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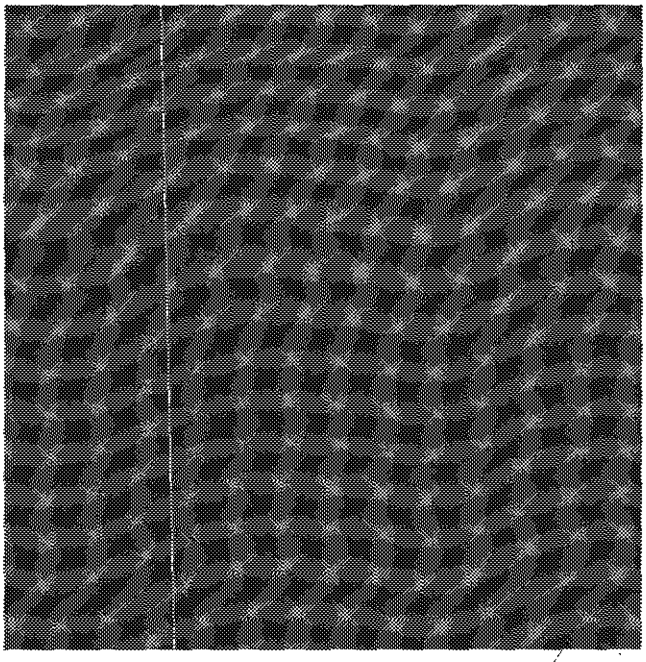
ANNUAL REPORT & ACCOUNTS
2006



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Bellway

Contents

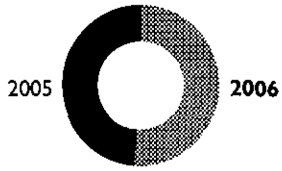
Charlton Down, Dorchester, Dorset

Front Cover: **Ochre Yards**, Gateshead, Tyne and Wear

Back Cover: **The Copice**, Worsley, Manchester

Figures at a glance

+5.3%



REVENUE £1,240.2m in 2006 from £1,178.1m in 2005

+4.0%

TOTAL OPERATING PROFIT

£239.3m in 2006 from £230.1m in 2005

+3.2%

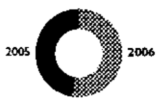
PROFIT BEFORE TAXATION

£220.7m in 2006 from £213.8m in 2005

+3.3%

BASIC EARNINGS PER ORDINARY SHARE

137.5p in 2006 from 133.1p in 2005



+10.4%

DIVIDEND PER ORDINARY SHARE

34.5p in 2006 from 31.25p in 2005

+15.9%

TOTAL EQUITY

£903.5m in 2006 from £779.8m in 2005

+15.1%

NET ASSET VALUE PER ORDINARY SHARE

793p in 2006 from 689p in 2005

Chairman's Statement I am pleased to report that Bellway has extended its track record of growth in volume, turnover and earnings to record levels over the last twelve months.

Volume and turnover has grown for the fifteenth consecutive year and earnings per share have increased for the tenth consecutive year. I can confirm that these annual results have been prepared for the first time under International Financial Reporting Standards (IFRSs) and are summarised as follows.

The number of homes sold in the year ended 31 July 2006 has increased from 7,001 to 7,117 and the average price of these homes has increased from £163,800 to £169,000. Total turnover for the Group advanced by 5.3% to £1,240 million from £1,178 million. Due to the increased volume and tight control of costs, the Group has been able to restrict the attrition on the operating margin from 19.5% to 19.3% resulting in operating profit increasing to £239.3 million compared with £230.1 million last year. Net financing costs have risen to £18.4 million from £16.4 million. The profit before tax has increased by 3.2% from £213.8 million to £220.7 million and earnings per ordinary share have advanced to 137.5p from 133.1p, both of which are new records for the Group. Shareholders' equity has risen by almost £124 million to £903.6 million and net assets per ordinary share are now 793p, up from 689p at the same time last year, an increase of some 15%. Gearing at the year end was 19% with net borrowings of £173.7 million, down from £191.6 million at the same time last year.

Dividend

To reflect the Group's creditable performance, and as a show of confidence in future prospects, the Board has decided to recommend an increase in the total dividend payable per ordinary share by 10.4% from 31.25p to 34.5p which is covered just less than four times. This will result in a final dividend of 20.2p (18.25p – 2005) being paid on Monday 15 January 2007 to all ordinary shareholders on the Register of Members at the close of business on Friday 15 December 2006.

Hanwell Fields, Banbury, Oxfordshire

"The number of homes sold in the year ended 31 July 2006 has increased from 7,001 to 7,117"

The Quadrant, Leyton, London Borough of Waltham Forest

Current Trading

Although some parts of the country have shown resilience, notably in the North East, Scotland and the Thames Gateway, the rest of the country remains challenging and, as a consequence, incentives are still required to conclude most transactions. However, these incentives are being well controlled and closely managed by our divisions resulting in margins being held at satisfactory levels. To grow earnings in this market, and with build cost pressures, the Group intends to increase volumes this year from a greater number of outlets and divisions. The foundations of this growth are in place as the number of outlets has risen by 7% and the divisional network has been augmented by a new division operating in the South Midlands area, increasing the number of current operating divisions to eighteen. Our policy of forward selling resulted in the Group's total order book having grown to £561 million as at 31 July 2006. Since 1 August 2006 through to 30 September 2006 reservations have been some 9% ahead of the same period last year and on 30 September the forward order book stood at £647 million. Including completions to date, we have secured around 58% of our planned and increased output for 2006/07.

Land

Land is the lifeblood of the industry and the procurement process remains as competitive and as difficult as ever. Plots with planning permission held at 31 July 2006 were 22,600, just ahead of last year's position. We are particularly pleased with the progress that has been made with our medium term land holdings, with plots pending planning permission having grown by 25% to 15,000 plots giving a total land bank of 37,600 plots, representing over five years supply. In addition, our City Solutions operation has been awarded preferred developer status for some 4,200 plots on regeneration schemes throughout the country.

People

These record results would not have been possible without the hard work, skill and commitment of all our employees, suppliers, sub-contractors and partners across the country and this is greatly appreciated by the Board.

Future Prospects

The current market, although stable, remains price competitive and is one in which Bellway has traditionally thrived. With our emphasis on lower value housing, forward selling, increasing volumes and tight control over land buying, the Board remains confident as to the future prospects for the Group.

H C Dawe
Chairman
16 October 2006

"These record results would not have been possible without the hard work, skill and commitment of all our employees."

Brookwood, Woking, Surrey

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. On 1 November 2004, Mr Dawe became non-executive Chairman.

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 is Chairman of the Board Committee on Non-Executive Directors' Remuneration.

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 a member of the North East Regional Housing Board. 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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2


3


4

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
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire HD8 0LA

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 I am delighted to report another year of significant progress with the number of homes sold increasing to 7,117 at an average selling price of £169,000.

Oaklands, Bolton, Lancashire

This has resulted in the revenue from the sale of homes reaching a new high of £1,203 million, up from £1,147 million last year. Other turnover of £37 million was generated during the year which came mainly from land sales and the sales of commercial units taking the total turnover to a record high of £1,240 million.

New Appointments

With regard to our volume growth objectives, we have recently appointed two new regional chairmen, covering the north and south of the country, to oversee the day to day divisional operations. Land acquisition and financial control will remain at Head Office to ensure strong controls remain in place. This change to our structure is an important initiative in driving output in those divisions trading below optimum scale and also gives us the additional resource to establish future new divisions.

Divisional Performance

Northern Divisions

During the year the northern divisions sold 3,764 homes, an increase from the previous year's 3,685 homes. Of this total, 221 homes were sold to housing associations compared to 196 the previous year. Overall the average selling price in the north fell slightly to £154,569 but, with the volumes increasing, turnover increased to £581.8 million.

The West Lancashire division, which is now building on several sites in the Liverpool Pathfinder area, has successfully completed 600 homes in the year with an average selling price of only £136,000. The North East division has commenced two neighbourhood renewal schemes replacing areas of former local authority housing. We anticipate the average selling price of these 950 new homes to be in the region of £127,000. This is an extremely affordable price even for the North East and will help to grow volumes in future years. A new division was formed during the year to cover the South Midlands area. It is acquiring new land opportunities in the region as well as handling the Solihull regeneration project which has recently commenced. We will see production from the division in the 2006/07 financial year and it increases the number of trading divisions to 18.

Town Wharf, Grays, Essex

Divisional Performance (continued)

Southern Divisions

The southern divisions sold 3,353 homes, an increase from the previous year's 3,316. Of this total, 569 homes were sold to housing associations compared to 632 the previous year. Overall the average selling price in the south increased to £185,200 and with volumes increasing, turnover lifted to £621.1 million, a 7.8% increase on the previous year.

The South West division, only formed in 2004, increased output to 153 homes and is set to continue growing helped by further land acquisitions in Devon and Somerset. The Thames Gateway South division has established itself as a major provider of affordable homes in East London, with an overall average selling price of only £169,000. The division has recently completed a development of 214 apartments in the London Borough of Tower Hamlets and construction of a further 532 houses and apartments is on-going in Stepney, in the same borough. Demand for these competitively priced homes is proving to be particularly strong. The Thames Gateway North division which was only established in 2005 completed 42 homes in the period. It has been successful in acquiring several more sites and production levels will steadily increase in the coming years.

Land Bank

The divisional network must also be supported by an expanding land bank and in particular sales outlets. The Group presently has 22,600 plots owned with planning permission on the balance sheet, similar to last year's levels. However, the medium term land bank, which is typically held by the company pending the receipt of a planning permission, has increased significantly from 12,000 to 15,000 plots. These plots often take several years to convert into active sites but are a valuable source of land and often result in enhanced margins. A start will be made on a site next year near Bedford, an old RAF depot, which was acquired outright in 2001 and has now received planning permission for around 600 homes.

In addition, the Group's long term strategic land contains the 4,200 plots being processed through the system by City Solutions. These plots together with approximately 2,900 acres of greenfield land, typically held under option, will further enhance Bellway's land bank and underpin our long term growth aspirations.

City Solutions

City Solutions, a procurement team, is taking advantage of the Government's regeneration initiatives and is focused on sourcing large scale regeneration opportunities where the operating margin is agreed in advance. Once a project reaches development stage it is handed over to a division. So far City Solutions has made its first contribution towards the land bank, handing over 500 plots to divisions and currently it has preferred bidder status on the previously mentioned 4,200 plots in cities such as Leeds, Liverpool, Middlesbrough and Newport. These new opportunities will be a sizeable boost to our land bank.

"In addition, the Group's long term strategic land contains the 4,200 plots being processed through the system by City Solutions."

Linden Fields, Tunbridge Wells, Kent

Design and Cost Control

During the year the Group received awards from the Commission for Architecture and the Built Environment (CABE) for outstanding design. Whilst it is pleasing to receive such recognition, it is important to ensure that we complement good design with cost control. For example, with the new Part A building regulations imposing additional design criteria on buildings over four storeys, we have introduced more timber frame construction which represents a cost saving against concrete or steel construction. As a result, timber frame construction accounted for almost a third of output. This system brings a greater standardisation of floor design and has economy of scale benefits. As a highly insulated system, it helps to reduce CO_2 emissions, an item high on the Government's list of priorities, and as a consequence its use may well increase in the future. These measures, along with a greater use of standard material specifications, have helped to support the Group's operating margin.

Environment

Government statistics demonstrate that improvements in construction techniques and materials have all contributed to a new home being 40% more energy efficient today than it was five years ago. New building regulations and other Government initiatives will continue to improve the standard of new homes in the future.

However, despite this, the effect of climate change cannot be underestimated as housing is a major contributor in the production of CO_2. In an effort to improve the environmental performance of our product, we are currently paying the energy bills and monitoring the performance of several homes recently constructed in the North West of England where more innovative methods of generating heat and power have been employed. The Group has also increased the number of "Eco Homes" built during the year and our development at Broughton in Milton Keynes will see Bellway delivering our first site of 234 homes to "Eco Homes Excellent" standard.

To ensure the sustainability of raw materials, especially timber, this year we undertook a review of our major suppliers and introduced a new Group procurement policy. This is especially important considering the Group's increased use of timber frame techniques. Waste is a significant by-product of development and an area we are continuing to focus upon. In the year under review, 150 sites have segregated their waste, more importantly 4,708 tonnes of plasterboard have been recycled representing a substantial increase over the corresponding period last year.

Throughout the course of the year the Group has agreed, pursuant to agreements under s106 of the Town and Country Planning Acts, to make payments which in total amount to over £5m for such items as education, highway and open space facilities. These payments provide benefits for the whole community following the granting of a planning permission.

Customers

There is a strong requirement to deliver a quality product combined with a level of service that satisfies customer demands. During the year the Group has undertaken a comprehensive review of its customer care procedures and also appointed an independent survey company. The latest figures from this survey show that over 75% of purchasers would recommend a friend to buy a new Bellway home. This, and future surveys, will be used to focus the Group's efforts to produce quality homes and satisfy customers on a consistent basis.

Windsor Gate, High Wycombe, Buckinghamshire

Health and Safety

A review of our health and safety systems was carried out during the course of the year by an independent firm of consultants. Recommendations from the review have been implemented resulting in the Group devoting more resources into this area of our business. In conjunction with the Health and Safety Executive, Bellway has been holding joint workshops throughout the Group to make both sub-contractors and employees aware of good practice with regard to manual handling. We have, as a result, made a number of changes to products being used on site and now insist on the use of mechanical lifting devices when handling heavy materials.

I am pleased to report that the number of reportable accidents, namely those involving absence from work for over three days, has been reduced for the fourth consecutive year, a trend we hope can be maintained in the coming years by setting new targets and introducing initiatives on site to improve performance.

Outlook

Revenue growth in a low inflationary environment more than ever relies on increasing our volume output. The foundations for this growth are in place with the number of sales outlets increasing by around 7%. The divisional network has been expanded and the land bank is being further enhanced by future urban regeneration schemes. The cost base will benefit from more standardisation helping to reduce inherent cost pressures.

Bellway's strategy remains unaltered and is supported by a strong order book which has grown to £647 million at the end of September. This places the Group in an excellent position to maintain its track record into the future.

John. K. Watson
Chief Executive
16 October 2006

Ravenswood, Ipswich, Suffolk

Corporate Responsibility Policy Statement

Bellway believes that its reputation is critical to the creation of long-term value for its shareholders. We recognise that financial success is reinforced by our behaviour beyond the balance sheet. Protecting and enhancing our reputation and social licence to operate is a significant element of sustained financial success.

Corporate responsibility is action taken by the Group which positively impacts upon our employees, customers, shareholders, suppliers, the communities where we work and the environment that we operate in and goes beyond our legal or regulatory obligations. This policy sets out how we will operate and drives the Group's corporate responsibility activity. Through Bellway's commitment to corporate responsibility we will:

- *Engage and respond to stakeholders, including shareholders, employees, customers, governments and communities that we influence.*
- *Comply with all relevant legislation as a minimum standard.*
- *Work towards recognised good practice in sustainability and corporate responsibility.*
- *Treat all employees fairly and invest in training for the long-term to bring out the best in our people.*
- *Provide a healthy and safe environment in which to work through an effective health & safety management system.*
- *Demonstrate continual improvement in our approach to sustainable developments (in both design and practice).*
- *Invest in the communities we develop in a way that contributes to local community needs.*
- *Manage our environmental impacts and aim to enhance areas in which we operate.*
- *Consider and respond to social and environmental impacts of the homes and communities that we develop.*
- *Improve internal and external awareness of our corporate responsibility programmes and initiatives.*
- *Report regularly to the board and external stakeholders on performance using sustainability indicators.*

The following structure has been put in place to achieve these commitments:

- *The Chief Executive is responsible for this policy and advising the board on all corporate responsibility matters.*
- *The Chief Executive is supported by the Sustainability Management Working Group including senior members from across Bellway who are responsible for the development and review of this policy.*
- *The financial directors of each regional division are responsible for implementation and reporting on its performance.*

Bellway is committed to reporting annually on its approach to corporate responsibility and has established key performance indicators to enable others to judge our performance. This policy does not replace existing policies on environment, health & safety and wood procurement, but has been developed to work with them. All policies are available on the Bellway website www.bellway.co.uk and are reviewed annually.

Key Performance Indicators

	2004	**2005**	**2006**
Governance			
Maintain compliance with combined code	Yes	Yes	Yes
Employees			
Measure training/employee (days)	0.5	1	1.22
Number of apprentices employed	116	139	206
Health & Safety			
Lost time accidents	57	51	47

Corporate Responsibility Report 2006

Corporate responsibility issues are also addressed in the Corporate Responsibility Report 2006 which is available to shareholders on the company's website www.bellway.co.uk or on written application to the Group Company Secretary at the Company's registered office.

