30 May 2018

Telford Homes Plc

(‘Telford Homes’ or the ‘Group’)

Final Results

Telford Homes Plc (AIM:TEF), the London focused residential property developer, today announces its final results for the year ended 31 March 2018.

Highlights

- Record total revenue of £316.2 million (2017: £291.9 million)
- Total profit before tax for the year exceeded original market expectations increasing by 35 per cent to £46.0 million (2017: £34.1 million)
- Well placed to exceed £50 million of total pre-tax profit for the year to 31 March 2019, representing a 100 per cent increase over four years
- Strong performance reflected in improvement in adjusted gross margin of 4.2 percentage points and adjusted operating margin of 3.3 percentage points, up to 16.7 per cent (2017: 13.4 per cent)
- Proposed final dividend of 9.0 pence per share bringing the total dividend for the year to 17.0 pence per share (2017: 15.7 pence), an increase of just over 8 per cent
- 100 per cent customer recommendation rate in 2017 places Telford Homes top of the housebuilder rankings
- Robust London market for housing at our typical price point with demand from a broad base of build to rent investors, individual investors, owner-occupiers and housing associations
- Over 100 homes sold at the launch of New Garden Quarter, Stratford in January 2018
- Strong demand from build to rent investors with the Group exploring a number of interesting opportunities to enhance supply to this sector
- Development pipeline of over 4,000 homes with several new acquisitions being actively pursued
- New longer term £210 million corporate loan facility negotiated at lower interest rate

Commenting on the Final Results, Jon Di-Stefano, Chief Executive of Telford Homes, said: "Telford Homes continues to perform well and I am delighted to report such a strong set of results which again have produced record levels of revenue and profit. As we increase the scale of the business, our growth is underpinned by the under supply of new homes in London and robust demand at more affordable price points, particularly for rental housing. Our substantial development pipeline and increasing expertise in the burgeoning build to rent sector provide us with confidence for the future. I believe our increased focus on build to rent will drive the next phase of our growth and allow us to consistently deliver total pre-tax profits in excess of £50 million.

The strength of our position and our ability to capitalise on the exciting possibilities ahead are a result of the hard work and dedication of the whole Telford Homes team. I am exceptionally proud of the customer recommendation and employee satisfaction scores we achieved last year and I am confident there is a relationship between them. I look forward to us building on the solid foundation we have created for Telford Homes both in the year ahead and beyond."

- Ends -

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Note: Figures in this announcement include the Group's share of joint venture results on a proportionally consolidated basis. For further details of key management information and alternative performance measures refer to the financial review, note 6 and note 7.

CHIEF EXECUTIVE'S REVIEW

It gives me great pleasure to report that Telford Homes has achieved record levels of revenue and profit once again in the year to 31 March 2018. Our substantial development pipeline and increasing expertise in the burgeoning London build to rent sector underpin our confidence for the future.

Performance

Total profit before tax in the year to 31 March 2018 increased by nearly 35 per cent to £46.0 million (2017: £34.1 million) [1], ahead of original market expectations. This strong performance was reflected in an improvement in our adjusted gross margin of 4.2 percentage points and a 3.3 percentage point increase in our adjusted operating margin, up to 16.7 per cent (2017: 13.4 per cent). The margin improvements are partly due to the mix of developments that completed during the period but also a combination of other factors, particularly some prudent estimates for build cost inflation that were not realised.

I am also delighted that we have been able to declare a final dividend of 9.0 pence per share, making a total of 17.0 pence per share for the year, an increase of 8.3 per cent compared with the previous year (2017: 15.7 pence). We expect to continue to pay at least one third of our annual earnings to shareholders in dividends.

Due to our strong growth and financial performance there have been many highlights in the last year but amongst those I am particularly pleased to report that the Telford Homes commitment to quality and service was demonstrated by a customer recommendation rating of 100% in 2017. This significant achievement places us at the top of housebuilder customer recommendation rankings, and is testament to the dedication and hard work of our employees. There is an increasing focus on the quality of new homes and this score only serves to further underpin our reputation for delivering an excellent product whether it is for open market sale, affordable housing or build to rent.

Market context and sales

The London market for housing at our typical price point has remained robust, with ongoing demand from a broad base of purchasers spanning individual investors from the UK and overseas, owner-occupiers, housing associations and build to rent investors. Although prices have fallen in some prime locations, our market has been more stable. The average price of the open market homes within our development pipeline is £539,000 (2017: £527,000) and we expect that to remain relatively constant in the future.

In January 2018 we commenced the launch of the second phase of New Garden Quarter in Stratford, marketed initially in the UK and subsequently to international investors. We were delighted to secure more than 100 reservations across three weeks which exceeded our expectations. A quarter of these reservations were to UK buyers, a greater proportion than anticipated given that demand from domestic investors has been muted following recent tax changes. The remaining sales were generated in Hong Kong and multiple cities in China, with the latter accounting for more than 50 sales. We are seeing growing investment from China due to the continued international attraction of London, despite Brexit, and strong rental demand relative to supply.

The Group is also securing sales to owner-occupiers with a proportion of those sales being under the Government Help to Buy scheme. The level of demand is dependent on price point rather than the explicit need for financial assistance through Help to Buy and therefore the scheme remains an enhancement to demand rather than something the London market depends on. All of the remaining homes at Bermondsey Works have been sold in recent weeks alongside a slower but continuing rate of sale of the remaining higher priced homes at Manhattan Plaza. Homes priced above £750,000 are taking longer to sell and this supports our targeted approach to land acquisition with regard to average price point.

Due to a number of developments being sold for build to rent rather than individual sale the Group has undertaken fewer sales launches in the last year than usual. In addition some developments have been held back until nearer build completion to encourage sales to owner-occupiers where the location and price point is particularly attractive to first time buyers. In late March 2018 the Group launched all 83 homes at Bow Garden Square, E3, focused on owner-occupiers with prices starting from £390,000. Initial interest has been encouraging and nine reservations have been secured to date. Owner-occupiers take longer to commit to a purchase, especially under Help to Buy, but the Board expects ongoing demand particularly as the development moves towards completion later this year.

