telfordhomes

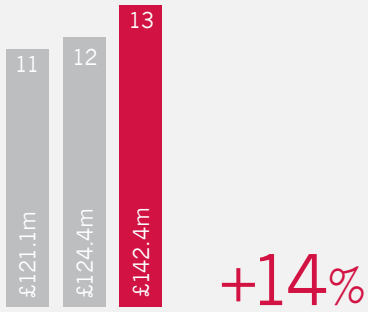
Developing in London

Annual Report & Accounts 2013

telfordhomes

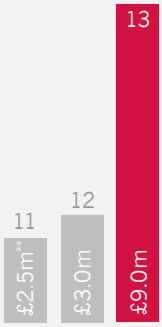
HIGHLIGHTS

Revenue



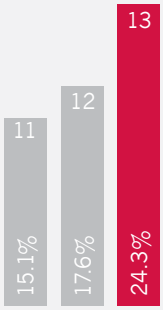
+14%

Profit before tax



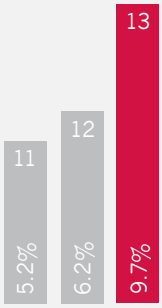
+200%

Adjusted gross profit margin*



+38%

Adjusted operating margin*



+56%

Number of open market sales (contracted)

803

+75%

2012: 460

Number of open market completions

374

+19%

2012: 314

Development pipeline

2,260

properties

2012: 1,969

Dividend per share

4.8p

2012: 3.0p

* Before all interest charges including those expensed within cost of sales of £3.2 million (2012: £2.9 million).

** Before exceptional credit of £0.5 million.

CONTENTS

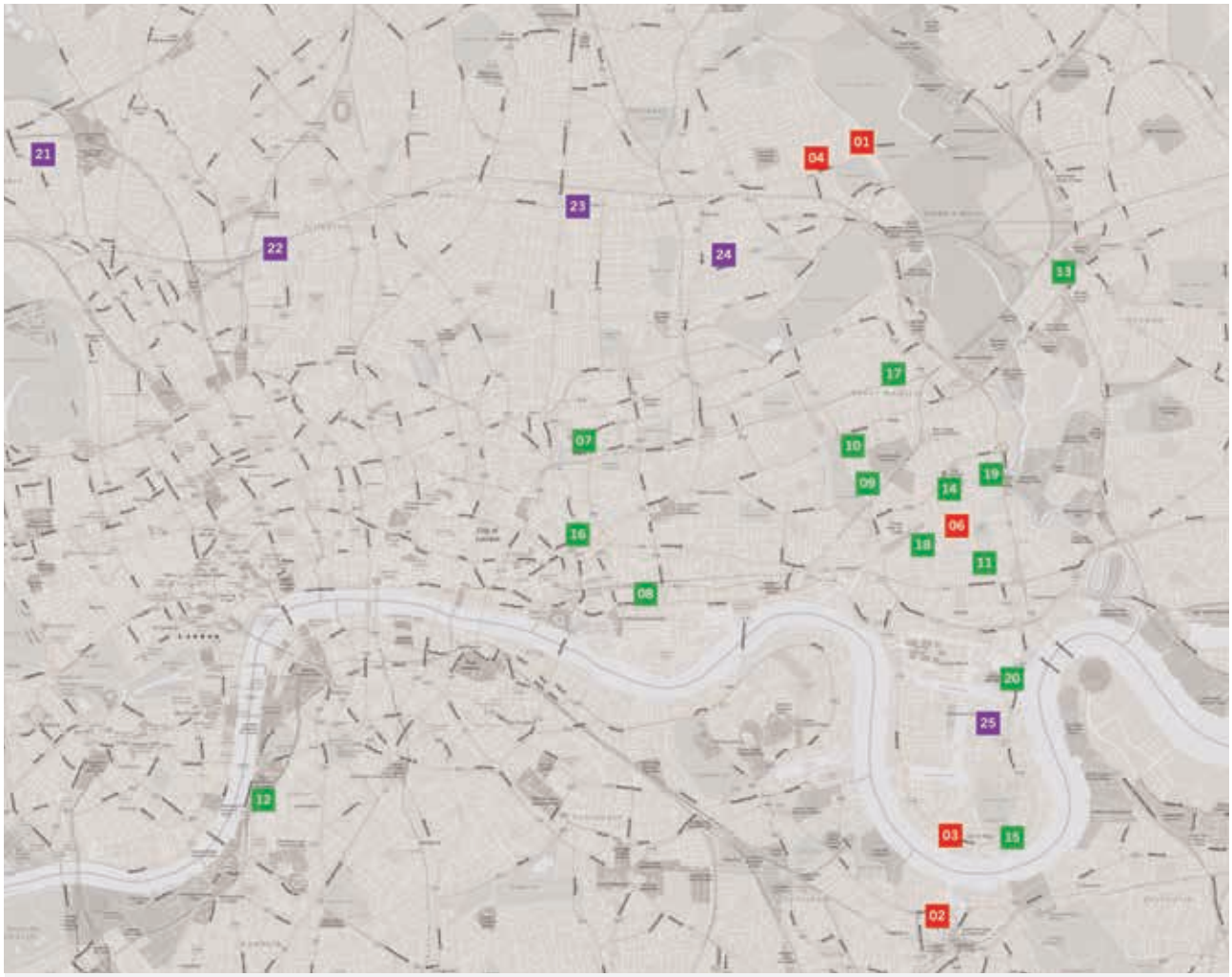
WHERE WE BUY

Telford Homes has always been a London developer buying land where the opportunities exist and where there will be a market for the finished product. Our area of operation is 'inner London' or primarily the areas covered by zones 1 and 2 of the Underground.

We are focusing on inner London because that's where we believe demand will remain at its strongest, both from investors and owner-occupiers, over the next few years. Our pricing typically ranges from £350 to £800 per square foot. We continue to acquire sites which appeal to buyers looking for attractive developments close to excellent transport facilities. As an example we bought our site at Stratford Plaza because of the Olympics, the Westfield shopping centre and transport links in every direction and now all 198 open market apartments are sold with completion still over two years away.

Getting around our area

13/2502/P



Our developments in London

The map on this page shows what we have just finished, what we are currently doing and some of the developments we have planned for the future. We now control sites in Islington, Camden and Lambeth alongside our traditional heartland in East London. That picture will continue with our long standing relationships and greater availability of land in the East resulting in more opportunities but alongside other locations which help to maintain a healthy mix in our development pipeline.

Recently completed

01 Matchmakers Wharf
02 Greenwich Creekside
03 Infinity
04 Nine
05 High Cedars (not shown on map)
06 E-pad

In design / under construction

07 Avant-garde
08 St Georges Estate
09 Bede Estate (Bow Trinity)
10 Eric and Treby Estate (Bow Trinity)
11 The Panoramic
12 Parliament House
13 Stratford Plaza
14 Abode
15 Parkside Quarter
16 Cityscape
17 Tredegar Road
18 The Boatyard
19 Lime Quay
20 Yabsley Street

Future sites

21 Allcroft Road
22 Caledonian Road
23 Beechwood Road
24 Frampton Park
25 Limeharbour

WHAT WE BUILD

The demands of a growing population and an on-going shortage of homes mean that development in inner London is primarily made up of new apartments. We build some houses and have done so at Nine in Hackney and High Cedars in Wanstead but the majority of what we do is studios, 1, 2 and 3 bedroom apartments. We specialise in well-designed bespoke developments ranging in size from 5 to 500 homes.

Structure

With over 2,000 homes in our development pipeline it is critical that we correctly manage the planning process, design, construction and delivery to make sure we continue to safely construct first class developments that deliver everything our customers expect. In order to ensure we maintain appropriate control Telford Homes has two operating divisions which specialise in certain sizes of development and styles of construction. These divisions are called Alto and Metro and each has its own management team to make sure our day to day operations run without a hitch. However to the majority of the outside world we are just Telford Homes and our brand values, approach to sales and marketing and customer service remain the same at each and every one of our developments.

Affordable housing

Affordable housing accounts for around a third of the homes on each of our developments. The relationships and partnerships that Telford Homes has forged in the sector over many years have proved to be vital in securing best value for new affordable housing and sourcing land opportunities.

Our grant partnership with the Homes and Communities Agency and then the Greater London Authority has resulted in over £75 million of external funding coming into the business which has subsidised the construction of over 600 affordable homes.

Customer Service

Our brand is all about the consistent delivery of high quality, desirable new homes backed up by our dedicated Customer Service team, providing product finish and service that's second to none. For the first two years of ownership we provide a 24/7, 365 days a year free emergency service, ensuring there is always someone to help deal with any urgent problems that may arise out of hours. Our focus on product and service is why 99.5% of surveyed customers who took ownership of a Telford Homes property in 2012 would recommend us to their friends and family.

A typical two bedroom apartment

HOW WE SELL

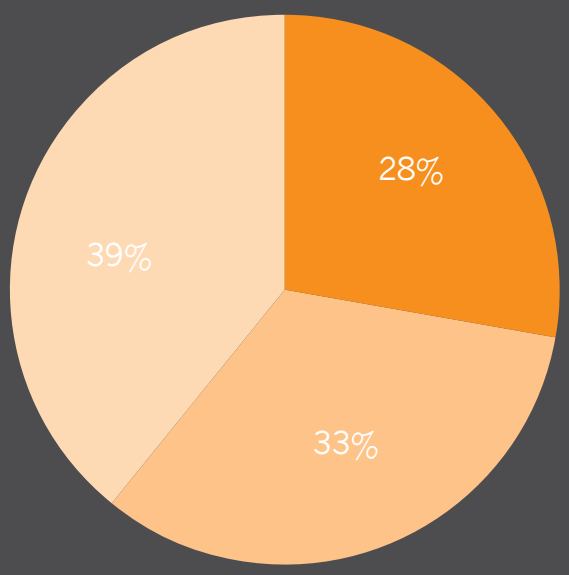
In the year to 31 March 2013 we exchanged contracts for the sale of an unprecedented 803 open market properties with demand reaching exceptional levels in recent months.

It has always been our strategy to secure sales early in the development process where this is both practical and possible. This strategy brings in early cash receipts from deposits and reduces our exposure to risk and therefore enables us to take a more aggressive view of future growth when appropriate.

Our market is made up of two different types of customer being investors, based overseas or in the UK, and owner-occupiers. Whilst investors and owner-occupiers have different demands and different reasons for buying they are similar in terms of a desire to own a property in a location that has good transport links and provides long term value. This applies perfectly to the inner London locations in which Telford Homes is developing.

Breakdown of open market contracts exchanged in the year to 31 March 2013

We have had great success in the last year selling to overseas investors and yet over 60% of our sales were to UK buyers



OVERSEAS LAUNCHES

Our overseas customers primarily attend our launch events held in Hong Kong, Singapore and Malaysia. These events are held in hotels over a weekend and involve significant investment in terms of marketing materials and advertising. We carefully select the developments that are launched overseas based on specific location, building design and expected rental yields to ensure that we maximise the chance of a successful event. Last year we sold a number of major developments to investors, both overseas and in the UK, including Stratford Plaza (all 198 sold), Parliament House near Westminster (70 of 73 sold) and more recently Cityscape in Aldgate (110 of 128 sold) and we are planning two further launches in the next few months.

UK SALES

The rate of sales to owner-occupiers has been exceptional in the last few months both through our on-site sales centres and, where this is not possible, through local agents. At Bow Trinity near Mile End we expected to sell one home per week to a mix of owner-occupiers and investors and yet in the first few months of 2013 we were often achieving more than ten sales per week. As a result we have sold out of the 204 apartments released for sale on this development since we opened a sales centre in September 2011. The final two apartment blocks will be released for sale later this year. In addition we have now sold out at Greenwich Creekside, the St Georges Estate and The Panoramic and we only have two apartments left for sale at Avant-garde. We have no unsold finished homes for the first time in many years.


WELCOME TO
BOWTRINITY

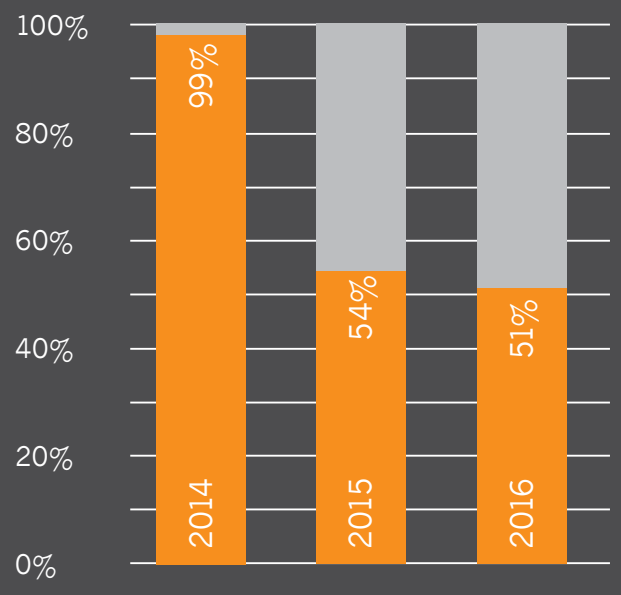
WHERE WE ARE GOING

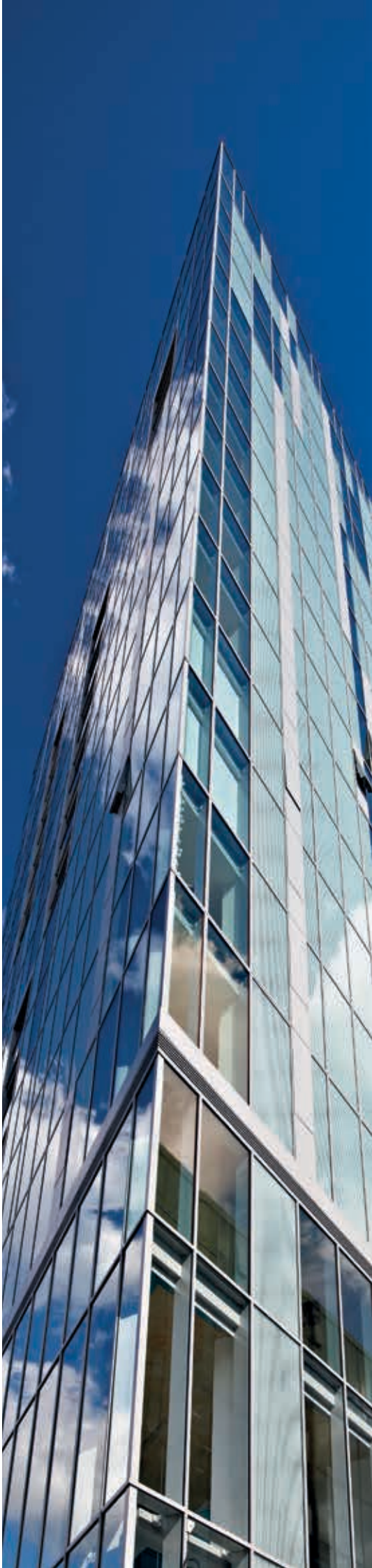
We don't want to change what we are doing, just do more of it.