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 sub-contractors 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.

Key Performance Indicators	2004	2005	2006
Percentage of homes developed on brownfield sites	75	78	81
Density of build per hectare (no. of homes)	56	69	69
Number of EcoHomes with 'Very Good' rating	168	224	263
Average SAP rating for all Bellway homes	95.6	90	90
CO_2 Emissions (tonnes per 100m^2 of floor space)	2.22	2.20	1.60
Tonnes of plasterboard recycled	1,287	2,408	4,708
Water consumption (m^3 per home built)	10.85	10.81	10.74

Corporate Responsibility Report 2006

Environmental issues are also addressed in the Corporate Responsibility Report 2006 which is available to shareholders on the Company's website www.bellway.co.uk or on written application to the Group Company Secretary at the Company's registered office.

Ransom's Yard, Hitchin, Hertfordshire

Financial Review

Bellway is a volume housebuilder selling primarily in the private market and trading nationally in areas of high population.

"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."

Its principal subsidiary company is Bellway Homes Limited which, during the financial year to 31 July 2006, traded throughout Great Britain from seventeen of its eighteen operating divisions.

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.

Parklands, Sheffield, South Yorkshire

Lamba Court, Salford, Greater Manchester

Reporting Requirements

The accounting policies of the Group are stated on pages 53 to 56.

The report on corporate governance, as recommended in the 'Combined Code', is stated on pages 32 to 36.

The Report of the Board on Directors' Remuneration is shown on pages 38 to 46.

International Financial Reporting Standards (IFRS)

This is the first year in which the Group and the Company have issued annual consolidated financial statements under IFRS.

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRS 1 - '*First time adoption of IFRS*'. Comparative information has also been stated on an IFRS basis.

An explanation of the restatement of financial information as a result of the transition to IFRS as well as reconciliations of profit and equity for the Group and the Company are included on pages 84 to 91.

Income Statement

Revenue and profit from the sale of homes is recorded when sales are legally completed. The Group builds an extensive range of homes and a geographical summary of the homes sold in the year to 31 July is detailed in the following table:

Division	Homes sold Number		Average selling price £000		Revenue £m	
Northern Region	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
East Midlands	**486**	580	**158.0**	153.3	**76.8**	88.9
Manchester	**510**	609	**146.7**	152.9	**74.8**	93.1
North East	**637**	682	**178.3**	181.0	**113.5**	123.5
Scotland East	**254**	52	**186.1**	182.9	**47.3**	9.5
Scotland West	**420**	452	**153.6**	175.9	**64.5**	79.5
West Lancashire	**600**	600	**135.9**	134.8	**81.6**	80.9
West Midlands	**382**	431	**146.7**	145.3	**59.9**	62.6
Yorkshire	**475**	279	**133.5**	139.9	**63.4**	39.0
Northern Sub-Total	**3,764**	3,685	**154.6**	156.6	**581.8**	577.0
Southern Region						
Essex	**492**	491	**180.1**	185.8	**88.6**	91.2
Northern Home Counties	**354**	322	**168.9**	192.3	**59.8**	61.9
North London	**357**	423	**222.8**	192.2	**79.5**	81.3
South East	**430**	575	**223.2**	174.6	**95.9**	100.4
South West	**153**	106	**152.9**	169.2	**23.4**	17.9
Thames Gateway North	**42**	-	**203.8**	-	**8.6**	-
Thames Gateway South	**600**	490	**169.0**	140.7	**101.4**	69.0
Wales	**458**	408	**176.1**	166.4	**80.6**	67.9
Wessex	**467**	501	**178.3**	159.9	**83.3**	80.1
Southern Sub-Total	**3,353**	3,316	**185.2**	171.8	**621.1**	569.7
GROUP TOTAL	**7,117**	7,001	**169.0**	163.8	**1,202.9**	1,146.7

The above new homes sold include 790 (2005 - 828) housing association sales. In addition, the Group derived £37.3 million (2005 - £31.4 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 sales of these properties are not included in the above figures. The net result of these transactions is classified as a cost of sale.

Gross profit improved from £281.9 million to £292.3 million and administrative expenses during the year increased from £51.8 million to £52.9 million representing 4.3% of turnover (2005 – 4.4%).

The total operating profit of £239.3 million compares to £230.1 million last year, giving an operating margin of 19.3% on revenue (2005 – 19.5%). The second half operating margin was 19.5%, the same as in the second half of 2004/05.

All the Group operating profit arose in Great Britain.

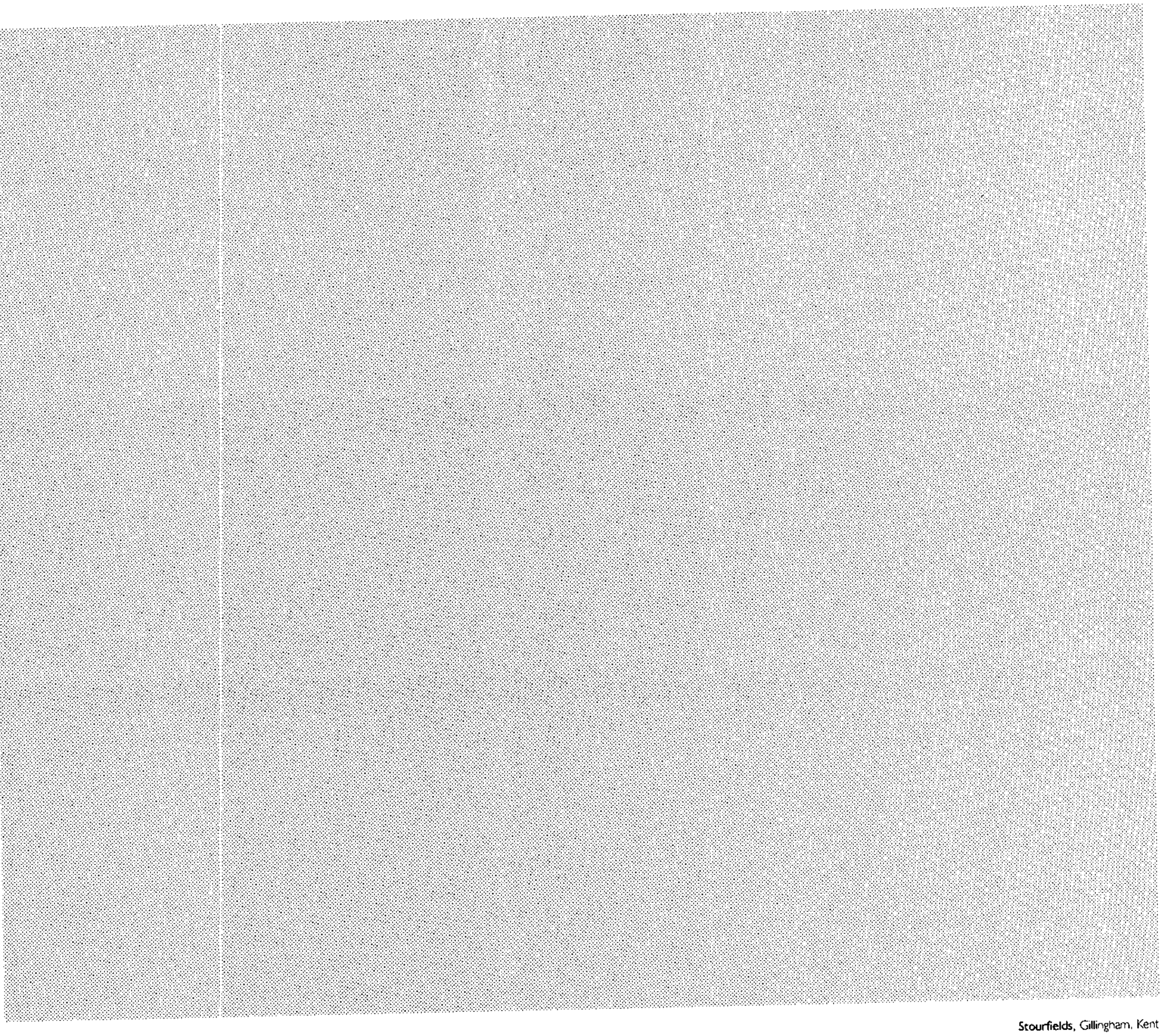
The associated undertakings loss of £233,000 (2005 – £94,000 profit) represents the Group's share in 50% owned companies. The Group also operated a joint venture with English Partnerships called Barking Riverside Limited. It accounted for this company on a jointly controlled entity basis as prescribed in IAS 31 – "Accounting for Joint Ventures".

Finance expenses are written off as incurred and this year amounted to £21.3 million compared to £18.6 million in 2005.

The profit before taxation of £220.7 million is a record high for the Group, improving by £6.9 million from £213.8 million, an increase of 3.2%.

The tax charge for the year of £65.0 million (2005 – £64.7 million) is 29.5% (2005 – 30.2%) of pre-tax profits following the impact of deferred tax accounting. The current tax charge is 28.7% (2005 – 30.8%) and this compares with the standard rate of corporation tax of 30.0% for the year (2005 – 30.0%). The Group does not have the benefit of any unused tax losses.

The Board is recommending a dividend for the year of 34.5 pence per ordinary share and this is an increase of 10.4% on the previous year, which is covered just less than 4.0 times by earnings (2005 – 4.3 times). Basic earnings per share amount to 137.5 pence, compared to 133.1 pence, an increase of 3.3%.



Stourfields, Gillingham, Kent

Balance Sheet

The Balance Sheet remains strong with inventories increasing from £1,283.2 million to £1,434.0 million, including our land holdings at 31 July 2006 with residential planning permission which total some 22,600 units (2005 – 22,500 units). In addition, we have extensive land interests with development potential.

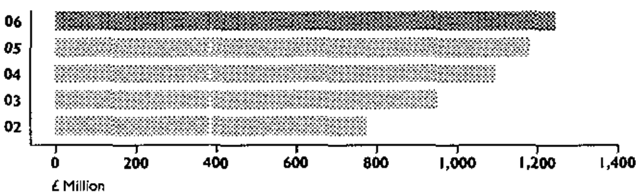
At 31 July 2006 borrowings (loans and preference shares), net of cash balances and bank overdrafts, were £173.7 million compared with £191.6 million last year. The Group's gearing at 31 July 2006 was 19.2% compared with 24.5% last year. Net current assets increased by £36.3 million from £1,030.5 million to £1,066.8 million.

Total equity increased by £123.7 million from £779.8 million to £903.5 million, reflecting total recognised income of £154.2 million, ordinary dividends paid of £36.9 million and share issues and share option movements in reserves of £6.4 million.

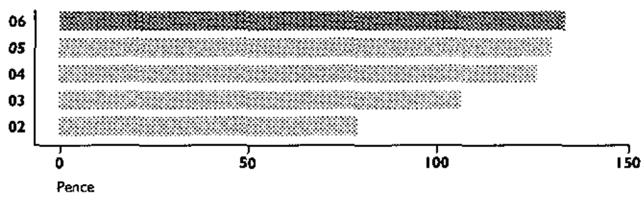
Willow Court, Chelmsford, Essex

Bishop's Corner, Hulme, Manchester

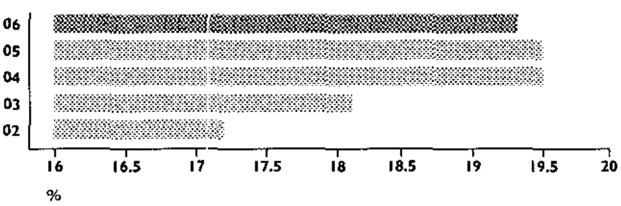
Revenue



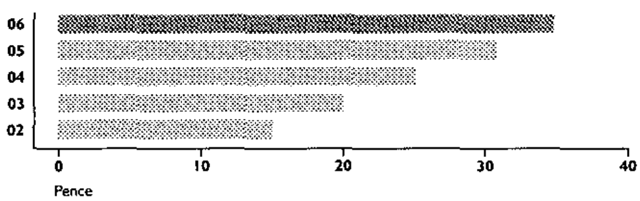
Earnings per ordinary share



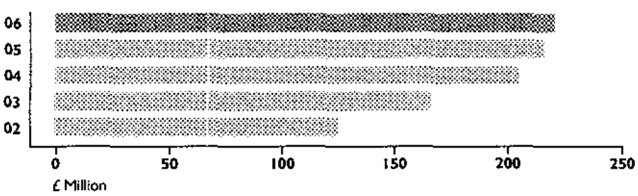
Operating Margin



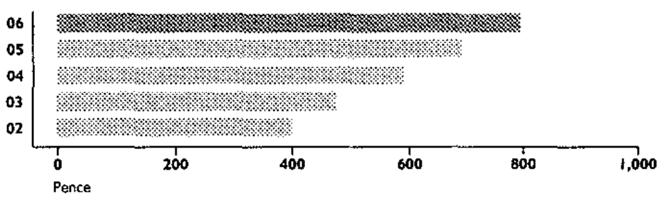
Dividend per ordinary share



Profit before taxation



Net asset value per ordinary share



The figures for 2006 and 2005 were prepared under IFRS. The figures for 2004, 2003 and 2002 were prepared under UK GAAP.

"A sophisticated cash forecasting system enables the Group to plan and assess its future treasury needs."

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 2006 are disclosed in note 16 on page 68. This states that the fair values are not materially different to their book value except that, for the 9.5% cumulative redeemable preference shares 2014 and the long term fixed rate bank loan, the fair value exceeds book value by £4.9 million and £0.2 million 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 2006 was 1,174p (2005 – 861p). This compares with a book net asset value at 31 July 2006 of 793p (2005 – 689p).

A M Leitch
Finance Director
16 October 2006

Operating Risk Statement

The management of risk is a key operating component of the Bellway group. The manner in which this is carried out is very important to the long term success of the business. The principal operating risks of the Group include but are not limited to the following areas:

Land	Inability to source suitable land at satisfactory margins would have a detrimental effect on the Group's land bank and consequently its future success.
Planning	Delays and the increased complexity of the planning process hampers and slows the Group's growth prospects.
Sales	Matching the appropriate product to the correct market at the right price and in suitable locations.
Construction	Ensuring, in a competitive labour market, that appropriately skilled personnel are available and that suitable materials are also available at the right price.
Environment	Housebuilding has a significant effect on the environment. It is important that the effects of the Group's developments are, as far as possible, positive rather than negative.
Health & Safety	It is important to ensure that the Group has adequate systems in place to mitigate, as far as possible, the dangers inherent in the construction process.
Personnel	Attracting and retaining the correct personnel is key to the Group's long term success. Failure to do so will severely affect the Group's ability to perform in a highly competitive market.
Information Technology	It is vital that the Group has suitable systems in place to ensure that, as far as possible, a smooth flow of information operates throughout the Group and that the risk of system loss is mitigated and supported by appropriate contingency plans.
Insurance	It is vital that suitable insurance arrangements exist to underpin and support the many areas in which the Group is exposed to risk of loss.

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 2006.

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 that fulfils the requirements of the business review can now be found in the Chairman's Statement on pages 3 to 6, the Chief Executive's Operating Review on pages 11 to 16, the Financial Review on pages 21 to 28, the Corporate Responsibility Policy Statement on pages 17 and 18 and the Environmental Policy Statement on pages 19 and 20. In addition, information in respect of the operating risks of the business is set out in the Operating Risk Statement on pages 29 and 30.

Results and dividends

The profit for the year attributable to equity holders of the parent amounts to £155,742,000.

Ordinary dividends

The directors have proposed a final ordinary dividend in respect of the current financial year of 20.2p per share. This has not been included within creditors as it was not approved before the year end. Dividends paid during the year comprise a final dividend of 18.25p per share in respect of the previous year ended 31 July 2005, together with an interim dividend in respect of the year ended 31 July 2006 of 14.3p per share.

The directors recommend payment of the final dividend on Monday 15 January 2007 to shareholders on the Register of Members at the close of business on Friday 15 December 2006.

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 J K Watson and Mr P M Johnson, 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 Johnson. Being eligible, all three offer themselves for re-election.

Mr J K Watson 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. On the expiry of his current letter of appointment, it is the Company's intention to provide Mr Finn with a further letter of appointment for a period of twelve months to expire at the conclusion of the Annual General Meeting in January 2008.

Mr P M Johnson 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. It is intended that Mr Johnson will be provided with a further letter of appointment for a period of three years commencing on 1 November 2006.

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 38 to 46.

Report of the Directors (continued)

Notifiable shareholders' interests

As at 16 October 2006, 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 10,169,769 shares, representing 8.92%.
Prudential plc holding of 4,401,651 shares, representing 3.86%.
HBOS plc holding of 4,261,453 shares, representing 3.74%.
Legal and General holding of 3,629,689 shares, representing 3.18%.

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 38 to 46, describes how the Principles of Good Governance, which are set out in Section 1 of the Combined Code, 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 2006.

