

ANNUAL REPORT & ACCOUNTS  
**2005**

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Front cover picture - Mondriaan, Ruchill, Glasgow

## Figures at a glance

	2005	2004	Increase
TURNOVER	<b>£1,178.1m</b>	£1,092.6m	<b>7.8%</b>
TOTAL OPERATING PROFIT	<b>£229.7m</b>	£213.3m	<b>7.7%</b>
OPERATING MARGIN	<b>19.5%</b>	19.5%	-
PROFIT BEFORE TAX	<b>£218.2m</b>	£205.5m	<b>6.2%</b>
BASIC EARNINGS PER ORDINARY SHARE	<b>134.6p</b>	127.5p	<b>5.6%</b>
DIVIDEND PER ORDINARY SHARE	<b>31.25p</b>	25.0p	<b>25.0%</b>
LAND BANK – PLOTS WITH PLANNING PERMISSION	<b>22,500</b>	20,700	<b>8.7%</b>
SHAREHOLDERS' FUNDS	<b>£796.2m</b>	£675.1m	<b>17.9%</b>
NET ASSET VALUE PER ORDINARY SHARE	<b>685p</b>	585p	<b>17.1%</b>

# Chairman's Statement

“I am pleased to announce that, despite testing market conditions, Bellway has recorded its fourteenth successive year of volume growth.”

## Results

Home sales increased by 5.9% to 7,001 with an increase in both private and housing association sales. The Group's average selling price, up 1.5% at £163,800, remains one of the lowest and hence, most affordable in the industry. Turnover increased to a new record of £1.178 billion, up 7.8% and total operating profit increased 7.7% to £229.7 million, with the operating margin maintained at 19.5%. Net interest payable of £11.5 million is covered 20 times. Net profit before tax increased by 6.2% to £218.2 million with earnings per share increasing by 5.6% from 127.5p to 134.6p. The balance sheet has been strengthened further by retained earnings, boosting shareholders' funds to £796.2 million and net asset value per ordinary share rising to 685p.

## Dividend

As I indicated in my statement in April, it is the Board's intention to increase the full year dividend by 25% to 31.25p and the Board is therefore recommending to shareholders a final dividend of 18.25p. This dividend is conservatively covered 4.3 times by earnings and provides the Board with ample scope to maintain its progressive dividend policy.

Ordinary shareholders on the Register of Members at the close of business on Friday 16 December 2005 will receive the final dividend on Monday 16 January 2006.

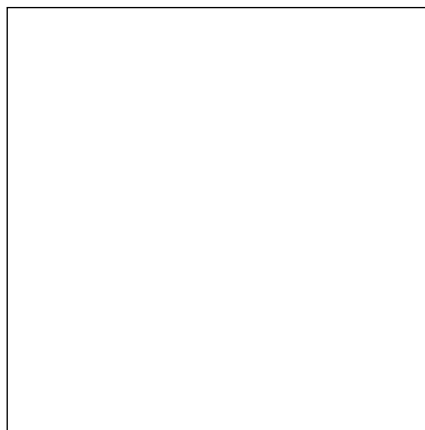
The Firs, Loughborough, Leicestershire

### Land Bank and Current Trading

The Group's land bank with planning permission, held on the balance sheet, has increased by a further 1,800 plots to 22,500. Additionally, Bellway has during 2005, entered into two large scale regeneration schemes in South Tyneside and North Solihull and whilst these schemes do not feature at present in our land bank, urban regeneration represents a growing part of the business. As we embrace these new opportunities, the product of current Government policy, the Group is hopeful of announcing further such schemes in the next twelve months. The Thames Gateway North division commenced production during the year and the operational network has now increased to seventeen active divisions.

The Group continues to implement its policy of forward selling wherever possible and this is reflected in an order book of £513 million at 31 July 2005, a strong position even when compared to last year's record level of £587 million. In the first two months of this current financial year, reservations have shown an encouraging increase of some 4% when compared to the same period last year. This improvement comes from a small increase in the number of outlets. Although outlets will increase in the second half, most are scheduled to come on stream towards the end of our financial year and are unlikely to benefit 2005/06 significantly. Therefore as we are not anticipating an increase in sales rate per site, we only expect a small increase in homes sold in the current financial year.

Willow Court, Chelmsford, Essex



Portland Basin,  
Ashton-under-Lyne, Greater Manchester

### **People**

Yet again, these results would not have been possible without the hard work and enthusiasm of all our employees throughout the country. Their efforts, combined with those of our suppliers, sub-contractors and partners are greatly appreciated by the Board and we would like to thank everyone involved.

### **Future Prospects**

Whilst current market conditions may be challenging, our expanding land bank, operational network, affordable product profile, and regeneration expertise reaffirm Bellway's long term strategy of volume growth. The decision to increase the dividend by 25% reflects this and the Board remains confident about the future prospects for the Group.

**H C Dawe**

*Chairman*

*17 October 2005*



Bolnore Village, Haywards Heath, West Sussex

## The Board

### **HOWARD C DAWE** *Date of Birth: 7 April 1944* (1)

Mr Dawe joined Bellway in 1961, was appointed a director in 1977 and was appointed Group Chief Executive in 1985. In May 1997 he was appointed Acting Chairman and Chairman on 1 November 1999, when he relinquished the role of Chief Executive. He is a member of the Nomination Committee. Upon his contractual retirement date of 1 November 2004, Mr Dawe became non-executive Chairman and relinquished his role as Chairman of the Board Committee on Non-Executive Directors' Remuneration.

### **JOHN K WATSON** *Date of Birth: 21 March 1954* (2)

Mr Watson, a Chartered Surveyor, joined Bellway in 1978. He was later appointed Managing Director of the North East division, a position which he held for 12 years. He joined the Board as Technical Director in 1995 and became Chief Executive on 1 November 1999. He became Chairman of the Board Committee on Non-Executive Directors' Remuneration on 1 November 2004.

### **PETER J STOKER** *Date of Birth: 23 May 1956* (3)

Mr Stoker qualified as a Solicitor in 1979 and joined Bellway in 1981. He was appointed Company Secretary in 1985 and joined the Board as an executive director in 1995. He resigned as Company Secretary to take up his new role as Commercial Director on 1 August 2002. He is a member of the Board Committee on Non-Executive Directors' Remuneration.

### **ALISTAIR M LEITCH** *Date of Birth: 14 February 1954* (4)

Mr Leitch qualified as a Chartered Accountant in 1977 and joined Bellway in 1981. He has held a number of senior positions in the Company including, from 1996, the post of Group Chief Accountant. He was appointed as Finance Director on 1 August 2002. He is a member of the Board Committee on Non-Executive Directors' Remuneration.

### **LEO P FINN** *Date of Birth: 13 July 1938* (5)

Mr Finn was appointed a Non-Executive director on 1 August 1995 and was, until February 2001, the Chief Executive of Northern Rock plc. He is currently Non-Executive Chairman of Northern Recruitment Group Plc and also Chairman of The NewcastleGateshead Pathfinder. Since 1 November 2003 he has been senior independent Non-Executive director and Chairman of the Board Committee on Executive Directors' Remuneration. He is also a member of both the Audit Committee and the Nomination Committee.

### **DAVID G PERRY** *Date of Birth: 26 December 1937* (6)

Mr Perry was appointed a Non-Executive director on 1 November 1999. He was formerly Chairman of Waddington PLC and Anglian Group PLC. He presently holds a number of Non-Executive directorships including that of Chairman of Minorplanet Systems plc. He is Chairman of the Nomination Committee and is also a member of both the Audit Committee and the Board Committee on Executive Directors' Remuneration.

### **PETER M JOHNSON** *Date of Birth: 17 April 1948* (7)

Mr Johnson, a Chartered Accountant, was appointed a Non-Executive director on 1 November 2003. He had been, on his retirement in September 2000, a partner in KPMG for 23 years. He is a Non-Executive director of Sunderland Marine Mutual Insurance Company Limited and Honorary Treasurer of the University of Newcastle upon Tyne. He is Chairman of the Audit Committee and is also a member of the Board Committee on Executive Directors' Remuneration and the Nomination Committee.

### **GROUP COMPANY SECRETARY**

### **G KEVIN WRIGHTSON** *Date of Birth: 27 October 1954* (8)

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

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## Advisers

### **Group Company Secretary and Registered Office**

G K Wrightson ACIS  
Bellway p.l.c.  
Seaton Burn House  
Dudley Lane, Seaton Burn  
Newcastle upon Tyne NE13 6BE  
Registered number 1372603

### **Financial Advisers**

N M Rothschild & Sons Limited

### **Registrars and Transfer Office**

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham, Kent BR3 4TU

### **Stockbrokers**

HSBC Bank plc  
Bridgewell Securities

### **Bankers**

Barclays Bank PLC  
HBOS plc  
HSBC Bank plc  
Lloyds TSB Bank plc

### **Auditors**

KPMG Audit Plc  
Quayside House  
110 Quayside  
Newcastle upon Tyne NE1 3DX

# Chief Executive's Operating Review

## **Volume Growth**

At the beginning of our financial year, several increases in interest rates had the desired effect of dampening an overheated housing market. Our customers began taking longer to commit to their purchase as they returned to a more normal pattern of decision making before reserving their new home.

Nevertheless, despite this tempering of the market, I am pleased to report that the Group achieved yet another year of organic growth, and in so doing has reached another milestone by selling 7,001 new homes, an increase of 5.9%. As a result Group turnover has grown to £1.178 billion, an increase of 7.8%, producing a record pre-tax profit of £218.2 million, an increase of 6.2%.

Squires Court, Bedminster, Bristol

Newbury Central, Newbury Park, Essex

### Profile

With an average selling price of £163,800, the Group's focus continues to be firmly established in the lower to middle market where demand remains the strongest. Whilst the Group's product range covers all sectors of the market, with the exception of retirement housing, 47% of the legal completions last year had an average selling price below £150,000.

Bellway has a broad national coverage serving most areas of the country which gives us flexibility to react quickly to changes in the market across the UK. Of the 7,001 new homes, 53% were sold through the northern divisions, which cover an area from Birmingham to Perth in Scotland, with the remaining 47% through our southern divisions.

Whilst the Group increased the sales of both private and social homes, the increase in the latter was more pronounced. During the year the Group sold 828 homes to housing associations for rent or shared ownership, with an average selling price of £88,200, an increase of 262 homes. This area of the business has a bias towards the south of the country at present and is a result of building relationships with various local authorities, government agencies and housing associations.

We are, however, likely to see an increasing contribution from the north of the country as we have been chosen as preferred partner in some of the largest regeneration projects in the country in areas such as Liverpool, Birmingham, North Nottinghamshire and Newcastle. This success will not only produce a steady land supply but will also increase our supply to the first time buyer market.

### John K Watson

Chief Executive

### Divisional Performance

The northern divisions increased output by over 300 homes in the year thereby increasing turnover by 14% to £577 million. East Scotland commenced operations and produced its first 52 completions and we hope to see output steadily increasing over the years. At a time when many local authorities are imposing a moratorium on the release of new planning permissions for residential development, our two divisions in the North West of England produced over 1,200 homes - a creditable performance, one of which, West Lancashire division, has the lowest average selling price in the Group of £135,000. Similarly our two Midlands divisions have seen excellent growth in the period achieving between them over 1,000 home sales for the first time. We are pleased to announce that in August 2005 we were nominated as preferred developer for five sites totalling 600 homes at Meden Valley in North Nottinghamshire.

The southern divisions also increased volume output. Planning permissions in this part of the country are typically being released with a greater percentage of affordable social housing, especially in the North London, South East and Thames Gateway divisions. As a consequence, the average selling price in the southern divisions has seen a small reduction to £171,800 from £172,900 but this, combined with an increase in volume, produced a slight increase in turnover to £570 million, compared to last year's £561 million. All of the southern divisions have an average selling price of less than £195,000. The South East division benefited from the completion of a high rise project in Woking and consequently increased output in the year. The Wessex division, having successfully completed a site of 150 apartments in Bristol, made steady progress during the year. The Thames Gateway North division has now firmly established itself and is ideally situated to benefit from any increased demand generated by the impact of London being awarded the 2012 Olympics. This means Bellway now has 17 fully operational divisions. Whilst the Group has the potential and desire to increase this number in future, the existing structure itself can generate volume growth because nine divisions last year traded at less than what we consider to be the optimum economic scale. Growth through these divisions will produce better overhead recovery.

Ruchill, Glasgow

### City Solutions

With well over 70% of sales on brownfield land, we recognise that future land supply will come more from regeneration opportunities as opposed to traditional greenfield releases. As regeneration quite often involves many different government agencies and sectors of the local community, this wider consultation process is undertaken by the City Solutions team. When City Solutions has won a scheme, they then hand it over to the local division who process the project through to the development stage. The City Solutions team is extremely busy at the present time and we expect that to continue, given that urban regeneration is one of the key housing themes of the Labour Government's third term in office. In the year under review, we signed an agreement with North Solihull Council giving Bellway the right to develop 50% of a regeneration scheme. This will cover 15 neighbourhoods and the whole scheme may well produce over 5,000 new homes, together with schools and shopping centres, to

benefit the local area. Furthermore, we have now obtained preferred developer status on two other schemes and we hope to reach formal agreement to develop these in the near future. None of these projects are in our land bank figures.

The Old Tannery, Canterbury, Kent

### Sales Incentives and Cost Control

During the year under review, sales incentives have been used on more and more occasions to support the targeted selling rate. Typically these may include discount, part exchange and other such inducements aimed at specific plots which were proving more difficult to sell. Customer groups such as first time buyers also benefit from financial packages to assist them on to the housing ladder. These additional selling costs have impinged on our margin, but are being used by our divisions at acceptable levels. During the year, cost inflation, especially in the labour market, had been more difficult to control on a localised basis. We are now beginning to see an increased supply of quality labour coming from countries who have recently joined the European Union and we hope this will moderate these cost increases in future. The industry, for many years, did not invest in a future labour force but our apprenticeship scheme, which has been successfully implemented throughout the country, should ensure that the mistakes of the past are not repeated.

The continued use of prefabricated components has helped mitigate the impact of build cost increases. For example, timber framed construction was used in 25% of the homes we completed during the course of the year. These framing systems are constructed where speed can produce a cost saving. Areas such as Milton Keynes also embrace modern methods of construction using the "Eco Homes" concept to raise environmental standards and consequently this area is one of the most sustainable communities in the country.

Despite the cost pressures from both sales and construction, we have been able to maintain our operating margin at last year's record level of 19.5%.

### Land Bank

The quality of the Group's land bank is the key to delivering future profitable growth. Maintaining this quality is paramount to Bellway and the Group has been extremely careful, particularly in the year under review, not to over pay for land in a weakening sales market. We have also been working hard to re-plan as many sites as possible to increase their densities. This process of re-planning will help to underpin margins in our land bank going forward and is encouraged in all divisions.

The Group has acquired circa 8,800 new plots in the year, 1,800 plots more than were sold. The total number of plots, with the benefit of planning permission recorded on the balance sheet, now stands at 22,500, compared with 20,700 last year. Once again, a large percentage of the plots acquired were converted from our medium term land pipeline. Two sites accommodating 664 plots in the East of London, one site in Canterbury for 450 plots, which is within walking distance of the cathedral, and 580 plots in the North West, are examples of this conversion from the pipeline where sites can be held for anything from 12 to 60 months. Even after these successes, we still have 12,000 plots in our medium term land bank and, whilst this figure includes our share from the joint venture at Barking Riverside with English Partnerships, it excludes all the land from our new urban regeneration schemes mentioned earlier.

Waterford Gate, Aylesbury, Buckinghamshire

## Health and Safety

Obviously best practice in the management of health and safety is vital. During the year we have concentrated on reducing the number of reportable accidents and falls from height. As density increases so inevitably does the height of the buildings under construction. More and more of our homes are now constructed at two and a half storeys or higher and it is important that the Group recognises this and sets new achievement targets on an annual basis. Health and Safety both on site and in the office are a priority and our stance starts from the proposition that one accident is one too many.

## The Environment

Whilst the grant of planning permission is often perceived by local communities to be damaging to the local environment, this is definitely not the case. The Group, for example, has pledged since January 2005, to pay some £1.1 million on education facilities, £400,000 on sports and community centres and £1.7 million on public open space and recreation areas. There are numerous other payments covering the likes of nature reserves, riverside walkways and highways.

Recently the Group has also entered into an agreement with Scottish Power to supply renewable electricity to the majority of our new homes throughout the UK. In so doing, this utility company will undertake to supply clean green hydro power into the electricity grid thereby further supporting the environment through a cleaner form of energy.

## Outlook

Notwithstanding the present uncertainties, Bellway has continued its policy of forward selling and this has generated a strong order book at 31st July which has been further supplemented by trading in the first two months of the financial year and now stands at £597m. We also intend to continue to increase the number of sales outlets and urban regeneration projects and these, combined with the Group's operational network, should put Bellway in an excellent position to further improve our volume growth and enhance our already excellent track record in the future.

**J K Watson**

*Chief Executive*

*17 October 2005*



# Environmental Policy Statement

The housebuilding process affects the environment by the use of land and consumption of resources throughout the development process. It is our objective to ensure that, at the conclusion of a scheme, an attractive and sustainable new environment has been created that will continue over time.



Recognising that we have responsibilities to both limit damage to and enhance the environment, this statement sets out our policies for managing the environmental aspects across our business.

**Key commitments are to:**

- *Minimise any deleterious impacts on the environment and where possible to seek environmental enhancements, concentrating on areas where there is most room for improvement*
- *Aim to meet and, where practicable, exceed the requirements of all relevant environmental legislation and regulations*
- *Improve our environmental performance*
- *Set specific environmental objectives and targets and periodically review progress against these*
- *Ensure that Bellway's environmental aims and their importance are communicated throughout the Group, including appropriate subcontractors and suppliers, and that a copy of the policy is sent to each Bellway site*
- *Consider the role that Bellway can play in helping to contribute to the principles of sustainable development within the UK*

In addition to our key commitments the Group has identified a number of specific objectives which we will endeavour to achieve.