We are in an excellent position with increasing margins, a significant development pipeline, enhanced financial strength and an unprecedented level of pre-sales all underpinning our expectations of substantial profit growth in the next three years.

London is the right place to be developing with a robust micro-economy, an international reputation, a fantastic transport network and a significant shortage of homes when compared to current demand let alone future population growth. These fundamentals are there for the long term and this gives us confidence in setting a strategy that calls for doing more of the same, increasing output and growing the business over the next few years.

Percentage of expected open market completions that have already been sold by financial year





Increased bank facility

During the last year we have increased our corporate banking facility from £70 million to £120 million and extended it to 30 September 2016.

This demonstrates the significant confidence our banks, RBS, HSBC and Santander, have in Telford Homes and gives us a secure financial platform from which to grow the business.

Development pipeline

Our development pipeline at 31 March 2013 had increased to 2,260 properties from 1,969 last year and includes many exciting developments to be delivered over the next few years. Based on current forecasts this pipeline will produce revenue in excess of £650 million.

Caledonian Road

An artist's impression of our proposed development at Caledonian Road, Islington a site purchased subject to planning.

CHAIRMAN'S STATEMENT

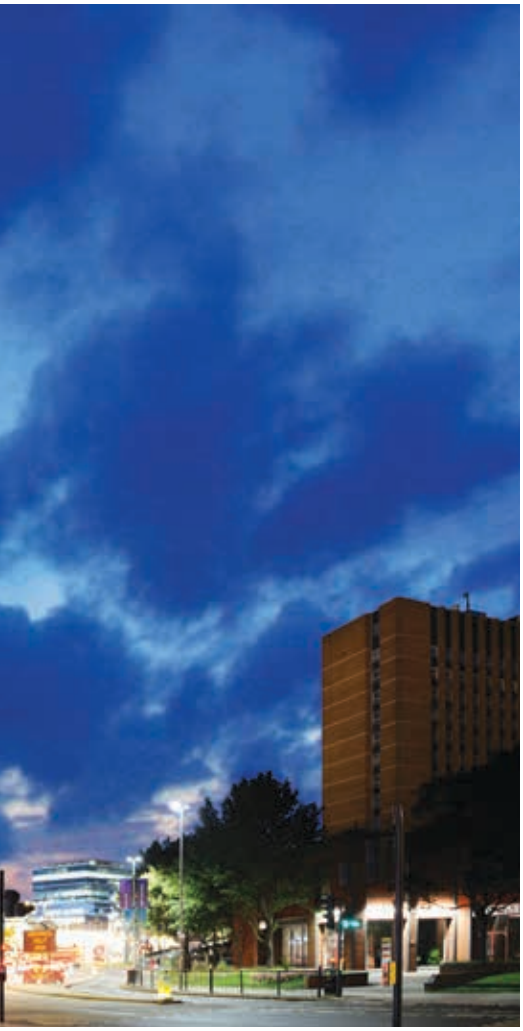
Andrew Wiseman
Chairman

"The Board believes that there are many reasons to be positive about developing in London and the future for Telford Homes."

Once again Telford Homes has exceeded the Board's expectations for both sales performance and profit levels. Strong demand from people who want to buy or rent in London has led to unprecedented sales success and the Group now has a significant forward sold position that provides an excellent platform for growing the business over the next few years.

Securing sales well ahead of build completion enables the Group to control its exposure to risk and therefore add to the development pipeline with further site acquisitions in areas that are known to be in demand. The Group's land buying strategy has remained the same with a focus on increasingly desirable locations in inner London. The Group has now acquired its first site, subject to planning, in the London Borough of Islington and is therefore continuing to mix its East London heartland with other up and coming or established areas.

The Group is always looking for opportunities to secure development land in the future and as such the Board is delighted to announce that Telford Homes has been appointed to the Greater London Authority's (GLA) London Development Panel (LDP). This



panel has been established to support the delivery of housing and housing led development in the capital and to act as the procurement tool for the GLA in bringing forward development across its substantial land portfolio.

The GLA expects over £5 billion of development to be delivered though the LDP and in addition it will be available to other public sector landowners such as local authorities, housing associations and government departments. The development of sites in public sector ownership is one of the keys to addressing the chronic shortage of housing in London.

The Board has maintained its intention to pay a third of the Group's earnings each year in dividends. As a result the final dividend proposed is 2.8 pence making a total of 4.8 pence for the year (2012: 3.0 pence). The Board expects significant growth in earnings over the next three years and does not foresee a change in the dividend policy during that time.

The Board believes that there are many reasons to be positive about developing in London and the future for Telford Homes. Given the forward sales position, the healthy development pipeline and the performance of the management team, I look forward to reporting further success for the Group in the years ahead.

Andrew Wiseman
Chairman
28 May 2013

STRATFORD PLAZA E15

Computer Generated Images

CHIEF EXECUTIVE'S REVIEW

Jon Di-Stefano
Chief Executive

"The business is in an excellent position with increasing margins, a significant development pipeline, enhanced financial strength and an unprecedented level of pre-sales."

Telford Homes has experienced exceptional levels of demand in recent months and the Group exchanged contracts for the sale of 803 open market properties in the year to 31 March 2013 (2012: 460). Nearly 600 of these were sold in the last six months of the year. Since 1 April 2013, a further 183 properties have had contracts exchanged or have been sold subject to contract. As a result the Group has already sold 99 per cent of the open market properties expected to be completed in the year to 31 March 2014 and more than 50 per cent for each of the following two years. This is an extremely strong position from which to start the new financial year and it enables the Board to be more aggressive in utilising the Group's capacity to undertake more developments in the future.

Increasing margins and profits

Strong demand for the Group's product also extended to those developments that finished during the year and as a result open

market completions were ahead of expectations, and the previous year, at 374 (2012: 314). The Board is delighted to report that the Group currently has no finished homes that remain unsold, often referred to as stock units, for the first time in many years.

For the last two years the Group has focused on improving both its gross margin from development and its operating profit margin. A return to a more traditional mix of open market and affordable housing has assisted this but has been far outweighed by the impact of sales prices being achieved in excess of targets and close control of build costs. The gross margin before interest charges has increased by 6.7 percentage points to 24.3 per cent (2012: 17.6 per cent) and is now in excess of the Group's normal target margin when acquiring land. The operating margin before interest charges has increased to 9.7 per cent (2012: 6.2 per cent) tempered only by a significant increase in selling expenses caused by the cost of successful overseas marketing campaigns and agents commission on the greater number of contracts exchanged in the year.

Open market completions being ahead of expectations, together with significant improvements in margins have contributed to a trebling of profit before tax to £9.0 million (2012: £3.0 million). The Board anticipated a substantial increase in profits but this result has exceeded even those expectations. Given the very strong forward sold position the Board can confirm that it expects to report another substantial increase in pre-tax profits for the year to 31 March 2014 with further growth beyond that.

PARLIAMENT HOUSE SE1

Computer Generated Images

CHIEF EXECUTIVE'S REVIEW

Sales performance

The Group's strategy is to secure sales early in the development process where this is both practical and possible. This strategy brings in early cash receipts from deposits and reduces the Group's exposure to risk.

The Group's core market is made up of two different types of customer being investors, based overseas or in the UK, and owner-occupiers. Whilst investors and owner-occupiers have different demands and different reasons for buying they are similar in terms of a desire to own a property in a location that has good transport links and provides long term value. This applies perfectly to the inner London locations in which Telford Homes is developing. The level of demand from overseas purchasers is well documented but Telford Homes is experiencing strong demand from both investors and owner-occupiers. Although the Group has undertaken a number of high profile overseas launches, with results well ahead of expectations, over 60 per cent of the sales in the year to 31 March 2013 were to UK buyers.

Overseas customers primarily attend launch events held in Hong Kong, Singapore and Malaysia. These events are held in hotels over a weekend and involve significant investment in terms of marketing materials and advertising. The Group carefully selects the developments that are launched overseas based on specific location, building design and expected rental yields to maximise the chance of a successful event.

In the year to 31 March 2013 the Group sold several major developments to the investor market, primarily overseas, but with increasing interest from investors in the UK. These developments included Stratford Plaza, near the Westfield shopping centre, where all 198 open market homes were sold and Parliament House, near Westminster, where 70 of the 73 open market homes have been sold. More recently in March 2013 the Group sold 110 of the 128 open market homes on its Cityscape development in Aldgate. All of these developments are due to be completed in the 2015 calendar year. The Group's investor customers are buying in order to let their properties when completed and therefore the homes they buy are still addressing the shortage of supply for those who want to live in London.

The rate of sales to owner-occupiers has been exceptional in the last few months through on-site sales centres and, where this is not possible, through local agents. At Bow Trinity, near Mile End, the Group expected to sell one home per week to a mix of owner-occupiers and investors and yet in the first few months of 2013 was often achieving more than ten sales per week. As a result, the Group has sold out of the 204 apartments released for sale on this development since opening a sales centre in September 2011. The final two apartment blocks will be launched later this year. In addition the Group has sold out at Greenwich Creekside, the St Georges Estate and The Panoramic and only has two apartments left for sale at Avant-garde. In late April 2013 the Group also launched Abode, a small development of 14 apartments in Bow, and has already sold 12 of these homes.

BOW TRINITY E3

Includes Computer Generated Images

CHIEF EXECUTIVE'S REVIEW

At these levels of demand there is inevitable upward pressure on prices and the Group has been able to exceed its price targets at every development in the last few months. The average price secured for the open market homes exchanged in the year to 31 March 2013 was £353,000, up from £339,000 last year. The different developments sold in each year have the most effect on this average and therefore it is not an indicator of the underlying price movement. The Board estimates that price inflation in the Group's core areas has been in excess of five per cent over the last 12 months with variations between specific locations.

The London housing market and mortgage finance

The Board monitors demand and price trends, along with statistics predicting future demand and supply in London, in order to assess land acquisitions and set its strategy for the growth of the business.

Rental demand for the Group's homes that have been purchased by investors remains very high with rising rent levels and limited voids. The increasing popularity of developing for the private rented sector is encouraging and yet institutional investment in this market is not that different to the Group's existing experience of individual investors purchasing each of the homes across a development. The finished homes end up in the rental market regardless of who owns them. Housing associations have become more involved in the private rented sector and this is a natural development given their experience of managing large numbers of homes. One of the remaining obstacles to institutional investment in the sector is their high target rate of

return whilst housing associations are able to take a more balanced view of this. During the year to 31 March 2013 the Group sold two small developments, of 35 homes in total, to housing associations specifically for private rent.

The availability of mortgage finance at reasonable loan to value percentages and more affordable interest rates has been gradually improving over the last few months and this trend seems likely to continue. This has been particularly helped by the government's 'Funding for Lending Scheme'. In addition there have been a number of government inspired schemes to assist those who cannot afford the deposit typically required to access mortgage finance. The latest of these is the recently announced 'Help to Buy' scheme which will make a fundamental difference to many prospective homebuyers across the country. Whilst the Board anticipates that Telford Homes will join the 'Help to Buy' scheme in London it has not done so to date and has not needed to participate in any of the previous government initiatives. It is therefore important to note that the exceptional demand the Group has reported in the last few months has been achieved without any government assistance.

Despite the efforts being made to increase supply, it is unlikely that the number of new homes built over the next few years will be able to keep pace with the number required in London given expected population growth and the existing shortage. This fundamental issue underpins the Board's plans to significantly increase the Group's contribution to the supply of new homes in London over the next few years.

LIME QUAY
E14

Includes Computer Generated Images

CHIEF EXECUTIVE'S REVIEW

Partnerships and affordable housing

Affordable housing accounts for around a third of the homes on each development. The relationships and partnerships that Telford Homes has forged in the sector over many years have proved to be vital in securing best value for new affordable housing and sourcing land opportunities. The Group's grant partnership with the Homes and Communities Agency and then the Greater London Authority (GLA) has resulted in over £75 million of external funding coming into the business to subsidise the construction of 639 affordable homes. In some areas this funding has also enabled regeneration work to take place on existing homes and the wider neighbourhood around the Group's new developments including Bow Trinity and the St Georges Estate.

Many of the Group's development sites have been sourced from local authorities, housing associations and housing transfer organisations and the Group's appointment to the GLA's London Development Panel should ensure that Telford Homes continues to be in a position to acquire and develop land currently in public sector ownership.

Land acquisition and planning

Telford Homes has always been a London developer buying land where the opportunities exist and where there will be a market for the finished product. The Group is focusing on areas of inner London because it expects demand to remain strong in those locations, both

from investors and owner-occupiers, over the next few years. The Board will remain opportunistic and acquire sites which will appeal to buyers looking for attractive developments close to excellent transport facilities.

During the year the Group has purchased, or agreed to purchase, a number of new sites and many of these have been acquired subject to receipt of a satisfactory planning consent. The Group will buy land without planning but, where there is some uncertainty regarding the outcome, a conditional purchase reduces exposure to risk. There have been some significant planning successes in the last year including permission for 131 open market homes and 59 affordable homes in a 26 storey tower at Yabsley Street near Canary Wharf and 150 new homes on the edge of Bartlett Park, E14, in partnership with two housing associations, Poplar HARCA and East Thames. The Group has excellent knowledge of the planning requirements within its area of operation, engages early with the local community and has strong relationships with the relevant authorities. All of these factors put Telford Homes in the best possible position to secure good planning permissions.

The Group's development pipeline at 31 March 2013 had increased to 2,260 properties (2012: 1,969 properties) and based on current forecasts this will produce total revenue in excess of £650 million. Currently 1,855 of the properties in the pipeline are either under construction or in detailed design and, including affordable housing contracts, over 1,300 of these have already been sold.

NINE
E5

CHIEF EXECUTIVE'S REVIEW

Operations

The more land that is added to the development pipeline and the more sales success that is achieved, then the more important becomes the Group's ability to complete the construction of its developments. The business has been structured to ensure that the process of design, construction and delivery of new homes is managed correctly and to produce first class developments that are everything a Telford Homes customer expects.

The Telford Homes brand is about the consistent delivery of high quality, desirable new homes backed up by a dedicated Customer Service team, providing product finish and service that is second to none. This focus on product and service is why, of those responding to an independent survey, 99.5% of the Group's customers who took ownership of a property in 2012 would recommend Telford Homes.

The Group could not achieve the success it has sustained over many years without its loyal and dedicated employees. The business has a very low staff turnover rate and tries to ensure that every person who works for the Group feels that they are an integral part of Telford Homes. This ethos will be even more important as the Group looks to increase output over the next few years. Yet again I pass on my sincere thanks to each and every employee for their contribution to our success in the last year.

Current trading and outlook

Trading since the start of the year has remained remarkably strong and prior to development launches later this year the Group has less than 25 homes currently on the market. In the last few weeks the Group has also increased its banking facility to £120 million and extended its term by two years to September 2016.