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 pages 9 and 10. 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.

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 ten Board meetings, three Audit Committee meetings, five 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 D G Perry was unable to attend one Board meeting and one meeting of the Board Committee on Executive Directors' Remuneration.

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 considers this to be vital for the role of senior independent non-executive director. 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 and all directors seek re-election every three years in accordance with the Articles of Association. 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 a non-executive director is for a specified term and re-appointment is not automatic and is made on the recommendation of the Committee.

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.

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 who is due for re-election at the forthcoming Annual General Meeting because he has served in excess of six years as a non-executive director 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 either on request, or at the Annual General Meeting or on the Company's website: www.bellway.co.uk

Report of the Directors (continued)

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 required. 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.

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 five 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 Chairman. The Report of the Board on Directors' Remuneration on pages 38 to 46 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 is chaired by Mr J K Watson. 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.

Report of the Directors (continued)

Directors' remuneration

The principles and details of directors' remuneration are detailed in the Report of the Board on Directors' Remuneration on pages 38 to 46.

Accountability and audit

The statement on going concern and the Statement of Directors' Responsibilities in Respect of the Directors' Report and Financial Statements are shown on pages 36 and 47 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, sales, environmental issues, personnel, 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.

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.

Report of the Directors (continued)

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 appraised of shareholder and investor views and activities at Board meetings by the Chief Executive and the Finance Director. Further information for shareholders is available under Shareholder Information on pages 93 to 95 and also on the Company's website at 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 Corporate Responsibility Policy Statement on pages 17 and 18, the Environmental Policy Statement on pages 19 and 20 and in the Corporate Responsibility Report which is available to shareholders on the Company's website 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 health and 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 pages 11 to 16, in the Corporate Responsibility Policy Statement on pages 17 and 18 and in the Corporate Responsibility Report which is available as mentioned above.

Donations

During the year the Group made no political contributions but donated £87,291 (2005 - £85,290) for charitable purposes.

Report of the Directors (continued)

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 2006 of £92,646,000 (2005 - £88,754,000) gave a creditor payment period of 30 days (2005 - 29 days). Land creditors due within one year were £92,606,000 (2005 - £103,566,000). Including land creditors, the creditor payment period was 59 days (2005 – 63 days).

The parent company had no land or trade creditors at 31 July 2006 (2005 - £Nil).

Disclosure of all relevant information to auditors

The directors who held office at the date of approval of this Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting - special business

Three resolutions will be proposed as special business at the forthcoming Annual General Meeting. Explanatory notes on these resolutions are set out in Shareholder Information on pages 93 to 95.

By order of the Board

G K Wrightson
Group Company Secretary
16 October 2006

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.

Service contracts

The executive directors have fixed-term service contracts which specify that retirement is at age 60. 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.

It is the intention of the Company to issue new letters of appointment to the following non-executive directors as follows:

Name	Commencement	Expiry
Mr L P Finn	AGM 2007	AGM 2008
Mr D G Perry	1 November 2006	AGM 2009
Mr P M Johnson	1 November 2006	31 October 2009

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 3.5% to 14.28%.

Benefits in kind

Benefits in kind relate mainly to the provision and use of motor vehicles, private medical insurance and home telephone charges.

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. During the year, the Committee agreed to impose an overall cap of 150% of basic salary in the case of outstanding performance.

Report of the Board on Directors' Remuneration (continued)

A range of EPS 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.

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 good leaver 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 executive 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 enabled executive directors 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. No further options may be granted under this Scheme. 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 were formerly quoted in the 'Building and Construction' sector but whose shares are now quoted in the 'Household Goods' sector of the FTSE 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 was intended that options for at least an equivalent number of shares would 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)

The companies comprising the comparator group for the awards in the financial year commencing on 1 August 2006 are as follows:

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

The Committee will continue to review the composition of the comparator group.

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.

In addition to the TSR performance condition, the committee must be satisfied that TSR is reflective of underlying financial performance.

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 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 were largely unaffected (other than the imposition of the lifetime allowance) by the changes to the tax treatment of the current UK pension regime as contained in the Finance Act 2004. The Committee considered that no action was necessary to take account of these changes.

Further details in relation to executive directors' pensions can be found under 'Directors' pension information' on page 46.

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 2006	1 August 2005
Beneficial interests		
H C Dawe	**100,352**	100,352
J K Watson	**303,770**	276,753
P J Stoker	**486,000**	475,000
A M Leitch	**68,900**	53,700
L P Finn	**29,747**	29,747
D G Perry	**5,000**	5,000
P M Johnson	**2,000**	2,000

Report of the Board on Directors' Remuneration (continued)

There has been no change in the above holdings between 31 July 2006 and the date of this report.

During the year the Committee agreed to impose a minimum shareholding requirement on the executive directors equivalent to 100% of basic salary applicable from time to time. Any executive directors appointed in the future will be given an appropriate period of time to acquire the requisite shareholding.

Mr H C Dawe had a beneficial interest in 554,164 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 2006 and 16 October 2006 (1 August 2005 – 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 38 and 39. The number of shares held in the Trust in respect of each director (which excludes the deferred annual bonus on page 43), is as follows:

	Fully paid ordinary shares	
	31 July 2006	*1 August 2005*
Beneficial interests		
H C Dawe	**67,789**	85,881
J K Watson	**81,638**	72,168
P J Stoker	**66,456**	61,857
A M Leitch	**53,713**	38,563

There has been no change in the above holdings between 31 July 2006 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 39 and 40. 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)	14 November 2005 (market value on award 950.5p)	Vested	**Awards held at 31 July 2006**	Awards held at 1 August 2005
Potential future beneficial interests						
H C Dawe	55,639	-	-	-	**55,639**	55,639
J K Watson	47,368	54,016	42,083	-	**143,467**	101,384
P J Stoker	40,000	39,801	30,510	-	**110,311**	79,801
A M Leitch	31,579	34,115	28,406	-	**94,100**	65,694

Vesting of these awards is conditional on the achievement of the same TSR performance conditions described on page 39, other than the fact that the comparative group included Countryside Properties PLC and Westbury plc, both of which have now de-listed.

There has been no change in the above potential future beneficial interests between 31 July 2006 and the date of this Report.

The executive directors had no further potential future beneficial interest in ordinary shares at 31 July 2006 and at 16 October 2006 (1 August 2005 – Nil) which are held by the Bellway p.l.c. Employee Share Trust (1992). For this Trust, a linking agreement is in place between the Group and the trustees of the Trust, Capita IRG Trustees Limited. This agreement ensures that sufficient shares / cash are available in the Trust to meet obligations as they arise. The directors had a joint non-beneficial interest in 18,000 ordinary shares at 31 July 2006 and 16 October 2006 (1 August 2005 - 18,000) which are held by the Bellway p.l.c. 1988 Employee Benefit Trust.

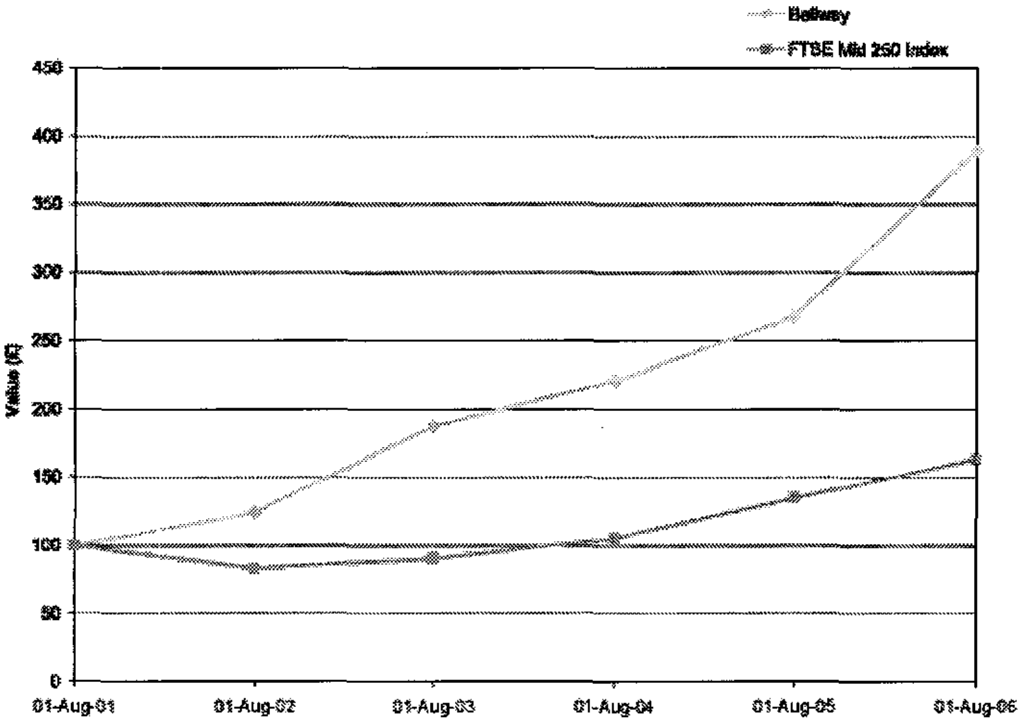
Report of the Board on Directors' Remuneration (continued)

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 2006, of £100 invested in Bellway on 31 July 2001 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 Fees	Taxable Benefits	Annual Bonus		Total	
			Cash	Deferred	**2006**	2005
	£	£	£	£	**£**	£
Non-Executive Chairman						
H C Dawe	207,000	9,535	-	-	**216,535**	436,295
Executives						
J K Watson	400,000	32,666	240,000	240,000	**912,666**	865,983
P J Stoker	290,000	20,995	174,000	174,000	**658,995**	636,597
A M Leitch	270,000	23,062	162,000	162,000	**617,062**	548,279
Non-Executives						
L P Finn	42,500	-	-	-	**42,500**	37,500
D G Perry	40,000	-	-	-	**40,000**	35,000
P M Johnson	40,000	-	-	-	**40,000**	35,000
Total	1,289,500	86,258	576,000	576,000	**2,527,758**	2,594,654

Report of the Board on Directors' Remuneration (continued)

Details of all directors' interests in the share option schemes outlined on page 39 are shown below:

Directors' share options

	Scheme	1 August 2005	Granted during the year	Exercised during the year	**31 July 2006**	Exercise price (p)	Date from which exercisable	Expiry date
H C Dawe	(a)	4,800	-	-	**4,800**	621.50	24 Oct 2006	23 Oct 2013
	(b)	65,000	-	65,000	-	468.90	16 Oct 2005	15 Oct 2012
	(b)	69,200	-	-	**69,200**	621.50	24 Oct 2006	23 Oct 2013
	(e)	1,884	-	-	**1,884**	489.60	1 Feb 2007	31 July 2008
		140,884	-	*65,000*	**75,884**			
J K Watson	(b)	19,000	-	19,000	-	468.90	16 Oct 2005	15 Oct 2012
	(b)	40,000	-	40,000	-	548.50	22 April 2006	21 April 2013
	(b)	65,500	-	-	**65,500**	621.50	24 Oct 2006	23 Oct 2013
	(e)	1,762	-	-	**1,762**	537.60	1 Feb 2008	31 July 2009
		126,262	-	59,000	**67,262**			
P J Stoker	(a)	5,300	-	5,300	-	548.50	22 April 2006	21 April 2013
	(b)	60,000	-	-	**60,000**	621.50	24 Oct 2006	23 Oct 2013
	(b)	20,000	-	20,000	-	335.40	28 Nov 2003	27 Nov 2010
	(b)	62,100	-	62,100	-	409.30	25 April 2004	24 April 2011
	(b)	19,000	-	19,000	-	468.90	16 Oct 2005	15 Oct 2012
	(b)	29,700	-	29,700	-	548.50	22 April 2006	21 April 2013
	(e)	1,762	-	-	**1,762**	537.60	1 Feb 2008	31 July 2009
		197,862	-	136,100	**61,762**			
A M Leitch	(a)	4,800	-	-	**4,800**	621.50	24 Oct 2006	23 Oct 2013
	(b)	49,200	-	-	**49,200**	621.50	24 Oct 2006	23 Oct 2013
	(b)	19,000	-	19,000	-	468.90	16 Oct 2005	15 Oct 2012
	(b)	30,000	-	30,000	-	548.50	22 April 2006	21 April 2013
	(e)	1,762	-	-	**1,762**	537.60	1 Feb 2008	31 July 2009
		104,762	-	49,000	**55,762**			

References to (a), (b) and (e) correspond with the summary of outstanding share options in note 17 on pages 69 and 70.

All of the above options were granted for nil consideration.

The market price of the ordinary shares at 31 July 2006 was 1,174p and the range during the year was 824p to 1,279p.

Report of the Board on Directors' Remuneration (continued)

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

	Scheme	Shares (no.)	Option price (p)	Market value of share (p)	Date of exercise
H C Dawe	(b)	65,000	468.90	908.00	2 Nov 2005
J K Watson	(b)	19,000	468.90	906.00	4 Nov 2005
	(b)	40,000	548.50	1,244.00	8 May 2006
P J Stoker	(b)	19,000	468.90	906.00	4 Nov 2005
	(b)	20,000	335.40	999.00	14 Nov 2005
	(b)	50,000	409.30	1,046.50	16 Dec 2005
	(b)	12,100	409.30	1,106.00	22 Dec 2005
	(a)	5,300	548.50	1,191.00	25 April 2006
	(b)	29,700	548.50	1,244.00	8 May 2006
A M Leitch	(b)	19,000	468.90	906.00	4 Nov 2005
	(b)	30,000	548.50	1,244.00	8 May 2006

Aggregate gains made by directors on exercise of share options in the year were £1,797,649 (2005 - £2,570,149).

The performance conditions set out on page 39 in relation to the options exercised on 2 November 2005, 4 November 2005, 14 November 2005, 16 December 2005, 22 December 2005, 25 April 2006 and 8 May 2006 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 39.

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 2005	Increase in accrued pension during the year excluding inflation to 31 July 2006	Increase in accrued pension during the year including inflation to 31 July 2006	Transfer value of the increase in entitlement during the year	Accrued pension as at 31 July 2006	Transfer value of pension as at 31 July 2006	Transfer value of pension as at 31 July 2005
	£	£	£	£	£	£	£
J K Watson	189,693	12,616	17,738	185,704	207,431	3,053,000	2,098,000
P J Stoker	129,376	6,616	10,109	120,969	139,485	2,550,000	1,896,000
A M Leitch	114,904	17,204	20,306	254,689	135,210	2,002,000	1,283,000

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 2005 i.e. 2.7%.

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 2006 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 2006 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
16 October 2006

Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing the Directors' Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requ res the directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the Company financial statements on the same basis.

The Group and Company financial statements are required by law and IFRSs, as adopted by the EU, to present fairly the financial position of the Group and Company and the performance for that period. The Companies Act 1985 provides, in relation to such financial statements, that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements 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.

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

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

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

We have audited the Group and Company financial statements (the "financial statements") of Bellway p.l.c. for the year ended 31 July 2006 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Recognised Income and Expense, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report 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 bocy, for our audit work, for this Report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements on page 47.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, Chief Executive's Operating Review, the Corporate Responsibility Policy Statement, the Environmental Policy Statement, the Financial Review and the Operating Risk Statement that is cross referenced from the Performance and Prospects section of the Directors' Report. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 and consider whether it is consistent with the audited financial statements. We consider the implications for our Report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company'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 financial statements and the part of the Directors' Remuneration Report 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 financial statements and the part of the Directors' Remuneration Report to be audited.

Report of the Independent Auditors to the Members of Bellway p.l.c. (continued)

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 July 2006 and of its profit for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 July 2006;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants
Registered Auditor
Newcastle upon Tyne

16 October 2006

Group Income Statement for the year ended 31 July 2006

	Notes	2006	2005
		£000	£000
Revenue	1	**1,240,193**	1,178,063
Cost of sales		**(947,921)**	(896,167)
Gross profit		**292,272**	281,896
Administrative expenses		**(52,932)**	(51,784)
Operating profit	4	**239,340**	230,112
Finance income	2	**2,941**	2,250
Finance expenses	2	**(21,339)**	(18,627)
Share of (loss) / profit of associates	10	**(233)**	94
Profit before taxation		**220,709**	213,829
Income tax expense	5	**(64,967)**	(64,667)
Profit for the year (all attributable to equity holders of the parent)		**155,742**	149,162
Earnings per ordinary share - basic	7	**137.5p**	133.1p
Earnings per ordinary share - diluted	7	**136.2p**	131.8p

In accordance with IFRS1 (First-time Adoption of IFRS), reconciliations of Group profit and Group equity on transition to International Financial Reporting Standards (IFRSs) can be found on pages 87 to 89.