**These are:**

- *Consideration of environmental aspects in the selection and procurement of land for development, including implications for biodiversity and sustainable development*
- *Meet and, where possible, exceed government targets for the redevelopment of brownfield land*
- *Influencing the design of sites, housing and fittings to minimise impacts on both the natural and built environment*
- *Providing environmental benefits and minimising nuisance arising from construction activities and preventing pollution on development sites*
- *Consideration of environmental issues within our corporate functions and everyday business decision-making processes*

The above are, of course, subject to economic considerations.

**Corporate Responsibility Report 2005**

Environmental issues are also addressed in the Corporate Responsibility Report 2005 which is available to shareholders on the Company's website [www.bellway.co.uk](http://www.bellway.co.uk) or on written application to the Group Company Secretary at the Company's registered office.





Oaklands, Bolton, Greater Manchester

# Financial Review

## **Introduction**

Bellway is a volume housebuilder selling primarily in the private market and trading nationally in areas of high population. Its principal subsidiary company is Bellway Homes Limited which, during the financial year to 31 July 2005, traded throughout Great Britain from sixteen of its seventeen operating divisions.

Regency Mews, Lambeth, London

### Introduction (continued)

Each operating division of Bellway Homes Limited has its own local management team covering all aspects of the business and they are given a high degree of autonomy and responsibility. Although the Group is decentralised, there are strict central controls and reporting systems in place. The main Group financial and computing systems are standard throughout and this has been achieved without diluting the local character of the divisions.

Bellway Homes Limited has two further divisions; Planning and Development which deals with planning matters and long term strategic land acquisitions on a national basis; and Group Administration which deals with, among other things, group reporting systems, information technology, treasury, banking, personnel, pensions, land vetting, public relations, administration, insurance, legal and company secretarial functions.

The activities of other subsidiary companies accounted for less than 1% of the turnover of the Group.

### Reporting Requirements

The Annual Report and Accounts have been produced in accordance with the current standards issued by the Accounting Standards Board and Urgent Issues Task Force pronouncements. The accounting policies of the Group are stated on pages 49 and 50.

The report on corporate governance as recommended in the 'Combined Code' is stated on pages 28 to 32.

The Report of the Board on Directors' Remuneration is shown on pages 35 to 43.

### International Financial Reporting Standards (IFRS)

The Group must comply with IFRS with effect from 1 August 2005 and is currently assessing the impact on relevant earlier periods in preparation for reporting, under IFRS, on the 2006 interim results. The Group considers that the main areas which will be affected by the adoption of IFRS are:

- **Share-based payments** – IFRS 2 (Share-based Payment) requires that the fair value of options are calculated and charged to the profit and loss account.
- **Pensions** – IAS 19 (Employee Benefits) requires that the net deficit or surplus for the Group's defined benefit pension scheme be established on the basis of market values. This net deficit or surplus is to be included within the Group's balance sheet.
- **Land creditors** – IAS 2 (Inventories) requires that, for deferred payments in relation to land, the creditor should be discounted to net present value. The difference between this value and the total creditor is charged to the profit and loss account, as notional interest, over the deferral period.
- **Dividends** – IAS 10 (Events After the Balance Sheet Date) requires a dividend should only be recorded as a liability if it is declared before the balance sheet date. Bellway's interim and final dividends are declared after their respective balance sheet dates and so no liability for dividends will be shown.

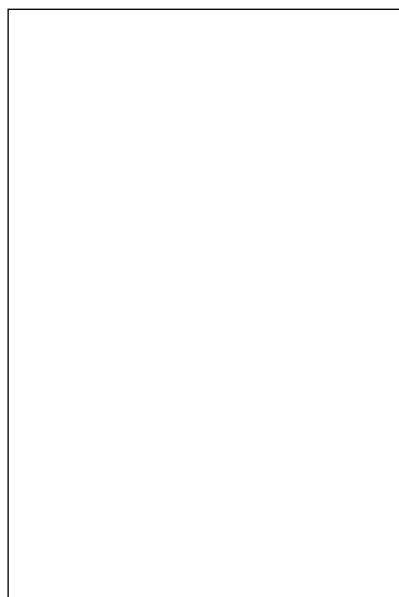
An assessment of the impact of IFRS, as well as a restatement of the position at January and July 2005, will be issued ahead of the interim announcement in April 2006.

**Profit and Loss Account**

Turnover and profit from the sale of homes is recorded when sales are legally completed. We build an extensive range of homes and a geographical summary of the homes sold, average selling price and turnover in the year to 31 July is detailed in the following table.

Division	Homes sold		Average selling price		Turnover	
	Number		£000		£m	
East Midlands	580	505	153.3	132.9	88.9	67.1
East Scotland	52	-	182.9	-	9.5	-
Manchester	609	440	152.9	158.9	93.1	69.9
North East	682	560	181.0	176.2	123.5	98.7
West Lancashire	600	535	134.8	115.5	80.9	61.8
West Midlands	431	440	145.3	165.5	62.6	72.8
West Scotland	452	502	175.9	162.8	79.5	81.7
Yorkshire	279	385	139.9	139.6	39.0	53.8
Northern Sub-Total	<b>3,685</b>	<b>3,367</b>	<b>156.6</b>	150.2	<b>577.0</b>	505.8
Essex	491	444	185.8	171.9	91.2	76.3
Northern Home Counties	322	319	192.3	166.9	61.9	53.2
North London	423	531	192.2	190.9	81.3	101.4
South East	575	451	174.6	209.1	100.4	93.9
South West	106	99	169.2	179.2	17.9	17.7
Thames Gateway	490	451	140.7	145.5	69.0	65.6
Wales	408	468	166.4	141.8	67.9	66.4
Wessex	501	480	159.9	179.6	80.1	86.2
Southern Sub-Total	<b>3,316</b>	3,243	<b>171.8</b>	172.9	<b>569.7</b>	560.7
<b>GROUP TOTAL</b>	<b>7,001</b>	6,610	<b>163.8</b>	161.4	<b>1,146.7</b>	1,066.5

Harbourside East, Littlehampton ,West Sussex



The chart opposite shows new homes sold which include 828 (2004 - 566) sales to housing association. In addition, the Group derived £31.4 million (2004 - £26.1 million) turnover from other sources. This consisted of land sales, financial services, commercial developments, rental income and miscellaneous items.

The Group acquires and sells second hand homes taken in part exchange. The sale of these properties are not included in the figures opposite. The net result of these transactions is classified as a cost of sale.

Gross profit improved from £263.0 million to £280.4 million and administrative expenses during the year increased from £49.7 million to £51.0 million, representing 4.3% of turnover (2004 - 4.5%).

The total operating profit of £229.7 million compares to £213.3 million last year, giving an operating margin of 19.5% on turnover (2004 - 19.5%). The second half operating margin was 19.5% compared to 20.2% in the second half of 2003/04.

All the total operating profit arose in Great Britain.

**Profit and Loss Account (continued)**

The associated undertakings profit of £199,000 (2004 - £22,000 loss) represents the Group's share in 50% owned companies. The Group also operated a joint arrangement with English Partnerships called Barking Riverside Limited. It accounted for this company on a joint arrangement not an entity (JANE) basis as prescribed in FRS 9 – "Associates and Joint Ventures".

Interest is written off as it is incurred and this year amounted to £11.5 million compared to £7.7 million in 2004 and is covered 20 times (2004 – 28 times).

The profit on ordinary activities before taxation of £218.2 million is a record high for the Group, improving by £12.7 million from £205.5 million in the previous year, an increase of 6.2%.

The tax charge for the year of £65.4 million (2004 - £61.7 million) is 30.0% (2004 – 30.0%) of pre-tax profits after accounting for deferred tax. The current tax charge of 29.9% (2004 - 31.3 %) is lower than the standard rate of corporation tax of 30% for the year (2004 – 30%). The Group does not have the benefit of any unused tax losses.

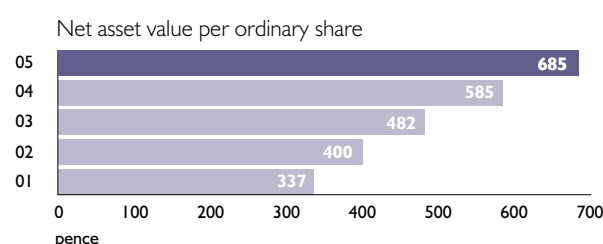
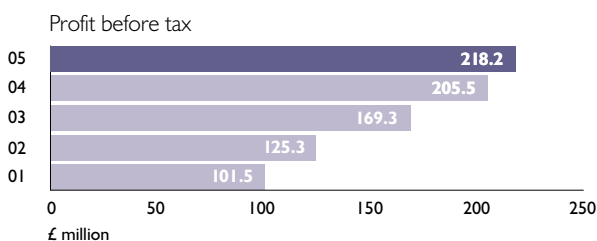
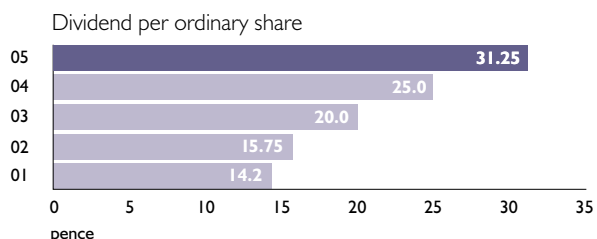
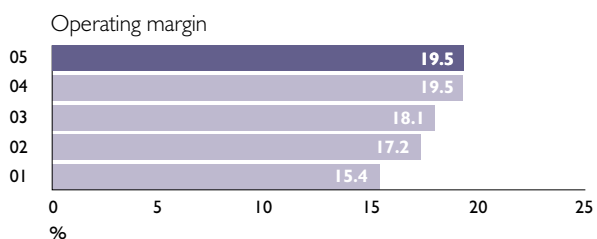
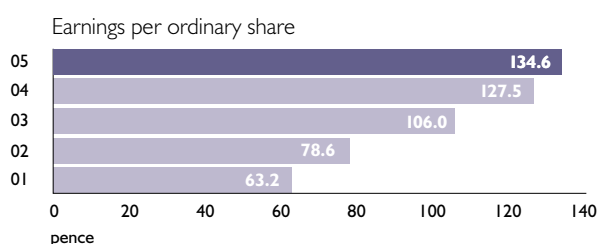
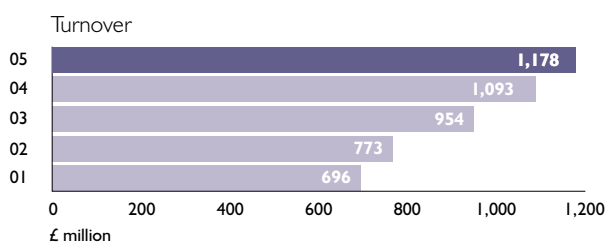
The Board is recommending a dividend for the year of 31.25 pence per ordinary share and this is an increase of 25% on the previous year, which is covered 4.3 times by earnings (2004 – 5.1 times). Basic earnings per ordinary share amount to 134.6 pence, compared to 127.5 pence an increase of 5.6%.

**Balance Sheet**

The Balance Sheet remains strong with stocks increasing from £1,025.8 million to £1,246.4 million, including our land holdings at 31 July 2005 with residential planning permission which total some 22,500 units (2004 - 20,700). In addition, we have extensive land interests with development potential.

At 31 July 2005 borrowings, net of cash balances, were £171.6 million, which compared with £63.1 million last year. The Group's gearing at 31 July 2005 was 21.5% compared with 9.3% last year. Net current assets increased by £196.7 million from £839.1 million to £1,035.8 million.

Shareholders' funds increased by £121.1 million from £675.1 million to £796.2 million reflecting retained profits of £115.6 million, net movements of £1.0 million resulting from accounting for share options under UITF 38: 'Accounting for ESOP Trusts' and amended UITF 17: 'Employee Share Schemes', with the exercise of share options representing the remaining movement.



## **Finance**

Other than the proceeds obtained from the issue of ordinary shares and reinvestment of retained profits, the Group's activities are financed principally by a combination of preference shares, bank borrowings and cash in hand. Our bank borrowing facilities comprise a long term fixed rate loan, medium term loans, short term floating rate loans and overdrafts. In addition, the Group often obtains deferred payment terms in its contracts for land purchases.

## **Treasury Policy and Liquidity Risk**

The Group's treasury policy has, as its principal objective, the maintenance of flexible bank facilities in order to cover anticipated borrowing requirements. A sophisticated cash forecasting system enables the Group to plan and assess its future treasury needs.

Short term cash surpluses are placed on deposit. Other than mentioned above, there are no financial instruments, derivatives or commodity contracts used.

## **Interest Rate Risk**

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

## **Fair Value**

The fair values of the Group's financial instruments at 31 July 2005 are disclosed in note 21 on page 68. This states that the fair values are not materially different to their book values except that, for the 9.5% cumulative redeemable preference shares, and the long term fixed rate bank loan the fair value exceeds book value by £5.7 million and £318,000 respectively. This reflects the movement in long term interest rates since these financial instruments were entered into.

## **Share Price and Net Asset Value**

The share price at 31 July 2005 was 861p (2004 – 722p). This compares with a book net asset value at 31 July 2005 of 685p (2004 – 585p).

## **A M Leitch**

*Finance Director*

*17 October 2005*

## Report of the Directors

The directors have pleasure in submitting the Annual Report of Bellway p.l.c. to the shareholders, together with the audited accounts for the year ended 31 July 2005.

### Principal activities

The Company is a holding company owning subsidiary undertakings which continue to be engaged principally in housebuilding in the United Kingdom.

### Performance and prospects

A review of the Group's performance and prospects is given in the Chairman's Statement on pages 3 to 6, the Chief Executive's Operating Review on pages 11 to 16 and in the Financial Review on pages 21 to 26.

### Profits and dividends

The profit attributable to shareholders for the year amounts to £152,763,000, of which £1,900,000 relates to preference shareholders and the balance of £150,863,000 relates to ordinary shareholders, which the directors recommend be dealt with as follows:

#### Ordinary dividends

	£000
Interim dividend paid, 13.0 pence per ordinary share	14,637
Final dividend proposed, 18.25 pence per ordinary share	20,600
Total ordinary dividends, 31.25 pence per ordinary share	35,237
Retained profit for year	115,626
	<u>150,863</u>

The directors recommend payment of the final dividend on Monday 16 January 2006 to shareholders on the Register of Members at the close of business on Friday 16 December 2005.

### Directors

All the directors of the Company, who are shown on pages 9 and 10, were directors throughout the year.

Three directors retire from the Board at the forthcoming Annual General Meeting. Two directors, Mr P J Stoker and Mr D G Perry, retire by rotation in accordance with the Articles of Association of the Company. Mr L P Finn who was appointed a non-executive director on 1 August 1995 is subject to annual re-election in accordance with the Combined Code provision A.7.2. The Board continues to consider Mr Finn to be independent. In addition, following formal rigorous evaluation, the Board is satisfied as to the effectiveness and commitment of both Mr Finn and Mr Perry. Being eligible, all three offer themselves for re-election.

Mr P J Stoker has a service contract which expires when he attains his normal retirement age of 60. His contract is terminable at any time by the Company on 12 months' notice.

Mr L P Finn does not have a service contract. He has a letter of appointment with a fixed term of just over seventeen months, terminating at the conclusion of the Annual General Meeting in January 2007. His letter of appointment is subject to termination by either party giving the other not less than three months' notice.

Mr D G Perry does not have a service contract. He has a letter of appointment with a fixed term of three years, terminating on 31 October 2006. His letter of appointment is subject to termination by either party giving the other not less than three months notice.

## Report of the Directors (continued)

### Directors' interests

The directors' interests in the share capital of the Company and directors' share options are given in the Report of the Board on Directors' Remuneration on pages 35 to 43.

### Notifiable shareholders' interests

As at 17 October 2005, the Company had been notified of the following interests amounting to 3% or more of the issued ordinary share capital of the Company:

- Fidelity Investments holding of 10,090,918 shares, representing 8.90%.
- Prudential plc holding of 4,401,651 shares, representing 3.88%.
- HBOs plc holding of 4,261,453 shares, representing 3.76%.
- Legal and General holding of 3,629,689 shares, representing 3.20%.

### Corporate governance

#### Introduction

The Board acknowledges the importance of, and is committed to, the principle of achieving and maintaining a high standard of corporate governance.

This report, together with the Report of the Board on Directors' Remuneration as detailed on pages 35 to 43, describes how the Principles of Good Governance, as set out in Section 1 of the Combined Code (published in July 2003), as required by the Listing Rules of the Financial Services Authority, are applied by the Group.

#### Statement of compliance with the Code of Best Practice

The Group considers that it has complied with the detailed provisions of the Combined Code throughout the year to 31 July 2005.

#### Statement about applying the Principles of Good Governance

The Group has applied the Principles of Good Governance, set out in Section 1 of the Code, including both the Main Principles and the Supporting Principles by complying with the Code as reported above. Further explanations of how the Main Principles and Supporting Principles have been applied are set out below and, in connection with the directors' remuneration, in the Report of the Board on Directors' Remuneration.

The Chairman's Statement, the Chief Executive's Operating Review and the Financial Review present a balanced and understandable assessment of the Group's position and prospects.

#### The Board

The Board consists of seven directors whose names, responsibilities and other details appear on page 9. Three of the directors are executive and four of the directors, including the Chairman, are non-executive. The Board discharges its responsibilities by providing entrepreneurial leadership of the Company within a framework of prudent and effective controls, which enables risk to be assessed and managed. It sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. It also defines the Company's values and standards and ensures that its obligations to its shareholders are understood and met.

The Board has adopted a schedule of matters which are specifically reserved for its decision which includes various matters to do with Companies Act and other legal requirements, listing requirements, Board membership and Board Committees, management, corporate governance, employment, financial and other miscellaneous items. In addition, it has a series of matters that are dealt with at regular Board meetings including an operational review, a financial review, land purchased, major projects, senior appointments, corporate governance, internal control and health and safety. It has also adopted a framework of delegated commercial and operational authorities, which define the scope of powers delegated to management below Board level.

The roles of Chairman and Chief Executive, which are recorded in writing and approved by the Board are separate with a clear division of responsibilities, ensuring a balance of responsibility and authority at the head of the Group. The senior independent non-executive director is Mr L P Finn.

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

**29** **Report of the Directors (continued)****Board effectiveness**

The directors possess an appropriate balance of skills and experience for the requirements of the business.

