526.7**	572.9

- **Adjusted gearing** – This is calculated as the total of net cash/(debt) 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.

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

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

Principal risks and uncertainties

A risk register is maintained detailing all potential risks and our risk management processes ensure that all aspects of the Group are considered, from strategy through to operational execution which includes any specialist business areas.

The risk register is reviewed as part of our management reporting processes, resulting in the regular assessment of risk, 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 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 and any changes that have occurred.

Once a year, via the Audit Committee, the Board determines whether the risk management framework is appropriately designed and operating effectively. The Directors confirm that they have conducted a robust assessment of the principal risks facing the Group.

The Board has completed its assessment of the Group's emerging and principal risks. The following nine principal risks to our business have been identified:

Risk and description	Strategic relevance	KPIs	Mitigation
Construction resources Shortages of building materials and appropriately skilled subcontractors at competitive prices.	▪ Failure to secure the required quantity and quality of resources causes delays in construction, impacting the ability to deliver volume growth targets. ▪ Pricing pressures / increased costs impact returns.	▪ Number of homes sold. ▪ Operating profit. ▪ Operating margin. ▪ EPS. ▪ Gross margin. ▪ Customer satisfaction score.	▪ Robust forecasting and forward planning of labour and materials requirements. ▪ Processes are in place to select, appoint, manage, and build long-term relationships with subcontractors and suppliers. ▪ Review of subcontractor and supplier performance, with regular communications to understand any potential issues within their own business and supply chain. ▪ Competitive rates and prompt payment.
Economy and market Changes in the external environment (including, but not limited to, house price inflation, interest rates, mortgage availability, unemployment, Government housing policy and post-Brexit trade agreements) reduce the affordability of new homes.	▪ Reduced affordability has a negative impact on customer demand for new homes and consequently our ability to generate sales at good returns.	▪ Number of homes sold. ▪ Operating profit. ▪ Operating margin. ▪ RoCE. ▪ EPS. ▪ Gross margin. ▪ Customer Satisfaction score. ▪ Reservation rate. ▪ Order book value.	▪ Board level monitoring of the housing market and economic environment alongside key business metrics, leading to development of action plans as necessary. ▪ Disciplined operating framework, strong balance sheet and low financial gearing. ▪ Product range and pricing strategy based on regional market conditions. ▪ Regular engagement with industry peers, representative bodies, and new build mortgage lenders. ▪ Use of sales incentives such as part-exchange, and Government-backed schemes to encourage the selling process. ▪ Quarterly site valuations and monthly budget reviews based on latest market data.
Environment and climate change Failure to evolve sustainable business practices and operations in response to climate change, including physical environmental impacts and transition risks associated with new regulation, reporting requirements, and increased social / market expectations.	▪ There is an increased focus on the actions taken by businesses in response to climate change and the disclosures made. Failure to improve policies, reporting and performance in line with new Government regulations and heightened social / market 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.	▪ Tonnes of carbon emissions per legal completion. ▪ Percentage of renewable electricity. ▪ Tonnes of waste per home built. ▪ Percentage of waste diverted from landfill.	▪ Continual monitoring of new and evolving requirements as part of our legal and regulatory compliance framework, including TCFD, the Future Homes Standard and the Environment Act. ▪ Climate change and carbon reduction is a key priority under the Group's 'Better with Bellway' sustainability strategy. ▪ Dedicated sustainability, innovations and biodiversity resource in place to assess risks relating to climate change, monitor performance and drive improvement. ▪ Consultation with specialist external advisors and subject matter experts (e.g. sustainability consultants). ▪ Regular review of the design and features of new homes, along with construction methods and the sustainability of materials, to increase energy efficiency and reduce waste. ▪ Investment in energy-saving measures for offices and sites, including transition to REGO certified electricity. ▪ Development of science-based carbon reduction targets.
Health and safety	▪ Failure to maintain safe working conditions would		▪ Health and safety policy and procedures in place, supported by Group-wide training.