Statements of Recognised Income and Expense

for the year ended 31 July 2006

	Notes	Group	Group	Company	Company
		2006	2005	**2006**	2005
		£000	£000	**£000**	£000
Actuarial losses on defined benefit pension scheme		**(2,203)**	(5,040)	**-**	-
Tax on items taken directly to equity	5	**661**	1,512	**-**	-
Net expense recognised directly in equity		**(1,542)**	(3,528)	**-**	-
Profit for the year		**155,742**	149,162	**138,100**	133,100
Total recognised income **(all attributable to equity holders of the parent)**	18	**154,200**	145,634	**138,100**	133,100

Balance Sheets at 31 July 2006

	Notes	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
ASSETS					
Non-current assets					
Property, plant and equipment	8	**13,749**	17,631	-	-
Investment property	9	**1,713**	-	-	-
Investments in subsidiaries, associates and jointly controlled entities	10	-	136	**16,203**	16,203
Other receivables	13	**5,736**	7,462	-	-
Deferred tax assets	11	**10,174**	11,475	-	-
		31,372	36,704	**16,203**	16,203
Current assets					
Inventories	12	**1,433,999**	1,283,222	-	-
Trade and other receivables	13	**26,503**	31,703	**662,401**	558,078
Cash and cash equivalents	16	**2,329**	66,441	**4,977**	4,970
		1,462,831	1,381,366	**667,378**	563,048
Total assets		**1,494,203**	1,418,070	**683,581**	579,251
LIABILITIES					
Non-current liabilities					
Interest bearing loans and borrowings	14	**159,000**	256,000	**20,000**	20,000
Retirement benefit obligations	23	**11,716**	12,084	-	-
Land payables	15	**23,958**	19,265	-	-
		194,674	287,349	**20,000**	20,000
Current liabilities					
Interest bearing loans and borrowings	14	**17,024**	2,000	-	-
Trade and other payables	15	**349,995**	316,591	**892**	888
Current tax liabilities		**29,010**	32,302	-	-
		396,029	350,893	**892**	888
Total liabilities		**590,703**	638,242	**20,892**	20,888
Net assets		**903,500**	779,828	**662,689**	558,363
EQUITY					
Issued capital	17	**14,252**	14,154	**14,252**	14,154
Share premium	18	**111,903**	108,886	**111,903**	108,886
Other reserves	18	**1,492**	1,492	**2,145**	2,145
Retained earnings	18	**775,919**	655,362	**534,389**	433,178
Total equity attributable to equity holders of the parent		**903,566**	779,894	**662,689**	558,363
Minority interest		**(66)**	(66)	-	-
Total equity		**903,500**	779,828	**662,689**	558,363

Approved by the Board of Directors on 16 October 2006 and signed on its behalf by:

H C Dawe
Director

A M Leitch
Director

Cash Flow Statements for the year ended 31 July 2006

	Notes	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Cash flows from operating activities					
Profit for the year		**155,742**	149,162	**138,100**	133,100
Depreciation charge		**3,141**	3,269	-	-
Profit on sale of property, plant and equipment		**(1,152)**	(189)	-	-
Finance income		**(2,941)**	(2,250)	-	-
Finance expenses		**21,339**	18,627	**1,900**	1,900
Dividends received		-	-	**(140,000)**	(135,000)
Share based payment charge		**2,550**	1,575	-	-
Income tax expense		**64,967**	64,667	-	-
Increase in inventories		**(150,777)**	(227,574)	-	-
Decrease / (increase) in trade and other receivables		**6,895**	(11,858)	**(104,326)**	(105,446)
Increase in trade and other payables		**32,243**	9,249	-	-
Cash from operations		**132,007**	4,678	**(104,326)**	(105,446)
Interest paid		**(17,937)**	(15,374)	**(1,900)**	(1,900)
Income tax paid		**(65,198)**	(68,062)	-	-
Net cash inflow / (outflow) from operating activities		**48,872**	(78,758)	**(106,226)**	(107,346)
Cash flows from investing activities					
Acquisition of property, plant and equipment		**(4,808)**	(5,153)	-	-
Acquisition of investment property		**(1,713)**	-	-	-
Proceeds from sale of property, plant and equipment		**6,721**	1,066	-	-
Interest received		**2,962**	2,267	-	-
Dividends received		-	-	**140,000**	135,000
Net cash inflow / (outflow) from investing activities		**3,162**	(1,820)	**140,000**	135,000
Cash flows from financing activities					
(Decrease) / increase in bank borrowings		**(97,000)**	63,000	-	-
Proceeds from the issue of share capital on exercise of share options		**3,115**	4,540	**3,115**	4,540
Purchase of own shares by employee share option plans		**(403)**	(313)	-	-
Dividends paid		**(36,882)**	(32,150)	**(36,882)**	(32,150)
Net cash (outflow) / inflow from financing activities		**(131,170)**	35,077	**(33,767)**	(27,610)
Net (decrease) / increase in cash and cash equivalents		**(79,136)**	(45,501)	**7**	44
Cash and cash equivalents at beginning of year		**66,441**	111,942	**4,970**	4,926
Cash and cash equivalents at end of year	20	**(12,695)**	66,441	**4,977**	4,970

Accounting Policies

Basis of preparation

Bellway plc (the 'Company') is a company incorporated in the UK.

Both the Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') and have been prepared on the historical cost basis. On publishing the Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements and in preparing an opening IFRS balance sheet at 1 August 2004 for the purposes of the transition to Adopted IFRSs.

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

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 26.

Transition to Adopted IFRS

Both the Group and the Company are preparing their financial statements in accordance with Adopted IFRSs for the first time and consequently both have applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided on pages 84 to 86.

IFRS 1 grants certain exemptions from the full requirements of IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Business combinations – Business combinations that took place prior to 1 August 2004 have not been restated.
- Cumulative translation differences – Cumulative translation differences for all foreign operations have been set to zero at 1 August 2004.

Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 July. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.
The financial statements of subsidiaries are included in the Group financial statements from the date that control commences until the date that control ceases.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The Group financial statements include the Group's share of the total recognised income and expense of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. The Group financial statements include the Group's proportionate share of the entities' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

Accounting Policies (continued)

IFRSs available for early adoption not yet applied

The following IFRSs were available for early adoption but have not been applied in these financial statements:

- Amendment to IAS 1: 'Presentation of Financial Statements'.

- IFRS 7: 'Financial instruments: Disclosure'.

- IFRIC 4: 'Determining whether an arrangement contains a lease'.

- IFRIC 8: 'Scope of IFRS 2'.

- Amendment to IAS 39 and IFRS 4 in relation to financial guarantee contracts.

- Amendment to IAS 39 in relation to transition and initial recognition of financial assets and financial liabilities.

The application of IFRS 7 in the current year would not have affected the balance sheets or income statement as this standard relates to disclosure.

The Group intends to apply these standards where applicable in 2007 and does not expect them to have a material effect.

Goodwill

The Group's policy up to and including 1997 was to eliminate goodwill arising upon acquisitions against reserves. Under IFRS 1 and IFRS 3, such goodwill will remain eliminated against reserves.

Property, plant and equipment

Items are stated at cost less accumulated depreciation and impairment losses. The residual value and the useful life of an asset are reviewed at least annually to assess any impairment in value. Depreciation on property, plant and equipment is charged to the income statement on a straight-line basis over their estimated useful lives over the following number of years:

- Plant, fixtures and fittings - 3 to 10 years.

- Freehold buildings - 40 years.

- Freehold land is not depreciated.

Investment property

Investment property is initially recognised at cost. Subsequent to recognition, investment property is measured using the cost model and is carried at cost less any accumulated depreciation and any accumulated impairment losses.

The residual values and useful lives of investment properties are reviewed at each financial year end.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads, not including any general administrative overheads, that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Land held for development, including land in the course of development until legal completion of the sale of the asset, is initially recorded at cost. Where, through deferred payment terms, the fair value of land purchased differs from the amount that will subsequently be paid in settling the liability, this difference is charged as a finance expense in the income statement over the period to settlement.

Options purchased in respect of land are capitalised initially at cost. Regular reviews are carried out for impairment in the value of these options, and provisions made accordingly to reflect loss of value. The impairment reviews consider the period elapsed since the date of purchase of the option given that the option contract has not been exercised at the review date. Further, the impairment reviews consider the remaining life of the option, taking account of any concerns over whether the remaining time available will allow a successful exercise of the option. The carrying cost of the option at the date of exercise is included within the cost of land purchased as a result of the option exercise.

Investments in land without the benefit of planning consent, either through purchase of freehold land or non-refundable deposits paid on land purchase contracts subject to residential planning consent, are included initially at cost. Regular reviews are carried out for impairment in the values of these investments, and provision is made to reflect any irrecoverable element. The impairment reviews consider the existing use value of the land and assess the likelihood of achieving residential planning consent and the value thereof.

Accounting Policies (continued)

Trade and other receivables

Trade receivables are stated at their fair value at the date of initial recognition and subsequently at amortised cost less allowances for impairment.

Cash and cash equivalents

Cash and cash equivalents are defined as cash balances in hand and in the bank (including short term cash deposits). The Group utilises bank overdraft facilities, which are repayable on demand, as part of its cash management policy. As a consequence, bank overdrafts are included as a component of net cash and cash equivalents within the cash flow statement. Offset arrangements across Group businesses have been applied to arrive at the cash and overdraft figures.

Interest bearing loans and borrowings

Interest bearing loans and borrowings are recorded at the proceeds received, with direct issue costs being expensed to the income statement as incurred. Interest is charged to finance expenses as incurred.

Trade and other payables

Trade payables on normal terms are not interest bearing and are stated at their nominal value. Trade payables on deferred terms, most notably in relation to land purchases, are recorded at their fair value. The discount to nominal value is amortised over the period to settlement and charged to finance expenses.

Share capital

- Preference share capital

  Preference share capital is redeemable on 6 April 2014 or at the option of the Company (subject to relevant conditions set out in note 14 on page 66) and is classifiec as a liability. Dividends thereon are recognised in the income statement within finance expenses.

- Dividends

  Dividends on redeemable preference shares are recognised as a liability and accrued using the effective interest rate method.
  Other dividends are recognised as a liability in the period in which they are approved by the shareholders.

Grants

Grants are included within work in progress in the balance sheet and are credited to the income statement over the life of the developments to which they relate.

Revenue recognition

Revenue from private housing sales and land is recognised when transactions have legally completed. Sales of part exchange properties are not included in revenue. The net result of these transactions is classified as a cost of sale.

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

Taxation

The charge for taxation is based on the profit for the year and takes into account current and deferred taxation. The charge is recognised in the income statement except to the extent that it relates to items recognised in equity, in which case it is recognised in equity.

Deferred taxation is provided for all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Accounting Policies *(continued)*

Employee benefits - retirement benefit costs

For the defined benefit scheme, the liability is calculated as the present value of the defined benefit obligation at the balance sheet date. The fair values of scheme assets are then deducted. The calculation is performed by a qualified actuary using the projected unit credit method. All actuarial gains and losses are recognised immediately in the Statement of Recognised Income and Expense (SORIE).

Defined contribution pension costs are charged to the income statement in the period for which contributions are payable.

Employee benefits - share-based payments

In accordance with IFRS 2, the fair value of equity settled share options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured as at the date the options are granted. Various option pricing models are used according to the terms of the option scheme under which the options were granted. The fair value is spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of options that vest.

IFRS 2 has been applied to options granted after 7 November 2002 which had not vested at 1 January 2005.

With respect to share-based payments, a deferred tax asset is recognised on the relevant tax base. The tax base is then compared to the cumulative share-based payment expense recognised in the income statement. Deferred tax arising on the excess of the tax base over the cumulative share-based payment expense recognised in the income statement has been recognised directly in equity outside the SORIE, as share-based payments are considered to be transactions with shareholders.

A deferred tax asset relating to awards issued before 7 November 2002, which follow the exemption of IFRS1 and have not been accounted for under IFRS2, has been recognised on transition. Subsequent reversal of the deferred tax asset and any excess tax benefits are recognised directly in equity.

Own shares held by ESOP trust

Transactions of the Group-sponsored ESOP trust are included in the Group financial statements but are not accounted for within the Company's financial statements. The purchase of shares in the Company by the trust are taken directly to equity.

Operating leases

Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease.

Finance income and expenses

Finance expenses include interest on bank borrowings and dividends on redeemable preference shares. The discounting of the deferred payments for land purchases produces a notional interest payable amount and this is also charged to finance expenses.

Finance income includes interest receivable on bank deposits.

Notes to the Accounts

1 Revenue / segmental analysis

The Group uses business as the basis for primary segmentation. Operations are carried out within one business segment which is housebuilding. No additional business segment information is required to be provided. The Group's secondary segment is geography. It operates in one geographical segment, the United Kingdom, therefore no additional geographical segment information is required to be provided.

2 Finance income and expense

	2006	2005
	£000	£000
Interest income	**2,941**	2,250
Interest payable on bank loans and overdrafts	**16,358**	13,533
Interest on deferred term land payables	**2,680**	2,726
Interest element of movement in pension scheme deficit	**305**	339
Other interest expense	**96**	129
Preference dividends	**1,900**	1,900
Finance expenses	**21,339**	18,627

3 Employee information

Group employment costs, including directors, comprised:

	2006	2005
	£000	£000
Wages and salaries	**79,482**	74,720
Social security	**8,576**	7,950
Pension costs	**6,163**	2,372
Share-based payments	**2,550**	1,575
	96,771	86,617

The average number of persons employed by the Group during the year was 2,446 (2005 - 2,286) comprising 681 (2005 - 668) administrative and 1,765 (2005 - 1,618) production and others employed in housebuilding and associated trading activities.

There were no employment costs incurred by the Company during the year (2005 - Nil).

Key management personnel remuneration, including directors, comprised:

	2006	2005
	£000	£000
Salary and fees	**1,486**	1,394
Taxable benefits	**118**	164
Annual bonus - cash	**664**	739
Annual bonus - deferred	**664**	624
Pension costs	**265**	264
Share-based payments	**1,352**	965
	4,549	4,150

Details of director's remuneration are given in the Remuneration Report on pages 38 to 46.

Key management personnel, as disclosed under IAS 24: 'Related party disclosures', comprises the Board and other senior operational management.

Notes to the Accounts (continued)

4 Operating profit

	2006	2005
	£000	£000
Operating profit is stated after charging / (crediting):		
Staff costs (note 3)	**96,771**	86,617
Profit on sale of property, plant and equipment	**(1,152)**	(189)
Depreciation	**3,141**	3,269
Hire of plant and machinery	**15,133**	11,108
Operating lease charges for land and buildings	**1,590**	1,429
Auditors' remuneration:		
Group audit fees	**250**	167
Tax compliance services	**101**	65
Pension scheme audits	**5**	4
Other services	**21**	28

Group audit fees for 2006 include non-recurring charges in respect of the transition to IFRSs. The fees include £31,000 (2005 - £30,000) in respect of the Company.

Notes to the Accounts (continued)

5 Income tax expense

	2006 £000	2005 £000
Current tax expense:		
UK corporation tax	**67,780**	65,890
Adjustments in respect of prior years	**(4,368)**	6
	63,412	65,896
Deferred tax expense:		
Origination and reversal of temporary differences	**(910)**	(913)
Adjustments in respect of prior years	**2,465**	(316)
	1,555	(1,229)
Total income tax expense in income statement	**64,967**	64,667

	2006 %	2006 £000	2005 %	2005 £000
Reconciliation of effective tax rate:				
Profit before tax		**220,709**		213,829
Tax calculated at UK corporation tax rate	**30.0**	**66,213**	30.0	64,149
Non-deductible expenses	**0.3**	**657**	0.4	800
Adjustments in respect of prior years - current tax	**(1.9)**	**(4,368)**	0.0	6
- deferred tax	**1.1**	**2,465**	(0.2)	(316)
Effective tax rate and tax expense for the year	**29.5**	**64,967**	30.2	64,639

	Income tax 2006 £000	Deferred tax 2006 £000	Total 2006 £000	Total 2005 £000
Tax recognised directly in equity:				
Relating to equity-settled transactions	**-**	**(1,099)**	**(1,099)**	95
Contributions to defined benefit plans				
- cash contribution made in the current year	**(771)**	**110**	**(661)**	(1,512)
- relating to special cash contribution in the year ended 31 July 2003*	**(735)**	**735**	**-**	-
	(1,506)	**845**	**(661)**	(1,512)

* The tax relief relating to this special cash contribution was spread over 4 years.

Notes to the Accounts (continued)

6 Dividends on equity shares

	2006	2005
	£000	£000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 July 2005 of 18.25p per share (2004 - 15.7p)	**20,657**	17,594
Interim dividend for the year ended 31 July 2006 of 14.3p per share (2005 - 13.0p)	**16,232**	14,599
	36,889	32,193
Proposed final dividend for the year ended 31 July 2006 of 20.2p per share (2005 - 18.25p)	**23,028**	20,600

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 12 January 2007 and, in accordance with IAS 10, has not been included as a liability in these financial statements.