The business is in an excellent position with increasing margins, a significant development pipeline, enhanced financial strength and an unprecedented level of pre-sales all underpinning the Board's expectations of substantial profit growth in the next three years.

London is the right place to be developing with a robust micro-economy, an international reputation, a fantastic transport network and a significant shortage of homes when compared to current demand let alone future population growth. These fundamentals are there for the long term and this gives the Board confidence in setting a strategy that calls for doing more of the same, increasing output and growing the business over the next few years. There is little doubt that both Telford Homes and the London market have the capacity to allow that growth.

Jon Di-Stefano
Chief Executive
28 May 2013

CITYSCAPE
E1

Computer Generated Images

FINANCIAL REVIEW

Katie Rogers
Financial Director

"The Group has strong cash balances and headroom available within its new corporate loan facility to pursue land opportunities to enhance its development pipeline."

Telford Homes has had an excellent year with significant revenue and margin growth and a threefold increase in profit before tax to £9.0 million (2012: £3.0 million). The Group has been successful in pre-selling homes and as a result, is confident of delivering further profit and margin growth in 2014 and beyond. The Group has strong cash balances and headroom available within its new corporate loan facility to pursue land opportunities to enhance its development pipeline.

Operating results

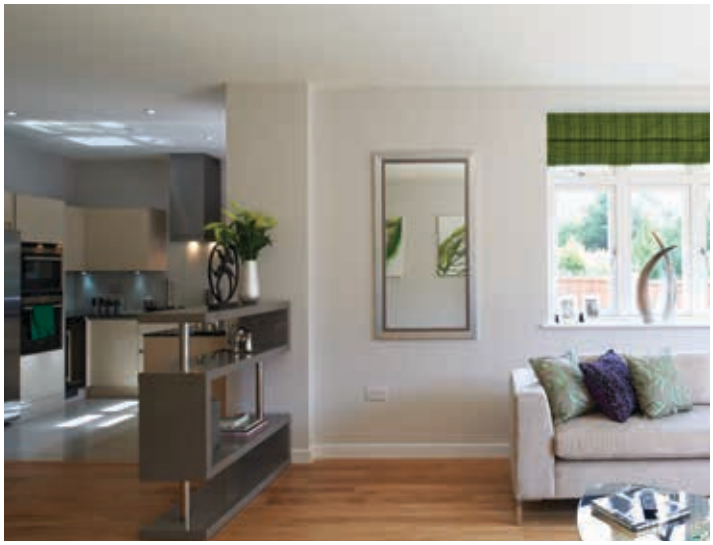
Revenue increased by 14.5 per cent to £142.4 million (2012: £124.4 million) with gross profit of £31.4 million (2012: £18.9 million). Gross profit is stated after expensing loan interest that has been capitalised within inventories of £3.2 million (2012: £2.9 million) and before charging this interest the gross margin in the year was substantially higher at 24.3 per cent compared to 17.6 per cent last year.

The increase in revenue is due to a greater volume of open market completions, 374 properties compared to 314 in the year to March 2012, combined with a higher average selling price achieved on the properties which completed in the year. This average selling price increased by 19 per cent to £313,000 (2012: £263,000) with the increase due to the mix of properties completing in each period, together with underlying price growth. The increase in open market revenue is partially offset by a reduction in the level of affordable revenue in the year as the Group continues to return to a more normal split of output, traditionally two thirds open market and one third affordable in terms of unit volume but more heavily weighted towards open market in terms of revenue. Affordable revenue in the year was £26.0 million compared to £41.8 million in the prior year.

The improvement in gross profit margin is due to a combination of sales prices being achieved ahead of expectations and cost control. The operational teams continue to monitor and control development costs and substantial build cost savings have been achieved on developments completing in the current financial year. As a result, a number of developments are achieving profit margins that are ahead of the targets set during land purchase.

AVANT-GARDE
E1

Includes Computer Generated Images



FINANCIAL REVIEW

Administrative expenses have increased to £12.9 million (2012: £10.6 million) predominantly due to higher employee costs. Selling expenses have risen in the year from £3.5 million to £7.9 million as a direct result of the 75 per cent increase in the number of contracts exchanged and a greater number of open market completions. Over £3 million of the selling expenses incurred in the year relate to the successful launches of three new developments, Stratford Plaza, Parliament House and Cityscape, both overseas and in the UK. These launches generated 378 pre-sales of homes which are scheduled to complete in future financial years. However the accounting treatment for selling expenses is that they must be expensed as incurred even though profit recognition from sales occurs when each property legally completes, which can be a number of years later. The selling expenses incurred in the current year in relation to these pre-sales will reduce the level of marketing expenditure required on these developments in the future.

The Group's operating margin before interest increased to 9.7 per cent (2012: 6.2 per cent). This operating margin would have been higher had it not been for the selling costs incurred in the year in relation to pre-sales of homes. The Group will continue to focus on increasing profit margins and the Board anticipates further improvement over the next few years based on sales already achieved.

Finance costs

Finance costs actually incurred in the year have decreased to £4.1 million from £4.9 million. This is comprised of £2.2 million (2012: £3.1 million) of interest capitalised into work in progress and £1.9 million (2012: £1.8 million) of finance costs charged directly to the income statement.

Borrowings have reduced from £67.0 million to £58.1 million during the year and therefore interest capitalised into work in progress is lower than the previous year. Finance costs charged directly to the income statement are predominantly non-utilisation fees, arrangement fees and hedging costs. The Group has signed a new corporate loan facility for £120 million and as a result, the amortisation of arrangement fees associated with the previous facility has been accelerated resulting in an additional expense of £510,000 in the year to 31 March 2013. In the prior year one-off hedging costs were incurred and therefore finance costs charged directly to the income statement are similar year on year.

HIGH CEDARS E11

FINANCIAL REVIEW

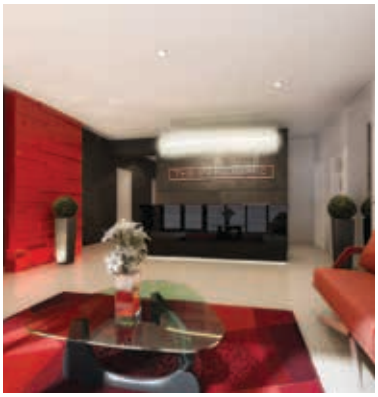
Dividend

The Board has proposed a final dividend of 2.8 pence which, together with the 2.0 pence interim dividend paid on 11 January 2013, makes a total dividend for the year of 4.8 pence (2012: 3.0 pence). The increased dividend compared to the prior year is due to higher earnings per share and is in line with the Board's stated intention of paying around a third of earnings in dividends each year. The final dividend is expected to be paid on 19 July 2013 to those shareholders on the register at the close of business on 21 June 2013.

Balance sheet and cash

Net assets at 31 March 2013 were £72.7 million, increased from £66.2 million last year. This is equivalent to net assets per share of 144.7 pence (2012: 133.7 pence).

Cash balances at 31 March 2013 of £23.7 million (2012: £12.4 million) were unusually high for the Group although a large proportion of this has been committed to future land and development costs. In addition to cash inflows arising from open market completion proceeds in the year, significant cash inflows have been generated from pre-sales and the associated deposits received on exchange of contracts. Typically this is 10 per cent of the contract value but on schemes sold overseas this increases to 20 per cent with 10 per cent payable on exchange and a further 10 per cent due approximately one year later. At 31 March 2013, deposits received in advance of completion included on the balance sheet totalled £20.1 million (2012: £13.2 million).



Borrowings

Net debt at 31 March 2013 was £34.4 million (2012: £54.6 million) with gearing of 47.3 per cent (2012: 82.4 per cent) due to the combination of reduced borrowings and higher cash balances. Loan drawdowns against site acquisitions and development costs of £37.1 million were more than offset by repayments of £46.5 million made from open market sales proceeds.

The Board continues to monitor 'uncovered gearing' which excludes debt which would be repaid by the value of contracts already exchanged on each development. Due to the Group's significant pre-sold position, there is no debt that is not either covered by the value of contracts exchanged or by cash held on the balance sheet and therefore uncovered gearing was zero at 31 March 2013 (2012: 37.9 per cent).

Both net debt and gearing are expected to increase over the coming months as the Group reinvests the equity of the business, together with the headroom in the corporate facility, into existing and new developments. The Group remains active in the land market and continues to pursue land opportunities at target margins within its core area of operation.

THE PANORAMIC E14

Includes Computer Generated Images

FINANCIAL REVIEW

The Group has been successful in increasing its corporate loan facility from £70 million to £90 million during the year and subsequently to £120 million in April 2013. The term has also been extended by two years and the facility now runs to 30 September 2016. This facility is provided by the Group's existing banking partners, being The Royal Bank of Scotland, HSBC and Santander and funds all current developments, with the exception of Avant-garde. Funds are advanced at 60 per cent of cost and site specific funding under the overall facility umbrella is repaid from the first 65 per cent of the open market residential proceeds on each site. At 31 March 2013, Telford Homes had utilised £46 million of the facility leaving a significant unutilised balance.

In addition to the corporate facility, Telford Homes (Creekside) Limited, a wholly owned subsidiary, had a £57.7 million loan facility with The Royal Bank of Scotland in relation to its Greenwich Creekside development. At 31 March 2012, £14.6 million was outstanding in relation to this loan and this has now been repaid in full from sales proceeds received in the year. Bishopsgate Apartments LLP, a joint venture with The William Pears Group signed a £43.1 million loan facility with HSBC in July 2011 to fund the development of Avant-garde. At 31 March 2013, Bishopsgate Apartments LLP had utilised £29.8 million of this facility (2012: £19.8 million). The loan is repayable by September 2014 however it is expected to be repaid well ahead of the expiry date from completion proceeds with handovers commencing later this year.

The increased corporate loan facility together with the Bishopsgate Apartments LLP facility ensures that the Group has sufficient bank finance available for all existing schemes and headroom within the corporate facility to purchase and develop new sites over the next few years.

Katie Rogers
Financial Director
28 May 2013

E-PAD
E14

KEY RISKS AND UNCERTAINTIES

The Group's financial and operational performance is subject to a number of risks. These risks are continually assessed by management to mitigate and minimise their effects on the business. There are also many risks which are outside of the Group's control. The key risks facing the business are:

Economic environment

Demand for properties from both investors and owner-occupiers is dependent on confidence in both the local housing market and the wider economy. This confidence is heavily influenced by factors such as interest rates, the availability of mortgage finance, rental incomes, unemployment and increasing consumer costs for other goods and services. All of these are outside of the Group's control.

The Group's policy has been to sell early in the development process, where practical and possible, to minimise the risk in each site. This policy has been successful to date and pre-sales are still being secured with housing associations, overseas buyers and UK buyers. In addition, the Sales and Marketing team have detailed knowledge of the local market and are able to formulate the best sales strategy for each development and to work with purchasers and prospective purchasers to ensure that all stages of the process from reservation to legal completion run as smoothly as possible.

Land acquisition

The Group needs new land to maintain a development pipeline and to enable the business to continue to operate at a certain capacity. This land needs to be sourced in appropriate locations and where optimum planning consents can be obtained. The appraisal process that determines the price paid for land is critical in maintaining margins and return on equity at acceptable levels.

The Land Acquisition and Partnerships team are responsible for sourcing land and our strong relationships with various land owners including local authorities and affordable housing providers play a key role in our ability to acquire new sites. Our existing partnerships with housing transfer organisations are expected to continue to be a source of land and we have been appointed to the GLA's new 'London Development Panel' enabling us to bid for public land disposals in the future. The appraisal process for new sites includes due diligence by an experienced solicitor and authorisation of all prospective purchases at appropriate levels.

Planning process

The flow of properties through the development pipeline is dependent on achieving suitable planning permission on sites purchased without planning or subject to planning. The process is time consuming and involves a number of supporting reports and detailed consultations with many different bodies. Delays in achieving suitable planning permissions affect the number of properties that can be brought to market and impact the timing of future cash flows. Failure to achieve a suitable planning permission may lead to cost write offs or reduced margins on individual developments.

Telford Homes has extensive knowledge of local planning requirements, excellent relationships with planning authorities and takes care in the appointment of professional architects, planning consultants and engineers. Early consultations with the planning authorities are a key part of the land acquisition process. While this cannot remove planning risks it mitigates them as much as possible. All bar one of the sites currently owned by the Group have the benefit of a full planning permission and a number of sites have been purchased subject to achieving a satisfactory consent. The Board ensures that the Group is not overexposed to planning risks by limiting the total investment in sites without a planning permission at any one time.

Construction

The construction process is critical to the efficient and timely delivery of properties to purchasers which affects both cash flow and customer satisfaction. The quality of the construction work and finish in each property affects the reputation of the Group and can impact on repeat purchase and recommendation rates.

Standards of construction and control of the building process on site are of paramount importance to each operating division. Careful planning is required to assess a development programme before construction commences and this is monitored over the course of the building work. The construction teams work very closely with the Customer Service team and their interaction commences at an early stage in the development. The Customer Service team spend a substantial proportion of their time on site carrying out quality control before a purchaser sees the property for the first time.

Health and Safety

Construction sites are dangerous places and there are many different health and safety risks to consider. The health and safety of everyone associated with Telford Homes, both employees and sub-contractors, is the first priority of the Group.

Investment in training, the promotion of health and safety to all employees and extensive policies and procedures all contribute to a comprehensive approach to health and safety management with the objective of minimising risk and providing a safe working environment. The Group has a dedicated Health and Safety Manager who conducts health and safety audits on a regular basis and processes are modified as required with a view to seeking continuous improvement.

Availability of materials and labour

The availability of materials and sub-contracted labour for each site can affect both the construction programme and the cost of construction. Build cost inflation will impact directly on the margin achieved on each site where this is in excess of forecasts.

Planning of the construction programme and timely management of the tender process for each sub-contracted trade reduces the risk of delays in the construction programme due to availability of materials and labour. The tender process ensures that competitive rates are achieved on every trade. Telford Homes works in partnership with all of its sub-contractors and makes timely payments to encourage an equal relationship that is beneficial to all parties.

Cash requirements and bank finance

Property development is a capital intensive business with significant initial outlays supported by bank finance and lengthy time periods before the majority of the cash inflows on each project. Forecasting of cash flows is critical to ensure the Group is not operating beyond its financial capacity. Part of this process involves the forecast of bank funding for each development and the availability of sufficient bank finance is therefore also of critical importance.

Telford Homes maintains a detailed cash flow forecast as part of its management information systems. This extends five years into the future and is subject to continual re-assessment and sensitivity analysis. The cash flow position is reviewed by the Board and by each of the Group's banking partners on a monthly basis. Telford Homes has excellent relationships with the banks funding the business and has secured sufficient facilities to ensure the continuing operation of the business.

Political environment

Changes in laws and regulations can have a direct impact on the efficient running of the Group and the costs incurred on each development. Changes in both local and national government can have a direct bearing on the regulatory environment.

Telford Homes works closely with specialist consultants to ensure that it is up to date with current regulations and aware of any future changes so that operations can be planned accordingly.