During the year there were eleven Board meetings, three Audit Committee meetings, three meetings of the Board Committee on Executive Directors' Remuneration, one meeting of the Board Committee on Non-executive Directors' Remuneration and two Nomination Committee meetings.

There were no absences from any Board or committee meetings by any director, with the exception that Mr P J Stoker, Mr L P Finn and Mr D G Perry were unable to attend one Board meeting each and Mr L P Finn was unable to attend one Audit Committee meeting.

Each of the non-executive directors excluding the Chairman has at all times acted independently of management and has no relationship which would materially affect the exercise of his independent judgement and decision making. The Company considers all of its non-executive directors, excluding the Chairman, to be independent, as defined in the Combined Code. In the case of Mr L P Finn however, he has served on the Board and its Committees for more than nine years. In April 2004, the Company consulted with its major shareholders, setting out the reasons why it considered it appropriate for Mr Finn to remain as senior independent non-executive director beyond the nine year period. The Company received a positive response and consequently he remains as the Group's senior independent non-executive director subject, of course, to re-election each year at the Annual General Meeting, in line with the recommendations contained in the Combined Code. The Board considers that Mr Finn continues to be independent in character and judgement. He has experience of running a large and complex public limited company and understands the needs of institutional shareholders. The board considered this to be vital for the role of senior independent non-executive director, particularly at a time of change as Mr. Dawe moved to become non-executive Chairman. His independence is evidenced by his work in the public and voluntary sector, particularly in housing related matters.

One third of the directors offer themselves for re-election each year at the Annual General Meeting, in accordance with the Articles of Association. In addition, each director seeks re-election every three years in accordance with the Combined Code. Mr Finn is excluded from the foregoing as he retires each year as detailed above. New directors appointed during the year offer themselves for re-appointment at the next Annual General Meeting.

**Board balance and independence**

Appointments to the Board are made on merit through a formal, rigorous and transparent process against objective criteria recommended by the Nomination Committee, which also guides the whole Board in arranging orderly succession for appointments to the Board.

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

Mr H C Dawe was, until 1 November 2004, executive Chairman of the Group. From that date he became non-executive Chairman.

The Board has reviewed and reaffirmed that it considers all of the non-executive directors, excluding the Chairman, to be independent as defined in the Combined Code. Whenever any director considers that he is interested in any contract or arrangement to which the Group is or may be a party, due notice is given to the Board. No such instances of any significance have arisen during the year.

## Report of the Directors (continued)

### Board evaluation

During the year the directors undertook an evaluation of the performance and effectiveness of the Board, its committees and individual directors. The evaluation was performed using a self-assessment framework. This involved the Chairman evaluating the performance of the other individual directors, and the non-executive directors, led by the senior independent non-executive director, assessing the performance of the Chairman, taking into account the views of the executive directors. The Board, led by the Chairman, evaluated its own performance and the Committees, led by the Chairman of each, evaluated their own performance.

As part of the process of ensuring Board effectiveness, the non-executive directors, led by the senior independent non-executive director, met without the Chairman present. Additionally, the Chairman held meetings with the non-executive directors without the executives present. The Chairman also had meetings with each of the executive directors.

The Board and its Committees reviewed the results of these evaluations and are satisfied with the evidence it provided about the balance, effectiveness and performance of the Board and its Committees and the effectiveness and commitment of each director. In coming to these conclusions, the Board can confirm that it has carried out a particularly rigorous review in relation to the effectiveness and commitment of Mr Finn and Mr Perry who are both due for re-election at the forthcoming Annual General Meeting because both will have served in excess of six years as non-executive directors of the Group at that date.

### The Board Committees

The Board has properly constituted Audit, Remuneration and Nomination Committees. The terms of reference for the Committees are available on request, will be available at the Annual General Meeting and are also available on the Company's website: [www.bellway.co.uk](http://www.bellway.co.uk)

#### *Audit Committee*

The Audit Committee comprises three independent non-executive directors, Mr P M Johnson (Chairman), Mr L P Finn and Mr D G Perry. It meets at least three times a year and met three times during the year under review. It has written terms of reference and its responsibilities include the following:

- To consider the appointment/re-appointment of the external auditors and assess their independence each year.
- To recommend the audit fee to the Board and pre-approve any fees in respect of non-audit services provided by the external auditor and to ensure that the provision of non-audit services does not impair the external auditors' independence or objectivity.
- To agree the nature and scope of the audit and review the quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.
- To oversee the process for selecting the external auditor and make appropriate recommendations through the Board to the shareholders to consider at the Annual General Meeting.
- To consider annually whether there is a need for an internal audit function and make a recommendation to the Board.
- To review the Group's procedures for handling allegations from whistleblowers.
- To review management's reports on the effectiveness of systems for internal financial control, financial reporting and risk management.
- To assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks.
- To review and make recommendations in relation to the interim and annual financial statements prior to submission to the Board.

The Board believes that Mr Johnson, the committee chairman, has recent relevant financial experience as a Chartered Accountant. The Group has a written Independent Auditor Policy in place which seeks to preserve the independence of its auditors by defining what non-audit services the independent auditors may and may not provide. There are clearly defined levels of approval depending on the value of work to be provided. Where total non-audit fees equate to 100% of audit fees, Board approval would be requested. Any material project with fees in excess of £200,000, where the auditors are considered for the provision of services, would be the subject of a competitive process. During the year under review, the Finance Director and Group Company Secretary attended each meeting. The committee met the auditors without management present on two occasions during the year. In addition the committee chairman had regular contact with the Finance Director and the external auditors.

31 **Report of the Directors (continued)***Board Committee on Executive Directors' Remuneration*

The Board Committee on Executive Directors' Remuneration has formal terms of reference and comprises Mr L P Finn (Chairman), Mr D G Perry and Mr P M Johnson. The Committee meets at least twice a year and last year met on three occasions. Its duties are to review and recommend the basic salary, benefits in kind, terms and conditions of employment, including performance related payments, long term incentive schemes and pension benefits of the executive directors and the Group Chairman. The Report of the Board on Directors' Remuneration on pages 35 to 43 contains details of directors' remuneration and the Group's policies in relation to directors' remuneration.

*Nomination Committee*

The Nomination Committee comprises Mr D G Perry (Chairman), Mr L P Finn, Mr P M Johnson and Mr H C Dawe. The Committee has formal terms of reference which outline the Committee's responsibilities and define the programme of activities to support the discharge of those responsibilities. The Committee meets at least twice a year and last year met on two occasions. Its main duties are to make recommendations regarding appointments to the Board.

*Board Committee on Non-Executive Directors' Remuneration*

The Board Committee on Non-Executive Directors' Remuneration comprises the executive directors and has, since 1 November 2004, been chaired by Mr J K Watson, prior to which it had been chaired by Mr H C Dawe. It meets at least once a year to review and recommend the terms and conditions and the remuneration of the non-executive directors. Last year it met on one occasion.

Other Committees of the Board are formed to perform certain specific functions as required from time to time.

*Directors' and officers' liability insurance*

The Company carries appropriate insurance cover in respect of possible legal action being taken against its directors and senior employees.

**Directors' remuneration**

The principles and details of directors' remuneration are detailed in the Report of the Board on Directors' Remuneration on pages 35 to 43.

**Accountability and audit**

The statement on going concern and the Statement of Directors' Responsibilities in Respect of Preparation of the Accounts are shown on pages 33 and 44 respectively.

The Company has an Audit Committee, which has meetings at least twice a year with the Company's auditors KPMG Audit Plc. Its role is detailed above.

*Internal control*

The Board is responsible for the Group's system of internal control and also for reviewing its effectiveness. The Board has reviewed, on an on-going basis, the effectiveness of the system of internal control throughout the year and up to the date of approval of the Annual Report and Accounts. The system is regularly reviewed by the Board in accordance with the guidance contained in the Turnbull Report "Internal Control Guidance for Directors of Listed Companies Incorporated in the United Kingdom".

The Board acknowledges its responsibility to establish, maintain and monitor a system of internal control relating to operational, financial and compliance controls and risk management to safeguard the shareholders' interests in the Company's assets. This system, however, is designed to manage and meet the Group's particular requirements and reduce the risk to which it is exposed rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board has reviewed the effectiveness of the system of internal control and, in particular, it has reviewed the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed.

Management are responsible for the identification and evaluation of significant risks applicable to their particular areas of the business together with the design and operation of suitable controls. These risks are regularly assessed and cover all aspects of the business, but in particular land acquisition, planning, construction, health and safety, information and reporting systems, asset protection, treasury management and legal and regulatory compliance. In addition, there is a responsibility to mitigate risk by the provision of adequate insurance cover and by management reporting on material changes in the business or external environment affecting the risk profile.

## Report of the Directors (continued)

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

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

- The Board has agreed a list of key risks which affect the Group and has considered the extent to which the measures taken by the Group mitigate those risks.
- An established monitoring structure is in place, which provides short lines of communication and easy access to members of the Board.
- Delegation of clearly defined responsibilities to divisional Boards with clear procedures and authority limits in place to provide and maintain effective controls across the Group.
- A comprehensive reporting system entailing annual budgets, regular forecasting and financial reporting.
- A central treasury function operates at Head Office.
- Regular meetings with management attended by members of the Board to review divisional performance.
- The acquisition of land and land interests is subject to checking by management and approval by the Board to ensure that purchasing criteria are met.
- Regular reviews of site costs and revenues by senior Head Office personnel which are reported to the Board.
- Regular visits to sites by senior management and external consultants to monitor health and safety standards and performance.
- A number of the Group's key functions are dealt with centrally. These include finance, banking, taxation, financial services, pensions, insurance, information technology, legal and secretarial.

### Internal audit

The Company does not have an internal audit function. Under Combined Code provision C.3.5 where there is no internal audit function, the Audit Committee should consider annually whether there is a need for an internal audit function and make a recommendation to the Board. During the year, having considered the position, the Audit Committee recommended that no internal audit function, as such, was presently required, given the robust systems and strong controls already present in the Group. The position will continue to be monitored by the Audit Committee on behalf of the Board.

### Whistleblowing arrangements

The Group has operated throughout the year a 'Whistleblowing' arrangement whereby all employees of the Group are able, via an independent external third party, to confidentially report any malpractice or matters of concern they have regarding the actions of management and employees.

### Relations with shareholders

The Company encourages active dialogue with its private and institutional shareholders, both current and prospective. Meetings are held with both existing and prospective institutional shareholders on a regular basis and as requested. Shareholders are also kept up to date with Company affairs through the Annual and Interim Reports and Trading Updates. The Annual General Meeting is used to communicate with institutional and private investors and their participation is encouraged by the taking of questions by the whole Board both during and also informally, before and after the meeting. The senior independent non-executive director is always available to meet with current and prospective shareholders and institutions as required. In addition, the whole Board are regularly apprised of shareholder and investor views and activities at Board meetings by the Chief Executive and the Finance Director. Further information for shareholders is available on pages 70 to 72 and also on the Company's website at [www.bellway.co.uk](http://www.bellway.co.uk)

**Going concern**

After making due enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

**Employees**

The Group is an equal opportunities employer and the importance of good communications with employees is recognised by the directors. Each division maintains employee relations appropriate to its own particular needs and a Group magazine is published at periodic intervals. New employees, when eligible, are invited to join the Group Pension and Life Assurance Scheme and the Savings Related Share Option Scheme. In accordance with statutory requirements, the Company also has a designated stakeholder pension arrangement. It is Group policy to give full and fair consideration to the employment needs of disabled persons (and persons who become disabled whilst employed by the Group) and to comply with any current legislation with regard to disabled persons.

**Environmental issues**

The Board recognises the importance of environmental issues and when carrying out its business, endeavours to make a positive contribution to the quality of life both for the present and the future. An environmental policy statement approved by the Board has been adopted by all trading entities within the Group. Environmental issues are addressed in the Environmental Policy Statement on pages 17 and 18 and in the Corporate Responsibility Report which is available to shareholders on the Company's website [www.bellway.co.uk](http://www.bellway.co.uk) or on written application to the Group Company Secretary at the Company's registered office.

**Health and safety at work**

The Group promotes all aspects of safety throughout its operations in the interests of employees, sub-contractors and visitors to its sites and premises and the general public. Health and safety issues are addressed in the Chief Executive's Operating Review on page 16 and in the Corporate Responsibility Report which is available as mentioned above.

**Donations**

During the year the Group made no political contributions but donated £85,290 (2004 - £97,786) for charitable purposes.

**Suppliers**

The Group agrees terms and conditions under which business transactions with suppliers are conducted. The policy is that payments to suppliers are made in accordance with these terms and conditions, provided that the supplier is also complying with the terms and conditions. The Group follows the CBI Code of Practice 'Prompt payers: in good company' and its current policy concerning the payment of the majority of its materials suppliers and sub-contractors is for payment to be made at the month end following the month of the invoice. For other supplies, particularly land, the terms are many and varied. Trade creditors due within one year at 31 July 2005 of £88,754,000 (2004 - £77,184,000) gave a creditor payment period of 29 days (2004 - 28 days). Land creditors due within one year were £104,218,000 (2004 - £115,183,000). Including land creditors, the creditor payment period was 63 days (2004 - 70 days).

The parent company had no land or trade creditors at 31 July 2005 (2004 - £Nil).

**Annual General Meeting - special business**

Three special resolutions will be proposed as special business at the forthcoming Annual General Meeting. The effect of these resolutions is as follows:

**Resolution 9 – Approval of the new articles of association of the Company**

The Company proposes to adopt new articles of association. They will restate the current articles while at the same time including proposed amendments to bring the articles up to date and in line with best practice. A summary of the principal proposed changes of substance is set out in Shareholders' Information on pages 70 to 72.

**Resolution 10 - Disapplication of pre-emption rights**

This resolution is the customary annual request that shareholders empower the directors to allot equity securities for cash without first offering them pro rata to existing shareholders as would otherwise be required by section 89 of the Companies Act 1985. This power allows the directors to allot equity securities for cash only (a) up to an aggregate nominal value of £707,682, being approximately equal to 5% of the issued ordinary share capital of the Company; or (b) in a rights issue or other offer of securities pro rata to shareholders up to the maximum unused amount of the general authority to allot conferred on the directors on 10 January 2003.

## Report of the Directors (continued)

### Resolution 11 - Company's purchase of its own shares

The Company's authority to purchase its own ordinary and preference shares, given at the last Annual General Meeting, expires on the conclusion of the forthcoming Annual General Meeting. The directors propose that it should be renewed for a further year to expire on the date of the next Annual General Meeting.

The directors will review opportunities to use this authority in the light of stock market conditions and trading opportunities during the year.

The directors will only make purchases (which will reduce the number of shares in issue) after paying due attention to the effect on the financing of the Group, its assets and earnings per ordinary share for the remaining shareholders. Any shares purchased under this authority may be cancelled (in which case the number of shares in issue will be reduced accordingly) or may be held in treasury.

By order of the Board

**G K Wrightson**

Group Company Secretary

17 October 2005

## Report of the Board on Directors' Remuneration

### Introduction

The remuneration of the executive directors is determined by the Board Committee on Executive Directors' Remuneration (the 'Committee') within a framework set by the Board and on its behalf. The Committee consists of three non-executive directors, namely Mr L P Finn (Chairman), Mr D G Perry and Mr P M Johnson. None of the Committee members has a personal financial interest, other than as shareholders, in the matters to be decided. There are no conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business.

During the period, the Group Company Secretary attended a number of Committee meetings at the invitation of the Committee and provided advice on issues other than those relating to his own remuneration. The Committee also received independent external advice from New Bridge Street Consultants who were appointed by the Committee and who provided no services to the Company other than advice to the Committee on remuneration related matters.

### Objectives

The aim of the Committee is to ensure that the Company has competitive remuneration packages in place in order to recruit, retain and motivate executive directors in the overall interests of shareholders, the Company, its employees and its customers. The Committee has set as an objective a policy of paying remuneration at around the median of a peer group of similar UK housebuilding businesses and it is satisfied that the structure of the executives' packages, as described in this section, will broadly achieve this objective. The Committee has used this comparative approach to benchmarking with caution, recognising the risk of upward only reviews of remuneration. The structure of the package has been designed to ensure that the performance related elements of remuneration (annual bonus and long-term incentives) constitute a significant proportion of an executive's potential total remuneration package, but are only receivable if demanding and stretching performance targets are achieved.

In framing the Company's remuneration policy for executive directors, the Committee has given full consideration to the best practice provisions in the Combined Code, published in July 2003.

### Service contracts

The executive directors have fixed-term service contracts which specify that retirement is at age 60. Mr H C Dawe had a service contract (signed on 19 January 1996 and amended on 16 October 2003) which was terminable by the Company on 24 months' notice but which reduced pro rata in the two years up to contractual retirement date which was 1 November 2004. From that date he has operated with a letter of appointment with a fixed-term of three years, terminating on 31 October 2007. Service contracts for Mr J K Watson (signed on 16 March 2001), Mr P J Stoker (signed on 19 January 1996 and amended with effect from 1 November 2003) and Mr A M Leitch (signed on 1 September 2002) are terminable by the Company on 12 months' notice, but with a condition that, on termination, an amount equivalent to one year's salary, benefits and the average amount of the last two years' annual bonus payments, would be payable. The inclusion of average annual bonus in the calculation of compensation payable for early termination will ensure that there is variability in the potential level of compensation. In particular, after a period of poor performance, it could be expected that little or no bonus would be payable, reducing potential payout in these circumstances.

The notice period of all executive directors' service contracts is kept under review by the Committee. It is the Committee's view that the notice period for the executive directors is appropriate and consistent with current market practice.

All non-executive directors have letters of appointment with the Company of no more than three years. Current agreements expire on the following dates: Mr H C Dawe – 31 October 2007, Mr L P Finn – Annual General Meeting in January 2007, Mr D G Perry - 31 October 2006, and Mr P M Johnson - 31 October 2006.

### Salaries

Salaries are reviewed on 1 August each year and any changes are implemented from that date. For the year under consideration the executive directors were awarded rises varying from 5.26% to 20.63%.

Benefits in kind relate mainly to the provision and use of motor vehicles including, in relation to the Chairman, the part time use of a driver and the transfer to him of his motor vehicles at nil cost when he ceased to be executive Chairman on 1 November 2004. In addition, private medical insurance and home telephone charges are also paid.