The Group completed and handed over 476 open market homes in the year to 31 March 2018 (2017: 289). A combination of the significant increase in recognised profit from these completions of forward sold homes and fewer launches in the last year have reduced our total forward sold position to £344 million (2017: £546 million). This is exacerbated by the timing of some significant build to rent transactions occurring in the final few months of the year to 31 March 2017 with the next new build to rent sales expected in the year to 31 March 2019. Forward sales still equate to over 100 per cent of the total revenue recognised in the year to 31 March 2018.

Forward selling remains at the core of our business model, and our approach of securing sales early in the development cycle, where appropriate, has a favourable effect on our risk profile and our ability to direct investment to new opportunities. This model also gives the Board significant visibility over profit recognition and expected cash flows. This is one of the many reasons why the emergence of forward funded build to rent transactions, as an increasing feature of the London market, has proved very attractive to the Group and why it fits so well with our existing approach to balancing risk and return.

London is still not building enough homes and, whilst new home construction starts per annum have recently fallen under 20,000, according to the Ministry of Housing, Communities and Local Government ('MHCLG') figures, the annual requirement in the Greater London Authority's ('GLA') latest draft 'London Plan' has now reached over 60,000 based on expected population growth. Meanwhile more and more people are looking to rent in London, often due to affordability constraints but increasingly through choice, and as a result tenant demand is set to remain strong. The rental market itself is evolving with tenants calling for higher quality facilities and levels of service and in some cases greater security of tenure and longer leases. This market trend sits well with the emergence of purpose built rental developments with enhanced resident amenity space and a full on-site service offering.

Political recognition of the urgent need for rental housing adds further weight to our strategy to focus on the forward funded build to rent sector, to enhance growth, increase capital returns and reduce required debt finance. As our reputation grows in the sector, we are increasingly being approached directly by institutions and rental operators seeking investment opportunities and each trying to achieve significant scale as swiftly as possible.

On the one side we have a significant increase in capital keen to invest in residential housing, as already occurs in countries like the US, and on the other we have strong demand from tenants looking for exactly the type of product that those investors want to fund. The missing ingredient is the ability to source development opportunities, obtain planning consents and build the homes themselves and our expertise in these areas makes Telford Homes an attractive partner for build to rent investors. The Board continues to evaluate whether longer term partnerships with one or more of these investors could enhance our ability to undertake build to rent transactions and further grow that side of the business.

Development pipeline

Our development pipeline now includes over 4,000 homes of which almost 75 per cent are in detailed design or under construction. In December 2017 we acquired a sizeable residential-led development site in Walthamstow, E17 for a total consideration of £33.8 million. Having completed some initial design work, we recently began a formal sale process to identify a build to rent investor for the 257 open market homes. This process is going well and we have had encouraging responses from a number of investors. Depending on the timeframe to get into contract with the successful party we expect to announce the transaction in the next few months.

As announced previously, in June 2017 we signed a pre-construction agreement with the US-headquartered global rental housing operator, Greystar, to develop just under 900 build to rent homes in Nine Elms, Battersea. Having worked closely with Greystar and the London Borough of Wandsworth for a number of months, the detailed scheme is expected to go before the local planning committee in the near future. Soon after receipt of a detailed planning consent we expect to enter a full design and build contract and we will make a further announcement at that time. At this point the scheme is not included in our reported development pipeline. We have formed a strong relationship with Greystar and we are actively exploring the possibility of undertaking further developments together.

The planning process in London has long been challenging and time consuming, particularly for large regeneration sites. Although this has caused delays in recent months, we are confident that our experience and relationships in each borough, as well as with the GLA, position us to navigate this difficult environment. The appointment in February 2018 of Jerome Geoghegan as Group Land and Planning Director will provide greater focus and expertise in this regard. Formerly at L&Q Housing Group, Jerome brings a wealth of experience and is well connected in the sector. Our partnerships with providers of affordable housing have been an important factor in our success to date. Subsidised affordable housing typically represents over a third of each new development and is forward funded by our partners in much the same way as build to rent with all of the same advantages.

We are pursuing several opportunities at our preferred price point in London and we have recently agreed heads of terms on two separate acquisitions with a combined land value of just under £50 million. One of these already has a planning consent and the other has been agreed subject to securing a satisfactory consent. Each will now progress through the legal process and a period of due diligence. Both are expected to be individual sale developments and as a result we are able to direct our immediate acquisition focus to predominantly build to rent opportunities. Our ability to add to the Group's development pipeline has been enhanced by the negotiation of a new £210 million corporate loan facility. This enlarged revolving credit facility extends to December 2022 and has been secured at a lower rate of interest than the previous £180 million loan facility.

External market developments

The economic and political outlook for the London housing market is encouragingly benign. Notwithstanding uncertainty surrounding the UK's exit from the EU, the economy has remained relatively robust and regardless of the outcome of the Brexit negotiations there is an understanding across the political spectrum that not enough homes are being built. Clearly the housing market is sensitive to interest rates and the Bank of England increased base rates from 0.25 per cent to 0.5 per cent in November 2017. Any subsequent changes to rates are likely to be gradual, and given the current level this is not a cause for concern to the Board. The Help to Buy scheme is currently forecast to end in 2021 but this is not of material importance to the performance of Telford Homes with relatively few sales being made to Help to Buy customers and an increased strategic focus on the rental market.

In the aftermath of the Grenfell Tower tragedy in June 2017, a wide ranging independent review of building regulations and fire safety was initiated, led by Dame Judith Hackitt. The industry must be fully supportive of that review and Telford Homes has been represented by our Group Managing Director, John Fitzgerald, on one of the working parties.