HEALTH AND SAFETY

The health and safety of everyone involved in our business or affected by it is the most important consideration in everything we do. The Board actively promotes a positive safety culture within the business and ensures that this is reflected in all of our policies and procedures and our approach to training and development of the people involved in our operations.

Policies and procedures

We have developed a comprehensive set of policies and procedures covering all of our operations and these are constantly updated and communicated to relevant employees and everyone else working on our sites. Our procedures identify all of the relevant risks and hazards that are likely to be encountered in the course of our work and, more importantly, set out the appropriate precautionary control measures.

The Group's Health and Safety Management System is accredited to BS OHSAS 18001:2007 and continues to be audited every six months by the British Standards Institution (BSI) in accordance with their stringent auditing processes. This year our occupational health and safety performance was once again recognised by the 'Royal Society for the Prevention of Accidents' (RoSPA) with a gold award and similarly our management of occupational road risk was recognised with a silver award. These awards and the BSI certification are recognition of the very high standard of the Group's overall approach to health and safety.

The Group has an 'Executive Safety Committee' and an 'Operational Safety Forum' made up of a number of senior employees with extensive industry experience. Both of these groups continue to meet regularly and are instrumental in developing significant changes to the way health and safety is managed and to our polices and procedures. This ensures we are constantly up to date with any changes in working practices or regulations.

Our joint Managing Directors, John Fitzgerald and Mark Parker, remain responsible for health and safety in each of the operating divisions and John Fitzgerald is the board member with overall responsibility for health and safety.

Training and development

Telford Homes operates in an industry where up to date qualifications, standards and knowledge are vital to the

safe and successful operation of the business. We invest in the training and development of our people through a rigorous health and safety training programme which ensures that all employees have the appropriate skills and knowledge.

Training is seen as a necessity and it is important to continually assess training needs whilst anticipating changes in the external environment that will dictate new skills and knowledge that our employees may need. The focus on high quality industry specific training allows the Group to have a fresh approach and the Board views training, particularly through apprenticeships, as an essential investment in the future of the Group and the future of the construction industry.

In addition, the Group has a supply-chain of partners that provide all the necessary design and building services to complete each development. We demand that our suppliers employ competent people and encourage their continuing professional development. To support this we have held subsidised on-site training specifically for their employees.

As part of our vetting procedure the technical and commercial viability of each supplier is scrutinised in an attempt to ensure they are able to meet their obligations. Our operational teams demand and expect the highest health and safety standards from each supplier and as a result this is considered during the tender process for new work. We continually monitor our suppliers and take the necessary steps to ensure they meet our high expectations.

Performance

Our accident frequency rate for the year to 31 March 2013 was once again better than the industry average. We carefully monitor the nature of any accidents that do occur to ensure we can learn from them and adjust our training requirements appropriately. The majority of our accidents and incidents over the last few years have arisen as a result of simple behavioural failings of those persons directly involved and we have an ongoing programme that makes people aware of these simple mistakes and the impact they can have.

Overall, our health and safety performance in the year has been excellent once again and yet the Group will always seek further improvement. I am confident that our extensive procedures and our investment in training mean that Telford Homes is doing everything possible to minimise health and safety risks within the business.

Steve Nicoll
Group Health & Safety Manager

ENVIRONMENT AND SUSTAINABILITY

Telford Homes is committed to designing and constructing developments that both minimise ecological impact and improve energy efficiency. Our approach means that we re-use, recycle and adopt renewable materials wherever viable and continually look for new ways to meet and exceed environmental expectations in all our activities.

The Group has an environmental policy and we ensure that this is communicated throughout our operations. Our environmental policy and environmental management system is regularly reviewed to ensure the prevention of pollution and compliance with relevant legislation. Our environmental management system was certified again this year with the British Standards Institute to BS EN ISO 14001:2004.

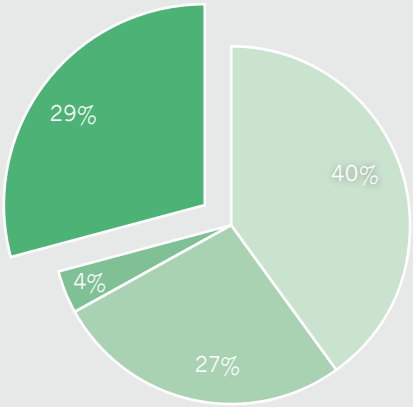
We have adopted the Building Research Establishment SMARTER© waste programme which assists the construction industry to manage site waste in compliance with regulations. It is also fully aligned with the requirements of Building Research Establishment Environmental Assessment Method (BREEAM) and The Code for Sustainable Homes enabling the monitoring of onsite energy consumption, water consumption and the procurement of certified timber.

The materials we use during our construction projects contribute to our environmental performance and as such we recognise the contribution sustainable materials make to improved environmental performance. We continue to increase the amount of recycled materials we use, particularly aggregates and crushed concrete in excavation reinstatements and piling mats.

Our developments benefit from low energy lighting, methods of reducing internal water usage including flow restrictors and dual flushes, recycling facilities, cycle storage and access to local transport links. In addition we use many established and cutting edge technologies to improve the energy efficiency of our developments once they are occupied.

We strive to achieve the sustainability expectations required by legislation, including targets for the level of carbon savings required from developments. Energy strategies are being continually adapted to suit these expectations with new emphasis being placed on the reduction of energy usage through not only the building process but also enhancement of the building envelope and the manner in which the building is used. We incorporate renewable energy technologies where possible including photovoltaic panels, wind turbines and ground source and air source heat pumps with the ultimate aim of reducing the carbon footprint of our developments.

Carbon savings against Building Regulations (2010)



- Saving from fabric improvements
- Saving from heat and ventilation methods
- Saving from renewable energy sources
- Resultant CO_2 per annum

The impact of our energy strategy on a typical development can be demonstrated in terms of the saving in carbon emissions it generates. Using one of our current developments as an example this chart shows that, through improvements in the fabric of the building, heat and ventilation methods and using renewable energy sources, the Group can reduce carbon emissions by over 70% per annum against building regulation requirements.

BOARD OF DIRECTORS

Andrew Wiseman

BA (Hons), FCMA
Chairman
56

Andrew Wiseman, together with close colleagues, founded Telford Homes Plc in December 2000 following ten years with Furlong Homes Plc initially as Financial Director then as Chief Executive for the final three years. Andrew headed the flotation of Telford Homes on AIM in December 2001, building on excellent relationships with institutional investors. In his role as Chief Executive of Telford Homes, from formation until 30 June 2011, Andrew positioned the Group as a partner of affordable housing providers as well as a first class developer of open market homes. Andrew became Chairman on 1 January 2012. He is also a Strategic Board member of AmicusHorizon, a Housing Association providing affordable homes in South London, Surrey, Kent and Sussex.

Jonathan Di-Stefano

MA (Econ), ACA
Chief Executive
38

Jon Di-Stefano joined Telford Homes Plc as Financial Director in October 2002. Prior to this he had one year with Mothercare following five years with Arthur Andersen. Jon built up a strong finance function over a number of years and played a significant role in establishing relationships with the Group's banking partners and institutional investors. Jon became Chief Executive on 1 July 2011 and since his appointment he has overseen significant profit growth and increasing shareholder value. Supported by the rest of the Board he is responsible for the Group's strategic direction including setting the land buying strategy, its area of focus, the approach to risk management and all other long term business planning.

Katie Rogers

BA (Hons), ACA
Financial Director
32

Katie Rogers joined Telford Homes Plc in 2007 as Financial Analyst following four years in audit and assurance at PwC where she worked on a variety of engagements. Katie progressed to Group Financial Controller within a year and was appointed to the Board as Financial Director on 14 July 2011. Besides leading and managing the finance team for the Group, Katie is accountable for the monitoring and control of cash balances and long term profit forecasts and is also responsible for maintaining on-going relationships with the Group's banking partners. She was heavily involved in negotiating the initial £70 million banking facility signed in March 2011 and subsequent amendments to the facility, including the recent increase to £120 million in April 2013.

David Durant

Group Planning & Design Director
51

David Durant is a co-founder of Telford Homes Plc and has over 30 years experience in the construction and house building sectors including 14 years at Furlong Homes where he was Group Technical Director from 1997 to 2000. David had been Group Managing Director since the start of the Company's operations in 2001. In 2005 he supervised devolving responsibility for the finished Telford Homes product into two divisions in order to handle the high level of growth in units under construction. David's role is focused on major planning consents, product design and maintaining key partnerships.

James Furlong

Land Director
77

Jim Furlong has over 40 years experience in all aspects of the construction and building industry through his involvement in roofing, civil engineering, construction and house building companies which all bore the 'Furlong' name. Prior to joining Telford Homes as Land Director Jim was a driving force within Furlong Homes, where he was Chairman with specific responsibility for land acquisition. Jim's wide experience of land acquisition played a central role in the initial growth of Telford Homes and continues to be beneficial to the Group.

David Campbell

Group Sales & Marketing Director
47

David Campbell joined Telford Homes in November 2011 and was appointed as Group Sales & Marketing Director on 2 April 2012. He is responsible for all residential and commercial property sales, targeting both domestic and overseas buyers. David has over 25 years experience in the property development sector, operating as both a Sales & Marketing Director and Regional Managing Director for a number of major residential and mixed use developers, including the Berkeley Group, Barratt Developments and Wilson Bowden Plc. With experience as both a discipline director and managing director of traditional and urban regeneration businesses, he brings a wide appreciation of the development process and the importance of strategic planning for long term complex projects.

John Fitzgerald

ICIOB
Joint Group Managing Director
42

John Fitzgerald began his career in 1987 with Willmot Dixon Construction followed by Willmot Dixon Housing. He has over 20 years experience in the construction and house building sector and spent the four years prior to joining Telford Homes as Project and Contract Manager with Furlong Homes where he was responsible for some of their more prestigious developments. He joined Telford Homes in February 2003 and was jointly responsible for construction until March 2005 when, following re-structuring, he was appointed divisional managing director of Telford Homes Alto where he has built a very successful team. John was appointed a director on 1 August 2007 and is the director with responsibility for health and safety throughout the business.

Mark Parker

BSc (Hons), MCIOB
Joint Group Managing Director
50

Mark Parker joined the Wimpey Group as a management trainee in 1981 and spent the following 21 years with various Wimpey divisions culminating in the post of Construction Director for McAlpine Homes East. He spent the next three years as one of the two initial directors of the new North London division of KingsOak Homes. Appointed as Construction Director he was involved in all aspects of the new division, from land acquisition to sales and customer care. Mark joined Telford Homes in February 2005 as divisional managing director of Telford Homes Metro and has been influential in developing strong partnerships with housing associations. Mark was appointed a director on 1 August 2007 and jointly with John Fitzgerald has taken on the duties and responsibilities of Group Managing Director.

David Holland

Non-Executive Director
72

David Holland has over 40 years experience in the development and house building sector having joined George Wimpey Plc in 1966. On his retirement he held the position of Group Managing Director with responsibility for worldwide housing and land development. In 1997 David held the annual position of President of the House Builders Federation. David was appointed Non-Executive Chairman of Telford Homes in December 2001 and advised on all development issues and matters of strategic planning. On 1 January 2012, David stepped down from the role of Non-Executive Chairman and became a Non-Executive Director of Telford Homes. He chairs the remuneration committee and is a member of the audit committee.

Robert Clarke

FCA
Non-Executive Director
70

Robert Clarke was a partner in Binder Hamlyn and subsequently Arthur Andersen until his retirement in 2000. Robert joined Telford Homes Plc as a Non-Executive Director at the time of the AIM flotation in December 2001 and he has been influential in the fields of corporate governance and strategic direction. He has also been a non-executive director of various other public and private companies and served on committees of national charities. Robert is chairman of the audit committee and a member of the remuneration committee.

POLICY ON CORPORATE GOVERNANCE

Application of principles

Although not formally required to do so, the directors have sought to embrace the principles contained in the UK Corporate Governance Code (2010) (the Code) applicable to fully listed companies, in formulating and applying the Group's corporate governance policies. These policies are monitored to ensure that they are appropriate to the Group's circumstances and comply as far as possible with the provisions of the Code given the size of the Group.

Directors

The Company and Group are managed by a board of directors and they have the necessary skills and experience to effectively operate and control the business. There are ten directors in total of whom two are non-executive directors. David Holland and Robert Clarke, the non-executive directors, are considered independent and they comprise both the audit and remuneration committees. The Board meets once a month and the directors make every effort to attend all board meetings.

The Board is responsible for taking all major strategic decisions and also addressing any significant operational matters. In addition, the Board reviews the risk profile of the Group and ensures that an adequate system of internal control is in place. Management information systems are in place to enable the directors to make informed decisions to properly discharge their duties.

The roles of the Chairman and the Chief Executive are separate. The Chairman is responsible for running the Board and he meets regularly and separately with the Chief Executive and the non-executive directors to discuss matters for the Board.

As the business has developed, the composition of the Board has been under constant review to ensure that it remains appropriate to the managerial requirements of the Group. One third of the directors retire annually in rotation in accordance with the Company's articles of association. This enables the shareholders to decide on the election of the Company's Board.

The Board takes decisions regarding the appointment of new directors as a whole and this is only done following a thorough assessment of a potential candidate's skills and suitability for the role. New directors are given a full induction to the Group where required so as to ensure they can properly fulfil their role and meet their responsibilities.

All directors are offered appropriate coaching and training to develop their knowledge and ensure they remain up to date in relevant matters for which they have responsibility as a member of the Board.

The Chairman's statement and Chief Executive's review included in this annual report give the Board's current assessment of the Group's prospects. The directors are responsible for preparing the financial statements as set out in the statement of directors' responsibilities. The responsibilities of the auditors are set out in their report.

Remuneration committee

Details concerning the composition and meetings of the remuneration committee are contained in the directors' remuneration report on page 40 to 41.

Audit committee

During the period, the audit committee, which is chaired by Robert Clarke an independent non-executive director, has met three times with the external auditors being in attendance on all three occasions. The non-executive directors meet separately with the auditors twice a year.

The committee has a responsibility for reviewing the financial statements provided to shareholders. In addition, the committee reviews the business and financial risks and internal controls as described below.

The duties of the committee also include ensuring that the auditors provide a cost effective service to the Group and remain objective and independent and to consider from time to time the need for an internal audit function.

Relations with shareholders

The Company has institutional shareholders and is, where practicable, willing to enter into a dialogue with them. The Chief Executive and the Financial Director meet regularly with institutional investors within the confines of relevant legislation and guidance.

The Board invites communication from its private investors and encourages participation by them at the Annual General Meeting (AGM). All Board members present at the AGM are available to answer questions from shareholders. Notice of the AGM in excess of 21 clear days is given and the business of the meeting is conducted with separate resolutions, voted on initially by a show of hands and with the result of the voting being clearly indicated.

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to mitigate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board is of the view that there is an on-going process for identifying, evaluating and managing the Group's significant risks and that it has been in place for the period ended 31 March 2013 and up to the date of approval of the annual report and accounts, and that it is regularly reviewed by the Board.