### Annual bonus scheme

The annual bonus scheme has a potential which is currently capped at 120% of basic salary other than in exceptional circumstances where outstanding performance may, in the view of the Committee, merit a higher bonus.

A range of EPS growth targets is set each year by the Committee around a challenging budgeted figure. Only where budget is achieved or exceeded is there an opportunity for executives to earn a significant bonus.

## Report of the Board on Directors' Remuneration (continued)

One half of the bonus earned is payable in November each year following the announcement of the Group's annual results. The other half is used to acquire Bellway shares at the then current market value, which are held in the Bellway p.l.c. Employee Share Trust (1992) for three years. On the third anniversary of the acquisition of the shares, the executive directors are allowed to have the shares transferred into their name. Deferred shares are at risk of forfeiture if the executive leaves employment, other than in certain compassionate circumstances. In addition, on vesting, the executives receive the benefit of the accrued dividends on the deferred shares in the form of further shares.

Annual bonuses are not pensionable.

### Long-term incentive schemes

The Company operates Inland Revenue approved and unapproved long-term share incentive schemes to encourage the executive directors and employees to hold shares in the Company and to enhance share values.

- (1) The Bellway p.l.c. (1995) Employee Share Option Scheme has been in existence since 1995 and the last tranche of shares was awarded to directors in October 2003. Options have been granted on a discretionary basis to employees at all levels as well as to executive directors. No further options may be granted under this scheme.

A number of changes to the law governing discretionary share option schemes contained in the Finance Act 1996 changed the tax treatment of share options granted under Inland Revenue approved discretionary share option schemes, such as the 1995 Scheme. This led to the Company introducing, in June 1996, the Bellway p.l.c. (1996) Employee Share Option Scheme, which is an unapproved discretionary scheme. The 1996 Scheme enables members of the Board and certain other employees to be granted options to buy shares in the Company where the 1995 Scheme, as statutorily amended, would have restricted or prohibited this. With regard to the exercise of options granted under both the 1995 Scheme and the 1996 Scheme, the Committee has set objective performance conditions which apply to all options granted under both the 1995 and 1996 Schemes. Only on the achievement of such conditions will the options become capable of being exercised. The conditions to be satisfied will be either:

- (a) the growth in earnings per share of the Company in any three consecutive years will not be less than the growth in the Retail Price Index plus six per cent over the same period; or
- (b) the growth in earnings per share of the Company in any three consecutive years exceeding the mean average growth in earnings per share in the same period of companies whose shares are quoted in the 'Building and Construction' sector of the FT-SE Actuaries Shares Indices (or such other sector which from time to time lists companies whose undertakings in general are broadly similar to those of the Company).

On options being granted to the executive directors, it is intended that options for at least an equivalent number of shares will be set aside to be granted to the Group's other employees.

- (2) The Bellway p.l.c. Savings Related Share Option Scheme, which was established in 2003, is a share option scheme offered to all employees, including the executive directors. The original scheme was established in 1990.
- (3) The Bellway p.l.c. (2004) Performance Share Plan is a long-term incentive plan introduced for senior executives. For the executive directors and the Group Company Secretary it has replaced the Bellway p.l.c. (1995) and (1996) Employee Share Option Schemes. The salient features of the plan are:
- A conditional right to acquire shares may be awarded to an executive each year. The maximum value of each conditional award of shares would be 100% of basic salary.
  - The conditional award of shares may be released to the executive after three years, depending on the performance of Bellway against a comparator group of other housebuilding companies. The performance measure used for awards is Total Shareholder Return (TSR) which measures the change in a Company's share price plus the value of dividends paid. The TSRs of all of the companies in the comparator group will be ranked. If Bellway is ranked at the median position, 33% of the award of shares will be released. At the upper quartile 100% of the shares will be released. Between median and upper quartile, shares will be released between 33% and 100% on a straight-line basis. For performance below median, none of the shares will be released.

## Report of the Board on Directors' Remuneration (continued)

### Long-term incentive schemes (continued)

The companies comprising the comparator group for the first two awards were as follows:

Barratt Developments PLC	Crest Nicholson PLC	Taylor Woodrow plc
The Berkeley Group plc	McCarthy & Stone plc	Westbury plc
Bovis Homes Group PLC	Persimmon plc	Wilson Bowden plc
Countryside Properties PLC	Redrow plc	George Wimpey plc

During the year, Countryside Properties PLC ceased to be listed on the London Stock Exchange. The Committee will continue to review the composition of the comparator group as and when appropriate.

TSR is considered to be an effective measure of performance as it aligns the interests of directors with shareholders by requiring superior stock market performance compared to peer companies. Furthermore, this performance measure provides an effective balance to the annual bonus, which is determined by earnings per share growth targets.

The TSR is independently supplied by the Company's brokers and verified by the Committee.

### Pensions

The executive directors are members of the Bellway p.l.c. 1972 Pension and Life Assurance Scheme defined benefit section and, in accordance with the Combined Code recommendations, only basic salary is pensionable. The pensionable salaries of Mr J K Watson and Mr A M Leitch were redefined as 70% of basic salary with effect from 1 November 1999 and 1 November 2002 respectively, rising in equal instalments to 80% of pensionable salary by the time they attain normal retirement age of 60. During the year, the restriction which had previously been applied to the pensionable salaries of Mr J K Watson and Mr A M Leitch, but not to that of Mr P J Stoker, was removed. The committee felt, in the circumstances, that continuing to limit pensionable salary to no more than 80% of basic salary was inequitable. This has resulted in an increase in the accrued pension of Mr Watson and Mr Leitch over the year. The Scheme, on a non-contributory basis, provides for two thirds of final pensionable salary at normal retirement age. Death in service benefits provide for a lump sum of four times pensionable salary together with a spouse's pension of two thirds of the executive director's pension. These arrangements may be affected by the changes to the tax treatment of the current UK pension regime as contained in the Finance Act 2004. The Committee is currently reviewing possible appropriate action to take account of these changes and will report, if appropriate, on the outcome next year.

Further details in relation to executive directors' pensions can be found under 'Directors' pension information' on page 43.

### Fees payable to non-executive directors

Other than the Chairman whose remuneration is determined by the other non-executive directors, remuneration of non-executive directors is determined by the Board Committee on Non-Executive Directors' Remuneration which comprises all of the executive directors. Other than the Chairman, who has continued to receive benefits as noted above, the non-executive directors' fees are payable in cash, they are not entitled to any benefits or pension, they do not participate in any bonus or long-term incentive plan and they are not entitled to compensation on termination of their agreements other than normal notice provisions of three months' notice given by either party. Fee levels reflect the time commitment and responsibilities of the role and are reviewed annually, taking into account the level of fees for similar positions in comparable companies.

### Directors' interests

The directors' interests include family interests and holdings in which directors are interested only as trustees. The numbers of ordinary shares recorded in the Register of Directors' Interests are as follows:

	Fully paid ordinary shares	
	31 July 2005	1 August 2004
<b>Beneficial interests</b>		
H C Dawe	<b>100,352</b>	86,852
J K Watson	<b>276,753</b>	204,351
P J Stoker	<b>475,000</b>	431,000
A M Leitch	<b>53,700</b>	33,388
L P Finn	<b>29,747</b>	29,747
D G Perry	<b>5,000</b>	5,000
P M Johnson	<b>2,000</b>	2,000

## Report of the Board on Directors' Remuneration (continued)

There has been no change in the above holdings between 31 July 2005 and the date of this report.

In addition, Mr P J Stoker, only in his capacity as one of the Executors of the Estate of John Stoker deceased, had a joint beneficial interest in 7,800 ordinary shares at 31 July 2005 and 17 October 2005 (1 August 2004 - 10,000).

Mr H C Dawe had a beneficial interest in 404,164 Bellway p.l.c. 9.5% cumulative redeemable preference shares 2014 of £1 each which are held in his Self Invested Personal Pension (SIPP) at 31 July 2005 and 17 October 2005 (1 August 2004 - 404,164).

The executive directors and the non-executive Chairman have a beneficial interest in certain shares held in the Bellway p.l.c. Employee Share Trust (1992) pursuant to the grant of deferred bonus entitlements. For further information concerning the directors' bonus arrangements, see pages 35 and 36. The number of shares held in the Trust in respect of each director (which excludes the deferred annual bonus on page 40), is as follows:

	Fully paid ordinary shares	
	31 July 2005	1 August 2004
<b>Beneficial interests</b>		
H C Dawe	<b>85,881</b>	73,279
J K Watson	<b>72,168</b>	59,672
P J Stoker	<b>61,857</b>	52,736
A M Leitch	<b>38,563</b>	19,672

There has been no change in the above holdings between 31 July 2005 and the date of this report.

In addition, the executive directors and the non-executive Chairman have a potential future beneficial interest in certain shares held in the Bellway p.l.c. Employee Share Trust (1992) pursuant to the allocation of shares under the Bellway p.l.c. (2004) Performance Share Plan. For further information concerning the Bellway p.l.c. (2004) Performance Share Plan see pages 36 and 37. The number of shares allocated in the Trust in respect of each director, along with the market price of the shares at the date of award, are shown below:

	Fully paid ordinary shares				
	19 January 2004 (market value on award 665p)	30 November 2004 (market value on award 703.5p)	Vested	<b>Awards Held at 31 July 2005</b>	Awards Held at 1 August 2004
<b>Potential future beneficial interests</b>					
H C Dawe	55,639	-	-	<b>55,639</b>	55,639
J K Watson	47,368	54,016	-	<b>101,384</b>	47,368
P J Stoker	40,000	39,801	-	<b>79,801</b>	40,000
A M Leitch	31,579	34,115	-	<b>65,694</b>	31,579

There has been no change in the above potential future beneficial interests between 31 July 2005 and the date of this report.

The executive directors had no further potential future beneficial interest in ordinary shares at 31 July 2005 and at 17 October 2005 (1 August 2004 - 118,507) which are held by the Bellway p.l.c. Employee Share Trust (1992). For this Trust, there exists a linking agreement, brief details of which are described in note 18 on page 65. The directors had a joint non-beneficial interest in 18,000 ordinary shares at 31 July 2005 and 17 October 2005 (1 August 2004 - 18,000) which are held by the Bellway p.l.c. 1988 Employee Benefit Trust.

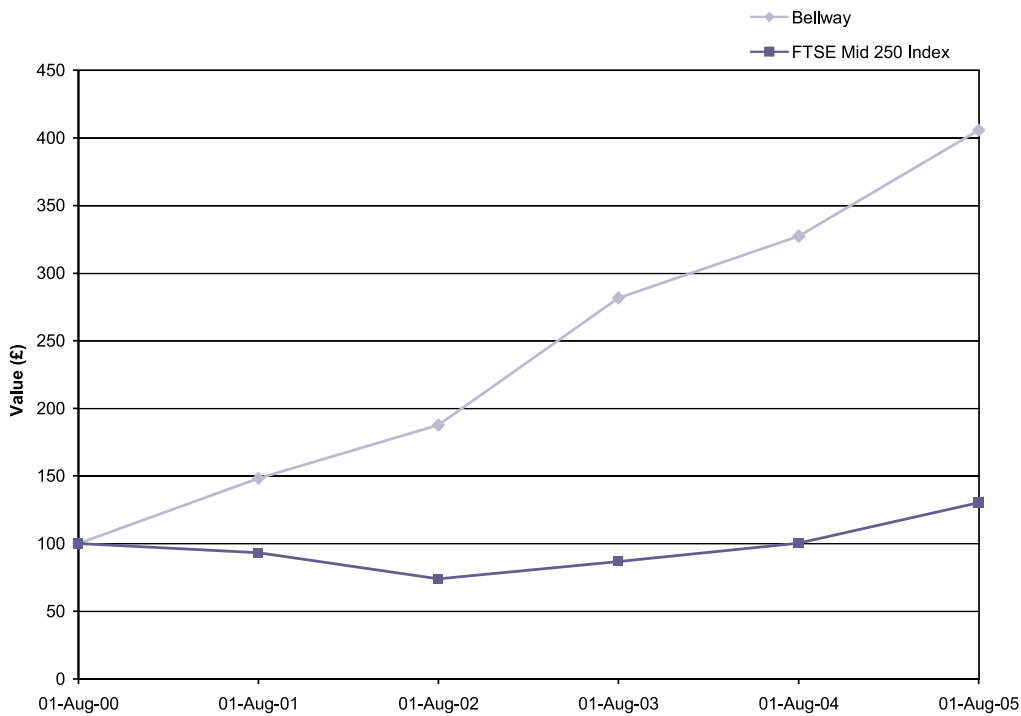
## Report of the Board on Directors' Remuneration (continued)

### Performance graph

In line with legislation introduced by the Government, this Report contains a graph below showing the performance of the Company and a 'broad equity market index' over the past 5 financial years. As the Company has been a constituent of the FTSE Mid 250 Index over this period, the Committee considers that index to be the most appropriate for this purpose.

### Total shareholder return over last 5 financial years

Source: Datastream



This graph looks at the value, by the end of July 2005, of £100 invested in Bellway on 31 July 2000 compared with the value of £100 invested in the FTSE Mid 250 Index. The other points plotted are the values at intervening financial year-ends.

## Report of the Board on Directors' Remuneration (continued)

The auditors are required to report on the information contained in the following part of this report.

### Directors' remuneration excluding pensions

	Salary and	Taxable	Annual Bonus		2005	Total
	Fees	Benefits	Cash	Deferred		2004
	£	£	£	£	£	£
<b>Non-Executive</b>						
<b>Chairman</b>						
H C Dawe (1)	246,200	74,655	115,440	-	<b>436,295</b>	951,648
<b>Executives</b>						
J K Watson	380,000	29,983	228,000	228,000	<b>865,983</b>	718,905
P J Stoker	280,000	20,597	168,000	168,000	<b>636,597</b>	608,736
A M Leitch	240,000	20,279	144,000	144,000	<b>548,279</b>	480,977
<b>Non-Executives</b>						
L P Finn	37,500	-	-	-	<b>37,500</b>	32,000
D G Perry	35,000	-	-	-	<b>35,000</b>	32,000
P M Johnson	35,000	-	-	-	<b>35,000</b>	24,000
D S Bramley (2)	-	-	-	-	-	7,132
<b>Total</b>	<b>1,253,700</b>	<b>145,514</b>	<b>655,440</b>	<b>540,000</b>	<b>2,594,654</b>	<b>2,855,398</b>

(1) The annual bonus in relation to Mr H C Dawe covers the period from 1 August to 31 October 2004 when he was Executive Chairman. On 1 November 2004 he became non-executive Chairman and the committee felt that, in the circumstances, no element of the annual bonus should be deferred.

(2) Retired 31 October 2003.

Details of all directors' interests in the share option schemes outlined on page 36 are shown below:

### Directors' share options

	Scheme	Granted	Exercised	31 July 2005	Exercise price (p)	Date from	Expiry date	
		1 August 2004	during the year			during the year		which exercisable
<b>H C Dawe</b>	(a)	4,800	-	<b>4,800</b>	621.50	24 Oct 2006	23 Oct 2013	
	(b)	86,600	-	-	409.30	25 April 2004	24 April 2011	
	(b)	95,000	-	95,000	-	474.00	18 April 2005	17 April 2012
	(b)	65,000	-	-	<b>65,000</b>	468.90	16 Oct 2005	15 Oct 2012
	(b)	69,200	-	-	<b>69,200</b>	621.50	24 Oct 2006	23 Oct 2013
	(c)	1,884	-	-	<b>1,884</b>	489.60	1 Feb 2007	31 July 2008
			<b>322,484</b>	-	<b>181,600</b>	<b>140,884</b>		

## Report of the Board on Directors' Remuneration (continued)

### Directors' share options (continued)

	Scheme	1 August 2004	Granted during the year	Exercised during the year	31 July 2005	Exercise price (p)	Date from which exercisable	Expiry date
<b>J K Watson</b>	(a)	8,900	-	8,900	-	335.40	28 Nov 2003	27 Nov 2010
	(b)	33,600	-	33,600	-	335.40	28 Nov 2003	27 Nov 2010
	(b)	74,300	-	74,300	-	409.30	25 April 2004	24 April 2011
	(b)	85,000	-	85,000	-	474.00	18 April 2005	17 April 2012
	(b)	19,000	-	-	<b>19,000</b>	468.90	16 Oct 2005	15 Oct 2012
	(b)	40,000	-	-	<b>40,000</b>	548.50	22 April 2006	21 April 2013
	(b)	65,500	-	-	<b>65,500</b>	621.50	24 Oct 2006	23 Oct 2013
	(c)	2,806	-	2,806	-	345.20	1 Aug 2004	31 Jan 2005
	(c)	-	1,762	-	<b>1,762</b>	537.60	1 Feb 2008	31 July 2009
			<u>329,106</u>	<u>1,762</u>	<u>204,606</u>	<b><u>126,262</u></b>		
<b>P J Stoker</b>	(a)	5,300	-	-	<b>5,300</b>	548.50	22 April 2006	21 April 2013
	(b)	60,000	-	-	<b>60,000</b>	621.50	24 Oct 2006	23 Oct 2013
	(b)	53,000	-	53,000	-	327.50	9 Dec 2000	8 Dec 2007
	(b)	20,000	-	20,000	-	361.10	14 May 2001	13 May 2008
	(b)	20,000	-	20,000	-	277.30	4 Nov 2001	3 Nov 2008
	(b)	35,500	-	15,500	<b>20,000</b>	335.40	28 Nov 2003	27 Nov 2010
	(b)	62,100	-	-	<b>62,100</b>	409.30	25 April 2004	24 April 2011
	(b)	75,000	-	75,000	-	474.00	18 April 2005	17 April 2012
	(b)	19,000	-	-	<b>19,000</b>	468.90	16 Oct 2005	15 Oct 2012
	(b)	29,700	-	-	<b>29,700</b>	548.50	22 April 2006	21 April 2013
(c)	2,806	-	2,806	-	345.20	1 Aug 2004	31 Jan 2005	
(c)	-	1,762	-	<b>1,762</b>	537.60	1 Feb 2008	31 July 2009	
		<u>382,406</u>	<u>1,762</u>	<u>186,306</u>	<b><u>197,862</u></b>			
<b>A M Leitch</b>	(a)	4,800	-	-	<b>4,800</b>	621.50	24 Oct 2006	23 Oct 2013
	(b)	49,200	-	-	<b>49,200</b>	621.50	24 Oct 2006	23 Oct 2013
	(b)	7,500	-	7,500	-	277.50	17 Oct 2003	16 Oct 2010
	(b)	5,000	-	5,000	-	409.30	25 April 2004	24 April 2011
	(b)	50,000	-	50,000	-	474.00	18 April 2005	17 April 2012
	(b)	19,000	-	-	<b>19,000</b>	468.90	16 Oct 2005	15 Oct 2012
	(b)	30,000	-	-	<b>30,000</b>	548.50	22 April 2006	21 April 2013
	(c)	2,245	-	2,245	-	345.20	1 Aug 2004	31 Jan 2005
	(c)	-	1,762	-	<b>1,762</b>	537.60	1 Feb 2008	31 July 2009
			<u>167,745</u>	<u>1,762</u>	<u>64,745</u>	<b><u>104,762</u></b>		

References to (a), (b) and (c) correspond with the summary of outstanding share options in note 16 on pages 63 and 64.