Another independent review relating to the housebuilding sector was unveiled in January 2018. Led by Sir Oliver Letwin, the review is charged with explaining the gap between the number of homes for which planning permission has been granted against those being built, particularly in areas of high demand. The review's initial comments indicate that typically developers do not just sit on consented sites and that delays can include absorbing large numbers of homes on bigger sites into the local market. It was noted that build to rent therefore had the potential to assist in delivering much needed new homes more swiftly as rental stock does not suffer from the same absorption timeframe. Build to rent also features in the new draft London Plan and the new draft National Planning Policy Framework demonstrating that politicians recognise that it can be a core part of the solution to the housing shortfall.

A potential shortage of skilled labour is another ongoing issue in the sector and to help address this, the Home Builders Federation has set up the 'Home Building Skills Partnership', which is running campaigns to encourage people into the industry. Telford Homes wants to play an active role in this initiative and John Fitzgerald has been appointed to the Home Building Skills Partnership Leadership Board. We are very proud of the huge advances we have made with our internal training programme. We now have over 20 trainees working within the business across various disciplines and are in the process of setting up the 'Telford Homes Academy' to help develop our trainees and to support and train staff at all levels within the business.

Strategy

Our key objective is to develop the homes and create the places that London needs. We are making sound progress towards achieving our stated ambition to generate marked growth in pre-tax profits, and have made great strides in putting in place the internal structures and capabilities to support further growth in the coming years. Over the next few years we have the ability, the desire and the market opportunity to do far more in London than we are already doing. Our focus on the build to rent sector has helped us to broaden our geographical reach across London and it is the core of our current strategy if we are going to achieve our growth ambitions without taking excessive risk or needing additional equity capital.

We also remain committed to driving our sustainability initiatives, and measuring our ability to deliver against our targets. We were delighted to be recognised as the most improved homebuilder in the 2017 'NextGeneration' sustainable housing benchmark report moving up from seventeenth to sixth place in the rankings. The benchmark enables developers to understand the sustainability of their operations and the places and homes they build. The criteria are based on best practice standards and guidance, and are designed to be challenging and go beyond statutory requirements or standard practice. This progress recognises the ongoing development of our 'Building a Living Legacy' sustainability strategy and is a real achievement for a business of our size.

People and culture

During the past year we have undertaken some work on articulating our brand purpose and consulted with external and internal stakeholders to understand what people think about our business. Our research underlined that we are recognised and respected for building homes and creating places, with expertise in design, sustainability and community liaison, but identified that we could do more to clarify and communicate the value we actually create. As a result we have adopted a new statement of our brand purpose 'developing the homes and creating the places that London needs' and have sought to 'shout a little more' about some of the benefits we bring to everything we do. This has been recognised in numerous award wins over the last 12 months culminating in Telford Homes being named 'Large Developer of the Year' at the prestigious 2018 RESI awards.

We also strive to ensure that Telford Homes continues to feel like a family to all those who work for the Group despite a relatively rapid increase in employee numbers in recent years. We now undertake an annual staff survey and act upon the suggestions that arise. This year we were very pleased to receive a staff satisfaction rating of 98 per cent. An enjoyable working environment will be even more important as we look ahead to further growth.

Outlook

Telford Homes has delivered significant profit growth over the last three years with total profit before tax increasing from just over £25 million in 2015 to £46 million in 2018. Furthermore, we are well placed to achieve our stated goal of exceeding £50 million of total pre-tax profit for the year to 31 March 2019 which will represent a 100 percent increase over four years. Having arrived at this point in a short period of time the challenge now is to establish the business consistently delivering over £50 million of profit every year and furthermore to generate and sustain the next significant growth period.

Without the advent of build to rent we would not have been able to achieve consistency of profits and would instead have fluctuated around an overall upward trend. Our industry is very capital intensive and the business would have required sustained injections of new capital just to maintain the profit levels achieved in the last few years on an ongoing basis. However our increasing success in the build to rent sector means we expect to consistently deliver profit in excess of £50 million over the next three years predicated on a certain level of new build to rent business. We also expect to set a platform for delivering the next significant phase of profit growth in the medium to longer term. The level of build to rent business we are able to secure will be crucial to achieving our ambitions and to outperforming them if the opportunity arises.

The strength of our position and our ability to capitalise on the exciting possibilities ahead are a result of the hard work and dedication of the whole Telford Homes team. I am exceptionally proud of the customer recommendation and employee satisfaction scores we achieved last year and I am confident there is a relationship between them. I look forward to us building on the solid foundation we have created for Telford Homes both in the year ahead and beyond.

Jon Di-Stefano
Chief Executive
29 May 2018

[1] GAAP profit before tax (i.e. excluding the Group's share of joint ventures) was £46.3 million (2017: 34.6 million)

FINANCIAL REVIEW

Telford Homes has experienced another record breaking year fuelled by higher than expected margins in a robust market environment. For the first time, total revenue achieved exceeded £300 million and total profit before tax is up by almost 35 per cent to a record high of £46.0 million (2017: £34.1 million). The Group has been successful in achieving significant profit growth over the last few years and remains focused on continuing its traditional business of selling homes to individuals on the open market but also driving future growth by increasing its activity in the London build to rent sector. To facilitate this growth, the Group has continued to invest in land and work in progress and recently signed a new five year £210 million corporate loan facility providing additional development capital to support further investment.

Presentation of results and alternative performance measures

In the year to 31 March 2015 the Group adopted IFRS 11 'Joint Arrangements' which states that joint ventures should be accounted for as equity investments rather than by proportional consolidation. The Group's joint ventures are an integral part of the business and all developments are treated consistently within the business whether wholly owned or partially owned in a joint venture structure. As such the Board believes that the financial results are most appropriately presented using proportional consolidation which means including the relevant share of the results of joint ventures in each line of the income statement and balance sheet. This therefore remains the method of presentation within the Group's internal management accounts.

The Board has prepared an income statement and a balance sheet using proportional consolidation along with Generally Accepted Accounting Principles (GAAP) compliant versions presenting joint ventures as equity investments. The key performance indicators and other figures within this report include the Group's share of joint venture results. For further details, definitions and reconciliations of alternative performance measures see notes 6 and 7.