The internal control procedures are delegated to executive directors and senior management in the Group operating within a clearly defined departmental structure. The Board regularly reviews the internal control procedures in the light of the ongoing assessment of the Group's significant risks.

On a monthly basis, management accounts, including a comprehensive cash flow forecast, are reviewed by the Board in order to provide effective monitoring of financial performance. At the same time the Board considers other significant strategic, organisational and compliance issues to ensure that the Group's assets are safeguarded and financial information and accounting records can be relied upon. The Board formally monitors monthly progress on each development.

DIRECTORS' REMUNERATION REPORT

The directors present the remuneration report for the year ended 31 March 2013.

Composition of the remuneration committee

The remuneration committee comprises the independent non-executive directors, David Holland and Robert Clarke. The committee makes recommendations to the Board on executive directors' service agreements and remuneration. In doing so it has undertaken relevant research to ensure that remuneration levels are competitive with the industry average. The committee met four times during the year.

Remuneration policy

It is the Group's policy to provide remuneration packages sufficient to attract, retain and motivate directors of the quality required. There are two annual bonus schemes in place for the year ended 31 March 2013, one applicable to all staff and a scheme for executive directors and senior management. Both schemes are dependent on the Group meeting certain financial performance targets. The maximum amount that can be earned under the existing executive bonus scheme is 100 per cent of basic salary.

From 1 April 2013 the remuneration committee has introduced a new bonus scheme for executive directors and senior management which will operate for a minimum of five years. The new scheme has been designed to act as an appropriate incentive for the Group's senior employees and to reward their contribution to business growth. At the same time it has been designed to encourage the retention of these key employees.

Under the new scheme each executive director will earn an annual bonus equivalent to 0.6 per cent of profit before taxation subject to a minimum level of profit being achieved in each year. A proportion of the bonus earned in each year (up to 50 per cent) will be deferred and paid out to each director in equal instalments over the next three years, again subject to a minimum level of profit being achieved in these years. The maximum amount that can be earned under the new bonus scheme remains capped at 100 per cent of basic salary.

The Company also operates a Share Incentive Plan (SIP) in which all employees are entitled to participate. The SIP exists in order to increase employee ownership of shares and further details are given in note 17 to the financial statements.

During 2006 the Company set up a Deferred Payment Share Purchase Plan (DPSPP) for the benefit of selected senior employees. Further details are given in note 17 to the financial statements. The remuneration committee is responsible for approving any offers of shares made under the DPSPP.

The Board as a whole determines the remuneration of the non-executive directors after considering external market research. They do not participate in the bonus schemes or in the personal pension scheme. They are entitled to participate in the SIP.

Service contracts

The executive directors have service contracts that can be terminated on twelve months notice. These provide for termination payments equivalent to twelve months basic salary and contractual benefits.

The non-executive directors have letters of appointment that can be terminated on three months notice.

Directors' emoluments

The directors' emoluments for the year ended 31 March 2013 are as follows:

	Salary and fees	Bonus	Benefits in kind	Pension contributions	Total 2013	Total 2012
Andrew Wiseman	102,500	66,000	14,308	10,250	193,058	160,221
Jonathan Di-Stefano	187,500	66,000	22,132	18,750	294,382	247,452
David Campbell [1]	148,750	66,000	11,727	14,875	241,352	–
David Durant	146,875	66,000	12,253	14,687	239,815	204,526
Sheena Ellwood [2]	–	–	–	–	–	212,561
John Fitzgerald	148,750	66,000	17,860	14,875	247,485	212,831
James Furlong	90,000	66,000	33,392	–	189,392	157,804
Mark Parker	148,750	66,000	18,855	14,875	248,480	211,768
Katie Rogers	148,750	66,000	12,063	14,875	241,688	144,057
Robert Clarke	48,125	–	–	–	48,125	46,375
David Holland	59,167	–	–	–	59,167	58,914
Total	1,229,167	528,000	142,590	103,187	2,002,944	1,656,509

[1] Appointed to the Board on 2 April 2012.
[2] Resigned from the Board on 31 March 2012.

When Directors were appointed or resigned during the year, the figures in the table relate only to the time when the relevant Director was a member of the Board.

Directors' interests in shares and share options

Directors' interests in shares are disclosed in the report of the directors.

The share options held by the directors in the Telford Homes Plc Employee Share Option Scheme at 31 March 2013 and the movements during the year then ended were as follows:

	Company scheme	31 March 2012 Number	Granted in year Number	Forfeited in year Number	31 March 2013 Number	Exercise price	Dates exercisable
Jonathan Di-Stefano	unapproved	60,000	–	–	60,000	75p	1 Oct 2005 to 1 Oct 2015
	unapproved	100,000	–	–	100,000	90.5p	9 Feb 2015 to 9 Feb 2022
	approved	33,000	–	–	33,000	90.5p	9 Feb 2015 to 9 Feb 2022
David Campbell [1]	unapproved	67,000	–	–	67,000	90.5p	9 Feb 2015 to 9 Feb 2022
	approved	33,000	–	–	33,000	90.5p	9 Feb 2015 to 9 Feb 2022
David Durant	approved	33,000	–	–	33,000	90.5p	9 Feb 2015 to 9 Feb 2022
John Fitzgerald	unapproved	160,000	–	–	160,000	75p	1 Oct 2005 to 1 Oct 2015
	approved	33,000	–	–	33,000	90.5p	9 Feb 2015 to 9 Feb 2022
Mark Parker	unapproved	100,000	–	–	100,000	90.5p	9 Feb 2015 to 9 Feb 2022
	approved	33,000	–	–	33,000	90.5p	9 Feb 2015 to 9 Feb 2022
Katie Rogers	approved	40,000	–	–	40,000	64p	20 July 2012 to 20 July 2019
	unapproved	100,000	–	–	100,000	79p	23 May 2014 to 23 May 2021

[1] Appointed to the Board on 2 April 2012.

No share options were exercised by directors in the year ended 31 March 2013 or the year ended 31 March 2012.

In total the share-based payments charge in respect of directors' share options was £27,544 (2012: £8,595).

By order of the Board

David Holland
Chairman of the Remuneration Committee
28 May 2013

REPORT OF THE DIRECTORS

The directors present their report and the audited consolidated financial statements for the year ended 31 March 2013.

Review of activities

The principal activity of the Group is that of property development.

A review of the activities and prospects of the Group is given in the Chairman's statement, the Chief Executive's review and the financial review on page 10 to 29. The Group is required to prepare a business review incorporating comments on key performance indicators and this is covered in the review of activities and prospects.

The primary key performance indicators are disclosed on the inside front cover.

Results and dividends

Profit after income tax for the year ended 31 March 2013 was £7,027,000 (2012: £2,286,000).

The directors recommend a final dividend of 2.8 pence per ordinary share which, together with the interim dividend of 2.0 pence paid on 11 January 2013, makes a total of 4.8 pence for the year (2012: 3.0 pence).

Going concern

The Group's business activities, together with factors likely to affect its future development and performance are set out in the Chairman's statement and the Chief Executive's review on pages 10 to 21 and the key risks and uncertainties affecting the Group are set out on pages 30 to 31. The financial position of the Group, its cash flows and borrowing facilities are described in the financial review on pages 22 to 29. In addition note 20 to the financial statements includes details of the Group's financial instruments and its exposure to credit risk and liquidity risk.

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 is well placed to manage its business risks successfully.

After making appropriate enquiries the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly the directors continue to adopt the going concern basis in preparing the annual report and accounts.

Substantial shareholdings

As at 22 May 2013 the Company had been advised of the following notifiable interests in its ordinary share capital:

	Number of shares held	Percentage
Telford Homes Trustees Ltd	2,977,163	5.92%
Cazenove Capital Management Ltd	2,748,233	5.47%
Artemis Investment Management Ltd	2,325,000	4.62%
T D Waterhouse Nom. (R Stokes)	1,607,760	3.20%

The shares held by Telford Homes Trustees Limited include shares held on behalf of employees under the Share Incentive Plan (note 17).

Directors

Details of the directors of the Company are shown on pages 36 to 37.

James Furlong, David Holland and John Fitzgerald retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' interests

The directors of the Company are listed below together with their interest in the shares of the Company at 31 March 2013 and movements in the year:

	At 31 March 2012 Number	Share Incentive Plan Number	Market acquisitions and disposals Number	At 31 March 2013 Number
Andrew Wiseman	2,319,541	3,939	–	2,323,480
Jonathan Di-Stefano	359,273	3,938	–	363,211
David Campbell [1]	–	3,024	–	3,024
David Durant	1,250,965	3,939	12,500	1,267,404
John Fitzgerald	227,775	3,628	(12,500)	218,903
James Furlong	1,333,950	3,939	44,947	1,382,836
Mark Parker	182,171	3,793	–	185,964
Katie Rogers	31,967	3,631	–	35,598
Robert Clarke	178,143	3,864	–	182,007
David Holland	1,008,143	3,864	(50,000)	962,007

[1] Appointed to the Board on 2 April 2012.

These interests include shares purchased under the Telford Homes Share Incentive Plan (SIP) which all employees, including directors, are eligible to participate in. All shares purchased under the SIP are matched by shares provided by the Company on a one for one basis. These 'Matching' shares are also included in the interests stated but must remain in the SIP for a period of not less than three years otherwise they are forfeited. Further details on the SIP are included in note 17 to the financial statements.

Details of share options held by directors are given in the directors' remuneration report on pages 40 to 41.

REPORT OF THE DIRECTORS

Ordinary shares

The Company issued 775,000 new ordinary shares during the year. Further information is disclosed in note 16.

The Company's investment in own shares relates solely to the Share Incentive Plan and further details of the total holding and movements in the holding are disclosed in note 17.

Creditors

It is Group policy to settle all debts with its creditors on a timely basis. Subcontractors are paid upon agreement of the value of works completed based on their applications for payment and the terms agreed. In general, other suppliers are paid during the month following the month of receipt of the invoice unless other terms have been specifically agreed.

At 31 March 2013 trade payables represented 15 days purchases (2012: 15 days).

Employees

The Group places considerable value on the involvement of its employees and keeps them informed of all relevant matters on a regular basis. Telford Homes is an equal opportunities employer and all applications for employment are considered fully on the basis of suitability for the job.

Charitable donations

The Group made charitable donations of £25,000 (2012: £19,000). These donations were made to a number of different charities supporting a broad range of good causes.

Annual General Meeting

The Annual General Meeting will be held at the registered office at Telford House, Queensgate, Britannia Road, Waltham Cross, Hertfordshire on 11 July 2013 at 12.30pm.

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting in accordance with section 489 of the Companies Act 2006.

Each of the directors at the time this report was approved has confirmed the following:

- so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each director has taken steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Richard Ellis
Company Secretary
28 May 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TELFORD HOMES PLC

We have audited the Group and Company financial statements (the 'financial statements') of Telford Homes Plc for the year ended 31 March 2013 which comprise the Group Income Statement, Group Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statement of Changes in Equity, the Group and Company Cash Flow Statement, the Statement of Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 45, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2013 and of the Group's profit and Group's and Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Owen Mackney (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
28 May 2013

GROUP INCOME STATEMENT 31 MARCH 2013

	Note	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Revenue		**142,408**	**124,352**
Cost of sales		(111,006)	(105,432)
Gross profit		**31,402**	**18,920**
Administrative expenses		(12,867)	(10,637)
Selling expenses		(7,935)	(3,533)
Operating profit	1	**10,600**	**4,750**
Finance income	3	319	127
Finance costs	3	(1,882)	(1,832)
Profit before income tax		**9,037**	**3,045**
Income tax expense	4	(2,010)	(759)
Profit after income tax		**7,027**	**2,286**
Earnings per share:			
Basic	6	14.3p	4.7p
Diluted	6	13.8p	4.6p

All activities are in respect of continuing operations.

GROUP STATEMENT OF COMPREHENSIVE INCOME 31 MARCH 2013

	Note	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Movement in excess tax on share options	9	511	54
Other comprehensive income net of tax		**511**	**54**
Profit for the year		7,027	2,286
Total comprehensive income for the year		**7,538**	**2,340**

BALANCE SHEET 31 MARCH 2013

	Note	Group 31 March 2013 £000	Group 31 March 2012 £000	Company 31 March 2013 £000	Company 31 March 2012 £000
Non current assets					
Investments	7	–	–	638	638
Property, plant and equipment	8	406	381	406	381
Deferred income tax assets	9	727	155	727	155
		1,133	536	1,771	1,174
Current assets					
Inventories	10	132,478	135,810	81,378	74,325
Trade and other receivables	11	19,377	16,861	37,092	37,887
Cash and cash equivalents	12	23,706	12,419	20,281	11,939
		175,561	165,090	138,751	124,151
Total assets		**176,694**	**165,626**	**140,522**	**125,325**
Non current liabilities					
Hire purchase liabilities	13	–	(3)	–	(3)
		–	(3)	–	(3)
Current liabilities					
Trade and other payables	14	(44,715)	(31,937)	(32,826)	(23,639)
Borrowings	15	(58,106)	(66,983)	(40,414)	(39,364)
Current income tax liabilities		(1,141)	(484)	(974)	(271)
Hire purchase liabilities	13	(3)	(16)	(3)	(16)
		(103,965)	(99,420)	(74,217)	(63,290)
Total liabilities		**(103,965)**	**(99,423)**	**(74,217)**	**(63,293)**
Net assets		**72,729**	**66,203**	**66,305**	**62,032**
Capital and reserves					
Issued share capital	16	5,028	4,950	5,028	4,950
Share premium		38,032	37,503	38,032	37,503
Retained earnings		29,669	23,750	23,245	19,579
Total equity		**72,729**	**66,203**	**66,305**	**62,032**

These financial statements were authorised for issue by the board of directors on 28 May 2013 and signed on its behalf by:

Jonathan Di-Stefano
Chief Executive

Katie Rogers
Financial Director

Company number: 4118370

STATEMENT OF CHANGES IN EQUITY 31 MARCH 2013

Group statement of changes in equity	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 April 2011	**4,900**	**37,075**	**22,765**	**64,740**
Profit for the year	–	–	2,286	2,286
Total other comprehensive income	–	–	54	54
Dividend on equity shares	–	–	(1,348)	(1,348)
Proceeds of equity share issue	50	428	–	478
Share-based payments	–	–	157	157
Purchase of own shares	–	–	(510)	(510)
Sale of own shares	–	–	217	217
Write down in value of own shares	–	–	129	129
Balance at 31 March 2012	**4,950**	**37,503**	**23,750**	**66,203**
Profit for the year	–	–	7,027	7,027
Total other comprehensive income	–	–	511	511
Dividend on equity shares	–	–	(1,727)	(1,727)
Proceeds of equity share issues	78	529	–	607
Share-based payments	–	–	100	100
Purchase of own shares	–	–	(483)	(483)
Sale of own shares	–	–	362	362
Write down in value of own shares	–	–	129	129
Balance at 31 March 2013	**5,028**	**38,032**	**29,669**	**72,729**