All of the above options were granted for nil consideration.

The market price of the ordinary shares at 31 July 2005 was 861p and the range during the year was 659p to 894p.

## Report of the Board on Directors' Remuneration (continued)

The market price of an ordinary share on the dates of exercise when directors exercised their options were as follows:

	Scheme	Shares (No.)	Option Price (p)	Market Price of Share (p)	Date of Exercise
<b>H C Dawe</b>	(b)	86,600	409.30	733.00	8 Dec 2004
	(b)	95,000	474.00	791.00	18 May 2005
<b>J K Watson</b>	(a)	8,900	335.40	810.00	20 Dec 2004
	(b)	33,600	335.40	810.00	20 Dec 2004
	(b)	74,300	409.30	810.00	20 Dec 2004
	(b)	85,000	474.00	864.00	3 Jun 2005
	(c)	2,806	345.20	705.00	9 Aug 2004
<b>P J Stoker</b>	(b)	53,000	327.50	822.00	21 Dec 2004
	(b)	20,000	361.10	870.00	24 Jan 2005
	(b)	20,000	277.30	870.00	24 Jan 2005
	(b)	75,000	474.00	864.00	3 Jun 2005
	(b)	15,500	335.40	878.00	4 Jul 2005
	(c)	2,806	345.20	705.00	9 Aug 2004
<b>A M Leitch</b>	(b)	7,500	277.50	878.00	4 Jul 2005
	(b)	5,000	409.30	878.00	4 Jul 2005
	(b)	50,000	474.00	878.00	4 Jul 2005
	(c)	2,245	345.20	705.00	9 Aug 2004

Aggregate gains made by directors on exercise of share options in the year were £2,570,149 (2004 - £267,957).

The performance conditions set out on page 36 in relation to the options exercisable on 8 December 2004, 20 December 2004, 21 December 2004, 24 January 2005, 18 May 2005, 3 June 2005 and 4 July 2005 have been achieved.

All other outstanding options will be exercisable from the dates stated above, subject to them satisfying the performance conditions set out on page 36.

## Report of the Board on Directors' Remuneration (continued)

### Directors' pension information

The following directors had accrued entitlements under the Bellway p.l.c. 1972 Pension and Life Assurance Scheme defined benefit section as follows:

	Accrued pension as at 31 July 2004	Increase in accrued pension during the year excluding inflation to 31 July 2005	Increase in accrued pension during the year including inflation to 31 July 2005	Transfer value of the increase in entitlement during the year	Accrued pension as at 31 July 2005	Transfer value of pension as at 31 July 2005	Transfer value of pension as at 31 July 2004
	£	£	£	£	£	£	£
<b>J K Watson</b>	110,448	75,821	79,245	838,565	189,693	2,098,000	1,079,000
<b>P J Stoker</b>	117,873	7,849	11,503	114,998	129,376	1,896,000	1,533,000
<b>A M Leitch</b>	68,015	44,781	46,889	499,922	114,904	1,283,000	672,000

### Notes

1. The accrued pensions shown are those that would be paid annually on retirement based on service to the end of the year, but excluding any statutory increases, which will reflect future inflation after the year end.
2. The "net of inflation increase" in accrued pension during the year excludes any increase in respect of inflation. The inflation rate used is that published for September 2004 i.e. 3.1%.
3. There are no contributions from the Directors to the Bellway p.l.c. 1972 Pension and Life Assurance Scheme; therefore there are no contributions to offset against the transfer values shown.
4. The transfer values shown above have been calculated as at 31 July 2005 employing the transfer value basis adopted for the scheme as at that date.
5. The pension entitlement is based on the pensionable salary as at 31 July 2005 which, according to the announcement issued to these members, is 'basic annual salary on the previous 31 October'.

On behalf of the Board of Bellway p.l.c.

**L P Finn**

Chairman of the Board Committee on Executive Directors' Remuneration  
17 October 2005

## Statement of Directors' Responsibilities in Respect of Preparation of the Accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those accounts, the directors are required to:

1. Select suitable accounting policies and then apply them consistently
2. Make judgements and estimates that are reasonable and prudent
3. State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
4. Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

# Report of the Independent Auditors to the Members of Bellway p.l.c.

We have audited the accounts on pages 46 to 69. We have also audited the information in the Report of the Board on Directors' Remuneration that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the Report of the Board on Directors' Remuneration. As described on page 44, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Report of the Board on Directors' Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement on pages 28 to 32 reflects the Company's compliance with the nine provisions of the 2003 Financial Reporting Council Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the Report of the Board on Directors' Remuneration and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

## Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Report of the Board on Directors' Remuneration to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the part of the Report of the Board on Directors' Remuneration to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the Report of the Board on Directors' Remuneration to be audited.

## Opinion

In our opinion:

- the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 July 2005 and of the profit of the Group for the year then ended; and
- the accounts and the part of the Report of the Board on Directors' Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985.

**KPMG Audit Plc**

Chartered Accountants  
Registered Auditor  
Newcastle upon Tyne

17 October 2005

## Group Profit and Loss Account for the year ended 31 July 2005

	Notes	2005 £000	2004 £000
<b>Turnover</b>	1	<b>1,178,063</b>	1,092,571
<b>Cost of sales</b>		<b>(897,661)</b>	(829,598)
<b>Gross profit</b>		<b>280,402</b>	262,973
<b>Administrative expenses</b>		<b>(50,954)</b>	(49,696)
<b>Group operating profit</b>		<b>229,448</b>	213,277
<b>Share of operating profit / (loss) in associated undertakings</b>		<b>199</b>	(22)
<b>Total operating profit: Group and share of associates</b>		<b>229,647</b>	213,255
<b>Net interest payable (including associated undertakings)</b>	2	<b>(11,484)</b>	(7,725)
<b>Profit on ordinary activities before taxation</b>	3	<b>218,163</b>	205,530
<b>Taxation</b>	4	<b>(65,400)</b>	(61,700)
<b>Profit after taxation</b>		<b>152,763</b>	143,830
<b>Minority interest - equity</b>		-	5
<b>Profit for the financial year attributable to shareholders</b>		<b>152,763</b>	143,835
<b>Dividends on equity and non-equity shares</b>	5	<b>(37,137)</b>	(29,864)
<b>Retained profit for the financial year</b>	18	<b>115,626</b>	113,971
<b>Earnings per ordinary share - basic</b>	19	<b>134.6p</b>	127.5p
<b>Earnings per ordinary share - diluted</b>	19	<b>133.3p</b>	126.1p

The Group's results for both the current and preceding financial years derive from continuing operations.

The Company has taken advantage of the exemption from the requirement to present its own profit and loss account which is given by Section 230 (4) of the Companies Act 1985. The Company's profit for the year was £140,000,000 (2004 - £135,000,000).

There were no significant recognised gains or losses in the current or preceding year other than the profit attributable to shareholders.

## Balance Sheets at 31 July 2005

	Notes	<b>Group</b>	Group	<b>Company</b>	Company
		<b>2005</b>	2004	<b>2005</b>	2004
		<b>£000</b>	£000	<b>£000</b>	£000
<b>Fixed assets</b>					
Tangible assets	7	<b>17,631</b>	16,628	-	-
Investments	8	<b>136</b>	45	<b>16,203</b>	16,200
		<b>17,767</b>	16,673	<b>16,203</b>	16,200
<b>Current assets</b>					
Stocks	9	<b>1,246,433</b>	1,025,764	-	-
Debtors	10	<b>50,421</b>	38,176	<b>698,078</b>	587,635
Cash at bank and in hand		<b>66,441</b>	111,942	<b>4,970</b>	4,926
		<b>1,363,295</b>	1,175,882	<b>703,048</b>	592,561
<b>Current liabilities</b>					
Creditors due within one year	11	<b>(327,471)</b>	(336,818)	<b>(21,602)</b>	(18,515)
<b>Net current assets</b>		<b>1,035,824</b>	839,064	<b>681,446</b>	574,046
<b>Total assets less current liabilities</b>					
Creditors due after more than one year	12	<b>(257,473)</b>	(180,752)	-	-
<b>Net assets</b>		<b>796,118</b>	674,985	<b>697,649</b>	590,246
<b>Capital and reserves</b>					
Equity share capital - Ordinary shares	16	<b>14,154</b>	14,008	<b>14,154</b>	14,008
Non-equity share capital - Preference shares	16	<b>20,000</b>	20,000	<b>20,000</b>	20,000
<b>Called up share capital</b>		<b>34,154</b>	34,008	<b>34,154</b>	34,008
Equity reserves					
Share premium account	17	<b>108,886</b>	104,492	<b>108,886</b>	104,492
Other reserves	18	<b>1,492</b>	1,492	<b>2,145</b>	2,145
Profit and loss account	18	<b>651,652</b>	535,059	<b>552,464</b>	449,601
<b>Shareholders' funds - equity and non-equity</b>	20	<b>796,184</b>	675,051	<b>697,649</b>	590,246
<b>Equity minority interest</b>		<b>(66)</b>	(66)	-	-
		<b>796,118</b>	674,985	<b>697,649</b>	590,246

Approved by the Board of Directors on 17 October 2005 and signed on its behalf by:

**H C Dawe**  
Director

**A M Leitch**  
Director

## Group Cash Flow Statement for the year ended 31 July 2005

	Notes	2005		2004	
		£000	£000	£000	£000
<b>Cash inflow from operating activities</b>	22		<b>4,675</b>		73,025
<b>Net cash outflow from returns on investments and servicing of finance</b>					
Interest paid		<b>(13,474)</b>		(10,477)	
Interest received		<b>2,267</b>		1,361	
Dividends paid - non-equity		<b>(1,900)</b>		(1,900)	
			<b>(13,107)</b>		(11,016)
<b>Taxation</b>			<b>(68,060)</b>		(54,775)
<b>Net cash outflow from capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		<b>(5,149)</b>		(5,943)	
Purchase of investments		<b>(3)</b>		-	
Sale of tangible fixed assets		<b>1,066</b>		2,277	
			<b>(4,086)</b>		(3,666)
<b>Equity dividends paid</b>			<b>(32,151)</b>		(25,725)
<b>Net cash outflow before financing</b>			<b>(112,729)</b>		(22,157)
<b>Net cash inflow from financing</b>					
Issue of ordinary share capital on exercise of share options		<b>4,540</b>		1,827	
Purchase of own shares by employee share option plans		<b>(312)</b>		(1,106)	
(Decrease) / increase in bank loans due within one year		<b>(13,000)</b>		15,000	
Increase in bank loans due after more than one year		<b>76,000</b>		30,000	
			<b>67,228</b>		45,721
<b>(Decrease) / increase in cash in year</b>	23		<b>(45,501)</b>		23,564

## Accounting Policies

The significant accounting policies adopted and consistently applied in the preparation of the accounts are shown below:

### **(a) Basis of accounting**

The accounts are prepared on the historical cost basis and in accordance with applicable accounting standards. Where relevant, the requirements of all new accounting standards and pronouncements, whose implementation dates were during the year, have been adopted.

### **(b) Consolidation**

The Group accounts include the accounts of the Company and all its subsidiary undertakings, which are made up to 31 July. Unless otherwise stated, the acquisition method of accounting has been adopted. An associate is an undertaking in which the Group has a long-term interest, usually for 20-50% of the equity voting rights and over which it exercises a significant influence. Associated undertakings are stated in the Group balance sheet at the Group's share of their net assets as shown by their latest accounts. The results attributable to the Group's holding in associated undertakings are shown separately in the Group profit and loss account. The treatment of goodwill arising on the acquisition of subsidiary undertakings has been outlined in note 18.

Where a group company is party to a joint arrangement which is not an entity, that company accounts directly for its part of the income and expenditure, assets, liabilities and cashflows. Such arrangements are reported in the consolidated accounts on the same basis.

### **(c) Turnover and profit**

Turnover represents the invoiced value of sales and rental income, excluding value added tax and transactions between members of the Group. Turnover and profit on sales of properties are brought into account when the sales have been legally completed. Sales of part exchange properties are not included in turnover but the net result of these transactions is classified as a cost of sale.

### **(d) Stocks**

Work in progress and stocks are stated at the lower of cost and estimated net realisable value, less payments on account and related grants. The cost of housebuilding work in progress includes site overheads. Properties taken in part exchange are stated at the lower of acquisition cost and estimated net realisable value.

### **(e) Depreciation**

Freehold land is not depreciated. Buildings held as fixed assets are being written off by equal annual instalments over 40 years. Depreciation is provided on a straight line basis for vehicles, plant and equipment at rates which are calculated to write off the cost of those assets over their useful lives, which are estimated at between three and ten years.

### **(f) Foreign currencies**

The accounts of the overseas subsidiary undertaking are translated into sterling at the rate of exchange ruling at the date of the balance sheet and the resultant gains or losses are dealt with through reserves.

### **(g) Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred or accelerated because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

### **(h) Pension costs**

The defined benefit section of the pension scheme is a funded scheme and its costs are charged to the profit and loss account on a basis which spreads the cost of providing pensions over employees' estimated average working lives with the Group.

Defined contribution pension costs are charged to the profit and loss account in the period for which contributions are payable.

### **(i) Financial assets and liabilities**

Changes in the values of financial instruments are disclosed in the notes to the accounts but are not reflected in the profit and loss account, the statement of total recognised gains and losses or the balance sheet.

## Accounting Policies (continued)

### **(j) Grants**

Grants are included within work in progress and stocks in the balance sheet and are credited to the profit and loss account over the life of the developments to which they relate.

### **(k) Operating leases**

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

### **(l) Employee share schemes**

The Group operates various long-term incentive schemes as outlined in the Report of the Board on Directors' Remuneration on pages 36 and 37 and in note 16 on pages 63 and 64.

Share options are also granted to employees of the Group by trustees of the employee share ownership schemes as described in note 18. Shares are held within these schemes in order to meet obligations, once options are exercised. A charge is recognised in the profit and loss account of the Group based on the fair value of the shares at the date of the award.

The employee share ownership schemes also hold shares to meet anticipated future obligations for the deferred element of the annual bonus scheme for executive directors. The details of this are outlined in the Report of the Board on Directors' Remuneration on pages 35 and 36.

Ordinary shares in Bellway p.l.c. held in the employee share ownership plans are recorded as a deduction from shareholders' funds.

## Notes to the Accounts

### 1 Turnover

	<b>2005</b>	2004
	<b>£000</b>	£000
Housebuilding and associated trading activities	<b>1,176,562</b>	1,090,973
Rental income	<b>1,501</b>	1,598
	<b>1,178,063</b>	1,092,571

The Group's turnover, profit on ordinary activities before taxation and net assets arise from its principal business activities and originate entirely from within the United Kingdom.

### 2 Net interest payable

	<b>2005</b>	2004
	<b>£000</b>	£000
Interest payable on bank loans and overdrafts	<b>13,533</b>	8,960
Other interest payable	<b>129</b>	101
	<b>13,662</b>	9,061
Interest receivable	<b>(2,250)</b>	(1,390)
	<b>11,412</b>	7,671
Share of interest payable of associated undertakings	<b>72</b>	54
	<b>11,484</b>	7,725

### 3 Profit on ordinary activities before taxation

	<b>2005</b>	2004
	<b>£000</b>	£000
Profit on ordinary activities before taxation is stated after charging / (crediting):		
Depreciation	<b>3,269</b>	3,583
Hire of plant and machinery	<b>11,108</b>	9,364
Operating lease rentals on land and buildings	<b>1,429</b>	1,224
Auditors' remuneration including expenses		
- Audit	<b>167</b>	140
- Other fees paid to the auditor and its associates (mainly taxation services)	<b>97</b>	126
Share of operating profits / (losses) in associated undertakings after interest	<b>127</b>	(76)
Urban regeneration and similar grants	<b>(248)</b>	(212)

The above audit fee includes £30,000 (2004 - £28,000) in respect of the Company.

## Notes to the Accounts (continued)

### 4 Taxation

#### Analysis of charge for the year

	2005		2004	
	£000	£000	£000	£000
<b>UK corporation tax</b>				
Current tax on income for the year at 30% (2004 - 30%)	<b>65,124</b>		64,304	
Adjustments in respect of prior years	<b>6</b>		-	
		<b>65,130</b>		64,304
<b>Foreign tax</b>				
Current tax on income for the year		-		34
Share of associates' tax		<b>33</b>		(6)
<b>Total current tax</b>		<b>65,163</b>		64,332
<b>Deferred tax (note 13)</b>				
Origination / (reversal) of timing differences	<b>553</b>		(2,369)	
Adjustment in respect of previous years	<b>(316)</b>		(263)	
		<b>237</b>		(2,632)
<b>Tax on profit on ordinary activities</b>		<b>65,400</b>		61,700

#### Factors affecting the tax charge for the current year

The current tax charge for the period is lower (2004 - higher) than the standard rate of corporation tax in the UK of 30% (2004 - 30%).

The differences are explained below.