Risk and description	Strategic relevance	KPIs	Mitigation
A serious health and safety breach and/or incident occurs.	impact employee wellbeing and the creation of a positive working environment. ▪ Injury to an individual whilst at one of our business locations could delay construction and result in criminal prosecution, civil litigation, and reputational damage.	▪ Number of RIDDOR seven-day reportable incidents per 100,000 site operatives. ▪ Health and safety incident rate. ▪ Number of NHBC Pride in the Job Awards.	▪ Regular visits to sites by both our Group Health and Safety function (independent of divisions) and external specialist consultants to monitor standards and performance against health and safety policies and legislation. ▪ The Board considers health and safety matters at each meeting.
Human resources Inability to attract, recruit and retain high quality people.	▪ Failure to attract and retain people with appropriate skills would affect our ability to perform and deliver our strategy and volume growth targets.	▪ Employee turnover. ▪ Number of graduates, trainees, and apprentices. ▪ Employees who have worked for the Group for 10 years or more. ▪ Training days per employee. ▪ Senior management gender split. ▪ Percentage of staff in earning and learning roles. ▪ Employee engagement survey response rate.	▪ Continued development of our Group HR function and implementation of our people strategy. ▪ Established human resources programme for apprentices, graduates, and site management. ▪ Monitoring of staff turnover and analysis of feedback from exit interviews. ▪ Competitive salary and benefits packages which are regularly reviewed and benchmarked. ▪ Employee engagement activities undertaken, including an annual survey, with results communicated to the Board. ▪ Succession plans in place and key person dependencies identified and mitigated. ▪ Robust programme of training provided to employees which is regularly updated and refreshed. ▪ Development programmes for senior leaders and middle managers in place.
IT and security Failure to have suitable IT systems in place that are appropriately supported and secured.	▪ Poor performance of our systems would disrupt operational activity and impact the delivery of our strategy. ▪ An IT security breach could result in the loss of data, with significant potential fines and reputational damage.	▪ Operating profit. ▪ Operating margin. ▪ RoCE. ▪ EPS. ▪ Gross margin. ▪ Customer Satisfaction score.	▪ Continued investment in infrastructure and systems. ▪ Group-wide systems in operation which are centrally controlled by an in-house IT function, supported by a specialist outsourced provider. ▪ IT security policy and procedures in place with regular Group-wide training. ▪ Regular review and testing of our IT security measures, contingency plans and policies. ▪ Security Committee in place.
Land and planning Inability to source suitable land at appropriate gross margins and return on capital employed. Delays and complexity in the planning process.	▪ Insufficient land at appropriate margins, onerous planning conditions or a failure to obtain planning approval within appropriate timescales would exacerbate the challenge of developing new homes, restrict our ability to deliver volume growth targets and impact future returns.	▪ Number of homes sold. ▪ Operating profit. ▪ Operating margin. ▪ RoCE. ▪ EPS. ▪ Gross margin. ▪ Number of plots in owned and controlled land bank with DPP. ▪ Number of plots in 'pipeline'. ▪ Number of plots in strategic land bank – positive planning status. ▪ Number of plots in strategic land bank – longer-term interests. ▪ Number of plots acquired with DPP. ▪ Number of plots converted from medium-term 'pipeline'.	▪ Continued development of our Group Strategic Land function and implementation of our land strategy. ▪ Increased investment in land and more sites with detailed planning permission (DPP). ▪ Regular review by both Group and divisions of the quantity, location, and planning status of land against growth targets to ensure our land bank supports immediate, medium-term, and strategic requirements. ▪ Formal land acquisition process in place for the appraisal and approval of all land purchases, including pre-purchase due diligence and Group level challenge of viability assumptions. ▪ Group and divisional planning specialists in place to support the securing of implementable planning permissions.
Legal and regulatory compliance Failure to comply with legislation and regulatory requirements.	▪ Lack of an appropriate compliance framework and/or compliance breaches could incur fines, delay business operations and lead to re-work across sites, which will impact our reputation and profitability.	▪ Number of homes sold. ▪ Operating profit. ▪ Operating margin. ▪ RoCE. ▪ EPS. ▪ Gross margin.	▪ In-house expertise from Group functions such as Company Secretariat, Legal, Health and Safety and Technical / Design, who advise and support divisions on legal compliance and regulatory matters. ▪ Consultation with Government agencies, specialist external legal advisors and subject matter experts, (e.g., fire safety engineers). ▪ Strengthened Group-wide policies, guidance, and training in place supported by externally facilitated whistleblowing and reporting procedures.

Risk and description	Strategic relevance	KPIs	Mitigation
			▪ Continual monitoring and review of changes to legislation and regulation, including Government guidance, advice notes and sector specific updates. ▪ Regular liaison with industry peers and the HBF on compliance requirements and matters.
Unforeseen significant event An unforeseen significant national or global event occurs.	▪ The economic uncertainty brought about by an unforeseen significant event, could materially impact the Group's operations and liquidity. ▪ Damage to reputation if the Group is not perceived to be following Government guidelines and acting responsibly. ▪ We are also mindful of the continuing conflict and humanitarian crisis in Ukraine. We continue to monitor the situation, acknowledging the potential impact on the UK economy, supply chains and inflation.	▪ NAV. ▪ Operating profit. ▪ Operating margin. ▪ RoCE. ▪ EPS. ▪ Total dividend per ordinary share. ▪ Gross margin. ▪ Reservation rate. ▪ Order book value. ▪ Employee turnover.	▪ Strong balance sheet, low financial gearing, committed bank loan facilities and USPP debt which would help ensure resilience during a recession. ▪ Maintenance of business resilience and continuity plans covering offices, sites, and IT. ▪ Experienced and well-established senior management team. ▪ Continued investment in systems and infrastructure to enable robust home working. ▪ Monitoring of Government guidelines (including Public Health England and the Construction Leadership Council). ▪ Regular communications with subcontractors and suppliers to understand their position and any potential issues with their own supply chain.