7 Earnings per ordinary share

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

Diluted earnings per ordinary share uses the same earnings figure as the basic calculation except that the weighted average number of shares has been adjusted to reflect the dilutive effect of outstanding share options allocated under employee share schemes where the market value exceeds the option price. It is assumec that all dilutive potential ordinary shares are converted at the beginning of the accounting period. Diluted earnings per ordinary share is calculated by dividing earnings by the diluted weighted average number of ordinary shares.

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

	Earnings	***Weighted average*** **number of ordinary shares**	*Earnings*	*Weighted average* number of ordinary shares
	2006	**2006**	2005	2005
	£000	**no.**	£000	no.
For basic earnings per ordinary share	**155,742**	**113,248,814**	149,162	112,054,913
Options and awards	–	**1,121,473**	–	1,134,149
For diluted earnings per ordinary share	**155,742**	**114,370,287**	149,162	113,189,062

Notes to the Accounts (continued)

8 Property, plant and equipment

	Land and property £000	Plant, fixtures and fittings £000	Total £000
Group			
Cost			
At 1 August 2004	9,434	18,937	28,371
Additions	1,774	3,375	5,149
Disposals	-	(4,297)	(4,297)
At 1 August 2005	11,208	18,015	29,223
Additions	894	3,934	4,828
Disposals	(4,791)	(3,857)	(8,648)
At 31 July 2006	**7,311**	**18,092**	**25,403**
Depreciation			
At 1 August 2004	319	11,424	11,743
Charge for year	98	3,171	3,269
On disposals	-	(3,420)	(3,420)
At 1 August 2005	417	11,175	11,592
Charge for year	120	3,021	3,141
On disposals	-	(3,079)	(3,079)
At 31 July 2006	**537**	**11,117**	**11,654**
Net book value			
At 31 July 2006	**6,774**	**6,975**	**13,749**
At 31 July 2005	10,791	6,840	17,631

9 Investment property

	Total £000
Group	
Cost	
At 1 August 2005	-
Additions	1,713
At 31 July 2006	**1,713**

Notes to the Accounts (continued)

9 Investment property (continued)

Investment properties are valued under the cost model and are held at cost less accumulated impairment losses. A formal external valuation of investment properties was not carried out at the end of the financial year as the directors believe there is sufficient, relevant expertise within the Group to perform this exercise.

An internal valuation was carried out by members of the Board of Directors in consultation with senior members of the staff within the Group with relevant qualifications and who have several years of relevant experience. The fair value of investment properties was assessed at £4,434,000.

10 Investments in subsidiaries, associates and jointly controlled entities

The Group and Company have the following investments in subsidiaries, associates and jointly controlled entities:

Company

Subsidiaries

	Shares in subsidiary undertakings £000
Cost	
At 1 August 2005 and at 31 July 2006	**16,203**

Principal subsidiary undertakings

A summary of the principal subsidiary undertakings is given in note 25 on page 83.

Group

Associates

Particulars of significant associates are as follows:

Name	Country of incorporation	Percentage of shares owned directly by Bellway p.l.c.
Leebell Developments Limited	Great Britain	50%
Cramlington Developments Limited	Great Britain	50%

	Investments in associates £000
Cost	
At 1 August 2005 and at 31 July 2006	**5**
Share of post acquisition reserves	
At 1 August 2005	131
Loss for the year	(233)
Transferred to current liabilities	97
At 31 July 2006	**(5)**
Net book value	
At 31 July 2006	**-**
At 1 August 2005	136

Notes to the Accounts (continued)

10 Investments in subsidiaries, associates and jointly controlled entities (continued)

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. Although the associates had an accounting reference date which is different to that of the Group the adjustments in relation to the intervening period are not considered significant. Both companies are engaged in land development.

The amount by which the accumulated share of post acquisition losses exceeds the cost of the investment in associated undertakings has been transferred to current liabilities and included within note 15.

	2006	2005
	£000	£000
Summary of financial information on associates - 100%		
Total assets	**2,754**	3,044
Total liabilities	**(2,956)**	(2,770)
Net (liabilities) / assets of associates	**(202)**	274
Revenue	**930**	2,364
(Loss) / profit after interest and taxation	**(466)**	188

Jointly controlled entity

Name	Country of incorporation	Percentage of shares owned directly by Bellway p.l.c.
Barking Riverside Limited	Great Britain	51%

	2006	2005
	£000	£000
Aggregated amounts relating to share of jointly controlled entity		
Non-current assets	**2**	4
Current assets	**16,980**	16,537
Non-current liabilities	**-**	–
Current liabilities	**(168)**	(227)
Net assets	**16,814**	16,314
Income	**504**	221
Expenses	**(356)**	(196)

Notes to the Accounts (continued)

11 Deferred taxation

The following are the deferred tax assets recognised by the Group and the movements thereon during the current and prior year:

	Capital allowances £000	Retirement benefit obligations £000	Share-based payments £000	Land payables £000	Other temporary differences £000	**Total £000**
Group						
At 1 August 2004	398	3,503	2,041	1,172	2,450	**9,564**
Income statement credit	12	80	473	369	295	**1,229**
Credit to statement of recognised income and expense	-	777	-	-	-	**777**
Charge to equity	-	-	(95)	-	-	**(95)**
At 31 July 2005	410	4,360	2,419	1,541	2,745	**11,475**
Income statement (charge) / credit	(5)	-	676	248	(2,474)	**(1,555)**
Charge to statement of recognised income and expense	-	(845)	-	-	-	**(845)**
Credit to equity	-	-	1,099	-	-	**1,099**
At 31 July 2006	**405**	**3,515**	**4,194**	**1,789**	**271**	**10,174**

There are no deferred tax balances in respect of the Company.

12 Inventories

	2006 £000	2005 £000
Group		
Land	**919,933**	869,807
Work in progress	**452,034**	354,665
Showhomes	**35,408**	28,424
Part exchange properties	**26,624**	30,326
	1,433,999	1,283,222

Inventories of £888,000,000 were expensed in the year (2005 - £842,000,000).

Notes to the Accounts (continued)

13 Trade and other receivables

Non-current receivables

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Other receivables	**5,736**	7,462	**-**	-

Current receivables

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Trade receivables	**12,084**	16,961	**-**	-
Other receivables	**12,448**	13,268	**-**	-
Amounts owed by Group undertakings	**-**	-	**662,344**	558,046
Prepayments and accrued income	**1,971**	1,474	**57**	32
	26,503	31,703	**662,401**	558,078

Other receivables includes £8,781,000 (2005 - £11,005,000) in relation to VAT recoverable, all of which is due within one year.

14 Interest bearing loans and borrowings

Non-current liabilities

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Bank loans	**139,000**	236,000	**-**	-
Preference shares	**20,000**	20,000	**20,000**	20,000
	159,000	256,000	**20,000**	20,000

Current liabilities

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Bank overdrafts	**15,024**	-	**-**	-
Bank loans	**2,000**	2,000	**-**	-
	17,024	2,000	**-**	-

Notes to the Accounts (continued)

14 Interest bearing loans and borrowings (continued)

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.

15 Trade and other payables

Non-current liabilities

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Land payables	**23,958**	19,265	**-**	-

Land payables of £Nil (2005 - £Nil) are secured on certain assets of the Group.

Current liabilities

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Trade payables	**92,646**	88,754	**-**	-
Land payables	**92,606**	103,566	**-**	-
Social security and other taxes	**3,080**	4,049	**-**	-
Other payables	**5,366**	3,305	**291**	287
Accrued expenses	**68,171**	72,071	**601**	601
Payments on account	**88,126**	44,846	**-**	-
	349,995	316,591	**892**	888

Land payables of £17,939,000 (2005 - £37,798,000) are secured on certain assets of the Group.

Notes to the Accounts (continued)

16 Financial instruments

Interest rate risk

Financial assets

Interest on bank balances is calculated on a daily basis, at a rate linked to base rate.

No interest is received on trade or other receivables.

Financial liabilities

The interest rates on the fixed rate borrowing and preference shares apply to the whole term of the relevant instruments.

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

The repayment profile of the Group's financial liabilities is as follows:

	2006	2005
	£000	£000
Within one year or on demand	**295,768**	242,471
In more than one year but not more than two years	**40,699**	93,573
In more than two years but not more than five years	**65,397**	161,692
In more than five years	**76,862**	20,000
	478,726	517,736

The interest rate profile of the Group's interest bearing financial liabilities is as follows:

	Effective interest rate %	*Within one* year or on demand £000	1-2 years £000	2-5 years £000	More than 5 years £000	**Total £000**
Bank overdrafts	5.36	15,024	-	-	-	**15,024**
Bank loans - floating rates	5.50	-	25,000	55,000	55,000	**135,000**
Bank loans - fixed rates	6.71	2,000	2,000	2,000	-	**6,000**
Preference shares	9.50	-	-	-	20,000	**20,000**
At 31 July 2006		**17,024**	**27,000**	**57,000**	**75,000**	**176,024**
Bank loans - floating rates	5.34	-	75,000	155,000	-	230,000
Bank loans - fixed rates	6.71	2,000	2,000	4,000	-	8,000
Preference shares	9.50	-	-	-	20,000	20,000
At 31 July 2005		2,000	77,000	159,000	20,000	258,000

No interest rate has been calculated for the imputed interest on land payables as this is an accounting transaction with no actual interest payment being made by the Group.

Cash and cash equivalents

This comprises cash held by the Group and short-term bank deposits with a maturity date of less than one month.

The carrying amount of these assets approximates their fair value.

At 31 July 2006 the average interest rate earned on the temporary closing cash balance was 1.79 % (2005 - 4.49%).

Notes to the Accounts (continued)

16 Financial instruments (continued)

Credit risk

There was no significant concentration of credit risk at 31 July 2006 or 31 July 2005.

As outlined in note 15 some land payables are secured on certain assets of the Group. No other security is held against any other financial assets of the Group.

Fair values

Financial assets

The carrying values of financial assets equates to their fair values.

Financial liabilities

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

	2006	**2006**	2005	2005
	£000	**£000**	£000	£000
	Book value	**Fair value**	Book value	Fair value
Fixed rate preference shares	**20,000**	**24,850**	20,000	25,700
Fixed rate bank loan	**6,000**	**6,153**	8,000	8,318

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 fa r values of the Group's other financial assets and liabilities are not materially different from their book value.

17 Issued capital

	2006	**2006**	2005	2005
	no. '000	**£000**	no. '000	£000
Group and Company				
Authorised				
Ordinary shares of 12.5p each	**146,000**	**18,250**	146,000	18,250
Allotted, called up and fully paid				
At 1 August 2005	**113,229**	**14,154**	112,061	14,008
Issued on exercise of options	**759**	**98**	1,168	146
At 31 July 2006	**113,988**	**14,252**	113,229	14,154

Notes to the Accounts (continued)

17 Issued capital (continued)

Share options

At 31 July 2006 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)	Date from which exercisable		Expiry date
(a) Bellway p.l.c. (1995) Employee Share Option Scheme				
4,000	305.00	17 December 1999	to	16 December 2006
2,500	343.50	18 June 2000	to	17 June 2007
11,500	361.10	14 May 2001	to	13 May 2008
1,000	273.50	29 October 2001	to	28 October 2008
6,000	354.50	28 May 2002	to	27 May 2009
12,000	248.00	13 April 2003	to	12 April 2010
3,000	277.50	17 October 2003	to	16 October 2010
9,500	409.30	25 April 2004	to	24 April 2011
28,450	474.00	18 April 2005	to	17 April 2012
86,900	524.00	13 May 2006	to	12 May 2013
13,800	621.50	24 October 2006	to	23 October 2013
10,900	712.50	10 May 2007	to	9 May 2014
233,880	716.00	17 November 2007	to	16 November 2014
423,430				
(b) Bellway p.l.c. (1996) Employee Share Option Scheme				
4,000	305.00	17 December 1999	to	16 December 2006
5,000	327.50	9 December 2000	to	8 December 2007
6,000	248.00	13 April 2003	to	12 April 2010
4,500	409.30	25 April 2004	to	24 April 2011
15,350	474.00	18 April 2005	to	17 April 2012
47,516	524.00	13 May 2006	to	12 May 2013
306,200	621.50	24 October 2006	to	23 October 2013
5,100	712.50	10 May 2007	to	9 May 2014
230,120	716.00	17 November 2007	to	16 November 2014
606,550	844.00	31 October 2008	to	30 October 2015
750	1,122.00	16 May 2009	to	15 May 2016
1,231,086				

Notes to the Accounts (continued)

17 Issued capital (continued)

	Number of shares	Exercise price (p)	Date from which exercisable		Expiry date
(c) Bellway p.l.c. (2005) Employee Share Option Scheme					
	144,950	844.00	31 October 2008	to	30 October 2015
(d) Bellway p.l.c. Savings Related Share Option Scheme					
	47,926	345.20	1 August 2006	to	31 January 2007
	92,607	384.00	1 February 2008	to	31 July 2008
	140,533				
(e) Bellway p.l.c. (2003) Savings Related Share Option Scheme					
	180,508	489.60	1 February 2007	to	31 July 2007
	43,940	489.60	1 February 2009	to	31 July 2009
	133,497	537.60	1 February 2008	to	31 July 2008
	67,491	537.60	1 February 2010	to	31 July 2010
	181,007	676.00	1 February 2009	to	31 July 2009
	81,578	676.00	1 February 2011	to	31 July 2011
	688,021				
Total	2,628,020				

Details of directors' share options are contained within the Report of the Board on Directors' Remuneration on page 44.

Notes to the Accounts (continued)

18 Reconciliation of movements in capital and reserves

	Attributable to equity holders of the parent						
	Ordinary share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000	Minority interest £000	Total equity £000
Group							
At 1 August 2004	14,008	104,492	1,492	540,754	660,746	(66)	660,680
Total recognised income and expense	-	-	-	145,634	145,634	-	145,634
Dividends on equity shares	-	-	-	(32,193)	(32,193)	-	(32,193)
Shares issued	146	4,394	-	-	4,540	-	4,540
Charge in relation to share options and tax thereon	-	-	-	1,480	1,480	-	1,480
Exercise of share options / share awards	-	-	-	(313)	(313)	-	(313)
At 31 July 2005	14,154	108,886	1,492	655,362	779,894	(66)	779,828
Total recognised income and expense	-	-	-	154,200	154,200	-	154,200
Dividends on equity shares	-	-	-	(36,889)	(36,889)	-	(36,889)
Shares issued	98	3,017	-	-	3,115	-	3,115
Charge in relation to share options and tax thereon	-	-	-	3,649	3,649	-	3,649
Exercise of share options / share awards	-	-	-	(403)	(403)	-	(403)
At 31 July 2006	**14,252**	**111,903**	**1,492**	**775,919**	**903,566**	**(66)**	**903,500**

Within retained earnings are amounts relating to ordinary shares held by the employee share ownership plans. The number of shares held within these plans at 31 July 2006 was 441,439 (2005 - 488,624) which are held within the financial statements at a value of £2,173,000 (2005 - £2,175,000).

Notes to the Accounts (continued)

18 Reconciliation of movements in capital and reserves (continued)

	Attributable to equity holders of the parent						
	Ordinary share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000	Minority interest £000	Total equity £000
Company							
At 1 August 2004	14,008	104,492	2,145	332,271	452,916	-	452,916
Total recognised income and expense	-	-	-	133,100	133,100	-	133,100
Dividends on equity shares	-	-	-	(32,193)	(32,193)	-	(32,193)
Shares issued	146	4,394	-	-	4,540	-	4,540
At 31 July 2005	14,154	108,886	2,145	433,178	558,363	-	558,363
Total recognised income and expense	-	-	-	138,100	138,100	-	138,100
Dividends on equity shares	-	-	-	(36,889)	(36,889)	-	(36,889)
Shares issued	98	3,017	-	-	3,115	-	3,115
At 31 July 2006	**14,252**	**111,903**	**2,145**	**534,389**	**662,689**	**-**	**662,689**

As permitted by section 230 of the Companies Act 1985, the Company's income statement has not been included in these financial statements. The Company's profit for the financial year was £138,100,000 (2005 - £133,100,000).