Operating results

Total revenue has increased to £316.2 million from £291.9 million last year (GAAP 2018: £294.8 million, 2017: £266.0 million) with the increase mainly due to a greater number of open market residential completions in the year.

Open market residential revenue increased to £225.1 million (2017: £153.5 million) from 476 completions (2017: 289) with an average price of £473,000 (2017: £531,000). The lower average price is due to the mix of developments completing in each period in terms of product and location and to some degree reflects when individual contracts were exchanged with a significant proportion of the homes forward sold a number of years ago.

The Group also recognises contract revenue on construction contracts, in relation to both affordable housing and build to rent homes under development, on a percentage of completion basis throughout the build programme. This includes new contracts in the year but also ongoing profit recognition on contracts exchanged in previous years as the typical build programme spans a number of years.

Contract revenue in the year, including the Group's share of joint venture results, was £86.8 million (2017: £126.6 million) with the reduction purely down to the timing of entering into new contracts as revenue recognition is often weighted somewhat towards the start of the contract as both land and build costs are included in the percentage of completion calculation. In the current year, the Group exchanged contracts to deliver 279 affordable homes whereas in the prior year, the Group exchanged contracts to deliver 400 affordable homes and entered into three new build to rent contracts to deliver 387 build to rent homes.

The Group's strategy to increase the number of homes developed for build to rent investors will, over time, result in a greater proportion of the Group's revenue and profit being recognised on a percentage of completion basis over the life of each development as opposed to individual open market sales where revenue and profit is recognised at the point of legal completion. Build to rent sales will therefore result in the Group recognising revenue and profit earlier than if the homes had been sold to individual purchasers.

Total gross profit has increased to £79.5 million from £63.2 million (GAAP 2018: £74.8 million, 2017: £57.0 million). Total gross profit is stated after expensing loan interest that has been capitalised within inventories of £4.2 million (2017: £1.9 million) and therefore before charging this interest the adjusted gross margin was 26.5 per cent compared to 22.3 per cent last year. The significant increase in adjusted gross margin was due to strong margins achieved on both individual open market sale developments and build to rent developments.

The margin achieved on open market sale completions of 28.2 per cent was higher than that achieved last year (2017: 25.4 per cent) and also ahead of the Group's target when appraising new sites of 24 per cent. The majority of the open market completions in the current year were forward sold a number of years ago where the sales achieved had benefitted from some price inflation prior to launch. This, together with an easing of build cost inflation in the last year, has resulted in strong margins overall. The margin recognised on open market homes is expected to trend down towards the target margin over time as older developments which benefitted from more significant sales price inflation and minimal build cost inflation are replaced with sites appraised more recently.

On build to rent contracts, the Group is prepared to accept a lower gross margin due to the advantages of forward funding and savings in selling expenses and interest costs. Forward funding broadly means an initial payment reimbursing the cost of the land followed by monthly construction payments and finally a payment on completion. As such very little equity is used during construction and no debt is required. The Group expects build to rent transactions to achieve a net margin of approximately 12 to 13 per cent. The Group's normal target gross margin is 24 per cent which after allowing for selling and finance cost savings of circa 8 per cent means a net margin reduction for build to rent of 3 to 4 per cent. In the Board's view this reduction is more than offset by a substantially improved return on capital.

The actual margin achieved on the build to rent revenue recognised in the year to 31 March 2018 was well ahead of target at 17.8 per cent (2017: 16.0 per cent). This is due to some of the land being purchased at more advantageous rates prior to becoming part of the build to rent portfolio but also due to build cost savings recognised in the period. When appraising future build to rent developments, the Group's target margins are still expected to be around 12 to 13 per cent to remain competitive in the land market but also to remain attractive to build to rent investors and their yield requirements.

Administrative expenses have increased to £24.2 million (2017: £20.8 million) including the Group's share of joint ventures and £24.1 million excluding joint ventures (2017: £20.7 million). This increase is mainly due to higher employee costs as the Group embeds a new structure established during the year to increase operational capacity and enable further growth in the future. As a percentage of revenue, administrative expenses have remained relatively similar year on year at between seven and eight per cent.

Selling expenses have increased to £6.5 million (2017: £5.1 million) including the Group's share of joint ventures and £5.7 million excluding the Group's share of joint ventures (2017: £4.1 million). This increase is mainly due to the higher number of open market completions in the year and the sales commission payable as a result, together with the cost of opening and running two new development specific sales centres in the year. There was one significant launch in the year, New Garden Quarter, incurring selling costs of £0.7 million, similar to the £0.9 million of costs associated with the one major launch in the prior year at City North.

The Group's adjusted operating margin has increased by over three percentage points to 16.7 per cent (2017: 13.4 per cent) flowing through from the strong gross margin achieved across a number of developments.

Total profit before tax has increased by almost 35 per cent to a record high of £46.0 million from £34.1 million last year (GAAP 2018: £46.3 million, 2017: £34.6 million). This was ahead of original market expectations mainly due to cost efficiencies achieved in the latter part of the year.

The Board expects the year to 31 March 2019 to show continued growth in revenue and profits with the development pipeline already secured to deliver this growth and a strong forward sold position. Margins are likely to trend towards the targets used during initial site appraisal although this could be improved upon if there is any further easing in build cost pressures. In addition the Group expects to move more towards build to rent transactions as a percentage of its business in the coming years which will reduce reported combined margins.

Finance costs

Finance costs incurred by the Group mainly consist of interest on development financing, non-utilisation fees and amortised arrangement fees. Interest on development financing is capitalised into work in progress as required by IAS 23 and all other fees are charged directly to the income statement.

Total finance costs incurred, including our share of joint venture costs, increased to £8.8 million (2017: £5.5 million). The increase in total finance costs was mainly attributable to an increase in average total borrowings in the year of £111.7 million (2017: £55.1 million) resulting in an increase in interest capitalised within work in progress at £5.2 million (2017: £2.2 million). The increase in borrowings during the year was anticipated as the business continues to grow, funding this expansion through a combination of debt and equity. The increase would have been greater without the build to rent transactions undertaken to date as these have reduced the Group's required debt drawdowns.