The Group also considers any emerging risks that have the potential to impact the achievement of our strategy, but which cannot yet be fully defined and assessed. These uncertainties are reviewed as part of our established risk management framework, discussed regularly by management, the Audit Committee and the Board, and elevated to principal risks (either as new risks or an extension of existing risks) when warranted.

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.

Biodiversity Net Gain (‘BNG’)

Is an approach to development and land management, that aims to leave the natural environment in a measurably better state than it was beforehand.

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 New Homes Quality Code.

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.

DLUHC

Department for Levelling up, Housing and Communities.

DEFRA

Department for Environment, Food and Rural Affairs.

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.

Energy Savings Opportunity Scheme (‘ESOS’)

The ESOS is a mandatory energy assessment scheme for large organisations in the UK.

Executive Board

The Executive Board is made up of the Executive Directors of Bellway p.l.c.

Global Reporting Initiative (‘GRI’)

GRI standards are global standards for sustainability reporting.

Greenhouse Gas ('GHG')

GHGs are gases that contribute to the greenhouse effect by absorbing infrared radiation. Carbon dioxide and chlorofluorocarbons are examples of greenhouse gases.

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, subject to regional price caps. Buyers have to contribute at least 5% of the property price as a deposit and obtain a mortgage of up to 75% (55% 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.

Land with DPP

Plots owned or unconditionally contracted by the Group where there is an implementable detailed planning permission.

Legacy Building Safety Provision

Included within this provision, there are two components (i) SRT and associated review, and (ii) Structural defects provision.

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.

Net legacy building safety expense

This contains the income statement movements in relation to the legacy building safety provision and any associated reimbursement assets.

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.

New Homes Ombudsman Service ('NHOS')

The NHOS was introduced with the aim to provide dispute resolution for, and determine complaints by, buyers of new build homes.

New Homes Quality Board ('NHQB')

An independent not-for-profit body which was established for the purpose of developing a new framework to oversee reforms in the build quality of new homes and the customer service provided by developers.

New Homes Quality Code ('NHQC')

An industry code of practice that lays out a mandatory set of requirements which must be adopted and observed by all registered developers.

Pipeline

Plots owned or contracted by the Group, pending an implementable detailed planning permission, with development generally expected to commence within the next three years.

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 to be redeveloped or altered.

Permission is either 'outline' when detailed plans are still to be approved, or 'detailed' when detailed plans have been approved.

Residential Property Developer Tax ('RPDT')

RPDT is a tax, introduced in April 2022, which is charged at a rate of 4% on certain profits of companies carrying out residential property development.

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.

Science Based Target initiative ('SBTi')

Science-based targets provide companies and financial institutions with a clearly defined pathway to future-proof growth by specifying how much and how quickly they need to reduce their greenhouse gas emissions.

Section 75 and Section 106 Planning Agreements

These are legally-binding agreements or planning obligations entered into between a landowner and a local planning authority, under section 75 of the Town and Country Planning (Scotland) Act 1997 or 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.

Self-Remediation Terms ('SRT')

Is a commitment to remediate buildings over 11 metres in height with identified life critical fire safety issues, which were constructed in England and Wales since 5 April 1992.

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.

SONIA

SONIA is the Sterling Overnight Index Average, and is an important interest rate benchmark. It is calculated and published by the Bank of England.

Strategic Plots

Longer-term plots which are typically held under option.

Sustainability Accounting Standards Board ('SASB')

SASB have developed a set of industry standards which identify the minimal set of financially material sustainability topics and their associated metrics for the typical company in an industry to report against.

Task Force on Climate Related Financial Disclosures ('TCFD')

TCFD was created by the Financial Stability Board to develop consistent climate-related financial risk disclosures.

Total Shareholder Return ('TSR')

The total return of a share to an investor, or the capital gain plus dividends.

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.

Underlying

Throughout the Annual report and Accounts, underlying refers to any statutory performance measure or alternative performance measure which is before net legacy building safety expense and exceptional items. The Group believes that underlying metrics are useful for investors as these measures are closely monitored by the Directors in assessing Bellway's operating performance, thereby allowing investors to understand and evaluate performance on the same basis as management.

United Nations Sustainable Development Goals ('SDGs')

The SDGs are a collection of 17 interlinked global goals designed to be a 'shared blueprint for peace and prosperity for people and the plant, now and into the future'.