Notes to the Accounts (continued)

19 Reconciliation of net cash flow to net debt

	2006	2005
	£000	£000
Group		
Decrease in net cash and cash equivalents	**(79,136)**	(45,501)
Decrease / (increase) in bank loans	**97,000**	(63,000)
Decrease / (increase) in net debt from cash flows	**17,864**	(108,501)
Net debt at 1 August	**(191,559)**	(83,058)
Net debt at 31 July	**(173,695)**	(191,559)

	2006	2005
	£000	£000
Company		
Increase in net cash and cash equivalents	**7**	44
Net debt at 1 August	**(15,030)**	(15,074)
Net debt at 31 July	**(15,023)**	(15,030)

20 Analysis of net debt

	At 1 August 2005	Cash flows	**At 31 July 2006**
	£000	£000	**£000**
Group			
Cash and cash equivalents	66,441	(64,112)	**2,329**
Bank overdrafts	-	(15,024)	**(15,024)**
Net cash and cash equivalents	66,441	(79,136)	**(12,695)**
Bank loans	(238,000)	97,000	**(141,000)**
Preference shares redeemable after more than one year	(20,000)	-	**(20,000)**
Net debt	**(191,559)**	**17,864**	**(173,695)**

	At 1 August 2005	Cash flows	**At 31 July 2006**
	£000	£000	**£000**
Company			
Cash and cash equivalents	4,970	7	**4,977**
Preference shares redeemable after more than one year	(20,000)	-	**(20,000)**
Net debt	**(15,030)**	**7**	**(15,023)**

Notes to the Accounts (continued)

21 Contingent liabilities

The Company has not adopted amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts which will apply for periods commencing on or after 1 January 2006.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company does not expect the amendments to have any impact on the financial statements for the period commencing 1 August 2006.

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 2006 there were bank overdrafts of £15,024,000 (2005 - £Nil) and loans of £141,000,000 (2005 - £238,000,000). 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 £6,000,000 (2005 - £5,170,000).

22 Commitments

	2006	2005
	£000	£000
Group		
Capital commitments		
Contracted not provided	**126**	80
Authorised not contracted	**-**	-

Operating leases

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2006	2005
	£000	£000
Expiring within one year	**1,378**	987
Expiring within the second to fifth years	**4,745**	5,106
Expiring in more than five years	**4,692**	5,691
	10,815	11,784

Operating lease payments principally relate to rents payable by the Group for office premises. These leases are subject to periodic rent reviews.

Company

The commitments of the Company were £Nil (2005 - £Nil)

Notes to the Accounts (continued)

23 Employee benefits

Retirement benefit obligations

The Group sponsors the Bellway p.l.c. 1972 Pension and Life Assurance Scheme which is a funded defined benefit arrangement. The last full actuarial valuation of this Scheme was carried out by a qualified independent actuary as at 1 August 2005 and was updated on an approximate basis to 31 July 2006.

The regular contributions made by the employer over the financial year have been £1,102,000, equivalent to approximately 24.6% of pensionable pay. This includes premiums in respect of death in service benefits. This level of contribution increased to 32.7% of pensionable pay with effect from 1 August 2006 and is to continue until reviewed following the triennial valuation of the Scheme due as at 1 August 2008. In addition, the employer paid a special contribution of £3,274,000 in July 2006. Expenses were paid in addition.

It is the policy of the Company to recognise all actuarial gains and losses in the year in which they occur outside the income statement and in the statement of recognised income and expense.

Insured pensions and defined contributions have been excluded from the assets and liabilities.

Present values of defined benefit obligations, fair value of Scheme assets and deficit:

	2006	2005
	£000	£000
Present value of defined benefit obligations	**(53,338)**	(46,687)
Fair value of Scheme assets	**41,622**	34,603
Deficit in Scheme	**(11,716)**	(12,084)

As all actuarial gains and losses are recognised, the deficits shown above are those recognised in the balance sheet.

Best estimate of contributions to be paid to the Scheme for the year ended 31 July 2007

This best estimate of contributions to be paid to the Scheme for the year ending 31 July 2007 is £1,560,000 in respect of regular contributions and £5,000,000 in respect of special contributions.

Reconciliation of opening and closing balances of the present value of the defined benefit obligation:

	2006	2005
	£000	£000
Defined benefit obligation at start of year	**46,687**	34,061
Current service cost	**1,466**	1,260
Interest cost	**2,435**	2,007
Contributions by plan participants	**77**	81
Actuarial loss	**3,638**	8,916
Benefit paid, death in service insurance premiums and expenses	**(999)**	(593)
Past service costs	**34**	955
Defined benefit obligation at end of year	**53,338**	46,687

Notes to the Accounts (continued)

23 Employee benefits (continued)

Reconciliation of opening and closing balances of the fair value of Scheme assets:

	2006	2005
	£000	£000
Fair value of assets at start of year	**34,603**	27,286
Expected return on assets	**2,130**	1,668
Actuarial gains	**1,435**	3,876
Contributions by employer	**4,376**	2,285
Contributions by plan participants	**77**	81
Benefit paid, death in service insurance premiums and expenses	**(999)**	(593)
Fair value of assets at end of year	**41,622**	34,603

Total expense recognised in the income statement:

	2006	2005
	£000	£000
Current service cost	**1,466**	1,260
Interest on liabilities	**2,435**	2,007
Expected return on assets	**(2,130)**	(1,668)
Past service cost	**34**	955
Total expense	**1,805**	2,554

Of the total expense, £1,500,000 (2005 - £2,215,000) is recognised within administrative expenses and £305,000 (2005 - £339,000) is recognised within finance expenses.

Notes to the Accounts (continued)

23 Employee benefits (continued)

Gains / (losses) recognised in statement of recognised income and expenses:

	2006	2005	**2006**	2005	
	£000	£000	**%**	%	
Difference between expected and actual return on assets	**1,435**	3,876	**(3)**	(11)	% of Scheme assets
Experience gains and losses arising on the scheme liabilities	**(543)**	(3,341)	**1**	7	% of the present value of Scheme liabilities
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	**(3,095)**	(5,575)	**6**	12	% of the present value of Scheme liabilities
Total amount recognised in statement of recognised income and expense	**(2,203)**	(5,040)	**4**	11	% of the present value of Scheme liabilities

The cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expense since adoption of IAS19 is £7,243,000.

Assets

	2006	2005	2004
	£000	£000	£000
Equities	**23,968**	21,071	17,453
Bonds	**12,694**	11,846	8,801
Cash	**4,960**	1,686	1,032
Total	**41,622**	34,603	27,286

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by the Group.

Notes to the Accounts (continued)

23 Employee benefits (continued)

Expected long-term rates of return

The expected long-term return on cash is related to bank base rates at the balance sheet date. The expected return on bonds is determined by reference to UK long-dated gilt and bond yields at the balance sheet date. The expected rate of return on equities has been determined by setting an appropriate risk premium above gilt / bond yields having regard to market conditions at the balance sheet date.

The expected long-term rates of return are as follows:

	2006	2005	2004
	% per annum	% per annum	% per annum
Equities	**6.50**	6.50	6.50
Bonds	**5.00**	5.00	5.00
Cash	**4.00**	4.00	4.00
Overall for scheme	**5.90**	5.90	5.90

Actual return of Scheme assets

The actual return on the Scheme assets over the year ending 31 July 2006 was 9.9%.

Assumptions

	2006	2005	2004
	% per annum	% per annum	% per annum
Inflation	**3.20**	2.75	2.75
Salary increases	**4.20**	3.75	3.75
Rate of discount	**5.10**	5.00	5.75
Allowance for pension in payment increases of RPI or 2.5% p.a. if less	**-**	-	-
Allowance for pension in payment increases of RPI or 5% p.a. if less	**3.20**	2.75	2.75
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	**3.20**	2.75	2.75

The mortality assumptions are based on the 92-series including allowance for the improvements in mortality built into the 92-series projections.

Amounts for the current and previous year:

	2006	2005
	£000	£000
Fair value of assets	**41,622**	34,603
Defined benefit obligation	**53,338**	46,687
Deficit in Scheme	**(11,716)**	(12,084)
Experience adjustment on Scheme liabilities	**(543)**	(3,341)
Experience adjustment on Scheme assets	**1,435**	3,876
Effects of changes in the demographic and financial assumptions underlying the present value of the Scheme liabilities	**(3,095)**	(5,575)

Notes to the Accounts (continued)

23 Employee benefits (continued)

Share-based payments

The Group operates a long-term incentive plan (LTIP), an annual bonus scheme, employee share option schemes (ESOS) and savings related share option schemes (SRSOS) all of which are detailed below. IFRS 2 has been applied to options granted after 7 November 2002, which had not vested at 1 January 2005.

Awards under the LTIP and the annual bonus scheme have been made to executive directors and the company secretary. Share options issued under the Bellway p.l.c. (1995) Employee Share Option Scheme (1995 Scheme) have been granted to employees at all levels as well as to executive directors. The last tranche of shares was awarded to directors in October 2003. No further options may be granted under this scheme. Options issued under the Bellway p.l.c. (1996) Employee Share Option Scheme (1996 Scheme) have been granted to executive directors and certain other employees. Options issued under the Bellway p.l.c. Savings Related Share Option Scheme (SRSOS) are offered to all employees including the executive directors.

Vesting of options under the LTIP is dependent upon total shareholder return of the Group measured against relevant comparator companies, as detailed on page 40 within the Report of the Board on Director's Remuneration. One half of the annual bonus 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 prevailing market value. These shares are held in the Bellway p.l.c. Employee Share Trust (1992) for three years. The shares can then be transferred into the employee's name. In addition, various small share awards were made in 2003 to employees mainly at divisional management level with a three year vesting period.

Share options have been valued by an external third party using various models detailed below, based on publicly available market data at the time of the grant, which the directors consider to be the most appropriate method of determining their fair value.

Reconciliations of share options outstanding and weighted average exercise prices for each type of share option are shown below:

LTIP	**Number of share options 2006**	Number of share options 2005
Outstanding at the beginning of the year	**338,290**	191,879
Granted during the year	**117,923**	146,411
Forfeited during the year	**-**	-
Exercised during the year	**-**	-
Outstanding at the end of the year	**456,213**	338,290
Exercisable at the end of the year	**-**	-

The options outstanding at 31 July 2006 had a weighted average remaining life of 1.2 years.

Annual bonus	**Number of share options 2006**	Number of share options 2005
Outstanding at the beginning of the year	**346,085**	308,630
Granted during the year	**65,649**	115,783
Forfeited during the year	**-**	-
Exercised during the year	**(89,185)**	(78,328)
Outstanding at the end of the year	**322,549**	346,085
Exercisable at the end of the year	**17,000**	74,115

The weighted average share price at the date of exercise for share options exercised during the year was 961.1p.
The options outstanding at 31 July 2006 had a weighted average remaining contractual life of 1.1 years.

Notes to the Accounts (continued)

23 Employee benefits (continued)

Share-based payments (continued)

	Number of share options 2006	**Weighted average exercise price 2006**	Number of share options 2005	Weighted average exercise price 2005
1995, 1996 and 2005 ESOS				
Outstanding at the beginning of the year	**1,547,032**	**579.2p**	2,094,648	464.1p
Granted during the year	**761,750**	**844.3p**	489,000	716.0p
Forfeited during the year	**(35,500)**	**(705.1p)**	(44,666)	(512.7p)
Exercised during the year	**(473,816)**	**(472.9p)**	(991,950)	(406.6p)
Outstanding at the end of the year	**1,799,466**	**717.6p**	1,547,032	579.2p
Exercisable at the end of the year	**392,166**	**601.9p**	312,900	406.2p

The weighted average share price at the date of exercise for share options exercised during the year was 1,048.5p. The options outstanding at 31 July 2006 had exercise prices ranging from 248p to 1,122p and the weighted average remaining contractual life of these options was 8.1 years.

	Number of share options 2006	**Weighted average exercise price 2006**	Number of share options 2005	Weighted average exercise price 2005
SRSOS				
Outstanding at the beginning of the year	**927,542**	**418.4p**	953,023	368.0p
Granted during the year	**283,087**	**676.0p**	237,109	537.6p
Forfeited during the year	**(97,926)**	**(624.6p)**	(72,767)	(457.4p)
Exercised during the year	**(284,149)**	**(304.2p)**	(189,823)	(290.6p)
Outstanding at the end of the year	**828,554**	**482.5p**	927,542	418.4p
Exercisable at the end of the year	-	-	923	330.1p

The weighted average share price at the date of exercise for share options exercised during the year was 1,014.3p. The options outstanding at 31 July 2006 had exercise prices ranging from 245.2p to 676p and the weighted average remaining contractual life of these options was 2.2 years.

Valuation methodology

For the LTIP, a Monte Carlo simulation method is used which allows the Group's performance, in terms of total shareholder return, to be measured against its comparator companies. Individual share price volatilities are calculated for each of the comparator companies. A correlation assumption, appropriate to the building sector, is also used.

In the case of the deferred element of the annual bonus, a simplified Black Scholes method is applied with an exercise price and dividend yield of zero. This is because no performance conditions attach to the award. The result is that the fair value equates to the face value of the award.

For the 1995, 1996 and 2005 Schemes, a lattice method is used which enables early exercise behaviour to be modelled in a more sophisticated manner than under Black Scholes.

The Black Scholes method is used for the SRSOS due to the relatively short exercise window of six months.

Notes to the Accounts (continued)

23 Employee benefits (continued)

Share-based payments (continued)

The inputs into the Monte Carlo model for the various grants under the LTIP were as follows:

	January 2004	November 2004	November 2005
Grant date	19 Jan 2004	30 Nov 2004	14 Nov 2005
Risk free interest rate	-	-	-
Exercise price	-	-	-
Share price at date of grant	667.5p	712p	999p
Expected dividend yield	3.0%	3.0%	2.9%
Expected life	3 years	3 years	3 years
Date of vesting	19 Jan 2007	30 Nov 2007	14 Nov 2008
Expected volatility	25%	25%	25%
Fair value of option	343p	292p	480p

The inputs into the simplified Black Scholes model used for the shares issued under the annual bonus scheme were as follows:

	May 2003	November 2003	October 2004	November 2005
Grant date	31 May 2003	18 Nov 2003	26 Oct 2004	14 Nov 2005
Exercise price	-	-	-	-
Share price at date of grant	575.5p	621.5p	675p	999p
Expected dividend yield	-	-	-	-
Expected life	3 years	3 years	3 years	3 years
Date of vesting	31 May 2006	18 Nov 2006	26 Oct 2007	18 Nov 2008
Fair value of option	575.5p	621.5p	675p	999p

The inputs into the lattice model for the various grants under the 1995 ESOS, the 1996 ESOS and the 2005 ESOS were as follows:

	April 2003	May 2003	October 2003	May 2004	November 2004	October 2005	May 2006
Grant date	22 Apr 2003	13 May 2003	24 Oct 2003	10 May 2004	17 Nov 2004	31 Oct 2005	16 May 2006
Risk free interest rate	4.1%	4.0%	4.9%	5.1%	4.7%	4.4%	4.4%
Exercise price	548.5p	524p	621.5p	712.5p	716p	844p	1,122p
Share price at date of grant	548.5p	524p	621.5p	712.5p	716p	844p	1,122p
Expected dividend yield	3.0%	3.0%	3.0%	3.0%	3.0%	3.4%	3.4%
Expected life	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Date of vesting	22 Apr 2006	13 May 2006	24 Oct 2006	10 May 2007	17 Nov 2007	31 Oct 2008	16 May 2009
Expected volatility	25%	25%	25%	25%	25%	25%	25%
Fair value of option	129p	123p	155p	180p	183p	197p	197p

Notes to the Accounts (continued)

23 Employee benefits (continued)

Share-based payments (continued)

The inputs into the Black Scholes model for the various grants under the SRSOS were as follows:

	November 2002	November 2002	November 2003	November 2003	November 2004	November 2004	November 2005	November 2005
	3 Year SRSOS	5 Year SRSOS	3 Year SRSOS	5 Year SRSOS	3 Year SRSOS	5 Year SRSOS	3 Year SRSOS	5 Year SRSOS
Grant date	26 Nov 2002	26 Nov 2002	25 Nov 2003	25 Nov 2003	19 Nov 2004	19 Nov 2004	15 Nov 2005	15 Nov 2005
Risk free interest rate	4.3%	4.5%	4.8%	5.0%	4.7%	4.7%	4.4%	4.4%
Exercise price	384.0p	384.0p	489.6p	489.6p	537.6p	537.6p	676.0p	676.0p
Share price at date of grant	451p	451p	638p	638p	720p	720p	995p	995p
Expected dividend yield	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.9%	2.9%
Expected life	3 years 2 mths	5 years 2 mths	3 years 2 mths	5 years 2 mths	3 years 2 mths	5 years 2 mths	3 years 2 mths	5 years 2 mths
Date of vesting	1 Feb 2006	1 Feb 2008	1 Feb 2007	1 Feb 2009	1 Feb 2008	1 Feb 2010	1 Feb 2009	1 Feb 2011
Expected volatility	25%	25%	25%	25%	25%	25%	25%	25%
Fair value of option	111p	126p	191p	209p	224p	239p	349p	363p

The expected volatility for all models was determined by considering the volatility levels historically for the Group. Volatility levels for more recent years were considered to have more relevance than earlier years for the period reviewed.