#### Current tax reconciliation

	2005	2004
	£000	£000
Profit on ordinary activities before taxation	<b>218,163</b>	205,530
Current tax at 30% (2004 - 30%)	<b>65,449</b>	61,659
<b>Effects of:</b>		
Expenses not deductible for tax purposes	<b>279</b>	305
Depreciation for period in excess of capital allowances	<b>12</b>	27
Other short-term timing differences including pension obligations	<b>(946)</b>	(534)
Charges in relation to QUEST not charged in Group profit and loss account	-	(33)
Timing difference arising on share option accruals	<b>381</b>	766
Timing difference arising on sale of land	-	2,142
Other (including share of associates tax)	<b>(18)</b>	-
Adjustments to tax charge in respect of previous periods	<b>6</b>	-
<b>Total current tax charge (see above)</b>	<b>65,163</b>	64,332

53 **Notes to the Accounts (continued)****5 Dividends on equity and non-equity shares**

	<b>2005</b>	2004
	<b>£000</b>	£000
Ordinary share capital - equity		
Interim paid on 1 July 2005 - 13.0p per share (2004 - 9.3p)	<b>14,637</b>	10,370
Final proposed - 18.25p per share (2004 - 15.7p)	<b>20,600</b>	17,594
Total for year 31.25p per share (2004 - 25.0p)	<b>35,237</b>	27,964
Preference share capital 9.5% - non-equity	<b>1,900</b>	1,900
	<b>37,137</b>	29,864

**6 Directors and employees****(a) Directors' remuneration**

Details of directors' remuneration, including details on share options, long-term incentive schemes and pension entitlements are contained within the Report of the Board on Directors' Remuneration on pages 35 to 43.

**(b) Group employment costs (including Directors)**

	<b>2005</b>	2004
	<b>£000</b>	£000
Wages and salaries	<b>74,720</b>	63,556
Social security	<b>7,950</b>	6,712
Pension costs	<b>2,372</b>	2,521
	<b>85,042</b>	72,789

The average number of persons employed by the Group during the year was 2,286 (2004 - 2,020) comprising 668 (2004 - 629) administrative and 1,618 (2004 - 1,391) production and others employed in housebuilding and associated trading activities.

**(c) Pension costs**

The principal pension arrangement operated by the Group is a funded scheme providing benefits on both a defined benefit basis and a defined contribution basis. The assets of the scheme are held separately from those of the Group. A valuation of the defined benefit section of the scheme is undertaken by an independent qualified actuary at least every three years and contributions are paid in accordance with his recommendations. The last full actuarial valuation of the defined benefit section was carried out as at 1 August 2002 and used the attained age method. That valuation has been updated on an approximate basis to 31 July 2005.

In the formal valuation the assumption which has the most significant effect on the results of the valuation is the difference of 2.5% per annum between the yield on the fund's assets over the rate of salary increases.

The assets of the defined benefit arrangement had a market value at 1 August 2002 of £20,234,000. The value of the assets was sufficient to cover 72% of the value of the benefits that had accrued to members after allowing for expected future increases in earnings. The shortfall is being charged to the profit and loss account over the expected remaining working lives of current employees.

The pension charge of £2,372,000 (2004 - £2,521,000) includes £1,649,000 (2004 - £1,829,000) in respect of the defined benefit arrangement and £723,000 (2004 - £692,000) in respect of the defined contribution arrangement.

At 31 July 2005 pre-paid contributions amounted to £9,057,000 (2004 - £8,421,000).

## Notes to the Accounts (continued)

### 6 Directors and employees (continued)

#### (c) Pension costs (continued)

The transitional arrangements of accounting standard FRS17 require disclosure of assets and liabilities as at 31 July 2005 calculated in accordance with the requirements of FRS17. They also require disclosure of the items which would appear in the profit and loss account and in the statement of total recognised gains and losses were the full requirements of FRS17 in place. For the purpose of these financial statements, all of these figures are illustrative only and do not impact on the actual 31 July 2005 balance sheet or on this year's performance statements.

The contributions made by the employer over the financial year have been £2,285,000, equivalent to approximately 25.9% of pensionable pay, plus a special contribution of £1,203,000. Contributions should continue in accordance with the most recently certified Schedule of Contributions until reviewed following the triennial valuation of the Scheme due as at 1 August 2005.

#### Assumptions

The assets of the scheme have been taken at market value and the liabilities have been calculated using the following principal actuarial assumptions:

	2005	2004	2003
Inflation	<b>2.75% per annum</b>	2.75% per annum	2.5% per annum
Salary increases	<b>3.75% per annum</b>	3.75% per annum	3.5% per annum
Rate of discount	<b>5.00% per annum</b>	5.75% per annum	5.5% per annum
Pension in payment increases	<b>2.75% per annum</b>	2.75% per annum	2.5% per annum
Revaluation rate for deferred pensioners	<b>2.75% per annum</b>	2.75% per annum	2.5% per annum

#### Illustrative balance sheet figures - scheme assets and liabilities

The fair value of the Scheme's assets, which are not intended to be realised in the short-term and may be subject to significant changes before they are realised, and the present value of the Scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	2005 £000	Expected long term rate of return	2004 £000	Expected long term rate of return	2003 £000	Expected long term rate of return
Assets						
Equities	<b>21,071</b>	<b>6.5%</b>	17,453	6.5%	14,077	6.5%
Bonds	<b>11,846</b>	<b>5.0%</b>	8,801	5.0%	9,201	5.0%
Cash	<b>1,686</b>	<b>4.0%</b>	1,032	4.0%	7,563	4.0%
Total	<b>34,603</b>		27,286		30,841	
Present value of scheme liabilities						
	<b>(46,687)</b>		(34,061)		(35,123)	
Deficit in scheme	<b>(12,084)</b>		(6,775)		(4,282)	
Related deferred tax asset at 30%	<b>3,625</b>		2,032		1,285	
Net pension liability	<b>(8,459)</b>		(4,743)		(2,997)	

**6 Directors and employees (continued)****(c) Pension costs (continued)**

If the amounts above for the current year and for previous years had been recognised in the accounts, and the prepayment in relation to SSAP 24 (currently included within debtors) had been excluded, the Group's net assets and profit and loss reserve at 31 July 2005, 31 July 2004, and at 31 July 2003 would be as follows:

	<b>2005</b>	2004	2003
	<b>£000</b>	£000	£000
Net assets including SSAP 24 prepayment	<b>796,118</b>	674,985	557,047
SSAP 24 prepayment	<b>(9,057)</b>	(8,421)	(9,093)
Net assets excluding pension liability	<b>787,061</b>	666,564	547,954
Net pension liability	<b>(8,459)</b>	(4,743)	(2,997)
Net assets excluding SSAP 24 prepayment and including pension liability	<b>778,602</b>	661,821	544,957
Profit and loss reserve excluding SSAP 24 prepayment and pension liability	<b>642,595</b>	526,638	410,806
Net pension liability	<b>(8,459)</b>	(4,743)	(2,997)
Profit and loss reserve excluding SSAP 24 prepayment and including pension liability	<b>634,136</b>	521,895	407,809

Movement in illustrative balance sheet deficit figures during the year:

	<b>2005</b>	2004
	<b>£000</b>	£000
Deficit in scheme at beginning of year	<b>(6,775)</b>	(4,282)
Movement in year:		
Current service cost	<b>(1,260)</b>	(1,300)
Past service cost	<b>(955)</b>	-
Net interest	<b>(339)</b>	(257)
Contributions	<b>2,285</b>	1,158
Actuarial loss	<b>(5,040)</b>	(2,094)
Deficit in scheme at end of year	<b>(12,084)</b>	(6,775)

## Notes to the Accounts (continued)

### 6 Directors and employees (continued)

#### (c) Pension costs (continued)

If FRS 17 had been fully adopted in these financial statements, the pension costs for the defined benefit scheme would have been:

	2005		2004	
	£000	£000	£000	£000
Operating profit				
Current service cost		1,260		1,300
Past service cost		955		-
<b>Other finance income and charges</b>				
Interest on pension scheme liabilities	2,007		1,810	
Expected return on pension scheme assets	(1,668)		(1,553)	
Net charge		339		257
<b>Total</b>		<b>2,554</b>		<b>1,557</b>

Illustrative amounts which would be included within the statement of total recognised gains and losses:

	2005	2004	2003	2002	2005	2004	2003	2002	
	£000	£000	£000	£000	%	%	%	%	
Difference between expected and actual return on assets	3,876	(543)	(1,604)	(5,457)	(11.2)	2.0	5.2	27.5	% of scheme assets
Experience gains and losses arising on the scheme liabilities	(3,341)	(1,543)	1,161	(646)	7.2	4.5	(3.3)	2.3	% of the present value of scheme liabilities
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	(5,575)	(8)	(5,739)	(697)	11.9	0.0	16.3	2.5	% of the present value of scheme liabilities
<b>Total</b>	<b>(5,040)</b>	<b>(2,094)</b>	<b>(6,182)</b>	<b>(6,800)</b>	<b>10.8</b>	<b>6.1</b>	<b>17.6</b>	<b>24.0</b>	<b>% of the present value of scheme liabilities</b>

57 **Notes to the Accounts (continued)****7 Tangible fixed assets**

	<b>Land and property £000</b>	<b>Vehicles, plant and equipment £000</b>	<b>Total £000</b>
Group			
<b>Cost</b>			
At 1 August 2004	9,434	18,937	28,371
Additions	1,774	3,375	5,149
Disposals	-	(4,297)	(4,297)
<b>At 31 July 2005</b>	<b>11,208</b>	<b>18,015</b>	<b>29,223</b>
<b>Depreciation</b>			
At 1 August 2004	319	11,424	11,743
Charge for year	98	3,171	3,269
On disposals	-	(3,420)	(3,420)
<b>At 31 July 2005</b>	<b>417</b>	<b>11,175</b>	<b>11,592</b>
<b>Net book value</b>			
<b>At 31 July 2005</b>	<b>10,791</b>	<b>6,840</b>	<b>17,631</b>
At 31 July 2004	9,115	7,513	16,628
<b>Depreciation</b>			
Charge for the previous year	68	3,515	3,583
<b>Land and property at net book value comprises:</b>		<b>2005</b>	2004
		<b>£000</b>	£000
Freehold ground rents		<b>5,906</b>	5,906
Freehold land		<b>615</b>	200
Freehold buildings		<b>4,224</b>	2,958
Leaseholds over 50 years		<b>1</b>	1
Leaseholds under 50 years		<b>45</b>	50
		<b>10,791</b>	9,115

## Notes to the Accounts (continued)

### 8 Fixed asset investments

Group	<b>Interests in associated undertakings £000</b>
<b>Cost</b>	
At 1 August 2004	8
Amount transferred to subsidiary undertaking	(3)
<b>At 31 July 2005</b>	<b>5</b>
<b>Share of post acquisition reserves</b>	
At 1 August 2004	37
Profit for the year	94
<b>At 31 July 2005</b>	<b>131</b>
<b>Net book value</b>	
<b>At 31 July 2005</b>	<b>136</b>
At 31 July 2004	45

The associated undertakings, Cramlington Developments Limited and Leebell Developments Limited are incorporated in Great Britain, registered in England and Wales and are 50% owned, representing the Group's share of the ordinary share capital. Both companies have accounting reference dates of 30 June and are engaged in land development. Bellway p.l.c. purchased the remaining 50% of the share capital in The Urban Housing Trust Limited on 17 June 2005 and it was treated as a subsidiary undertaking from that date. This company changed its name to Bellway Housing Trust Limited on 4 July 2005. It has an accounting reference date of 31 July and is incorporated in Great Britain and registered in England and Wales.

Company	<b>Interests in associated undertakings £000</b>	<b>Shares in subsidiary undertakings £000</b>	<b>Total £000</b>
<b>Cost</b>			
At 1 August 2004	3	16,197	16,200
Additions	-	3	3
Amount transferred to subsidiary undertaking	(3)	3	-
<b>At 31 July 2005</b>	<b>-</b>	<b>16,203</b>	<b>16,203</b>
At 31 July 2004	3	16,197	16,200

#### Principal subsidiary undertakings

A summary of the principal subsidiary undertakings is given in note 26 on page 69.

59 **Notes to the Accounts (continued)****9 Stocks**

	<b>2005</b>	2004
	<b>£000</b>	£000
<b>Group</b>		
Work in progress and stocks	<b>1,234,372</b>	1,033,902
Grants	<b>(1,904)</b>	(2,056)
Payments on account	<b>(44,785)</b>	(36,272)
	<b>1,187,683</b>	995,574
Showhomes	<b>28,424</b>	18,391
Part exchange properties	<b>30,326</b>	11,799
	<b>1,246,433</b>	1,025,764

**10 Debtors**

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>£000</b>	£000	<b>£000</b>	£000
<b>Due within one year</b>				
Trade debtors	<b>16,961</b>	13,030	-	-
Amounts owed by subsidiary undertakings	-	-	<b>698,046</b>	587,498
Other debtors	<b>13,268</b>	12,579	-	-
Prepayments and accrued income	<b>4,648</b>	2,930	<b>32</b>	137
	<b>34,877</b>	28,539	<b>698,078</b>	587,635
<b>Due after one year</b>				
Other debtors	<b>7,461</b>	337	-	-
Prepayments and accrued income	<b>5,883</b>	6,863	-	-
Deferred taxation (note 13)	<b>2,200</b>	2,437	-	-
	<b>15,544</b>	9,637	-	-
Total debtors	<b>50,421</b>	38,176	<b>698,078</b>	587,635

Other debtors includes £11,005,000 (2004 - £11,308,000) in relation to VAT recoverable, all of which is due within one year.

Prepayments and accrued income includes £9,057,000 (2004 - £8,421,000) in relation to the defined benefit pension scheme.

Of this, £6,863,000 (2004 - £7,844,000) relates to special contributions paid in order to address the deficit identified in the 2002 valuation.

£980,000 (2004 - £981,000) in relation to the special contribution is due within one year and the remainder of £5,883,000 (2004 - £6,863,000) is due after one year.

## Notes to the Accounts (continued)

### 11 Creditors due within one year

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Bank loans	2,000	15,000	-	-
Trade creditors	88,754	77,184	-	-
Land creditors	104,218	115,183	-	-
Dividends	21,315	18,272	21,315	18,272
Corporation tax	32,302	35,235	-	-
Other taxation and social security	4,049	2,522	-	-
Other creditors	3,305	3,373	287	243
Accruals and deferred income	71,467	68,957	-	-
Payments on account	61	1,092	-	-
	<b>327,471</b>	336,818	<b>21,602</b>	18,515

Land creditors of £37,798,000 (2004 - £24,260,000) are secured on certain assets of the Group.

### 12 Creditors due after more than one year

	2005 £000	2004 £000
<b>Group</b>		
Bank loans	236,000	160,000
Land creditors	21,473	20,752
	<b>257,473</b>	180,752

Further details of the Group's financial assets and liabilities are given in note 21 on pages 67 and 68.

Land creditors of £Nil (2004 - £3,708,000) are secured on certain assets of the Group.

61 **Notes to the Accounts (continued)****13 Deferred taxation**

Provision has been made for corporation tax at 30% on timing differences.

	<b>Depreciation allowances</b>	<b>Pension obligations</b>	<b>Other timing differences</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At beginning of year	<b>(398)</b>	<b>1,056</b>	<b>(3,095)</b>	<b>(2,437)</b>
(Credit) / charge to the profit and loss account for the year	<b>(12)</b>	<b>926</b>	<b>(677)</b>	<b>237</b>
At end of year	<b>(410)</b>	<b>1,982</b>	<b>(3,772)</b>	<b>(2,200)</b>

Full provision has been made for deferred taxation where appropriate. The movement in deferred taxation of £237,000 is represented by a charge to the Profit and Loss Account (note 4 on page 52). The deferred tax balance was £2,437,000 at the beginning of the year and £2,200,000 at the end of the year. Both balances were recognised within debtors (note 10 on page 59).

**14 Contingent liabilities**

The Company is liable, jointly and severally with other members of the Group, under guarantees given to the Group's bankers in respect of overdrawn balances on certain Group bank accounts and in respect of other overdrafts, loans and guarantees given by the banks to or on behalf of other Group undertakings. At 31 July 2005 there were bank overdrafts of £Nil (2004 - £Nil) and loans of £238,000,000 (2004 - £175,000,000). The Company has given performance and other trade guarantees on behalf of subsidiary undertakings. The Company has guaranteed the overdrafts of associated undertakings up to a maximum of £5,170,000 (2004 - £5,170,000).

**15 Commitments**

	<b>2005</b>	2004
	<b>£000</b>	£000
<b>Group capital commitments</b>		
Contracted not provided	<b>80</b>	100
Authorised not contracted	<b>-</b>	19

**Group annual commitments in respect of operating leases**

	<b>Land and Buildings</b>		<b>Other</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>£000</b>	£000	<b>£000</b>	£000
Expiring within one year	<b>227</b>	-	<b>1,593</b>	1,268
Expiring within the second to fifth years	<b>146</b>	326	<b>315</b>	14
Expiring in more than five years	<b>1,034</b>	926	<b>-</b>	2
	<b>1,407</b>	1,252	<b>1,908</b>	1,284

Leases of land and buildings are subject to periodic rent reviews.

The commitments of the Company were £Nil (2004 - £Nil).

## Notes to the Accounts (continued)

### 16 Share capital

	<b>2005</b>	2004
	<b>£000</b>	£000
<b>Authorised</b>		
146,000,000 ordinary shares of 12.5p each	<b>18,250</b>	18,250
20,000,000 preference shares of £1 each	<b>20,000</b>	20,000
	<b>38,250</b>	38,250
<b>Allotted, called up and fully paid</b>		
<b>Equity</b>		
Ordinary shares		
Number		
112,061,346 At 1 August 2004	<b>14,008</b>	13,926
1,167,773 Issued on exercise of options	<b>146</b>	52
- Issued in respect of the QUEST	<b>-</b>	30
<u>113,229,119</u> At 31 July 2005	<b>14,154</b>	14,008
<b>Non-equity</b>		
9.5% cumulative redeemable preference shares 2014 of £1 each		
Number		
<u>20,000,000</u> At 1 August 2004 and 31 July 2005	<b>20,000</b>	20,000
	<b>34,154</b>	34,008

With regard to the non-equity 9.5% cumulative redeemable preference shares 2014 of £1 each the following rights are attached:

- (a) The holders are entitled to a preferential fixed cumulative dividend at an annual rate of 9.5% payable half yearly on 6 April and 6 October.
- (b) The shares are redeemable by the Company at any time at a sum calculated by reference to the yield on 12% Exchequer Stock 2013/2017 provided such sum is neither less than the nominal value nor more than twice the nominal value of the shares. Any shares still in issue shall be redeemed at par on 6 April 2014.
- (c) In the event of a winding up of the Company, the preference shareholders are entitled to a preferential payment in addition to any arrears of dividend, equivalent to the nominal value of the preference shares, or in the event of a voluntary winding up, an amount per share calculated by reference to the yield on 12% Exchequer Stock 2013/2017 provided such sum is neither less than the nominal value nor more than twice the nominal value of the shares.
- (d) The preference shareholders have no ordinary voting rights except in circumstances where the fixed dividend on the preference shares is six months in arrears or where the business of a General Meeting includes the consideration of certain resolutions as defined in the Articles of Association relating to winding up, changes in the rights of preference shareholders or failure by the Company to redeem the preference shares by 6 April 2014.