Company statement of changes in equity	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 April 2011	**4,900**	**37,075**	**19,743**	**61,718**
Profit for the year	–	–	1,137	1,137
Total other comprehensive income	–	–	54	54
Dividend on equity shares	–	–	(1,348)	(1,348)
Proceeds of equity share issue	50	428	–	478
Share-based payments	–	–	157	157
Purchase of own shares	–	–	(510)	(510)
Sale of own shares	–	–	217	217
Write down in value of own shares	–	–	129	129
Balance at 31 March 2012	**4,950**	**37,503**	**19,579**	**62,032**
Profit for the year	–	–	4,774	4,774
Total other comprehensive income	–	–	511	511
Dividend on equity shares	–	–	(1,727)	(1,727)
Proceeds of equity share issues	78	529	–	607
Share-based payments	–	–	100	100
Purchase of own shares	–	–	(483)	(483)
Sale of own shares	–	–	362	362
Write down in value of own shares	–	–	129	129
Balance at 31 March 2013	**5,028**	**38,032**	**23,245**	**66,305**

CASH FLOW STATEMENT 31 MARCH 2013

	Group		Company	
	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Cash flow from operating activities				
Operating profit	10,600	4,750	7,769	2,602
Depreciation	236	196	236	196
Write down in value of own shares	129	129	129	129
Share-based payments	100	157	100	157
Loss (profit) on sale of tangible assets	8	(13)	8	(13)
Decrease (increase) in inventories	5,496	(7,452)	(5,683)	(15,005)
(Increase) decrease in receivables	(2,551)	(3,516)	762	1,422
Increase (decrease) in payables	12,752	3,511	9,088	(670)
	26,770	(2,238)	12,409	(11,182)
Interest paid	(3,437)	(4,851)	(2,357)	(2,311)
Income tax (paid) received	(1,414)	(757)	(1,046)	6
Cash flow from operating activities	**21,919**	**(7,846)**	**9,006**	**(13,487)**
Cash flow from investing activities				
Purchase of tangible assets	(272)	(220)	(272)	(220)
Proceeds from sale of tangible assets	3	14	3	14
Interest received	319	127	317	123
Cash flow from investing activities	**50**	**(79)**	**48**	**(83)**
Cash flow from financing activities				
Proceeds from issuance of ordinary share capital	607	478	607	478
Purchase of own shares	(483)	(510)	(483)	(510)
Sale of own shares	362	217	362	217
Increase in bank loans	37,077	63,618	28,773	39,489
Repayment of bank loans	(46,502)	(60,932)	(28,228)	(30,376)
Dividend paid	(1,727)	(1,348)	(1,727)	(1,348)
Capital element of hire purchase payments	(16)	(16)	(16)	(16)
Cash flow from financing activities	**(10,682)**	**1,507**	**(712)**	**7,934**
Net increase (decrease) in cash and cash equivalents	**11,287**	**(6,418)**	**8,342**	**(5,636)**
Cash and cash equivalents brought forward	12,419	18,837	11,939	17,575
Cash and cash equivalents carried forward	**23,706**	**12,419**	**20,281**	**11,939**

STATEMENT OF ACCOUNTING POLICIES 31 MARCH 2013

Basis of preparation

The financial statements have been prepared in accordance with applicable 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 financial statements have been prepared under the historical cost convention as modified for reassessment of derivatives at fair value and on a going concern basis.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors best knowledge of the amounts, events or actions, actual results ultimately may differ from those estimates. The most significant estimates made by the directors in these financial statements are set out in 'Critical accounting judgements and key sources of estimation uncertainty'.

The accounting policies set out below have been applied consistently for all periods presented in these financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and the Group's share of jointly controlled entities up to 31 March 2013. The results of subsidiaries acquired or disposed of during the year are included in the financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Exemptions

The directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented an income statement or statement of comprehensive income for the Company alone.

Jointly controlled entities

A jointly controlled entity is an entity in which the Group holds an interest with one or more other parties where a contractual arrangement has established joint control over the entity. Jointly controlled entities are accounted for using proportional consolidation.

Segmental reporting

The Group has only one business segment being housebuilding and one geographical segment being the United Kingdom. Financial analysis is presented on this basis to the chief operating decision makers for the Group these being the board of directors.

Revenue and profit recognition

Properties for open market sale

Revenue and profit is recognised at the point of legal completion of each property.

Construction contracts

Contracts are treated as construction contracts when they have been specifically negotiated for the construction of a development or a number of properties. These contracts are primarily for the construction of affordable homes sold to affordable housing providers. Revenue is only recognised on a construction contract where the outcome can be estimated reliably. Revenue and costs are recognised by reference to the stage of completion of contract activity at the balance sheet date. This is normally measured by an assessment of work performed to date on a cost basis.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

On the balance sheet, the Group reports the net contract position for each contract either as an asset or liability. A contract represents an asset where costs incurred plus recognised profits exceed progress billing and a contract represents a liability where the opposite is the case. These are disclosed as amounts recoverable on contracts.

Sale of freehold assets

Revenue and profit is recognised at the point of legal completion of each freehold asset sale.

Grant income

Grants received from the Greater London Authority are recognised as revenue in the income statement to match with the related costs that they are intended to compensate.

Selling expenses

Selling expenses are charged to the income statement as incurred.

Borrowings

Interest bearing bank loans and overdrafts are initially measured at fair value, being proceeds received net of transaction costs and are subsequently measured at amortised cost, using the effective interest rate method.

Borrowing costs directly attributable to the development of properties that take a substantial period of time to get ready for sale, are capitalised within inventories. Capitalisation of borrowing costs commences from the date of initial expenditure on a given development and continues until the properties are ready for sale.

The capitalisation of borrowing costs is suspended where land assets are being held for strategic purposes or where there are prolonged periods when development activity on a site is interrupted. Capitalisation is not normally suspended during a period when substantial technical and administrative work is being carried out.

All other borrowing costs are charged to the income statement using the effective interest method. Borrowing costs paid are classified as operating activities in the cash flow statement.

Interest rate cap assets

Interest rate caps are individually valued at each period end and adjusted to ensure that they are held at fair value. Any change in the fair value is charged or credited to the income statement within finance costs.

Finance leases and hire purchase contracts

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases and hire purchase contracts are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease and depreciated over the shorter of their expected useful lives and the lease term. The corresponding liability is included in the balance sheet as a finance lease or hire purchase obligation. Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement.

Operating leases

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

Pension costs

Contributions paid to group personal pension schemes (defined contribution), in respect of employees, are charged to the income statement as incurred.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis at rates calculated to write down the cost, less estimated residual value, of each asset over its expected useful life as follows:

Leasehold improvements	– shorter of term of lease and 10 years
Plant and machinery	– 2 to 5 years
Motor vehicles	– 3 years

Investments

Interests in subsidiary undertakings and jointly controlled entities are valued at cost less impairment.

Inventories

Development properties are included in inventories and are stated at the lower of cost and net realisable value. Cost comprises costs of acquisition and development, including directly attributable fees and expenses, direct labour costs and borrowing costs. Included within development properties are freehold interests held in completed developments valued at a multiple of annual ground rents. These are held for future sale.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provision of the instrument.

Trade receivables and other receivables

Trade receivables on normal terms do not carry any interest and are stated at their nominal value reduced by appropriate allowances for estimated unrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents are defined as cash balances in hand and in the bank (including short-term cash deposits) which mature within three months or less from the date of acquisition.

STATEMENT OF ACCOUNTING POLICIES 31 MARCH 2013

Financial instruments continued

Borrowings

Interest bearing bank loans and overdrafts are initially measured at fair value, being proceeds received net of transaction costs and are subsequently measured at amortised costs, using the effective interest rate method.

Trade payables

Trade payables on normal terms are not interest bearing and are stated at their nominal value.

Deposits received in advance

Deposits received on exchange of contracts of open market properties are held within trade and other payables until legal completion of the related property.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Current assets and liabilities

Assets that are expected to be realised in, or are intended for sale or consumption in, the Group's normal operating cycle are treated as current even to the extent these are expected to be realised after twelve months from the balance sheet date. Liabilities that are expected to be settled in the Group's normal operating cycle are treated as current even though these may be due for settlement after twelve months from the balance sheet date.

Contingent liabilities

Disclosures are made for each class of contingent liabilities at the balance sheet date detailing, where practicable, an estimate of its financial effect and an indication of uncertainties associated with the timing or amount of the outflow, unless the possibility of a financial outflow is remote.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the profits for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are tax deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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 using the Black-Scholes-Merton pricing model and is charged equally over the vesting period. The amount recognised as an expense is adjusted each reporting period to reflect the actual number of options that are expected to vest.

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.

Own shares

Shares held by employee benefit trusts in order to satisfy awards under the Group's share plans are included net within equity until such time as the shares are vested to the relevant employees.

Critical accounting judgements and key sources of estimation uncertainty

Construction contract revenue and profit recognition

Contract revenue is recognised from the date of exchange of construction contracts at a rate equivalent to the value of work undertaken in respect of land development. Contract profit on construction contracts is recognised in proportion to revenue only to the extent that the total eventual profit on the contract can be foreseen with reasonable certainty.

Assessing the percentage complete on each contract involves estimation of total expected costs to be incurred until the end of the contract. Recognition of profit also involves estimation of the total expected revenues from each contract and therefore the expected profit margin that will be achieved. Judgement is required to assess whether the total eventual profit on each contract can be foreseen with reasonable certainty (note 11).

Carrying value of land and work in progress

Inventories include land and work in progress in respect of development sites. On each development judgement is required to assess whether the cost of land and any associated work in progress is in excess of its net realisable value (note 10).

Adoption of new and revised Standards and Interpretations

During the year amendment to IFRS 7 has become effective and has been adopted by the Group. Adoption of the revised standard has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

At the date of the authorisation of these financial statements, there are a number of standards, amendments and interpretations that have been published but are not yet effective for the year ended 31 March 2013 and have not been adopted early.

The standards, amendments and interpretations that are expected to impact upon the Group are:

- IFRS 10 'Consolidated Financial Statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements.
- IFRS 11 'Joint Arrangements' provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- IFRS 12 'Disclosure of Interest in Other Entities' includes the disclosure requirements for all forms of interests in other entities.
- IAS 28 (revised) 'Investment in Associates and Joint Ventures' includes the requirement for joint ventures to be equity accounted following the issue of IFRS 11.

These standards are all applicable to the Group from 1 April 2014 and are expected to have a presentational impact on the Group as proportional consolidation will no longer be allowed.

The following standards, amendments and interpretations are not expected to have any material impact on the financial statements of the Group:

- IFRS 1 (amended) 'First time adoption'.
- IFRS 7 (amended) 'Disclosure – Offsetting Financial Assets Financial Liabilities'.
- IFRS 9 'Financial instruments'.
- IFRS 13 'Fair value measurement'.
- IAS 1 (amended) 'Presentation of Items of Other Comprehensive Income'.
- IAS 12 (amended) 'Income Taxes'.
- IAS 19 (revised) 'Employee Benefits'.
- IAS 27 (revised) 'Separate Financial Statements'.
- IAS 32 (amended) 'Offsetting Financial Assets and Liabilities'.
- Annual improvements to IFRSs 2009–2011 Cycle.

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2013

1 Operating profit

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Operating profit is stated after charging (crediting):		
Depreciation		
– owned assets	189	175
– hire purchase assets	19	21
Operating lease rentals		
– property	252	132
– motor vehicles	538	478
Loss (profit) on sale of tangible assets	8	(13)

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
The following has been charged in respect of auditors' remuneration:		
Audit and related services (PricewaterhouseCoopers LLP)		
Statutory audit of the Company and Group financial statements	66	70
Other services including non-audit services (PricewaterhouseCoopers LLP)		
The audit of joint arrangement and subsidiary accounts pursuant to legislation	23	29
Audit related assurance services	3	3
Tax compliance services	27	39
All other non-audit services	34	19

Amounts payable to the Company's auditors and their associates in respect of services to the Company, other than the audit of the Company's financial statements have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

Grant income

The Group has a total grant allocation from the Greater London Authority of £72.9 million from their 2008–2011 programme and £3.1 million from their 2011–2015 programme. Grant income is recognised as revenue in the income statement on a percentage of completion basis to match with the costs it is intended to compensate. The total grant allocation is made up of individual site by site allocations the receipt of which is dependent upon constructing the planned affordable housing on each site. The Group had received a total of £72.1 million by 31 March 2013 (2012: £70.8 million).

2 Employee benefit expense

The average monthly number of persons employed by the Group and Company, including executive directors, during the year analysed by activity was as follows:

	Year ended 31 March 2013 Number	Year ended 31 March 2012 Number
Construction	93	94
Administration	92	83
	185	**177**

The employment costs of all employees included above were:

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Wages and salaries	10,606	9,257
Social security costs	1,252	1,095
Other pension costs – group personal pension arrangements	481	441
Share-based payments (note 17)	229	286
	12,568	**11,079**

The Company operates a group personal pension scheme for its employees. At 31 March 2013 payments of £3,085 were due to the scheme (2012: £nil).

Seven current directors are accruing benefits under group personal pension arrangements (2012: Seven).

Key management remuneration

Key management personnel, as defined under IAS 24 (Related Party Disclosures), have been identified as the directors as all key decisions are reserved for the Board, along with the Company Secretary / Director of Legal Services who also attends all Board Meetings. These figures include the full remuneration of directors appointed to the Board during the period as they were considered key management personnel prior to their appointment.

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Wages and salaries (including bonuses)	1,972	1,503
Social security costs	233	178
Other pension costs	118	95
Share-based payments	31	9
	2,354	**1,785**

Detailed disclosures of directors' individual remuneration, pension entitlement and share options for those directors who served in the year are given in the directors' remuneration report on pages 40 to 41.

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2013

3 Finance income and costs

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Finance income		
Interest income on short-term bank deposits	127	116
Other interest income	192	11
	319	127
Finance costs		
Interest payable on bank loans and overdrafts	(1,028)	(1,305)
Movement on interest rate derivatives	(36)	(293)
Amortisation of facility fees	(817)	(232)
Hire purchase finance charges	(1)	(2)
	(1,882)	(1,832)
Net finance costs	**(1,563)**	**(1,705)**

4 Taxation

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
United Kingdom corporation tax on profits for the year	2,100	810
Adjustment in respect of prior periods	(29)	–
Total current taxation	2,071	810
Deferred taxation (note 9)	(61)	(51)
Income tax expense	**2,010**	**759**

In addition to the amount credited to the income statement, deferred tax of £511,000 relating to share-based payments was credited directly to equity (2012: £54,000 credited).