Dividend

The Board's policy is to pay one third of earnings as dividends. Following the equity placing concluded in 2015 the Board committed to paying a higher dividend for the subsequent two years to remove the dilutive effect of the new shares, resulting in dividend payments in excess of 40 per cent of earnings.

In the year to March 2018, the dividend is transitioning back to one third. As a result, a final dividend of 9.0 pence has been proposed which, together with the interim dividend of 8.0 pence paid on 12 January 2018, makes a total dividend for the year of 17.0 pence (2017: 15.7 pence). Earnings per share increased to 49.8 pence (2017: 36.8 pence) and therefore the dividend equates to just over 34 per cent of earnings.

The final dividend is expected to be paid on 20 July 2018 to those shareholders on the register at the close of business on 8 June 2018. The ex-dividend date is 7 June 2018.

Balance sheet

Net assets at 31 March 2018 were £231.1 million, increased from £204.3 million last year mainly due to retained profits. This equates to net assets per share of 306 pence (31 March 2017: 271 pence). As the Group continues to grow, there is ongoing investment in land and work in progress with inventories, including the Group's share of joint ventures, increasing from £339.4 million to £373.9 million. Excluding joint ventures inventories increased from £287.7 million to £300.0 million with the balance being recorded within investments in joint ventures.

The inventories balance is largely made up of land being progressed through the planning system and land and development costs on sites in design and under construction. The Group has invested over £100 million in new land opportunities since 1 April 2017 and has a development pipeline of just over 4,000 homes, approximately three quarters of which have a planning consent and are under construction. Land creditors, including the Group's share of joint ventures are minimal at £1.5 million (2017: £28.4 million) and £0.2 million (2017: £26.9 million) excluding joint ventures. The significant land creditor in the prior year of £26.9 million was in relation to a development site on Cambridge Heath Road, E2 which unwound following completion of the land transaction in October 2017.

Forward sales

The Group continues to seek to secure forward sales to individuals, affordable housing providers and build to rent investors. The Group had secured forward sales of £344 million at 1 April 2018 to be recognised in future years. This is comprised of £243 million in relation to open market contracts, £49 million of affordable housing revenue and £52 million of build to rent revenue.

In all cases, the forward sales not only de-risk developments, they also enhance cash flows and return on capital due to non-refundable deposits received in advance from individual open market buyers and more significantly, the forward funding of affordable housing and build to rent transactions.

Borrowings

The Group funds its development costs through a combination of debt and equity unless subject to a forward funding arrangement. As the business continues to grow, net debt has increased to £103.1 million (2017: £14.3 million) and gearing is higher at 44.6% (2017: 7.0%).

Gearing was always anticipated to rise given the capital intensive nature of the business. Furthermore net debt and gearing have been unusually low over the past few years due to significant cash inflows from the £50 million share placing in 2015 followed by upfront payments received on build to rent contracts entered into during 2016 and 2017.

The Group is still anticipating using debt to fund developments for open market individual sales and the Board is comfortable to do so given that many of the Group's developments have been substantially de-risked by the level of forward sales secured. However as build to rent becomes a more significant part of the business, it will assist in keeping debt and gearing levels at a more modest level. The actual level will depend on the timing of future land purchases and how much the business moves towards build to rent as a proportion of its output.

Telford Homes secured a new five year £210 million revolving credit facility in December 2017, ensuring there is sufficient headroom and longevity to fund the growth of the business over the next few years. The facility, provided by Natwest, HSBC, Santander and AIB, was negotiated with lower interest rates than the previous facility and is governed by standard corporate covenants together with site covenants on a portfolio basis. As at 31 March 2018, the Group had drawn £115 million of this facility leaving headroom of £95 million to fund future site acquisitions and construction costs. The Group has excellent long term relationships and is well supported by the banks that fund the revolving credit facility as evidenced during the recent negotiations.

Joint venture developments are funded outside of the revolving credit facility with site specific loans secured as and when required. In July 2016, the Group secured a £110 million facility with LaSalle Residential Finance Fund to fund its 50 per cent owned joint venture at City North and, in February 2017, it signed a £33 million facility with RBS to fund Balfron Tower in which the Group has a 25 per cent stake.

Telford Homes is in a strong financial position with significant headroom within existing debt facilities and equity available to deliver the growth targeted over the next few years. This will be complemented by expanding the Group's build to rent output which requires limited equity and no debt and therefore will enable swifter growth with lower gearing requirements.

Katie Rogers
Group Financial Director
29 May 2018

GROUP INCOME STATEMENT INCLUDING PROPORTIONAL SHARE OF JOINT VENTURE RESULTS FOR THE YEAR ENDED 31 MARCH 2018

	Non-GAAP Year ended 31 March 2018 £000	**Non-GAAP Year ended 31 March 2017 £000**
Total revenue	**316,241**	**291,921**
Cost of sales	(236,772)	(228,720)
Total gross profit	**79,469**	**63,201**
Administrative expenses	(24,159)	(20,805)
Selling expenses	(6,548)	(5,091)
Total operating profit	**48,762**	**37,305**
Finance income	898	160
Finance costs	(3,622)	(3,337)
Total profit before income tax	**46,038**	**34,128**
Income tax expense	(8,623)	(6,609)
Total profit after income tax	**37,415**	**27,519**

Key management information is presented to the Board with the Group's share of joint venture results proportionally consolidated and therefore including the relevant share of the results of joint ventures in each line of the income statement and balance sheet.

The Group's joint ventures are an integral part of the business and all developments are treated consistently within the business whether wholly owned or partially owned in a joint venture structure. In addition, the proportion of results generated from joint ventures will fluctuate year to year depending on the timing of developments. As such the Board believes that the financial results presented in this way are the most appropriate for assessing the true underlying performance of the business. A reconciliation between the key management information income statement and balance sheet and Generally Accepted Accounting Principles (GAAP) compliant information, accounting for joint ventures under IFRS 11 as equity investments, is included in note 6.