The Group recognised total expenses of £2,550,000 (2005 - £1,575,000) in relation to equity-settled share-based payment transactions.

24 Related party transactions

Transactions between fellow subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

Group

During the year the Group entered into the following related party transactions with its associates and jointly controlled entities:

	2006	2005
	£000	£000
Invoiced to associates in respect of accounting and management fees	**-**	226
Invoiced from associates in respect of management fees	**(18)**	(6)
Invoiced from associates in respect of land purchases and infrastructure works	**-**	(175)
Invoiced to jointly controlled entities in respect of accounting and management fees	**228**	213
Amounts owed by associates in respect of accounting and management fees at the year end	**-**	206
Amounts owed to associates in respect of management fees at the year end	**(2)**	(2)
Amounts owed to associates in respect of land purchases and infrastructure works at the year end	**-**	(175)
Amounts owed by jointly controlled entities in respect of accounting and management fees at the year end	**113**	-

Notes to the Accounts (continued)

24 Related party transactions (continued)

Company

During the year the Company entered into the following related party transactions with its subsidiaries, associates and jointly controlled entities:

	2006	2005
	£000	£000
Amounts received in the year from subsidiaries in respect of dividends and shares issued	**143,115**	139,540
Amounts paid in the year by subsidiaries on behalf of the Company in respect of dividends and finance expenses	**(38,817)**	(33,990)
Amounts owed by subsidiaries in respect of dividends and shares issued, net of amounts paid on behalf of the Company	**662,344**	558,046

25 Principal subsidiary undertakings

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

26 Accounting estimates and judgements

Management considers the key estimates and judgements made in the financial statements to be related to pension liabilities.

Pension Assumptions

The Group has utilised a rate of return on assets and a discount rate having been advised by its actuary. To the extent that such assumed rates are different from what actually transpires, the pension liability of the Group would change.

Transition to IFRS

As stated in the accounting policies on pages 53 to 56, these are the Group's first consolidated financial statements prepared in accordance with adopted IFRSs.

The accounting policies have been applied in preparing the financial statements for the year ended 31 July 2006, the comparative information presented in these financial statements for the year ended 31 July 2005 and in the preparation of an opening IFRS balance sheet at 1 August 2004 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to adopted IFRSs has affected the Group's financial position, financial performance and cashflows is set out in the following table and the notes that accompany the table.

Certain key areas of the Group's activities will remain unaffected by the adoption of IFRSs, most notably:

- Dividend policy
- Cashflow
- Effective tax rate
- Banking arrangements
- Group strategy and processes for decision making

Based on the accounting policies set out on pages 53 to 56, the effect of the transition on key reported results was as follows:

	Year ended 31 July 2005	
	UK GAAP	IFRS
	£m	£m
Operating profit	229.7	230.1
Profit for the period	152.8	149.2
Basic EPS	134.6p	133.1p
Net assets	796.1	779.8

Pages 87 to 89 provide detailed reconciliations of the movements for the Group income statement and Group balance sheet.

The most significant changes in the Group's financial statements, resulting from the transition to IFRS, are in the following areas:

- The reclassification of the preference shares in the balance sheet, out of equity and into non-current liabilities.
- The recognition of the pension scheme deficit in the balance sheet, and the corresponding increases in administrative expenses and finance expenses in the income statement and the actuarial loss in the Statement of Recognised Income and Expense (SORIE).
- The exclusion of proposed equity dividends from the income statement and from liabilities in the balance sheet. Applying Adopted IFRSs, an interim equity dividend is not recorded until it is paid, also a final equity dividend is not recorded until it is approved by shareholders. Under Adopted IFRSs, the dividend is presented as a movement in equity.
- Land creditors are now discounted to fair value with a corresponding reduction in inventories. The discount represents notional interest and this is reflected as increased financing costs over the deferral period. The reduction in inventory results in reduced cost of sales and a higher operating margin over the life of a development.
- There is now a change to the basis of measurement of the charge to the income statement in relation to share based payments.

Transition to IFRS (continued)

Significant changes in accounting policies and impact on the financial information

The following narrative covers the Group income statement for the year ended 31 July 2005 and the Group balance sheets at 1 August 2004 and 31 July 2005.

IAS 32 and IAS 39 – 'Financial Instruments'

Preference dividends expensed are now disclosed within finance expenses rather than as dividends. This resulted in finance expenses increasing by £1.9m for the year ended 31 July 2005.

The preference shares of £20.0m are removed from equity and shown within non-current liabilities. The £0.6m preference dividend, which is accrued using the effective interest rate method at each balance sheet date, is recognised within trade and other payables.

IAS 2 – 'Inventories'

Land purchased on deferred terms is measured at fair value. The associated land creditor is reduced by an amount of notional interest. The liability is then increased to the settlement value over the period of deferral. The net effect is a reduction in the creditor of £2.9m at 31 July 2005.
The corresponding inventory is also reduced by the notional interest. The lower land value results in a reduced charge to cost of sales as the profit is taken on a development. The net effect on inventories is a reduction of £8.0m at 31 July 2005.

Cost of sales is reduced by £1.5m in the year ended 31 July 2005.

The increased interest is charged to finance expenses over the deferral period and amounts to £2.7m for the year ended 31 July 2005.

The differing rate at which the finance expenses and cost of sales are recognised in the income statement produces a deferred tax credit.

IAS 10 – 'Events After the Balance Sheet Date'

Under IAS 10 only dividends which are approved at the balance sheet date are shown as a liability.

Dividends are recognised as an appropriation of equity when they are paid, for an interim dividend, or approved by shareholders at the AGM, for a final dividend. Amounts previously accrued in the balance sheet are now removed, resulting in reduced liabilities of £20.7m at 31 July 2005. The net increase in equity is shown within the reconciliation of movements in capital and reserves.

IAS 19 – 'Employee Benefits'

Under UK GAAP the Group accounted for the defined benefit pension scheme in accordance with SSAP 24. A pension prepayment was held in the balance sheet representing the difference between pension contributions and the regular pension cost established actuarially. The Group made a special contribution of £9.8m to the scheme to address the deficit identified in the actuarial valuation in 2002 and this accounted for a large part of the total pension prepayment. Under UK GAAP this special contribution was treated as a prepayment, however under IFRS this is netted against the pension deficit reducing trade and other receivables by £9.1m at 31 July 2005.

IAS 19, as amended in 2004, provides an option for companies to account for actuarial gains and losses in full in the SORIE. The Group has adopted this approach from the date of transition.

The Group's full year financial statements under UK GAAP disclosed defined benefit pension scheme assets and liabilities under FRS 17 within a note to the financial statements. The valuation approach used under FRS 17 is similar to that used for IAS 19 with the exception that IAS 19 requires the market valuation of scheme assets to be carried out on a bid basis rather than a mid-market basis. The deficit under IAS 19 is disclosed within retirement benefit obligations on the balance sheet. The deficit was £12.1m at 31 July 2005.

Under IAS 19, the current service cost (which is the increase in the present value of the defined benefit obligation as a result of employee service in the current period) is recognised within the income statement. Past service costs (which arise when the employer makes a commitment to provide an increased level of benefit) are also recognised within the income statement. The SSAP 24 pension charge has been reversed. The net effect is an increased charge to the income statement of £0.6m for the year ended 31 July 2005.

The interest charge (which is the increase during the period in the present value of defined benefit obligations) is recognised in finance expenses. For the year ended 31 July 2005 the charge was £0.3m.

Transition to IFRS (continued)

IFRS 2 - 'Share-based Payments'

In accordance with IFRS 2, the Group has recognised a charge to the income statement in relation to equity settled share options granted after 7 November 2002 which had not fully vested at 1 January 2005. The corresponding entry is recognised directly in equity. Fair values have been calculated for the Group's various option schemes using an appropriate option pricing model. For the savings related share option schemes, a method using the Black Scholes formula has been used due to the relatively short exercise window. For the employee share option schemes, a lattice model has been used. This enables early exercise behaviour to be modelled in a more sophisticated manner than the Black Scholes formula. For the performance share plan, a Monte Carlo simulation technique has been applied since the performance test measures the Group's total shareholder return relative to the appropriate peer group.

The charges calculated for the schemes are spread over the period in which the options vest. Adjustments are made to allow for actual and expected levels of vesting.

Charges made previously under UK GAAP have been reversed (to the extent that they related to options now incorporated into the IFRS 2 calculation) and an IFRS 2 charge has been recognised. The net effect is a £0.3m charge to administrative expenses for the year ended 31 July 2005.

The corresponding liability under UK GAAP (which is part of retained earnings) for options now dealt with under IFRS 2 has also been reversed.

An estimate of the tax base at each balance sheet date is established by multiplying the option's intrinsic value, which is the difference between the exercise price and the market value at the balance sheet date, by the vesting period that has lapsed. The temporary difference resulted in a deferred tax asset of £2.4m at 31 July 2005.

The deferred tax credit is recognised in equity to the extent that the relevant tax base exceeds the cumulative share-based payment charge recognised in the income statement.

Conclusion

Adopting IFRS has not affected the Group's operations in terms of strategy. Also, cash flows and banking arrangements are unaffected, and there is no material impact on the effective tax rate.

Group Transition to IFRS

Reconciliations of group profit and equity have been included to enable a comparison of the 2005 result and position with those published in the previous year

Reconciliation of profit
Year ended 31 July 2005

	Previously reported under UK GAAP	IFRS 2 *Share-based* payment	IAS 19 *Employee* benefits	IAS 2 *Inventories*	IAS 32 *Financial* instruments	Effect of *transition to* IFRS	Restated *under* IFRS
	£m	£m	£m	£m	£m	£m	£m
Revenue	1,178.1	-	-	-	-	-	1,178.1
Cost of sales	(897.7)	-	-	1.5	-	1.5	(896.2)
Gross profit	**280.4**	**-**	**-**	**1.5**	**-**	**1.5**	**281.9**
Administrative expenses	(50.9)	(0.3)	(0.6)	-	-	(0.9)	(51.8)
Operating profit	**229.5**	**(0.3)**	**(0.6)**	**1.5**	**-**	**0.6**	**230.1**
Finance income	2.3	-	-	-	-	-	2.3
Finance expenses	(13.7)	-	(0.3)	(2.7)	(1.9)	(4.9)	(18.6)
Share of profit of associates	0.1	-	-	-	-	-	0.1
Profit before taxation	**218.2**	**(0.3)**	**(0.9)**	**(1.2)**	**(1.9)**	**(4.3)**	**213.9**
Income tax expense	(65.4)	0.1	0.3	0.3	-	0.7	(64.7)
Profit for the period	**152.8**	**(0.2)**	**(0.6)**	**(0.9)**	**(1.9)**	**(3.6)**	**149.2**
Earnings per ordinary share - Basic	134.6p						133.1p
- Diluted	133.3p						131.8p

Full details of the impact of the first time adoption of IFRS for Bellway were set out in the restatement document published to the London Stock Exchange on 31 March 2006, and can also be found on the Company's website at www.bellway.co.uk

Group Transition to IFRS (continued)

Reconciliation of equity
At 31 July 2005

	Previously reported under UK GAAP	IFRS 2 Share-based payment	IAS 19 Employee benefits	IAS 2 Inventories	IAS 10 Events after the balance sheet date	IAS 32 Financial instruments	Reclassification of payments on account	Effect of transition to IFRS	Restated under IFRS
	£m	£m	£m	£m	£m	£m	£m	£m	£m
ASSETS									
Non-current assets									
Property, plant and equipment	17.6	-	-	-	-	-	-	-	17.6
Investments in associates	0.1	-	-	-	-	-	-	-	0.1
Other receivables	7.5	-	-	-	-	-	-	-	7.5
Deferred tax assets	2.2	1.4	6.4	1.5	-	-	-	9.3	11.5
	27.4	1.4	6.4	1.5	-	-	-	9.3	36.7
Current assets									
Inventories	1,246.4	-	-	(8.0)	-	-	44.8	36.8	1,283.2
Trade and other receivables	40.7	-	(9.1)	-	-	-	-	(9.1)	31.6
Cash and cash equivalents	66.4	-	-	-	-	-	-	-	66.4
	1,353.5	-	(9.1)	(8.0)	-	-	44.8	27.7	1,381.2
Total assets	**1,380.9**	**1.4**	**(2.7)**	**(6.5)**	**-**	**-**	**44.8**	**37.0**	**1,417.9**
LIABILITIES									
Non-current liabilities									
Interest bearing loans and borrowings	(236.0)	-	-	-	-	-	-	-	(236.0)
Preference shares	-	-	-	-	-	(20.0)	-	(20.0)	(20.0)
Retirement benefit obligations	-	-	(12.1)	-	-	-	-	(12.1)	(12.1)
Land creditors	(21.5)	-	-	2.2	-	-	-	2.2	(19.3)
	(257.5)	-	(12.1)	2.2	-	(20.0)	-	(29.9)	(287.4)
Current Liabilities									
Interest bearing loans and borrowings	(2.0)	-	-	-	-	-	-	-	(2.0)
Trade and other payables	(167.5)	-	-	-	-	(0.6)	(44.8)	(45.4)	(212.9)
Land creditors	(104.2)	-	-	0.7	-	-	-	0.7	(103.5)
Dividends	(21.3)	-	-	-	20.7	0.6	-	21.3	-
Current tax liabilities	(32.3)	-	-	-	-	-	-	-	(32.3)
	(327.3)	-	-	0.7	20.7	-	(44.8)	(23.4)	(350.7)
Total liabilities	**(584.8)**	**-**	**(12.1)**	**2.9**	**20.7**	**(20.0)**	**(44.8)**	**(53.3)**	**(638.1)**
Net assets	**796.1**	**1.4**	**(14.8)**	**(3.6)**	**20.7**	**(20.0)**	**-**	**(16.3)**	**779.8**
EQUITY									
Non-equity share capital - preference shares	20.0	-	-	-	-	(20.0)	-	(20.0)	-
Issued capital	14.2	-	-	-	-	-	-	-	14.2
Share premium	108.9	-	-	-	-	-	-	-	108.9
Other reserves	1.5	-	-	-	-	-	-	-	1.5
Retained earnings	651.6	1.4	(14.8)	(3.6)	20.7	-	-	3.7	655.3
Total equity attributable to equity holders of the parent	**796.2**	**1.4**	**(14.8)**	**(3.6)**	**20.7**	**(20.0)**	**-**	**(16.3)**	**779.9**
Minority interest	**(0.1)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(0.1)**
Total equity	**796.1**	**1.4**	**(14.8)**	**(3.6)**	**20.7**	**(20.0)**	**-**	**(16.3)**	**779.8**

Group Transition to IFRS (continued)

Reconciliation of equity
At 1 August 2004

	Previously reported under UK GAAP £m	IFRS 2 Share-based payment £m	IAS 19 Employee benefits £m	IAS 2 Inventories £m	IAS 10 Events after the balance sheet date £m	IAS 32 Financial instruments £m	Reclassification of payments on account £m	Effect of transition to IFRS £m	Restated under IFRS £m
ASSETS									
Non-current assets									
Property, plant and equipment	16.6	-	-	-	-	-	-	-	16.6
Investments in associates	0.1	-	-	-	-	-	-	-	0.1
Other receivables	0.3	-	-	-	-	-	-	-	0.3
Deferred tax assets	2.4	1.4	4.6	1.2	-	-	-	7.2	9.6
	19.4	1.4	4.6	1.2	-	-	-	7.2	26.6
Current assets									
Inventories	1,025.8	-	-	(6.4)	-	-	36.3	29.9	1,055.7
Trade and other receivables	35.5	-	(8.5)	-	-	-	-	(8.5)	27.0
Cash and cash equivalents	111.9	-	-	-	-	-	-	-	111.9
	1,173.2	-	(8.5)	(6.4)	-	-	36.3	21.4	1,194.6
Total assets	**1,192.6**	**1.4**	**(3.9)**	**(5.2)**	**-**	**-**	**36.3**	**28.6**	**1,221.2**
LIABILITIES									
Non-current liabilities									
Interest bearing loans and borrowings	(160.0)	-	-	-	-	-	-	-	(160.0)
Preference shares	-	-	-	-	-	(20.0)	-	(20.0)	(20.0)
Retirement benefit obligations	-	-	(6.8)	-	-	-	-	(6.8)	(6.8)
Land creditors	(20.8)	-	-	1.2	-	-	-	1.2	(19.6)
	(180.8)	-	(6.8)	1.2	-	(20.0)	-	(25.6)	(206.4)
Current Liabilities									
Interest bearing loans and borrowings	(15.0)	-	-	-	-	-	-	-	(15.0)
Trade and other payables	(153.1)	-	-	-	-	(0.6)	(36.3)	(36.9)	(190.0)
Land creditors	(115.2)	-	-	1.3	-	-	-	1.3	(113.9)
Dividends	(18.3)	-	-	-	17.7	0.6	-	18.3	-
Current tax liabilities	(35.2)	-	-	-	-	-	-	-	(35.2)
	(336.8)	-	-	1.3	17.7	-	(36.3)	(17.3)	(354.1)
Total liabilities	**(517.6)**	**-**	**(6.8)**	**2.5**	**17.7**	**(20.0)**	**(36.3)**	**(42.9)**	**(560.5)**
Net assets	**675.0**	**1.4**	**(10.7)**	**(2.7)**	**17.7**	**(20.0)**	**-**	**(14.3)**	**660.7**
EQUITY									
Non-equity share capital - preference shares	20.0	-	-	-	-	(20.0)	-	(20.0)	-
Issued capital	14.0	-	-	-	-	-	-	-	14.0
Share premium	104.5	-	-	-	-	-	-	-	104.5
Other reserves	1.5	-	-	-	-	-	-	-	1.5
Retained earnings	535.1	1.4	(10.7)	(2.7)	17.7	-	-	5.7	540.8
Total equity attributable to equity holders of the parent	**675.1**	**1.4**	**(10.7)**	**(2.7)**	**17.7**	**(20.0)**	**-**	**(14.3)**	**660.8**
Minority interest	**(0.1)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(0.1)**
Total equity	**675.0**	**1.4**	**(10.7)**	**(2.7)**	**17.7**	**(20.0)**	**-**	**(14.3)**	**660.7**

There are no material differences between the Group cash flow statement presented under IFRS and the Group cash flow statement presented under UK GAAP.