Reconciliation of effective tax rate

The tax assessed for the year is lower (2012: lower) than the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities. The differences are explained below:

Profit before income tax	9,037	3,045
Profit on ordinary activities before taxation at the weighted average rate of corporation tax	2,169	792
Effects of:		
Losses not recognised	3	47
Brought forward losses utilised	–	(14)
Adjustment in respect of prior periods	(29)	–
Expenses not deductible for tax purposes including movements in deferred tax	(34)	(16)
Tax effect of share-based payments	(79)	–
Tax relief on land remediation costs	(20)	(50)
Income tax expense	**2,010**	**759**

The tax payable for the year has been reduced by £50,000 because of consortium relief received from a Group joint venture for which a payment of £39,000 was made on 9 November 2012.

The weighted average applicable tax rate was 24.0% (2012: 26.0%).

The Group has tax losses of £12,000 in relation to its joint venture Telford Homes (Stratford) Limited for which no deferred tax asset has been recognised as it is uncertain that sufficient taxable profits will be earned in future years to utilise the deferred tax asset.

During the year, as a result of the change in the United Kingdom corporation tax rate from 24% to 23% that was substantively enacted and will be effective from 1 April 2013, the relevant deferred tax balances have been re-measured. Deferred tax expected to reverse in the year to 31 March 2014 has been measured using the effective rate that will apply in the United Kingdom for the period (23%).

Further reductions to the United Kingdom corporation tax rate have been announced and are expected to be included in future finance bills to reduce the rate by 2% to 21% from 1 April 2014 and a further 1% to 20% from 1 April 2015. The changes had not been substantively enacted at the balance sheet date and therefore are not recognised in these financial statements. The impact of the proposed changes are not expected to be material to the Group.

5 Dividend paid

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Prior year final dividend paid in July 2012 of 1.5p (July 2011: 1.25p)	743	613
Interim dividend in January 2013 of 2.0p (January 2012: 1.5p)	1,000	735
	1,743	**1,348**

The final dividend proposed for the year ended 31 March 2013 is 2.8 pence per ordinary share. This dividend was declared after 31 March 2013 and as such the liability of £1,407,700 has not been recognised at that date.

6 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 2013 £000	Year ended 31 March 2012 £000
Weighted average number of shares in issue	49,162,688	48,563,906
Dilution – effect of share schemes	1,598,135	858,163
Diluted weighted average number of shares in issue	50,760,823	49,422,069
Profit on ordinary activities after taxation	£7,027,000	£2,286,000
Earnings per share:		
Basic	14.3p	4.7p
Diluted	13.8p	4.6p

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2013

7 Investments

Investments in subsidiary undertakings	2013 £000	2012 £000
At 31 March valued at cost	637	637

There have been no additions or disposals of investments in subsidiary undertakings during the year ended 31 March 2013 or the year ended 31 March 2012.

Investments in jointly controlled entities	2013 £000	2012 £000
At 31 March valued at cost	1	1

There have been no additions or disposals of investments in jointly controlled entities during the year ended 31 March 2013 or the year ended 31 March 2012.

Investments in subsidiary undertakings

The subsidiary undertakings which principally affect profits and net assets of the Group comprise:

	Share of ordinary capital held by the Group	Country of registration	Accounting date	Principal activity
Telford Homes (Creekside) Limited	100%	Scotland	31 March	Property development
Telford Homes Contracting Limited	100%	England	31 March	Contracting

A full list of subsidiary undertakings is available on request from the Group's registered office.

Investments in jointly controlled entities

The Group's investments in jointly controlled entities comprise:

	Share of ordinary capital held by the Group	Country of registration	Accounting date	Principal activity
Telford Homes (Stratford) Limited	50%	Scotland	31 March	Property development
Bishopsgate Apartments LLP	50%	England	31 March	Property development
Mulatel LLP	50%	England	31 March	Property development

Investments in jointly controlled entities are accounted for using proportional consolidation.

The Group's share of the assets and liabilities and the income and expenses of jointly controlled entities is as follows:

	31 March 2013 £000	31 March 2012 £000
Current assets	39,189	20,712
Current liabilities	(37,386)	(19,359)
Net assets of jointly controlled entities	**1,803**	**1,353**

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Income	8,557	5,941
Expenses	(8,107)	(6,356)
Share of results of jointly controlled entities	**450**	**(415)**

8 Property, plant and equipment

Group and Company	Leasehold improvements £000	Plant and machinery £000	Motor vehicles £000	Total £000
Cost				
At 1 April 2011	262	1,229	133	1,624
Additions	95	125	–	220
Disposals	–	(62)	(61)	(123)
At 31 March 2012	357	1,292	72	1,721
Additions	12	260	–	272
Disposals	(18)	(36)	(13)	(67)
At 31 March 2013	**351**	**1,516**	**59**	**1,926**
Depreciation				
At 1 April 2011	137	1,040	89	1,266
Charge	33	142	21	196
Disposals	–	(61)	(61)	(122)
At 31 March 2012	170	1,121	49	1,340
Charge	36	181	19	236
Disposals	(13)	(30)	(13)	(56)
At 31 March 2013	**193**	**1,272**	**55**	**1,520**
Net book value				
At 31 March 2012	187	171	23	381
At 31 March 2013	**158**	**244**	**4**	**406**

Motor vehicles with a net book value of £4,000 are held under hire purchase arrangements (2012: £23,000).

Depreciation of £19,000 was charged during the year on these assets (2012: £21,000).

Authorised future capital expenditure that was contracted, but not provided for, in these financial statements amounted to £67,000 (2012: £nil).

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2013

9 Deferred income tax

Group and Company	31 March 2013 £000	31 March 2012 £000
Deferred tax assets	766	194
Deferred tax liabilities	(39)	(39)
Deferred tax assets	**727**	**155**

As permitted by IAS 12 (Income Taxes), certain deferred tax assets and liabilities have been offset as they arise in the same tax jurisdiction and are settled on a net basis.

The movement on the deferred income tax account is as follows:

	31 March 2013 £000	31 March 2012 £000
Brought forward	155	50
Credited to the income statement	61	51
Credited directly to equity	511	54
	727	**155**

The movement in deferred tax assets and liabilities during the year is as follows:

	Capital allowances £000	Share-based transactions £000	Total £000
At 1 April 2011	57	(7)	50
(Charged) credited to the income statement	(16)	67	51
Credited directly to equity	–	54	54
At 31 March 2012	41	114	155
Credited to the income statement	16	45	61
Credited directly to equity	–	511	511
At 31 March 2013	**57**	**670**	**727**

The cumulative deferred tax credited directly to equity amounts to £567,000 (2012: £56,000).

10 Inventories

	Group		Company	
	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Development properties	**132,478**	**135,810**	**81,378**	**74,325**

All inventories are considered to be current in nature. The operating cycle is such that a proportion of inventories will not be realised within twelve months. It is not possible to determine with accuracy when specific inventory will be realised as this will be subject to a number of issues such as consumer demand and planning permission delays.

Included within development properties for the Group are freehold interests held for future sale of £5,838,000 (2012: £6,247,000). During the year ended 31 March 2013, the Group disposed of £1,330,000 of freehold interests receiving sales proceeds of £1,691,000 and recognised £921,000 of new freehold interests (2012: £331,000). Included within development properties for the Company are freehold interests held for future sale of £4,741,000 (2012: £5,558,000).

The value of inventories expensed in cost of sales by the Group in the year ended March 2013 was £108,396,000 (2012: £103,541,000). Costs capitalised by the Group during the year include interest of £2,164,000 (2012: £3,177,000), which is capitalised based on the cost of the site specific borrowings.

During the year the Group conducted a review of the net realisable value of its inventories. Where the estimated net realisable value was less than its carrying value within the balance sheet the Group has written down the value of inventories. The total amount recognised as an expense was £215,000 (2012: £1,068,000). A total of £1,943,000 has been recognised within cost of sales in the year in relation to the realisation of written down inventory above its estimated net realisable value (2012: £nil).

11 Trade and other receivables

	Group		Company	
	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Current receivables				
Amounts recoverable on contracts	13,716	4,912	13,250	4,171
Amounts owed by Group undertakings	–	–	8,853	17,428
Amounts owed by jointly controlled entities	2,928	1,109	12,862	5,975
Trade receivables	181	168	181	168
Other receivables	1,747	758	1,147	587
Prepayments and accrued income	805	1,044	799	688
Land prepayment	–	8,870	–	8,870
	19,377	**16,861**	**37,092**	**37,887**

The land prepayment at 31 March 2012 was amounts lodged with solicitors in advance of the completion of a site purchase scheduled to take place on 30 March 2012 that actually completed on 3 April 2012.

Amounts recoverable on contracts

Contract revenue of £27,477,000 (2012: £41,805,000) has been recognised by the Group in the year.

In relation to contracts in progress at the balance sheet date:

	Group		Company	
	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Contracts where costs incurred plus recognised profits exceed receipts to date included in receivables	13,716	4,912	13,250	4,171
Contracts where receipts to date exceed costs incurred plus recognised profits included in payables	(1,811)	(370)	(1,811)	(370)
	11,905	4,542	11,439	3,801
Total costs incurred plus recognised profit on contracts	207,401	217,984	159,981	181,433
Receipts to date	(195,496)	(213,442)	(148,542)	(177,632)
	11,905	**4,542**	**11,439**	**3,801**

At 31 March 2013 retentions held by customers for contract work performed by the Group included within amounts recoverable on contracts amounted to £2,279,000 (2012: £1,823,000).

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2013

12 Cash and cash equivalents

	Group		Company	
	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Cash at bank and in hand	**23,706**	**12,419**	**20,281**	**11,939**

13 Hire purchase liabilities

Group and Company	31 March 2013 £000	31 March 2012 £000
Gross hire purchase liabilities:		
Due within one year	3	17
Due in more than one year and less than five years	–	3
	3	20
Less future interest	–	(1)
Net hire purchase liabilities	**3**	**19**
Net hire purchase liabilities are repayable as follows:		
Due within one year	3	16
Due in more than one year and less than five years	–	3
	3	**19**

14 Trade and other payables

	Group		Company	
	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Trade payables	10,658	9,265	10,237	8,793
Amounts due to jointly controlled entities	412	3	1,080	6
Amounts due to subsidiaries	–	–	676	676
Amounts recoverable on contracts (note 11)	1,811	370	1,811	370
Deposits received in advance	20,053	13,244	10,348	6,466
Social security and other taxes	466	456	386	376
Accrued expenses	11,315	8,599	8,288	6,952
	44,715	**31,937**	**32,826**	**23,639**

15 Borrowings

	Group		Company	
	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Bank loans	58,138	67,563	40,444	39,900
Transaction costs	(32)	(580)	(30)	(536)
	58,106	**66,983**	**40,414**	**39,364**

Further information on borrowings is given in note 20.

16 Share capital

Group and Company	31 March 2013 £000	31 March 2012 £000
Authorised		
100,000,000 ordinary shares of 10p each	10,000	10,000
Allotted, called up and fully paid		
50,275,000 ordinary shares of 10p each (2012: 49,500,000)	5,028	4,950

On 24 September 2012 36,000 ordinary shares were issued at 64p as a result of share options being exercised.

On 24 September 2012 64,000 ordinary shares were issued at 101.5p to Telford Homes Trustees Limited to satisfy the requirements of the Share Incentive Plan (note 17).

On 21 November 2012 99,000 ordinary shares were issued at 64p as a result of share options being exercised.

On 21 November 2012 301,000 ordinary shares were issued at 64p to Telford Homes Trustees No2 Limited. These shares were issued to satisfy the future exercise of share options (note 17).

On 17 January 2013 59,732 ordinary shares were issued at 74.5p as a result of share options being exercised.

On 27 March 2013 215,268 ordinary shares were issued at 101.5p to Telford Homes Trustees Limited to satisfy the requirements of the Share Incentive Plan (note 17).

Ordinary shares may be issued in the future to satisfy the exercise of outstanding share options (note 17).

Details of own shares held within employee benefit trusts are disclosed in note 17.

All shares rank equally in respect of shareholder rights.

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2013

17 Employee Share Schemes

Telford Homes Plc Employee Share Option Scheme

The Group operates both an approved share option scheme and an unapproved share option scheme. Awards under each scheme are made periodically to new employees. All schemes are equity-settled and options can normally be exercised three years after the grant date.

A charge is made to the income statement to reflect the calculated fair value of employee share options. This charge is calculated at the date of grant of the options and is charged equally over the vesting period. The corresponding adjustment to equity is made directly to the profit and loss reserve. In accordance with IFRS 2 (Share-based payments), only costs relating to options issued after 7 November 2002 have been charged to the income statement.

The Group has used the Black-Scholes-Merton formula to calculate the fair value of outstanding options. Individual calculations have been performed for groups of share options with differing exercise prices and dates. The assumptions applied to the Black-Scholes-Merton formula for share options issued in each period and the fair value per option are set out below:

	2013	2012
Expected life of options based on options exercised to date	4 years	4 years
Volatility of share price based on three year share price history	21%	24% – 30%
Dividend yield	1.9%	2.7 – 3.4%
Risk free interest rate	0.5%	0.5%
Weighted average share price at date of grant	200p	87p
Weighted average exercise price	200p	87p
Weighted average fair value per option	£0.27	£0.15

Expected volatility was determined by considering the volatility levels historically for the Group. Volatility in more recent years is considered to have more relevance than earlier years for the period reviewed.

The charge calculated for the year ended 31 March 2013 is £100,000 (2012: £157,000).

A reconciliation of option movements during each period is shown below:

	2013		2012	
	Number 000's	Weighted average exercise price	Number 000's	Weighted average exercise price
Outstanding at 1 April	3,275	74p	2,330	74p
Granted in the year	70	200p	1,122	87p
Forfeited in the year	(36)	64p	(177)	142p
Exercised in the year	(378)	66p	–	–
Outstanding at 31 March	**2,931**	**79p**	**3,275**	**74p**
Exercisable at 31 March	**1,740**	**68p**	**439**	**82p**

The aggregate fair value of options granted in the year was £19,000 (2012: £170,000).

A total of 377,732 share options were exercised at a weighted average price of 66p in the year ended 31 March 2013. No share options were exercised in the year ended 31 March 2012.

In the year ended 31 March 2012 128,406 of the forfeited options were replaced with 265,000 new options with an incremental fair value of £45,050.

At 31 March 2013 outstanding options granted over 10p ordinary shares were as follows:

Share option scheme	Option price	Number	Date exercisable
Group approved	110p	109,088	12 June 2011 to 12 June 2018
	64p	1,360,000	20 July 2012 to 20 July 2019
	79p	75,948	23 May 2014 to 23 May 2021
	90.5p	557,000	9 Feb 2015 to 9 Feb 2022
	200p	70,000	15 Mar 2016 to 15 Mar 2023
Group unapproved	60.5p	50,414	5 Mar 2005 to 5 Mar 2015
	75p	220,000	1 Oct 2005 to 1 Oct 2015
	79p	222,026	23 May 2014 to 23 May 2021
	90.5p	267,000	9 Feb 2015 to 9 Feb 2022

In the year ended 31 March 2013 the Group set up a trust to administer the Telford Homes Plc Employee Share Option Scheme. This trust is an entirely separate entity to the Group and is managed by a corporate trustee, Telford Homes Trustees No2 Limited. The costs associated with the trust are paid for by the Group and the Group finances all share purchases.