The key management information presented in this way is deemed to be an alternative performance measure. For further details on alternative performance measures including definitions and reconciliations, see note 7.

GROUP BALANCE SHEET INCLUDING PROPORTIONAL SHARE OF JOINT VENTURE RESULTS AT 31 MARCH 2018

	Non-GAAP	**Non-GAAP**
	31 March	**31 March**
	2018	**2017**
	£000	**£000**
Non current assets		
Goodwill	818	818
Property, plant and equipment	2,543	1,272
Trade and other receivables	-	100
	3,361	2,190
Current assets		
Inventories	373,859	339,380
Trade and other receivables	55,688	42,893
Total cash and cash equivalents	13,829	39,834
	443,376	422,107
Total assets	**446,737**	**424,297**
Non current liabilities		
Trade and other payables	(1,268)	(1,527)
Financial liabilities	(360)	(1,096)
Deferred income tax liabilities	(48)	(194)
	(1,676)	(2,817)
Current liabilities		
Trade and other payables	(92,445)	(159,878)
Total borrowings	(116,899)	(54,085)
Financial liabilities	(200)	-
Current income tax liabilities	(4,426)	(3,232)
	(213,970)	(217,195)
Total liabilities	**(215,646)**	**(220,012)**
Net assets	**231,091**	**204,285**
Capital and reserves		
Issued share capital	7,551	7,529
Share premium	108,178	107,395
Retained earnings	115,362	89,361
Total equity	**231,091**	**204,285**

GROUP INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2018

	Note	Year Ended 31 March 2018 £000	Year Ended 31 March 2017 £000
Total revenue		**316,241**	**291,921**
Less share of revenue from joint ventures		(21,460)	(25,946)
Revenue		**294,781**	**265,975**
Cost of sales		(220,026)	(208,966)
Gross profit		**74,755**	**57,009**
Administrative expenses		(24,055)	(20,727)
Selling expenses		(5,706)	(4,143)
Share of results of joint ventures		2,443	4,634
Operating profit		**47,437**	**36,773**
Finance income		773	90
Finance costs		(1,902)	(2,231)
Profit before income tax		**46,308**	**34,632**
Income tax expense	**3**	(8,893)	(7,113)
Profit after income tax		**37,415**	**27,519**
Earnings per share:			
Basic	**5**	49.8p	36.8p
Diluted	**5**	49.4p	36.6p

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Movement in derivative financial instruments hedged	536	(241)
Movement in deferred tax on derivative financial instruments hedged	(102)	37
Other comprehensive income (expense) net of tax (items that may be subsequently reclassified into profit or loss)	**434**	**(204)**
Profit for the year	37,415	27,519
Total comprehensive income for the year	**37,849**	**27,315**

GROUP BALANCE SHEET
AT 31 MARCH 2018

	31 March 2018 £000	31 March 2017 £000
Non current assets		
Goodwill	289	289
Investment in joint ventures	54,259	47,554
Property, plant and equipment	2,471	1,272
Trade and other receivables	-	100
	57,019	49,215
Current assets		
Inventories	300,008	287,652
Trade and other receivables	57,853	38,288
Cash and cash equivalents	12,808	38,629
	370,669	364,569
Total assets	**427,688**	**413,784**
Non current liabilities		
Trade and other payables	(1,268)	(1,527)
Financial liabilities	(360)	(1,096)
Deferred income tax liabilities	(193)	(323)
	(1,821)	(2,946)
Current liabilities		
Trade and other payables	(77,891)	(149,516)
Borrowings	(112,259)	(53,805)
Financial liabilities	(200)	-
Current income tax liabilities	(4,426)	(3,232)
	(194,776)	(206,553)
Total liabilities	**(196,597)**	**(209,499)**
Net assets	**231,091**	**204,285**
Capital and reserves		
Issued share capital	7,551	7,529
Share premium	108,178	107,395
Retained earnings	115,362	89,361
Total equity	**231,091**	**204,285**

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 April 2016	**7,485**	**106,423**	**73,062**	**186,970**
Profit for the year	-	-	27,519	27,519
Total other comprehensive expense	-	-	(204)	(204)
Movement in excess tax on share options	-	-	(5)	(5)
Dividend on equity shares	-	-	(11,135)	(11,135)
Proceeds of equity share issues	44	972	-	1,016
Share-based payments	-	-	255	255
Purchase of own shares	-	-	(860)	(860)
Sale of own shares	-	-	729	729
Balance at 31 March 2017	**7,529**	**107,395**	**89,361**	**204,285**
Profit for the year	-	-	37,415	37,415
Total other comprehensive income	-	-	434	434
Movement in excess tax on share options	-	-	43	43
Dividend on equity shares	-	-	(12,383)	(12,383)
Proceeds of equity share issues	22	783	-	805
Share-based payments	-	-	455	455
Purchase of own shares	-	-	(726)	(726)
Sale of own shares	-	-	763	763
Balance at 31 March 2018	**7,551**	**108,178**	**115,362**	**231,091**

GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2018

	Year ended 31 March 2018 £000	**Year ended 31 March 2017 £000**
Cash flow from operating activities		
Operating profit	47,437	36,773
Depreciation	906	599
Write down in value of own shares	455	255
Profit on sale of property, plant and equipment	(2)	(20)
Increase in inventories	(8,145)	(46,525)
Increase in receivables	(19,465)	(6,726)
(Decrease) increase in payables	(73,150)	44,953
Share of results from joint ventures	(2,443)	(4,634)
	(54,407)	24,675
Interest paid and debt issue costs	(6,393)	(3,898)
Income taxes paid	(7,385)	(6,511)
Cash flow from operating activities	**(68,185)**	**14,266**
Cash flow from investing activities		
Distribution from joint ventures	20,016	12,045
Investment in joint ventures	(24,781)	(9,308)
Purchase of property, plant and equipment	(2,105)	(387)
Proceeds from sale of property, plant and equipment	2	20
Consideration paid for business combination	-	(3,556)
Interest received	773	90
Cash flow from investing activities	**(6,095)**	**(1,096)**
Cash flow from financing activities		
Proceeds from issuance of ordinary share capital	805	1,016
Purchase of own shares	(726)	(860)
Sale of own shares	763	729
Increase in bank loans	60,000	15,000
Dividend paid	(12,383)	(11,135)
Cash flow from financing activities	**48,459**	**4,750**
Net (decrease) increase in cash and cash equivalents	**(25,821)**	**17,920**
Cash and cash equivalents brought forward	38,629	20,709
Cash and cash equivalents carried forward	**12,808**	**38,629**