Company Transition to IFRS

Reconciliations of Company profit and equity have been included to enable a comparison of the 2005 result and position with those published in the previous year

Reconciliation of profit

Year ended 31 July 2005

	Previously reported under UK GAAP	IAS 10 Events after the balance sheet date	IAS 32 Financial instruments	Effect of transition to IFRS	Restated under IFRS
	£m	£m	£m	£m	£m
Income received from subsidiary undertakings	140.0	(5.0)	-	(5.0)	135.0
Finance expenses	-	-	(1.9)	(1.9)	(1.9)
Profit for the period	**140.0**	**(5.0)**	**(1.9)**	**(6.9)**	**133.1**

Full details of the impact of the first time adoption of IFRS for Bellway were set out in the restatement document published to the London Stock Exchange on 31 March 2006, and can also be found on the Company's website at www.bellway.co.uk

Reconciliation of equity

At 31 July 2005

	Previously reported under UK GAAP	IAS 10 Events after the balance sheet date	IAS 32 Financial instruments	Effect of transition to IFRS	Restated under IFRS
	£m	£m	£m	£m	£m
ASSETS					
Non-current assets					
Investments	16.2	-	-	-	16.2
	16.2	-	-	-	16.2
Current assets					
Trade and other receivables	698.1	(140.0)	-	(140.0)	558.1
Cash and cash equivalents	5.0	-	-	-	5.0
	703.1	(140.0)	-	(140.0)	563.1
Total assets	**719.3**	**(140.0)**	**-**	**(140.0)**	**579.3**
LIABILITIES					
Non-current liabilities					
Preference shares	-	-	(20.0)	(20.0)	(20.0)
	-	-	(20.0)	(20.0)	(20.0)
Current Liabilities					
Trade and other payables	(0.3)	-	(0.6)	(0.6)	(0.9)
Dividends	(21.4)	20.8	0.6	21.4	-
Total liabilities	**(21.7)**	**20.8**	**(20.0)**	**0.8**	**(20.9)**
Net assets	**697.6**	**(119.2)**	**(20.0)**	**(139.2)**	**558.4**
EQUITY					
Non-equity share capital - preference shares	20.0	-	(20.0)	(20.0)	-
Issued capital	14.2	-	-	-	14.2
Share premium	108.9	-	-	-	108.9
Other reserves	2.1	-	-	-	2.1
Retained earnings	552.4	(119.2)	-	(119.2)	433.2
Total equity	**697.6**	**(119.2)**	**(20.0)**	**(139.2)**	**558.4**

Company Transition to IFRS (continued)

Reconciliation of equity
At 1 August 2004

	Previously reported under UK GAAP £m	IAS 10 Events after the balance sheet date £m	IAS 32 Financial instruments £m	Effect of transition to IFRS £m	Restated under IFRS £m
ASSETS					
Non-current assets					
Investments	16.2	-	-	-	16.2
	16.2	-	-	-	16.2
Current assets					
Trade and other receivables	587.6	(135.0)	-	(135.0)	452.6
Cash and cash equivalents	4.9	-	-	-	4.9
	592.5	(135.0)	-	(135.0)	457.5
Total assets	**608.7**	**(135.0)**	**-**	**(135.0)**	**473.7**
LIABILITIES					
Non-current liabilities					
Preference shares	-	-	(20.0)	(20.0)	(20.0)
	-	-	(20.0)	(20.0)	(20.0)
Current liabilities					
Trade and other payables	(0.2)	-	(0.6)	(0.6)	(0.8)
Dividends	(18.3)	17.7	0.6	18.3	-
Total liabilities	**(18.5)**	**17.7**	**(20.0)**	**(2.3)**	**(20.8)**
Net assets	**590.2**	**(117.3)**	**(20.0)**	**(137.3)**	**452.9**
EQUITY					
Non-equity share capital - preference shares	20.0	-	(20.0)	(20.0)	-
Issued capital	14.0	-	-	-	14.0
Share premium	104.5	-	-	-	104.5
Other reserves	2.1	-	-	-	2.1
Retained earnings	449.6	(117.3)	-	(117.3)	332.3
Total equity	**590.2**	**(117.3)**	**(20.0)**	**(137.3)**	**452.9**

Five Year Record

	2002 UK GAAP £m	2003 UK GAAP (restated) £m	2004 UK GAAP £m	2005 IFRS £m	**2006 IFRS £m**
Income statement					
Revenue	773.0	954.2	1,092.6	1,178.1	**1,240.2**
Operating profit	133.1	172.8	213.3	230.1	**239.3**
Exceptional items	-	2.1	-	-	**-**
Net finance expenses	(7.7)	(5.9)	(7.7)	(16.4)	**(18.4)**
Share of (loss) / profit of associates	(0.1)	0.3	(0.1)	0.1	**(0.2)**
Profit before taxation	125.3	169.3	205.5	213.8	**220.7**
Income tax expense	(37.4)	(50.7)	(61.7)	(64.6)	**(65.0)**
Profit for the year (all attributable to equity holders of the parent)	87.9	118.6	143.8	149.2	**155.7**
Balance sheet					
Assets					
Non-current assets	23.5	16.4*	16.7	36.7	**31.4**
Current assets	832.2	979.7*	1,175.9	1,381.4	**1,462.8**
Liabilities					
Non-current liabilities	(97.7)	(169.7)	(180.7)	(287.4)	**(194.7)**
Current liabilities	(297.6)	(269.3)	(336.8)	(350.9)	**(396.0)**
Equity					
Total equity	460.4	557.1	675.1	779.8	**903.5**
Statistics					
Dividend per ordinary share	15.75p	20.0p	25.0p	31.25p	**34.5p**
Basic earnings per ordinary share	78.6p	106.0p	127.5p	133.1p	**137.5p**
Number of homes sold	6,044	6,278	6,610	7,001	**7,117**
Average price of new homes	£120.8k	£149.7k	£161.4k	£163.8k	**£169.0k**
Operating margin	17.2%	18.1%	19.5%	19.5%	**19.3%**
Net assets per ordinary share	400p	482p*	585p	689p	**793p**
Land portfolio - plots with planning permission	17,400	18,400	20,700	22,500	**22,600**
Weighted average no. of ordinary shares	109,481,485	110,102,928	111,303,849	112,054,913	**113,248,814**
No. of ordinary shares in issue at end of year	110,199,277	111,408,137	112,061,346	113,229,119	**113,988,310**

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

The amounts disclosed for 2004 and earlier periods are stated under UK GAAP because it is not practical to restate amounts for periods prior to the date of transition to International Financial Reporting Standards (IFRS). The principal differences between UK GAAP and IFRS are disclosed in the reconciliations on pages 87 to 89.

Shareholder Information

Annual General Meeting – special business

This section is important. If you are in any doubt as to what action to take you should consult an appropriate independent adviser.

If you have sold or transferred all of your shares in Bellway p.l.c. you should pass this document and all accompanying documents to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

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

Resolution 9 – Approval for the establishment of the Bellway p.l.c. (2007) Employee Share Option Scheme (the 'Scheme')

This resolution seeks shareholders' approval for the introduction of a new unapproved Company share option scheme to replace the existing scheme, the Bellway p.l.c. (1996) Employee Share Option Scheme, under which further options ceased to be capable of being granted after 5 June 2006. Full details of the Scheme are summarised below.

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 £712,426, 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.

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.

Recommendation

Your directors consider each of the resolutions set out in the notice of Annual General Meeting to be in the best interests of the Company and its shareholders as a whole. Accordingly, they unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial shareholdings.

Details of the Bellway p.l.c. (2007) Employee Share Option Scheme

1. General

The Bellway p.l.c. (2007) Employee Share Option Scheme (the 'Scheme') provides for the grant of options over ordinary shares in the Company on a discretionary basis to eligible employees, and is intended to replace the Bellway p.l.c. (1996) Employee Share Option Scheme (the 'Existing Scheme'). No further options can be granted under the Existing Scheme.

2. Eligibility

All employees and executive directors of the Company and its subsidiaries, are, in principle, eligible to participate in the Scheme at the discretion of the Board. It is, however, the current intention that no executive directors of the Company should be granted options under the shceme.

3. Grant of options

Options will only be granted in the 42 day period commencing on the following:

- the announcement of the Company's annual or half-yearly results; or
- the date an employee first becomes eligible to participate in the Scheme; or
- adoption of the Scheme in general meeting; or
- in any other period of 42 days, as determined in its absolute discretion by the Board.

Options may not be granted more than 10 years after the date of adoption by the Board. Options may not be transferred.

4. Performance targets

When options are granted, the Board shall be entitled to specify objective conditions, by way of performance targets, that are required to be satisfied before options may be exercised.

5. Exercise, lapse and exchange of options

Options will, provided that any performance targets specified at the time of their grant have been satisfied, normally be exercisable during the period commencing three years after, and ending 10 years after, the date of grant. Options will normally lapse on cessation of employment. However, exercise will also be permitted for a limited period (irrespective of the period for which the options have been held) following cessation of employment for 'good leaver' reasons. Exercise will also be permitted on a takeover or amalgamation of the Company. There are also provisions for the exchange of options in specified circumstances.

Shareholder Information (continued)

6. Exercise price

The price at which participants in the Scheme may acquire ordinary shares will be either:

- not less than the middle market price of an ordinary share quoted on the London Stock Exchange at close of dealings on the day immediately preceding the date of grant; or
- not less than the average of the middle market price of an ordinary share quoted on the London Stock Exchange on the five dealing days immediately preceding the date of grant.

7. Scheme limits

Options may not be granted if this would cause the total number of ordinary shares which can be issued by the Company to satisfy the exercise of those options to exceed 5% of the total issued share capital of the Company on the date of intended grant. This limit takes account of ordinary shares issued pursuant to rights granted within the previous 10 years under any discretionary employee share scheme established by the Company, and is increased to 10% to take account of ordinary shares issued pursuant to rights granted within the previous 10 years under all other employee share schemes established by the Company.

8. Adjustments

The number of shares comprised in an option and/or its exercise price may be adjusted if any capitalisation issue, offer by way of rights or any sub-division, reduction, consolidation or other variation of the Company's share capital occurs.

9. *Amendments*

The rules of the Scheme may be amended by the Board. If the amendments are to the advantage of participants generally (and, in particular, with regard to the rules relating to the eligibility of participants under the Scheme, limitations on the number of ordinary shares over which options may be granted, or adjustments in the event of a variation in the share capital of the Company), shareholder approval will be required unless the amendment is minor, or is being made to comply with the provisions of any existing or proposed legislation or to obtain favourable taxation treatment of any participating company or any participant.

10. General

The Company will apply for admission to dealing on the London Stock Exchange for ordinary shares which are to be allotted and issued to a participant pursuant to the exercise of options. Those ordinary shares will rank pari passu with all other issued ordinary shares, except for any rights determined by reference to a date preceding the date on which the option is exercised.

Benefits provided under the Scheme are not pensionable.

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	December
Final dividend – ex-dividend date	13 December 2006
Final dividend – record date	15 December 2006
Annual General Meeting	12 January 2007
Final dividend – payment date	15 January 2007

Shareholder Information (continued)

Shareholders by size of holding at 31 July 2006

	Holdings		Shares	
	Number	%	Holding	%
0 - 2,000	1,993	64.8	1,441,607	1.3
2,001 – 10,000	632	20.5	2,752,734	2.4
10,001 - 50,000	228	7.4	5,493,894	4.8
50,001 and over	223	7.3	104,300,075	91.5
Total	3,076	100.0	113,988,310	100.0

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 - 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.

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; and

(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 e-mail kevin.wrightson@bellway.co.uk

Corporate Responsibility Report 2006

A copy of the Company's Corporate Responsibility Report 2006 is available to shareholders on the Company's website www.bellway.co.uk or on written application to the Group Company Secretary at the Company's registered office.

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 12 January 2007 at 12.00 noon for the following purposes:

1. To receive and adopt the Accounts for the financial year ended 31 July 2006 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 2006.
3. To re-elect Mr J K Watson 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 P M Johnson 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 38 to 46 of the Annual Report and Accounts for the year ended 31 July 2006.

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

9. That the Bellway p.l.c. (2007) Employee Share Option Scheme, the draft rules of which are produced to this meeting and initialled by the Chairman thereof for the purposes of identification and a summary of which is set out under Shareholder Information on pages 93 to 95, be and is hereby approved and adopted (subject to such modifications, if any, as the directors consider necessary or appropriate to comply with the requirements of the Listing Rules of the London Stock Exchange) and that the directors of the Company be and are hereby authorised to do all acts and things necessary or expedient to carry the said Scheme into effect.
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, the Bellway p.l.c. (2005) Employee Share Option Scheme and the Bellway p.l.c. (2007) Employee Share Option Scheme, up to an aggregate nominal amount of £712,426

    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 11,398,831 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. A copy of this register, together with copies of contracts of service and letters of appointment of the directors of the Company and the rules of the proposed Bellway p.l.c. (2007) Employee Share Option Scheme, will also be available for inspection during the Annual General Meeting and for at least fifteen minutes before it begins. The Rules of the proposed Bellway p.l.c. (2007) Employee Share Option Scheme 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 broker 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
16 October 2006

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 12 January 2007.

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 12 January 2007 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 box, 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

	Resolution	For	Against
1.	To receive and adopt the Accounts for the financial year ended 31 July 2006 and the Directors' Report and the Auditors' Report thereon.		
2	To declare a final dividend for the year ended 31 July 2006.		
3.	To re-elect Mr J K Watson 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 P M Johnson as a director of the Company.		
6.	To re-appoint KPMG Audit Plc as the auditors of the Company.		
7.	To authorise the directors to agree the auditors' remuneration.		
8.	To approve the Report of the Board on Directors' Remuneration.		
9.	To adopt the proposed Bellway p.l.c. (2007) Employee Share Option Scheme.		
10.	To exclude the application of pre-emption rights to the allotment of equity securities.		
11.	To authorise market purchases of the Company's own ordinary shares and preference shares.		

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 Department, 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

1

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

Bellway Homes Limited

NORTHERN REGION

East Midlands
No 3 Romulus Court
Meridian East
Meridian Business Park
Braunstone Town
Leicester LE19 1YG

Tel: **(0116) 282 0400**
Fax: **(0116) 282 0401**

East Scotland
Unit 4
Fairways Business Park
Deer Park Avenue
Livingston EH54 8AF

Tel: **(01506) 835 310**
Fax: **(01506) 835 311**

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**

South Midlands
Bellway House
Relay Point
Relay Drive
Tamworth
Staffordshire B77 5PA

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

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 **16815 Wetherby**

SOUTHERN REGION

Essex
Bellway House
1 Rainsford Road
Chelmsford
Essex CM1 2PZ

Tel: **(01245) 259 989**
Fax: **(01245) 259 996**
DX **121935 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 **729383 Milton Keynes 16**

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
Bellway House
Embankment Way
Castleman Business Centre
Ringwood
Hampshire BH24 1EU

Tel: **(01425) 477 666**
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DX **45710 Ringwood**

OTHER

Planning & Development
Seaton Burn House
Dudley Lane
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Newcastle upon Tyne NE13 6BE

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Fax: **(0191) 236 6230**
DX **711760 Seaton Burn**

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