63 **Notes to the Accounts (continued)****16 Share capital (continued)****Share options**

At 31 July 2005 all outstanding options to purchase ordinary shares in Bellway p.l.c., in accordance with the terms of the applicable schemes, were as follows:

	Number of shares	Exercise price (p)	Dates from which exercisable	Expiry date
<b>(a) Bellway p.l.c. (1995) Employee Share Option Scheme</b>				
	4,000	314.50	5 June 1999	4 June 2006
	4,000	305.00	17 December 1999	16 December 2006
	5,000	343.50	18 June 2000	17 June 2007
	16,000	361.10	14 May 2001	13 May 2008
	2,000	273.50	29 October 2001	28 October 2008
	6,000	354.50	28 May 2002	27 May 2009
	16,500	248.00	13 April 2003	12 April 2010
	5,000	277.50	17 October 2003	16 October 2010
	11,500	409.30	25 April 2004	24 April 2011
	79,700	474.00	18 April 2005	17 April 2012
	5,300	548.50	22 April 2006	21 April 2013
	133,900	524.00	13 May 2006	12 May 2013
	13,800	621.50	24 October 2006	23 October 2013
	10,900	712.50	10 May 2007	9 May 2014
	249,880	716.00	17 November 2007	16 November 2014
	<u>563,480</u>			
<b>(b) Bellway p.l.c. (1996) Employee Share Option Scheme</b>				
	4,000	305.00	17 December 1999	16 December 2006
	5,000	327.50	9 December 2000	8 December 2007
	6,000	248.00	13 April 2003	12 April 2010
	2,000	277.50	17 October 2003	16 October 2010
	20,000	335.40	28 November 2003	27 November 2010
	70,600	409.30	25 April 2004	24 April 2011
	60,600	474.00	18 April 2005	17 April 2012
	122,000	468.90	16 October 2005	15 October 2012
	99,700	548.50	22 April 2006	21 April 2013
	57,232	524.00	13 May 2006	12 May 2013
	306,200	621.50	24 October 2006	23 October 2013
	5,100	712.50	10 May 2007	9 May 2014
	230,120	716.00	17 November 2007	16 November 2014
	<u>988,552</u>			

## Notes to the Accounts (continued)

### 16 Share capital (continued)

#### Share options (continued)

##### (c) Bellway p.l.c. Savings Related Share Option Scheme

Number of shares	Exercise price (p)	Dates from which exercisable	Expiry date
154,634	218.00	1 August 2005	31 January 2006
56,233	345.20	1 August 2006	31 January 2007
142,030	384.00	1 February 2006	31 July 2006
108,343	384.00	1 February 2008	31 July 2008
<u>461,240</u>			

##### (d) Bellway p.l.c. (2003) Savings Related Share Option Scheme

193,719	489.60	1 February 2007	31 July 2007
49,633	489.60	1 February 2009	31 July 2009
145,074	537.60	1 February 2008	31 July 2008
76,953	537.60	1 February 2010	31 July 2010
<u>465,379</u>			

Total 2,478,651

Details of directors' share options are contained within the Report of the Board on Directors' Remuneration on pages 40 to 42.

### 17 Share premium account

£000

#### Group and Company

At 1 August 2004	<b>104,492</b>
Arising on ordinary shares allotted on exercise of options	<b>4,394</b>
<b>At 31 July 2005</b>	<b><u>108,886</u></b>

### 18 Reserves

	Other non-distributable reserves £000	Profit and loss account £000
Group		
At 1 August 2004	<b>1,492</b>	<b>535,059</b>
Retained profit for year	-	<b>115,626</b>
Outstanding liabilities in relation to share awards	-	<b>982</b>
Movement in investment in own shares held by Employee Share Ownership Plans	-	<b>(15)</b>
<b>At 31 July 2005</b>	<b><u>1,492</u></b>	<b><u>651,652</u></b>

**18 Reserves (continued)**

The cumulative goodwill arising on the acquisition of subsidiary undertakings and written off directly against reserves is £2,164,000 (2004 - £2,164,000) in respect of subsidiary undertakings transferred into the Bellway p.l.c. Group in 1979 from its predecessor, Bellway Holdings Limited, and £35,000 (2004 - £35,000) since then.

The goodwill has been eliminated as a matter of accounting policy. It would be credited to the profit and loss account on subsequent disposal of the business to which it related.

Employee share ownership plans hold ordinary shares in Bellway p.l.c. at cost and short-term deposits held in trust to provide benefits to employees at the discretion of the trustees. The Group makes periodic payments to the trusts which acquire shares and receive dividends during the holding period and, from time to time, transfer shares to employees of the Group. At 31 July 2005 the trust held 488,624 shares (2004 - 516,452) at a book value of £2,175,000 (2004 - £2,160,000), which had a market value of £4,207,000 (2004 - £3,729,000), and deposits of £21,000 (2004 - £37,000). 684,375 (2004 - 500,509) have been allocated by the trustees to employees at 31 July 2005. For the main share ownership plan, the Bellway p.l.c. Employee Share Trust (1992), a linking agreement is in place between the Group and the trustees of the plan, Capita IRG Trustees Limited. This agreement ensures that sufficient shares/cash are available in the Trust to meet obligations as they arise.

	<b>Other non- distributable reserves £000</b>	<b>Profit and loss account £000</b>
<b>Company</b>		
At 1 August 2004	<b>2,145</b>	<b>449,601</b>
Retained profit for year	-	<b>102,863</b>
<b>At 31 July 2005</b>	<b>2,145</b>	<b>552,464</b>

**19 Earnings per ordinary share**

The calculation of basic earnings per ordinary share is based on earnings of £150,863,000 (2004 - £141,935,000) after taxation, minority interest and preference dividend and the weighted average number of ordinary shares (excluding the weighted average number of ordinary shares held by the Employee Share Ownership Plans) in issue during the year of 112,054,913 (2004 - 111,303,849).

The calculation of diluted earnings per ordinary share uses the same earnings figure as the basic calculation but the weighted average number of shares has been adjusted to 113,189,062 (2004 - 112,587,120) to reflect the dilutive effect of outstanding share options.

## Notes to the Accounts (continued)

### 20 Reconciliations of movements in shareholders' funds

	<b>2005</b>	2004
	<b>£000</b>	£000
<b>Group</b>		
Profit for the year attributable to shareholders	<b>152,763</b>	143,835
Dividends	<b>(37,137)</b>	(29,864)
	<b>115,626</b>	113,971
Exchange loss	-	(14)
Outstanding liabilities in relation to share awards	<b>982</b>	2,974
Movement in investment in own shares held by Employee Share Ownership Plans	<b>(15)</b>	(815)
Arising on exercise of options	<b>4,540</b>	2,783
Payments to the QUEST	-	(956)
Net addition to shareholders' funds	<b>121,133</b>	117,943
Total shareholders' funds at 1 August 2004	<b>675,051</b>	557,108
Total shareholders' funds at 31 July 2005	<b>796,184</b>	675,051
Equity shareholders' funds at 31 July 2005	<b>776,184</b>	655,051
Non-equity shareholders' funds at 31 July 2005	<b>20,000</b>	20,000
	<b>796,184</b>	675,051
<b>Company</b>		
Profit on ordinary activities after taxation	<b>140,000</b>	135,000
Dividends	<b>(37,137)</b>	(29,864)
	<b>102,863</b>	105,136
Arising on exercise of options	<b>4,540</b>	2,783
Net addition to shareholders' funds	<b>107,403</b>	107,919
Total shareholders' funds at 1 August 2004	<b>590,246</b>	482,327
Total shareholders' funds at 31 July 2005	<b>697,649</b>	590,246
Equity shareholders' funds at 31 July 2005	<b>677,649</b>	570,246
Non-equity shareholders' funds at 31 July 2005	<b>20,000</b>	20,000
	<b>697,649</b>	590,246

67 **Notes to the Accounts (continued)****21 Financial assets and liabilities**

For the purposes of the following disclosures, short-term debtors and creditors have been excluded, as permitted by FRS 13. All entities within the Group hold monetary assets and liabilities in their own functional currencies.

The Group's financial assets comprise cash and debtors due after more than one year. At 31 July 2005 the average interest rate earned on the temporary closing cash balance was 4.49% (2004 - 4.23%). Debtors due after more than one year are non-interest bearing.

The Group's financial liabilities comprise bank loans and long-term creditors due after more than one year, together with its fixed rate preference shares. The interest rate profile of the Group's financial liabilities at 31 July, all of which are denominated in sterling, was as follows:

	<b>2005</b>	2004
	<b>£000</b>	£000
Fixed rate bank loan	<b>6,000</b>	10,000
Fixed rate preference shares	<b>20,000</b>	20,000
Floating rate bank loans	<b>230,000</b>	150,000
Land and other creditors on which no interest is paid	<b>21,473</b>	20,752
	<b><u>277,473</u></b>	<u>200,752</u>

The interest rates on the fixed rate borrowing and preference shares, both of which apply to the whole term of the relevant instruments, are 6.71% and 9.5% per annum respectively.

Interest on the floating rate bank loans is linked either to LIBOR or to individual banks' base rates.

The weighted average period to maturity of the liabilities on which no interest is paid is 1.6 years (2004 - 2.0 years).

The maturity profile of the Group's financial liabilities (including non-interest bearing liabilities) at 31 July 2005 was as follows:

	<b>2005</b>	2004
	<b>£000</b>	£000
In more than one year but not more than two years	<b>95,473</b>	14,232
In more than two years but not more than five years	<b>162,000</b>	166,520
In more than five years	<b>20,000</b>	20,000
	<b><u>277,473</u></b>	<u>200,752</u>

Undrawn available borrowing facilities at 31 July were as follows:

	<b>2005</b>	2004
	<b>£000</b>	£000
Expiring:		
In one year or less	<b>142,501</b>	123,732
In more than two years but not more than five years	-	80,000
	<b><u>142,501</u></b>	<u>203,732</u>

## Notes to the Accounts (continued)

### 21 Financial assets and liabilities (continued)

A comparison of the book values and fair values of the Group's fixed rate preference shares and total fixed rate bank loan at 31 July is as follows:

	<b>2005</b>	<b>2005</b>	2004	2004
	<b>£000</b>	<b>£000</b>	£000	£000
	<b>Book</b>	<b>Fair</b>	Book	Fair
	<b>value</b>	<b>value</b>	value	value
Fixed rate preference shares	<b>20,000</b>	<b>25,700</b>	20,000	24,300
Fixed rate bank loan	<b>8,000</b>	<b>8,318</b>	10,000	10,125

The fair value of the fixed rate preference shares is based on quoted mid-market prices at 31 July.

The fair value of the fixed rate bank loan is based on an indicative rate which could have been obtained on the market at 31 July.

In aggregate, the fair values of the Group's other financial assets and liabilities are not materially different from their book value.

### 22 Reconciliation of operating profit to net cash inflow from operating activities

	<b>2005</b>	2004
	<b>£000</b>	£000
Group operating profit	<b>229,448</b>	213,277
Depreciation charge	<b>3,269</b>	3,583
Profit on sale of fixed assets	<b>(189)</b>	(271)
Increase in stocks	<b>(220,669)</b>	(167,780)
Increase in debtors	<b>(12,494)</b>	(2,286)
Increase in creditors	<b>5,310</b>	26,502
Net cash inflow from operating activities	<b>4,675</b>	73,025

### 23 Reconciliation of net cash flow to movement in net borrowings

	<b>2005</b>	2004
	<b>£000</b>	£000
(Decrease) / increase in cash in year	<b>(45,501)</b>	23,564
Decrease / (increase) in bank loans due within one year	<b>13,000</b>	(15,000)
Increase in bank loans due after more than one year	<b>(76,000)</b>	(30,000)
Exchange differences	-	(14)
Movement in net borrowings in year	<b>(108,501)</b>	(21,450)
Net borrowings at beginning of year	<b>(63,058)</b>	(41,608)
Net borrowings at end of year	<b>(171,559)</b>	(63,058)

69 **Notes to the Accounts (continued)****24 Analysis of net borrowings**

	<b>At 1 August 2004 £000</b>	<b>Cash flows £000</b>	<b>At 31 July 2005 £000</b>
Cash at bank and in hand	111,942	(45,501)	66,441
Bank loans due within one year	(15,000)	13,000	(2,000)
Bank loans due after more than one year	(160,000)	(76,000)	(236,000)
Totals	<b>(63,058)</b>	<b>(108,501)</b>	<b>(171,559)</b>

**25 Related party transactions**

During the year the Group entered into the following related party transactions with its associated undertakings:

	<b>2005 £000</b>	2004 £000
Invoiced to associates in respect of accounting and management fees	226	27
Invoiced from associates in respect of management fees	6	-
Invoiced from associates in respect of land purchases and infrastructure works	175	2

A total of £206,000 was owed to the Group (2004 - £82,000) at the year end. This related to invoices unpaid at the year end in respect of management fees. A total of £290,000 was owed to associated undertakings (2004 - £Nil) at the year end. Of this, £113,000 (2004 - £Nil) related to rents receivable by the Group on behalf of an associated undertaking, not paid over at the year end. A further £175,000 (2004 - £Nil) related to infrastructure works unpaid at the year end. The balance of £2,000 (2004 - £Nil) related to management fees unpaid at the year end.

**26 Principal subsidiary undertakings**

Unless otherwise stated, the Company owns the whole of the ordinary share capital of the following active subsidiary undertakings incorporated in Great Britain, registered in England and Wales and engaged in housebuilding and associated activities.

Bellway Homes Limited

Bellway Properties Limited

Bellway (Services) Limited

Litrose Investments Limited

Bellway Financial Services Limited

Bellway Housing Trust Limited

The Victoria Dock Company Limited (60% owned)\*

\*These shares are held indirectly.

# Shareholder Information

## Summary of the Principal Proposed Changes of Substance to the Articles of Association of the Company

### Notices

The Company will continue to deliver shareholder notices by post. However, shareholders may also elect to receive shareholder notices from the Company by electronic mail.

### Electronic Communication

To the extent permitted by legislation:

- the Company may give a notice to shareholders electronically to an address notified to the Company by the shareholder;
- any such notice sent electronically is treated as being given 24 hours after it was sent;
- the Company may deliver a document to shareholders electronically by posting the document on its website and notifying the shareholder by electronic mail of its posting; and
- any such notification delivered electronically is treated as being delivered 48 hours after it was sent.

### Non-Executive Directors' Fees

The total of all fees paid to non-executive directors is subject to an overall limit set in the articles. The Company has not recently increased this limit. However, given the recent increase in responsibilities for non-executive directors, it is proposed to increase this limit. It is proposed that the limit be increased from £100,000 in aggregate to £500,000 in aggregate for all non-executive directors' fees, providing some flexibility when determining individual fees.

### Retiring Directors

The Combined Code requires that all directors should be subject to election by shareholders at the first annual general meeting following their appointment and to re-election thereafter at intervals of no more than three years. It is proposed that the articles be amended to allow the Company to comply with this requirement which it is already doing in accordance with the Combined Code.

### Indemnity and Insurance

The Companies (Audit, Investigation and Community Enterprises) Act 2004 widens the scope of the indemnification of directors and others permitted by a company's articles of association and inserts a new Section 337A in the Companies Act 1985 which allows a company to provide its directors with funds to cover the costs incurred by a director in defending legal proceedings brought against him or her as they are incurred.

The Company proposes to amend its articles of association to widen the scope of the indemnification of directors within the limits of the new legislation.

Previously, a company has only been able to fund a director's defence costs once final judgement in his or her favour has been reached. Since directors are increasingly being added as defendants in actions against companies, and litigation is often lengthy and expensive, the Board believes that the risk of directors being placed under significant financial strain is increasing. The Board therefore proposes that the articles of association be amended to take advantage of the new provisions so that the Company may fund a director's defence costs in the event that an action was brought against him or her, even if it was brought by the Company itself. The provisions of the Companies Act referred to in the amended articles are those dealing with the acquisition of shares by innocent nominees and the general power to grant relief in the case of honest and reasonable conduct. The proposed amendments will apply to the costs of applications under those provisions as if they were defence costs. If the director's defence was unsuccessful, the director would still be liable to pay any damages awarded and to repay defence costs (except where the proceedings had been brought by a third party and the Company's indemnity was applicable).

Other proposed changes are to ensure that directors can vote and be counted in the quorum at meetings about any of the things referred to above.

The Board believes that the wider indemnity for the directors and the power to fund the directors' defence costs as they are incurred are important to ensure that the Company continues to attract and retain directors of a high calibre.

71 **Shareholder Information (continued)****CREST**

The articles are proposed to be updated to reflect the introduction of the CREST Proxy Voting Service and recent CREST Regulations. Provisions have been inserted:

- relating to paying dividends or other amounts payable in cash to shareholders holding shares in uncertificated form;
- allowing notices to be served through a relevant system where shares are held in uncertificated form; and
- permitting the appointment of and giving of instructions to proxies through the relevant system.

A copy of the Company's articles of association as amended to reflect the proposed changes will be available for inspection during the Annual General Meeting and for at least fifteen minutes before it and at the Company's registered office and at the offices of the Company's brokers HSBC Bank plc, 8 Canada Square, London E14 5HQ from the date of this document until the close of the Annual General Meeting.