NOTES

1 Basis of preparation

The financial information set out above does not constitute statutory accounts for the years ended 31 March 2018 and 31 March 2017 but is derived from those accounts. Statutory accounts for the year ended 31 March 2017 have been delivered to the Registrar of Companies and the statutory accounts for the year ended 31 March 2018 will be delivered to the Registrar of Companies and sent to all shareholders shortly. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under Section 498 (2) or (3) of the Companies Act 2006 or equivalent preceding legislation.

The Group adopted IFRS 10, IFRS 11, IFRS 12 and IAS 28 (revised) from 1 April 2014 and as a result, proportional consolidation of joint venture results is no longer allowed. Under these accounting standards, key line items such as statutory revenue, cost of sales, inventory and debt no longer include the Group's portion of joint venture balances. Instead, the Group's share of the statutory results from joint ventures is accounted for under the equity method. Therefore the Group's share of the results in joint ventures is presented in one line in the income statement and the statutory balance sheet includes one line representing the Group's investment in joint ventures.

Joint ventures are an integral part of the business and the Board has included an income statement and a balance sheet using proportional consolidation for the results of joint ventures within the Group's financial statements. These are presented in addition to the Generally Accepted Accounting Principles (GAAP) compliant versions of the income statement and balance sheet which present joint ventures as equity investments. For further information see notes 6 and 7.

The statutory accounts for the year ended 31 March 2018, including the comparative information for the year ended 31 March 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) including International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted for use in the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The directors have assessed the Group's projected business activities and available financial resources together with detailed forecasts for cash flow and relevant sensitivity analysis. The directors believe that the Group remains well placed to manage its business risks successfully. After making appropriate enquiries the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the statutory accounts for the year ended 31 March 2018.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, 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 judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of uncertainty were principally the same as those applied to the Group's financial statements as at 31 March 2017.

2 Accounting policies

Accounting convention

The statutory accounts for the year ended 31 March 2018 have been prepared under historical cost convention as modified for reassessment of derivatives at fair value and on a basis consistent with the accounting policies in the financial statements for the year ended 31 March 2017. The accounting policies will be disclosed in full within the Group's forthcoming financial statements.

3 Taxation

Taxation has been calculated on the profit for the year ended 31 March 2018 at the estimated effective tax rate of 19.2 per cent (2017: 20.5 per cent).

4 Dividend paid

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Prior year final dividend paid in July 2017 of 8.5p (July 2016: 7.7p)	6,378	5,746
Interim dividend paid in January 2018 of 8.0p (January 2017: 7.2p)	6,005	5,389
	12,383	**11,135**

The final dividend proposed for the year ended 31 March 2018 is 9.0 pence per ordinary share. This dividend was declared after 31 March 2018 and as such the liability of £6.8 million has not been recognised at that date.

5 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the Share Incentive Plan. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

Earnings per share have been calculated using the following figures:

	Year ended 31 March 2018	Year ended 31 March 2017
Weighted average number of shares in issue	75,061,664	74,716,939
Dilution - effect of share schemes	669,202	395,643
Diluted weighted average number of shares in issue	75,730,866	75,112,582
Profit on ordinary activities after taxation	£37,415,000	£27,519,000
Earnings per share:		
Basic	49.8p	36.8p
Diluted	49.4p	36.6p

6 Segmental reporting

The Group has only one reportable segment, being housebuilding in the United Kingdom. Financial analysis is presented to the chief operating decision makers of the Group, being the Board of directors, on a site by site basis. It is on this basis that the Board makes decisions as to the allocation of resources and assesses the Group's performance. The information is aggregated and presented as one reportable segment given the sites share similar economic characteristics.

Management information is presented to the Board of directors with the Group's share of joint venture results proportionally consolidated to reflect the true underlying performance of the Group and the importance of joint ventures to the business. The results disclosed within the Group's financial statements do not proportionally consolidate joint venture results and instead they are accounted for on an equity basis. A reconciliation between management information and the Generally Accepted Accounting Principles (GAAP) compliant information in the financial statements is as follows:

Year ended 31 March 2018	**Management Information £000**	**Remove share of joint ventures £000**	**GAAP £000**
Revenue	316,241	(21,460)	294,781
Cost of sales	(236,772)	16,746	(220,026)
Gross profit	79,469	(4,714)	74,755
Administrative expenses	(24,159)	104	(24,055)
Selling expenses	(6,548)	842	(5,706)
Share of results of joint ventures	-	2,443	2,443
Operating profit	48,762	(1,325)	47,437
Net finance costs	(2,724)	1,595	(1,129)
Profit before income tax	46,038	270	46,308
Income tax expense	(8,623)	(270)	(8,893)
Profit after income tax	**37,415**	**-**	**37,415**
Inventories	373,859	(73,851)	300,008
Cash and cash equivalents	13,829	(1,021)	12,808
Other assets	59,049	55,823	114,872
Borrowings	(116,899)	4,640	(112,259)
Other liabilities	(98,747)	14,409	(84,338)
Net assets	**231,091**	**-**	**231,091**

