Interim results to 30 September 2009

www.telfordhomes.plc.uk

Queen Mary's Gate, Woodford E18

Overview

- Revenue up 142% with profit before tax and exceptional items up to £6.5 million from £0.3 million
- Dividend payment reinstated at 0.75 pence
- Grant programme with Homes and Communities Agency (HCA) extended to £73 million
- Net debt reduced to £71.3 million down from £107.2 million at 31 March 2009
- Housing market in East London encouraging with increased number of sales in past few months
- Shortage of homes and rental demand are underpinning the improvement in sentiment

OneStratford and SoBow

OneStratford, Stratford E15

SoBow, Bow E3

Results

- Revenue for the six months to 30 September 2009 was £85.9 million against £35.6 million last year
- A total of 224 open market homes legally completed up from 119 during the same period last year
- Restricted availability of mortgage finance has made it difficult for off-plan investors to complete contractual obligations
- Continuing to work with each purchaser to achieve completions as far as possible
- With fewer pre-sold properties remaining to complete, revenue and profit for the full year will be heavily weighted towards the first half

Revenue and profit

	September 2009	September 2008	March 2009
Revenue	£85.9m	£35.6m	£106.7m
Gross margin adjusted for interest	18.3%	17.9%	20.0%
Profit before tax & exceptional items	£6.5m	£0.3m	£7.3m
Exceptional items	(£0.8m)	(£1.4m)	(£3.0m)
Profit (loss) before tax	£5.7m	(£1.1m)	£4.3m
EPS	10.6p	(2.7p)	8.1p
Dividend declared per share	0.75p	nil	nil

Margins and profit

- Gross margin of 18.3% down from 20.0% for the year to 31 March 2009
- Increased proportion of lower risk, lower margin construction plus reduced open market prices
- New sales contracted in the six months to 30 September secured at an average price of £228,000 down 12.6% against the average price of pre-sales secured in 2007 and 2008
- Exceptional items being £0.7 million of write downs to land and work in progress and £0.1 million of redundancy costs
- Write downs due to elongated selling periods and mortgage availability issues for stock units
- Dividend of 0.75 pence declared with policy to consider anticipated profits over extended timeframe

Greenwich Creekside

Sales

- Sales performance much improved since the start of the new financial year
- Recent sales at phase 2 of Queen Mary's Gate have resulted in decision to continue development of phase 3 with marketing expected to commence early in 2010
- A number of off-plan sales also secured at developments completing in 2010 and beyond, principally Greenwich Creekside
- These off-plan sales signal that there is still investor demand for our homes in East London
- In addition improving market conditions have resulted in a significant number of the pre-sold homes that have failed to complete being re-sold to new buyers

Merchants' Quarter and Decorum

Merchants' Quarter, Bow E3


Decorum, Leyton E10

Completions

- Mortgage finance remains a constraint to achieving legal completions on homes pre-sold in previous years
- Availability of mortgages and time taken to process each application not yet improved
- This leads to inevitable delays in achieving completions
- However over 75% of the 613 pre-sold homes due to complete from October 2008 to March 2010 now either completed or re-sold
- This success has resulted in cash flow into the business and assisted the Group in reducing net debt

Casa, E14

Completions (continued)

- Contracts have been rescinded on over 50 pre-sold homes with the 10% deposits being retained
- The majority have been re-sold and this success has led to a number of contracts being rescinded earlier than foreseen
- The re-sales, together with the 10% deposits retained, generally achieve almost the same total revenue as the original sales
- The Group has been achieving successful completions by negotiating modest discounts with original purchasers and this has been commercially necessary given the numbers involved
- The more active market in new homes means we are increasingly able to rescind contracts and re-sell rather than negotiating further discounts or accepting significant delays
- The Board expects the total number of contracts rescinded will be in excess of original estimates but that the vast majority will be re-sold over the next 12 months

Lesney, E9

Grants and affordable housing

- Grant programme with the HCA extended to £73 million
- Commencing construction of 324 affordable homes across several sites has led to £15 million of grants being received by 30 September and another £13 million since
- These grants pay for the construction of affordable homes over a number of years
- As such a proportion of the money received is held for future expenditure within cash in the balance sheet
- Excellent relationships with housing associations have enabled us to sell some developments entirely for affordable housing
- Supported by HCA grants, this has enabled construction activity to continue on these developments with reduced risk and a better cash flow profile secured at lower margins

Group balance sheet

	September 2009	September 2008	March 2009
Non current assets	£0.5m	£0.8m	£0.6m
Inventories	£146.2m	£200.2m	£177.9m
Cash and cash equivalents	£15.1m	£2.2m	£4.9m
Other current assets	£8.2m	£13.0m	£9.4m
Borrowings	(£86.4m)	(£127.5m)	(£112.0m)
Other liabilities	(£28.9m)	(£42.6m)	(£30.5m)
Net assets	**£54.7m**	**£46.1m**	**£50.3m**
Net assets per share	135p	121p	130p

Cash and borrowings

- Cash balances at 30 September include £5.6 million of grants held for future expenditure and £6.3 million as a result of the acquisition of Clifford Contracting in June 2009
- Funds within the acquisition are available should Telford Homes need to access finance against unsold properties
- Availability of this funding has given banks confidence to offer additional or extended facilities
- Successful focus on cash generation and reducing net debt
- Borrowings £86.4 million down from £112.0 million at March 2009 with net debt at £71.3 million down from £107.2 million and gearing at 130%
- Reduction in net debt achieved through securing completions, not investing in new land, controlling work in progress and receipt of HCA grants
- Long term growth can be achieved at lower levels of gearing than required in previous years and as such the Board expects this to remain below 150% in the future

St George's Estate, E1

Partnerships and development pipeline

- Our partnership with EastendHomes continues to be an excellent source of potential development sites
- British Estate, E3 set the model for the partnership with land payments reinvested into third party refurbishment of existing homes
- Now building 54 affordable homes on the St George's Estate, E1 and 74 affordable homes on the Bede Estate, E3
- Telford Homes holds options to purchase and develop a number of sites on both estates for open market housing, either directly or through joint venture arrangements
- Plans are being progressed on a further four estates including the Holland Estate in Aldgate, E1
- At 30 September 2009 the total pipeline of properties not yet legally completed was 2,368 down from 2,635 at 31 March 2009
- Of these 2,344 have planning permission of which 1,234 are under construction with 821 of these secured by contracts exchanged

Bethnal Green Road, E1

Outlook

- The Group has performed well during the period in terms of achieving completions and securing new sales at a steady rate
- Results to 31 March 2010 expected to be in line with market expectations
- As a result of not purchasing new land and restricted expenditure on work in progress over the last 18 months reduced output of completed homes expected over next two financial years
- Growth should follow supported by a less leveraged balance sheet
- Prudent approach has positioned us well in the downturn
- Board remains cautious but recent activity in the market has been encouraging
- Ongoing shortage of new homes, related demand for rental properties and regeneration led by 2012 Olympics all support the Board's long term confidence in East London