The trust acquired 301,000 shares at 64p in November 2012 and since this date 183,000 shares have been transferred from the trust to employees to satisfy the exercise of share options. At 31 March 2013 the trust remains interested in 118,000 shares with a value of £75,520. Shares held by the trust are recognised as a deduction from shareholders' funds.

Telford Homes Plc Share Incentive Plan

During the year ended 31 March 2004 Telford Homes Plc set up a Share Incentive Plan (SIP) for the benefit of all of the employees of the Group. This SIP has been approved by the Inland Revenue and confers certain tax advantages for participating employees.

The SIP provides for employees to purchase shares up to a value of £1,500 in each tax year. These shares are known as 'Partnership shares'. Partnership shares are matched on a one for one basis by 'Matching shares' provided by the Group subject to the shares remaining in the SIP for a period not less than three years. Dividends are paid on both Partnership and Matching shares and these are allocated to employees as 'Dividend shares'.

The Group has set up a trust to administer the SIP and to hold shares on behalf of individual employees. This trust is an entirely separate entity to the Group and is managed by a corporate trustee, Telford Homes Trustees Limited. The costs associated with the trust are paid for by the Group and the Group finances all share purchases.

The trust has distributed shares as Partnership shares and Dividend shares to employees participating in the scheme. These shares remain in the trust until such time as an employee withdraws from the SIP. Further shares have been allocated to employees as Matching shares and the cost of these shares is being written off over the three year holding period. The charge in the year ended 31 March 2013 is £129,000 (2012: £129,000).

During the year ended 31 March 2013 the trust acquired 64,000 shares at 101.5p in September 2012 and 215,268 shares at 101.5p in March 2013. At 31 March 2013 the trust remains interested in 114,286 shares (2012: 167,872) which have not been allocated to employees and a further 492,106 (2012: 573,990) that have been allocated to employees as Matching shares but have not yet vested. Shares in which the trust remains interested do not rank for dividends and all shares that have not yet vested do not count in the calculation of the weighted average numbers of shares used to calculate earnings per share.

Shares held by the SIP are recognised as a deduction from shareholders' funds. The value of these shares at 31 March 2013 was £767,350 (2012: £849,414). Movements in the profit and loss reserve relating to the SIP are shown in the statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2013

17 Employee Share Schemes continued

Telford Homes Plc 2006 Deferred Payment Share Purchase Plan

During the year ended 31 March 2007 Telford Homes Plc set up a Deferred Payment Share Purchase Plan (DPSPP) for the benefit of selected senior employees. An employee benefit trust (the Telford Homes Plc 2006 Employee Benefit Trust) was set up with Abacus Corporate Trustee Limited acting as trustee.

Participants in the DPSPP are offered a loan by the trustee to enable them to subscribe for a specified number of shares in the Group at market value. This loan is interest free repayable on or before the repayment date which is normally 20 years from the date of the loan or on leaving employment or disposing of the shares. The loan has a limited recourse such that repayment is limited to the value of the shares on the repayment date. The Group will lend the trustee sufficient funds to enable the trustee to provide the loans to individual participants. All shares acquired under the DPSPP will be subject to a three year vesting period and are held by the trustee for the benefit of the participants. Offers to participants will be made periodically at the discretion of the directors of Telford Homes Plc.

In September 2006 selected employees were offered, and subscribed for, a total of 550,000 shares at the market value of 260p. These shares were issued on 9 November 2006. On this date the Group provided a loan to the trustee of £1,430,000 to enable the trustee to provide a loan to each of the participants. This loan is repayable at the earlier of the sale of the vested shares and November 2026 and has been recognised as a deduction from shareholders' funds in the statement of changes in equity. In the year ended 31 March 2013, £3,000 of this loan has been repaid leaving an outstanding balance of £1,425,000 (2012: £1,428,000).

In December 2007 selected employees were offered, and subscribed for, a total of 160,000 shares at the market value of 244p. These shares were issued on 14 December 2007. On this date the Group provided a loan to the trustee of £390,400 to enable the trustee to provide a loan to each of the participants. This loan is repayable at the earlier of the sale of the vested shares and December 2027 and has been recognised as a deduction from shareholders' funds in the statement of changes in equity.

18 Commitments and contingent liabilities

Commitments

At 31 March the Group and Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Property leases		Other leases	
	2013 £000	2012 £000	2013 £000	2012 £000
Within one year	261	135	462	533
Between one and five years	1,512	988	263	528
Over five years	1,197	1,124	–	–
	2,970	**2,247**	**725**	**1,061**

Operating lease payments represent rentals payable by the Company for its office premises and motor vehicles. The Group signed a 10 year lease in June 2011 for its head office premises and a supplemental lease for 8 years 3 months in February 2013 which extends to May 2021 increasing the area of its head office premises.

Contingent liabilities

On 23 August 2005 the Company entered an agreement to purchase the site of the former halls of residence of Queen Mary and Westfield College in South Woodford. At 31 March 2013 £37.7 million (2012: £37.3 million) had been paid for the site. Further payments are contingent on future sales at the development and are estimated to be approximately £0.6 million (2012: £0.4 million).

19 Related party transactions

The Board and certain members of senior management are related parties within the definition of IAS 24 (Related Party Disclosures).

Property purchases by directors of Telford Homes Plc

In November 2012 David Durant exchanged contracts on the purchase of an apartment from the Company at its Stratford Plaza development. The purchase price was £342,000 and the Company has received a deposit of £34,200 with a further £34,200 due by 30 November 2013 and the balance due on legal completion.

In November 2012 Andrew Wiseman exchanged contracts on the purchase of an apartment from the Company at its Stratford Plaza development. The purchase price was £345,800 and the Company has received a deposit of £34,580 with a further £34,580 due by 30 November 2013 and the balance due on legal completion.

The directors are of the opinion that these sales were made at open market prices. Both purchases are to be approved at the next Annual General Meeting.

There have been no other transactions between key management personnel and the Group other than remuneration in the year ended 31 March 2013 or the year ended 31 March 2012.

Transactions between the Group and its jointly controlled entities

The amounts outstanding from jointly controlled entities to the Company at 31 March 2013 totalled £5,855,000 (2012: £2,218,000) in respect of construction services and the Company owed jointly controlled entities £nil (2012: £6,000). A total of £7,007,000 was owed to the Company at 31 March 2013 from jointly controlled entities in respect of shareholder loans (2012: £3,757,000). The Company owed £1,080,000 to jointly controlled entities at 31 March 2013 in respect of shareholder loans (2012: £nil).

The Company has invoiced jointly controlled entities £37,242,000 in the year to 31 March 2013 for construction services (2012: £18,836,000).

Shareholder loans to jointly controlled entities and balances between the Company and its subsidiaries are non-interest bearing and are repayable when the counterparty has sufficient cash to repay the loans.

After proportional consolidation of the jointly controlled entities the Group has net amounts outstanding from jointly controlled entities totalling £2,516,000 at 31 March 2013 (2012: £1,106,000).

Transactions between the Company and its subsidiaries

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. The amounts outstanding owed by subsidiaries to the Company at 31 March 2013 totalled £8,853,000 (2012: £17,428,000) and the Company owed subsidiaries £676,000 (2012: £676,000).

On 2 April 2012 Island Gardens Limited, a 100% owned subsidiary of Telford Homes Plc, purchased the freehold title of the Stratford Plaza site in Stratford for £3,000,000. Telford Homes Plc provided a £3,000,000 loan to Island Gardens Limited to fund the purchase. On the same day Island Gardens Limited granted a 250 year lease for the residential element of the development to Telford Homes Plc for £3,000,000. The loan outstanding between Telford Homes Plc and Island Gardens Limited at 31 March 2013 was £nil. This transaction has been eliminated on consolidation.

The Company has invoiced subsidiaries £1,830,000 in the year to 31 March 2013 for construction services (2012: £16,582,000). The Company has been invoiced £3,000,000 in the year to 31 March 2013 by subsidiaries (2012: £27,000).

Jointly controlled entities and subsidiaries do not transact with each other.

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2013

20 Financial instruments

Categories of financial assets and financial liabilities are as follows:

	Group		Company	
	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Financial assets				
Loans and receivables:				
Amounts owed by Group undertakings	–	–	8,853	17,428
Amounts owed by jointly controlled entities	2,928	1,109	12,862	5,975
Trade receivables	181	168	181	168
Other receivables	1,747	758	1,147	587
Cash and cash equivalents	23,706	12,419	20,281	11,939
	28,562	**14,454**	**43,324**	**36,097**
Financial liabilities				
Amortised cost:				
Trade payables	10,658	9,265	10,237	8,793
Amounts due to jointly controlled entities	412	3	1,080	6
Amounts due to subsidiaries	–	–	676	676
Bank loans	58,138	67,563	40,444	39,900
Hire purchase liabilities	3	19	3	19
	69,211	**76,850**	**52,440**	**49,394**

The Group does not enter into any significant derivative transactions and has no direct exposure to exchange rate movements as its trade takes place entirely within the United Kingdom.

Trade and other receivables, trade payables and hire purchase liabilities

The fair value of trade and other receivables, trade payables and hire purchase liabilities at 31 March 2013 is equal to the carrying value stated in the balance sheet at that date. There are no amounts included within trade and other receivables currently overdue (2012: £nil). Hire purchase liabilities include £nil (2012: £3,000) due after more than one year. All other trade and other receivables and trade payables are due within one year.

Borrowings

The Group uses loan finance, all of which is denominated in sterling, to acquire development land and undertake site construction. On 31 March 2011 the Group signed a £70 million loan facility which extended to 30 September 2014 with a club of three banks being The Royal Bank of Scotland, HSBC and Santander. On the 28 August 2012 the facility limit was increased to £90 million for the remaining term of the loan. The debt drawn under this facility is secured against a portfolio of land and development sites owned by the Group. At 31 March 2013 the Group had utilised £46.0 million of this facility leaving an unutilised balance of £44.0 million. Interest was being charged on this facility at LIBOR plus a margin of 3.65%.

On 26 April 2013 the Group cancelled this loan facility and signed a new £120 million facility which extends to 30 September 2016 with the same three banks. Interest is being charged on the new facility at LIBOR plus a margin of 4.00%.

Telford Homes (Creekside) Limited, a wholly owned subsidiary had a loan facility with The Royal Bank of Scotland in relation to its Greenwich Creekside development. The development is now complete in terms of construction and at 31 March 2013, the loan facility had been repaid in full from completion proceeds (2012: £14.6 million).

The Group's jointly controlled entity, Bishopsgate Apartments LLP has a £43.1 million development loan facility with HSBC which extends to September 2014. The debt drawn under this facility is secured against the land and development site owned by the partnership. At 31 March 2013, Bishopsgate Apartments LLP had utilised £29.8 million (2012: £19.8 million). Interest is being charged on this facility at LIBOR plus a margin of 3.5%.

All borrowings are treated as current even though these may be due for settlement after twelve months from the balance sheet date as they are expected to be settled in the Group's normal operating cycle. All borrowings are stated at fair value which is materially equivalent to the original book value.

Market risk

The Group is exposed to the financial risk of changes in interest rates both in terms of changes in the base rate and LIBOR and in terms of individual banks attitude to market risk and their application of either base rate or LIBOR to new facilities and the margin applied to each new facility.

In order to assess the risk interest costs are forecast on a monthly basis over a five year period using estimates of likely changes in rates and actual costs are compared to this forecast. Volatility of interest costs remained at an acceptable level in the year ended 31 March 2013 as LIBOR remains at a historically low level. Interest on all facilities currently held is charged at floating interest rates and the Group assesses the requirement for fixing interest rates on a regular basis. The Group holds two interest rate caps. These interest rate caps are individually fair valued at each period end with any movement in the value being charged or credited to the income statement. The fair value of the caps at 31 March 2013 was £1,000 and hedging costs of £36,000 have been charged to the income statement in the year ended 31 March 2013.

The effect on the income statement of a 1% rise and a 1% fall in interest rates has been calculated to assess interest rate sensitivity. Based on average monthly borrowings in the year, a 1% rise in interest rates would have a negative effect of £536,000 before tax (2012: £684,000), a 1% fall in interest rates gives the same but opposite effect.

Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and meet its liabilities as they fall due whilst maintaining an appropriate capital structure to reduce the costs of capital. The Group considers its capital to be all of the components of equity and long term liabilities.

The Group ensures that there are appropriate controls over the purchase of land and levels of work in progress in the business in order to appropriately manage its capital. In addition, the other methods by which the Group can manage its short term and long term capital structure include adjusting the level of ordinary dividends paid to shareholders, issuing new share capital and arranging debt.

Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations.

Trade and other receivables includes amounts recoverable on contracts which are due from housing associations and balances due from other Group undertakings. The Group considers the credit quality of the various debtors to be good in respect of the amounts outstanding and therefore credit risk is considered to be low.

Surplus cash is held in secure bank deposit accounts with The Royal Bank of Scotland, HSBC and Santander.

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2013

20 Financial instruments continued

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows over a five year period and performing sensitivity analysis on these forecasts. The forecasts are necessarily subject to a number of assumptions and judgements and these are tested on a reasonable basis by the sensitivity analysis. These forecasts and the related sensitivity analysis are reviewed by the directors in detail on a monthly basis. In addition all of the forecasts and supporting calculations are made available to each bank funding the Group on a monthly basis. The current forecasts show positive cash balances beyond the next twelve months even where this is subjected to sensitivity testing.

The Group utilises bank facilities to ensure that adequate funding is available to cover working capital requirements and the directors consider that existing facilities are sufficient to cover funding requirements in the foreseeable future both where these have already been utilised and where they are currently unutilised. Where facilities are due to expire within one year this is due to the timing of the relevant developments and therefore the expected repayment dates. In all of these cases the directors are satisfied that the loans are expected to be repaid by the date the facility expires.

The Group's bank facilities are subject to a number of general and financial covenants which are tested periodically by each bank. In all cases the directors have assessed whether the Group will remain in compliance with the covenants for at least twelve months after signing the financial statements and are satisfied that there will be no breach of the covenants.

The maturity profile of the anticipated future cash flows based on the earliest date on which the Group can be required to pay financial liabilities on an undiscounted basis (including future interest payments using the latest applicable rates) is as follows:

	Trade payables £000	Borrowings £000	Hire purchase liabilities £000	Total £000
Within one year	10,658	–	3	10,661
More than one year and less than two years	–	15,784	–	15,784
More than two years and less than five years	–	50,671	–	50,671
31 March 2013	**10,658**	**66,455**	**3**	**77,116**

	Trade payables £000	Borrowings £000	Hire purchase liabilities £000	Total £000
Within one year	9,265	6,699	16	15,980
More than one year and less than two years	–	8,840	3	8,843
More than two years and less than five years	–	58,983	–	58,983
31 March 2012	**9,265**	**74,522**	**19**	**83,806**

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