Year ended 31 March 2017	Management Information £000	Remove share of joint ventures £000	GAAP £000
Revenue	291,921	(25,946)	265,975
Cost of sales	(228,720)	19,754	(208,966)
Gross profit	63,201	(6,192)	57,009
Administrative expenses	(20,805)	78	(20,727)
Selling expenses	(5,091)	948	(4,143)
Share of results of joint ventures	-	4,634	4,634
Operating profit	37,305	(532)	36,773
Net finance costs	(3,177)	1,036	(2,141)
Profit before income tax	34,128	504	34,632
Income tax expense	(6,609)	(504)	(7,113)
Profit after income tax	**27,519**	**-**	**27,519**
Inventories	339,380	(51,728)	287,652
Cash and cash equivalents	39,834	(1,205)	38,629
Other assets	45,083	42,420	87,503
Borrowings	(54,085)	280	(53,805)
Other liabilities	(165,927)	10,233	(155,694)
Net assets	**204,285**	**-**	**204,285**

7 Key Management Information and Alternative Performance Measures

This report includes both statutory and alternative performance measures (APMs). The Board uses APMs which, although financial measures of either historical or future performance, financial position or cash flows, are not defined or specified by IFRSs. The alternative performance measures, in managements view, better reflect the underlying performance of the business and provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis.

Our APMs and associated KPIs are aligned to our strategy and are used by the Board for planning, reporting, to measure the performance of the business and form the basis of the performance measures linked to remuneration. The measures are also used in discussions with the investment analyst community and current and potential shareholders.

The APMs used by the Board are defined and explained below.

Key management information including the Group's share of joint ventures result proportionally consolidated

Key management information is presented to the Board with the Group's share of joint venture results proportionally consolidated and therefore including the relevant share of the results of joint ventures in each line of the income statement and balance sheet as set out above.

Where revenue and profit metrics include the Group's share of joint venture results proportionally consolidated, they are defined and referred to as set out below.

Total revenue – Total revenue is defined as IFRS revenue plus the Group's share of revenue from its joint ventures.

	Year ended 31 March 2018 £000	**Year ended 31 March 2017 £000**
Revenue	294,781	265,975
Share of joint venture revenue	21,460	25,946
Total revenue	**316,241**	**291,921**

Total gross profit – Total gross profit is defined as IFRS gross profit plus the Group's share of gross profit from its joint ventures.

	Year ended 31 March 2018 £000	**Year ended 31 March 2017 £000**
Gross profit	74,755	57,009
Share of joint venture gross profit	4,714	6,192
Total gross profit	**79,469**	**63,201**

Total operating profit – Total operating profit is defined as IFRS operating profit plus the Group's share of operating profit from its joint ventures.

	Year ended 31 March 2018 £000	**Year ended 31 March 2017 £000**
Operating profit	47,437	36,773
Share of joint venture operating profit	1,325	532
Total operating profit	**48,762**	**37,305**

Total profit before tax – Total profit before tax is defined as IFRS profit before tax plus the Group's share of profit before tax from its joint ventures.

	Year ended 31 March 2018 £000	**Year ended 31 March 2017 £000**
Profit before tax	46,308	34,632
Share of joint venture profit before tax	(270)	(504)
Total profit before tax	**46,038**	**34,128**

Adjusted margins

The Board reviews margins at a gross and operating level before the inclusion of any interest costs capitalised within work in progress and subsequently expensed through cost of sales. This is consistent with the approach used by the business when appraising land and therefore allows comparability to the original site purchase viability and also comparability across the sector as many of the Group's peers do not capitalise interest per IAS 23.

Adjusted gross margin – is calculated as the IFRS gross profit plus the Group's share of gross profit from its joint ventures (total gross profit), adjusted for interest expensed through cost of sales, divided by total revenue, expressed as a percentage.

	Year ended 31 March 2018 £000	**Year ended 31 March 2017 £000**
Total gross profit	79,469	63,201
Adjust for interest expensed within cost of sales	4,180	1,907
Adjusted total gross profit	83,649	65,108
Total revenue	316,241	291,921
Adjusted gross margin	**26.5%**	**22.3%**

Adjusted operating margin – is calculated as the IFRS operating profit plus the Group's share of operating profit from its joint ventures (total operating profit), adjusted for interest expensed through cost of sales, divided by total revenue, expressed as a percentage.

	Year ended 31 March 2018 £000	**Year ended 31 March 2017 £000**
Total operating profit	48,762	37,305
Adjust for interest expensed within cost of sales	4,180	1,907
Adjusted total operating profit	52,942	39,212
Total revenue	316,241	291,921
Adjusted operating margin	**16.7%**	**13.4%**

Other APMs

The other APMs and KPIs used by the Group are defined below.

Total finance costs incurred – Total finance costs incurred, including the Group's share of joint venture finance costs, consist mainly of interest on development financing, non-utilisation fees and amortised arrangement fees. Interest on development financing is capitalised into work in progress as required by IAS 23 and all other fees are charged directly to the income statement.

	Year ended 31 March 2018 £000	**Year ended 31 March 2017 £000**
Non-utilisation fees	2,445	2,522
Amortisation of arrangement fees	905	788
Other finance costs	272	27
Interest capitalised within work in progress	5,175	2,151
Total finance costs incurred	**8,797**	**5,488**

Gearing – Gearing is calculated as net debt (total borrowings less total cash), including the Group's share of joint venture net debt, divided by net assets expressed as a percentage.

	31 March 2018 £000	**31 March 2017 £000**
Total borrowings	116,899	54,085
Total cash	(13,829)	(39,834)
Net debt	103,070	14,251
Net assets	231,091	204,285
Gearing	**44.6%**	**7.0%**

Development pipeline – The development pipeline is defined as revenue under our control, including the Group's share of joint venture revenue, to be recognised in future years.

Forward sales – Forward sales is calculated as revenue secured by exchange of contracts, including the Group's share of joint venture revenue, to be recognised in future years.

- ENDS -

Copies of this announcement are available from the Group at Telford House, Queensgate, Britannia Road, Waltham Cross, Hertfordshire EN8 7TF and on our website www.telfordhomes-ir.london