**Financial Calendar**

Announcement of results and ordinary dividends	- Half year	April
	- Full year	October
Ordinary share dividend payments	- Interim	July
	- Final	January
Preference share dividend payments at the rate of 9.5% per annum paid half yearly		April and October
Annual report posted to shareholders		November
Final dividend – ex-dividend date		14 December 2005
Final dividend – record date		16 December 2005
Annual General Meeting		13 January 2006
Final dividend – payment date		16 January 2006

**Shareholders by Size of Holding at 31 July 2005**

	Holdings		Shares	
	Number	%	Holding	%
0 - 2,000	1,888	63.7	1,396,416	1.2
2,001 – 10,000	629	21.2	2,708,382	2.4
10,001 - 50,000	237	8.0	5,485,581	4.9
50,001 and over	210	7.1	103,638,740	91.5
<b>Total</b>	<b>2,964</b>	<b>100.0</b>	<b>113,229,119</b>	<b>100.0</b>

**Share dealing service**

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

For further information on this service, or to buy or sell shares, please contact:

[www.capitadeal.com](http://www.capitadeal.com) - online dealing

0870 458 4577 - telephone dealing

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

## Shareholder Information (continued)

### Discount to shareholders

The following discount arrangement is currently available to shareholders.

Should you intend to purchase a new Bellway home, you will be entitled to a discount of £625 per £25,000, or pro rata on part thereof, of the purchase price provided that:

- (a) you have been the registered holder of at least 2,000 ordinary shares for a minimum period of 12 months prior to the reservation of your new home.
- (b) you inform our sales representative on site when reserving your property that you are claiming shareholder discount.

The above discount arrangement is only available to shareholders on the Company's Register of Members. Employees of investing companies or members of investing institutions would not therefore be eligible.

For further details please contact the Group Company Secretary, Bellway p.l.c., Seaton Burn House, Dudley Lane, Seaton Burn, Newcastle upon Tyne NE13 6BE, telephone 0191 217 0717 or email [kevin.wrightson@bellway.co.uk](mailto:kevin.wrightson@bellway.co.uk)

### Corporate Responsibility Report 2005

A copy of the Company's Corporate Responsibility Report 2005 is available to shareholders on the Company's website [www.bellway.co.uk](http://www.bellway.co.uk) or on written application to the Group Company Secretary at the Company's registered office.

## Five Year Record

	2001 £m	2002 £m	2003* £m	2004 £m	2005 £m
<b>Profit and Loss Account</b>					
Turnover	695.7	773.0	954.2	1,092.6	<b>1,178.1</b>
Group operating profit	107.3	133.1	172.8	213.3	<b>229.5</b>
Share of profits/(losses) of associated undertakings	0.1	(0.1)	0.3	(0.1)	<b>0.2</b>
Total operating profit: Group and share of associates	107.4	133.0	173.1	213.2	<b>229.7</b>
Exceptional profits	-	-	2.1	-	-
Net interest payable	(5.9)	(7.7)	(5.9)	(7.7)	<b>(11.5)</b>
Profit on ordinary activities before taxation	101.5	125.3	169.3	205.5	<b>218.2</b>
Taxation	(30.8)	(37.4)	(50.7)	(61.7)	<b>(65.4)</b>
Profit on ordinary activities after taxation	70.7	87.9	118.6	143.8	<b>152.8</b>
Dividends	(17.5)	(19.3)	(24.2)	(29.8)	<b>(37.2)</b>
Retained profit for the period	53.2	68.6	94.4	114.0	<b>115.6</b>
<b>Balance Sheet</b>					
Fixed assets	21.5	23.5	16.4*	16.7	<b>17.8</b>
Current assets	670.0	832.2	979.7*	1,175.9	<b>1,363.3</b>
Creditors due within one year	(230.2)	(297.6)	(269.3)	(336.8)	<b>(327.5)</b>
Net current assets	439.8	534.6	710.4	839.1	<b>1,035.8</b>
Total assets less current liabilities	461.3	558.1	726.8	855.8	<b>1,053.6</b>
Creditors due after more than one year (including provisions for liabilities and charges)	(70.3)	(97.7)	(169.7)	(180.7)	<b>(257.5)</b>
Shareholders' funds	391.0	460.4	557.1	675.1	<b>796.1</b>
<b>Statistics</b>					
Dividend per ordinary share	14.2p	15.75p	20.0p	25.0p	<b>31.25p</b>
Basic earnings per ordinary share	63.2p	78.6p	106.0p	127.5p	<b>134.6p</b>
Number of homes sold	5,725	6,044	6,278	6,610	<b>7,001</b>
Average price of new homes	£119.0k	£120.8k	£149.7k	£161.4k	<b>£163.8k</b>
Operating margin	15.4%	17.2%	18.1%	19.5%	<b>19.5%</b>
Net assets per ordinary share	337p	400p	482p*	585p	<b>685p</b>
Land portfolio – plots with planning permission	16,700	17,400	18,400	20,700	<b>22,500</b>
Weighted average no. of ordinary shares	108,849,482	109,481,485	110,102,928	111,303,849	<b>112,054,913</b>
No. of ordinary shares in issue at end of period	109,929,804	110,199,277	111,408,137	112,061,346	<b>113,229,119</b>

\*The figures for 2003 were restated to reflect the adoption of Urgent Issues Task Force Abstract 38: 'Accounting for ESOP Trusts'.

## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Company will be held at The Copthorne Hotel, The Close, Quayside, Newcastle upon Tyne NE1 3RT on Friday 13 January 2006 at 12.00 noon for the following purposes:

1. To receive and adopt the accounts for the financial year ended 31 July 2005 and the Directors' Report and the Auditors' Report on those accounts and on the auditable part of the Report of the Board on Directors' Remuneration.
2. To declare a final dividend for the year ended 31 July 2005.
3. To re-elect Mr P J Stoker as a director of the Company.
4. To re-elect Mr L P Finn as a director of the Company.
5. To re-elect Mr D G Perry as a director of the Company.
6. To re-appoint KPMG Audit Plc as the auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company.
7. To authorise the directors to agree the remuneration of the auditors of the Company.
8. To approve the Report of the Board on Directors' Remuneration shown on pages 35 to 43 of the Annual Report and Accounts for the year to 31 July 2005.

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

9. That the regulations contained in the printed document produced to the meeting and for the purpose of identification signed by the Chairman thereof be and the same are hereby approved and adopted as the articles of association of the Company in substitution for and to the exclusion of the existing articles of association of the Company.
10. That, insofar as it relates to securities that are not treasury shares within the meaning of Section 162A(3) of the Companies Act 1985 (the "Act"), pursuant to the general authority conferred on them by an Ordinary Resolution passed at the Annual General Meeting of the Company held on 10 January 2003, the directors be empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority so conferred or where the equity securities are held by the Company as qualifying shares (to which Sections 162A to 162G of the Act apply) in each case as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
  - (i) in connection with an offer of equity securities, open for acceptance for a fixed period, by the directors to ordinary shareholders of the Company on the register on a fixed record date in proportion (as nearly as may be) to their then holdings of such equity securities (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems under the laws of, or the requirements of any regulatory body or any stock exchange in, any overseas territory or fractional entitlements or any other matter whatsoever); and/or
  - (ii) otherwise than pursuant to sub-paragraph (i) above or pursuant to the Bellway p.l.c. (1995) Employee Share Option Scheme, the Bellway p.l.c. (1996) Employee Share Option Scheme, the Bellway p.l.c. Savings Related Share Option Scheme, the Bellway p.l.c. (2003) Savings Related Share Option Scheme, the Bellway p.l.c. (2004) Performance Share Plan and the Bellway p.l.c. (2005) Employee Share Option Scheme, up to an aggregate nominal amount of £707,682

and shall expire on the conclusion of the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this resolution except that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to such an offer or agreement as if the power conferred by this resolution had not expired.

## Notice of Annual General Meeting (continued)

11. That the Company be generally and unconditionally authorised for the purposes of Section 166 of the Act to purchase ordinary shares and preference shares in the capital of the Company by way of one or more market purchases (within the meaning of Section 163(3) of the Act) on the London Stock Exchange upon and subject to the following conditions:
- (i) the maximum number of ordinary shares hereby authorised to be purchased is 11,322,912 ordinary shares of 12.5p each, being approximately 10 per cent of the ordinary shares in issue;
  - (ii) the maximum number of preference shares hereby authorised to be purchased is 20,000,000 9.5% Cumulative Redeemable Preference Shares 2014 of £1 each, being the total amount of preference shares in issue;
  - (iii) the maximum price at which ordinary shares may be purchased is an amount equal to 105 per cent of the average of the middle market quotations derived from the London Stock Exchange Limited Official List for the five business days immediately preceding the date on which the ordinary shares are contracted to be purchased and the minimum price is 12.5p per share, in both cases exclusive of expenses;
  - (iv) the maximum price at which preference shares may be purchased shall be an amount calculated in accordance with the provisions contained in the Articles of Association of the Company; and
  - (v) unless previously renewed, varied or revoked, the authority to purchase conferred by this resolution shall expire at the conclusion of the next Annual General Meeting of the Company, or if earlier, 15 months after the passing of this resolution provided that any contract for the purchase of any shares as aforesaid which was concluded before the expiry of the said authority may be executed wholly or partly after the said authority expires and the relevant shares purchased pursuant thereto.

### Notes:

- (i) A member entitled to attend and vote at the meeting convened by the above notice may appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
- (ii) A form of proxy is enclosed. Completion and return of the proxy will not preclude shareholders from attending in person and voting at the meeting.
- (iii) CREST members will be able to cast their vote using CREST electronic proxy voting using the procedures described in the CREST Manual. In order to be valid, the Company's registrars must receive CREST Proxy Instructions not less than 48 hours before the time of the meeting or any adjourned meeting.
- (iv) There will be available for inspection at the registered office of the Company during usual business hours (Saturdays and public holidays excepted) from the date of this notice until the date of the Annual General Meeting the register of interests of the Directors and their families in the share capital of the Company together with a copy of the Company's existing articles of association marked up with the changes proposed to be made to them and a copy of the Company's proposed new articles of association. A copy of the said register, a copy of the said existing articles and a copy of the said new articles together with copies of the contracts of service and letters of appointment of the directors of the Company will also be available for inspection during the Annual General Meeting and for at least fifteen minutes before it begins. A copy of the said existing articles and a copy of the said new articles will also be available for inspection during the same hours from the date of this notice until the date of the Annual General Meeting at the offices of the Company's brokers, HSBC Bank plc, 8 Canada Square, London E14 5HQ.
- (v) To be entitled to attend and vote at the meeting (and for the purposes of determination by the Company of the number of votes cast), shareholders must be entered on the Company's Register of Members not less than 48 hours prior to the time set for the meeting.

By Order of the Board

**G K Wrightson**  
Group Company Secretary

**Registered Office**

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

**Registered in England and Wales**

No: 1372603

17 October 2005

# Notes

# Notes

# Proxy Card

Proxy Card for use at the Annual General Meeting of Bellway p.l.c. to be held at 12.00 noon on Friday 13 January 2006.

I/We..... of .....

(Name and address in block capitals)

.....  
 .....

the undersigned, being (a) member(s) of the above named Company, hereby appoint † **the Chairman of the Meeting**, or

.....  
 .....

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Friday 13 January 2006 and at every adjournment thereof and I/we direct my/our proxy to vote as indicated below.

Date ..... Signed .....

*Please indicate, by inserting a cross in the appropriate square, how you wish your votes to be cast on the Resolutions listed. Unless so instructed and on any other Resolutions proposed at the meeting, your proxy will vote or abstain at his/her discretion. This proxy will be used only in the event of a poll being directed or demanded.*

## Annual General Meeting

### Resolutions

Full details of the resolutions are set out in the Notice of Meeting accompanying the Report and Accounts

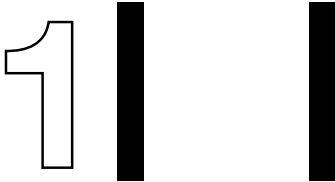
	<b>For</b>	<b>Against</b>
1. To receive and adopt the Accounts for the financial year ended 31 July 2005 and the Directors' Report and the Auditors' Report thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a final dividend for the year ended 31 July 2005.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr P J Stoker as a director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr L P Finn as a director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr D G Perry as a director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-appoint KPMG Audit Plc as the auditors of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the directors to agree the auditors' remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
8. To approve the Report of the Board on Directors' Remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
9. To approve the proposed new Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
10. To exclude the application of pre-emption rights to the allotment of equity securities.	<input type="checkbox"/>	<input type="checkbox"/>
11. To authorise market purchases of the Company's own ordinary shares and preference shares.	<input type="checkbox"/>	<input type="checkbox"/>

### NOTES

- † Delete the underlined if it is desired to appoint any other person, who need not be a member of the Company but who must attend the meeting in person to represent you, and insert his/her full name and address.
- (i) This form of proxy has been sent to you by post. It may be returned by any of the following methods: In hard copy form by post, courier or by hand to the Company's registrars, Capita Registrars, Proxy Dept, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; or, in the case of CREST members, by using the CREST electronic appointment service. CREST members should refer to note (iii) to the Notice of Annual General Meeting enclosed with this form of proxy in relation to the submission of a proxy appointment via CREST.
- (ii) To be effective this proxy must be deposited at the office of the Company's registrars detailed above not less than 48 hours before the time appointed for the holding of the meeting, together with any power of attorney or other authority under which it is signed or a notarially certified copy of such power or authority.
- (iii) Any alterations to this form of proxy should be initialled.
- (iv) In the case of a joint holding, this form may be signed by any of the joint holders, but the vote of the member whose name stands first in the Register of Members will be accepted to the exclusion of the votes of the other joint holders.
- (v) In the case of a corporation, the form of proxy should be validly executed on behalf of the Company under its Common Seal or under the hand of a duly authorised officer or attorney.
- (vi) Completion and return of the proxy will not preclude members from attending and voting at the meeting.

Third fold and tuck in

BUSINESS REPLY SERVICE  
Licence No. MB122



Capita Registrars (Proxies)  
PO Box 25  
Beckenham, Kent  
BR3 4BR

Second fold

First fold

# Bellway p.l.c.

Seaton Burn House, Dudley Lane, Seaton Burn, Newcastle upon Tyne NE13 6BE  
Tel: (0191) 217 0717 . Fax: (0191) 236 6230 . DX 711760 Seaton Burn . Web site - [www.bellway.co.uk](http://www.bellway.co.uk)

## Bellway Homes Limited

### **NORTHERN REGION**

#### **East Midlands**

Bellway House  
Warren Court  
Feldspar Close, Enderby  
Leicester LE19 4SB

Tel: **(0116) 272 7000**  
Fax: **(0116) 272 7001**

#### **East Scotland**

Unit 6  
Alderstone Business Park  
6 MacMillan Road  
Livingston  
Edinburgh EH54 7DF

Tel: **(01506) 407 760**  
Fax: **(01506) 407 761**

#### **Manchester**

Bellway House  
The Beacons  
Warrington Road  
Birchwood, Warrington  
Cheshire WA3 6GQ

Tel: **(01925) 430 100**  
Fax: **(01925) 430 120**  
DX **701654 Birchwood,**  
**Warrington**

#### **North East**

Peel House  
Main Street, Ponteland  
Newcastle upon Tyne NE20 9NN

Tel: **(01661) 820 200**  
Fax: **(01661) 821 010**  
DX **68924 Ponteland 2**

#### **West Lancashire**

Bellway House  
2 Alderman Road  
Liverpool L24 9LR

Tel: **(0151) 486 2900**  
Fax: **(0151) 336 9393**

#### **West Midlands**

Bellway House  
Relay Point  
Relay Drive, Tamworth  
Staffordshire B77 5PA

Tel: **(01827) 255 755**  
Fax: **(01827) 255 766**  
DX **717023 Tamworth**

#### **West Scotland**

Bothwell House  
Hamilton Business Park  
Caird Street  
Hamilton ML3 0QA

Tel: **(01698) 477 440**  
Fax: **(01698) 477 441**  
DX **HA13 Hamilton**

#### **Yorkshire**

2 Deighton Close  
Wetherby  
West Yorkshire LS22 7GZ

Tel: **(01937) 583 533**  
Fax: **(01937) 586 147**  
DX **I6815 Wetherby**

### **SOUTHERN REGION**

#### **Essex**

Bellway House  
1 Rainsford Road  
Chelmsford  
Essex CMI 2PZ

Tel: **(01245) 259 989**  
Fax: **(01245) 259 996**  
DX **I21935 Chelmsford 6**

#### **Northern Home Counties**

Oak House  
Woodlands Business Park  
Breckland  
Linford Wood  
Milton Keynes MK14 6EY

Tel: **(01908) 328 800**  
Fax: **(01908) 328 801**  
DX **31436 Milton Keynes**

#### **North London**

Bellway House  
Bury Street  
Ruislip  
Middlesex HA4 7SD

Tel: **(01895) 671 100**  
Fax: **(01895) 671 111**

#### **South East**

Bellway House  
London Road North  
Merstham  
Surrey RH1 3YU

Tel: **(01737) 644 911**  
Fax: **(01737) 646 319**

#### **South West**

Griffin House  
Windmill Road  
Kenn Business Park  
Clevedon BS21 6UJ

Tel: **(01275) 345 000**  
Fax: **(01275) 349 501**

#### **Thames Gateway North**

Suite 5.02  
Exchange Tower  
Harbour Exchange Square  
London E14 9GE

Tel: **(020) 7531 2340**  
Fax: **(020) 7987 3410**

#### **Thames Gateway South**

Osprey House  
Crayfields Business Park  
New Mill Road  
Orpington  
Kent BR5 3QJ

Tel: **(01689) 886 400**  
Fax: **(01689) 886 410**

#### **Wales**

Alexander House  
Excelsior Road  
Western Avenue  
Cardiff CF14 3AT

Tel: **(029) 205 44700**  
Fax: **(029) 205 44701**

#### **Wessex**

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Embankment Way  
Castleman Business Centre  
Ringwood  
Hampshire BH24 1EU

Tel: **(01425) 477 666**  
Fax: **(01425) 476 774**  
DX **45710 Ringwood**

### **OTHER**

#### **Planning & Development**

Seaton Burn House  
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**Bellway p.l.c.**

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