

DIRECTORS' REMUNERATION REPORT

Statement from the Chairman of the Remuneration Committee

Dear Shareholder,

I am pleased to present the directors' remuneration report for the year ended 31 March 2017.

As an AIM listed Company, Telford Homes Plc is not required to comply with the remuneration reporting requirements applicable to fully listed companies in the UK. However the Committee has taken into account these regulations in the preparation of the directors' remuneration report for the year as a matter of best practice.

This report is presented in two sections. The Directors' Remuneration Policy sets out the forward looking remuneration policy. The annual report on Remuneration provides details of the amounts earned in respect of the year ended 31 March 2017 and how the Directors' Remuneration Policy will be operated for the year commencing 1 April 2017.

The directors' remuneration report is subject to an advisory shareholder vote at the 2017 Annual General Meeting.

Review of the year to 31 March 2017

As described earlier in the annual report the Group has performed well during the year, delivering record revenues and profit before tax of £291.9 million and £34.1 million respectively. Consequently, Executive Directors earned an annual bonus equivalent to 0.6 per cent of profit before tax (capped at 100 per cent of salary if applicable), 50 per cent of which will be deferred and paid out to each director in equal instalments over the next three years in line with the bonus scheme rules.

The Committee remains committed to a fair and responsible approach to executive pay. In January 2017 the Committee determined it was appropriate to award the Executive Directors a 3 per cent salary increase, which was in line with increases for the wider workforce.

During the year, the Committee commissioned Deloitte LLP to undertake a review of remuneration and propose changes to the remuneration structure to ensure that it is in line with best practice, and that Executive Directors are appropriately incentivised over the longer term and have the ability to build up their personal equity holding. This is a reflection of the Board's commitment to ensure that the Company retains and develops the talents needed to deliver on its growth targets.

This has resulted in a change to the annual bonus scheme applicable from 1 April 2017, where maximum opportunity is set by reference to base salary and amounts earned will be subject to the achievement of annual profit before tax (PBT) targets. In addition, a new Long Term Incentive Plan (LTIP) has been introduced designed to motivate the Executive Directors over the longer term to deliver the Group's strategy and to reward appropriately, and to reflect their contribution to shareholder value creation. The LTIP is based on the achievement of three year performance conditions, initially focused around cumulative earnings per share (EPS) over three years. The first awards will be made following the 2017 Annual General Meeting, subject to shareholder approval of the LTIP. Further details of the new annual bonus scheme and LTIP are set out in the Directors' Remuneration Policy.

Outlook for the year to 31 March 2018

- Having undertaken a detailed review of variable remuneration, the Committee will now seek to embed the new bonus and LTIP into the Group and will focus on this as the primary incentive mechanism. The bonus scheme will be centred on an annual PBT target and the LTIP around EPS.
- Salary increases for 2018 will be reviewed in January 2018 and will be fully disclosed and explained in next year's Report.

Jane Earl

Chairman of the Remuneration Committee

30 May 2017

Directors' Remuneration Policy

This section sets out the Directors' Remuneration Policy, which will apply from the date of the next Annual General Meeting to be held on 13 July 2017. The policy is determined by the Remuneration Committee of the Group.

Key principles

The main aim of the Group's policy is to align the interests of Executive Directors with the Group's growth strategy and long term creation of shareholder value. The policy is designed to remunerate the Executive Directors competitively and appropriately and allows them to share in this success and the value delivered to shareholders.

The policy is based on the following principles:

- Promote shareholder value creation and support the business growth strategy
- Ensure that the interests of the directors are aligned with the long term interests of shareholders
- Deliver a competitive level of pay for the directors sufficient to attract, retain and motivate individuals
- Ensure that an appropriate proportion of the package is determined by targets linked to the Group's performance

Executive Directors' Remuneration Policy

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	Fixed remuneration to provide a competitive base salary for the market in which the Group operates to attract, motivate and retain directors with the experience and capabilities required to achieve the Group's strategic aims.	Salaries are reviewed annually taking into account Group performance, role, experience and current market rates.	No overall maximum has been set under the policy. However salary increases are reviewed in the context of the wider workforce increases.	Not applicable.
Benefits	To provide a market competitive benefits package as part of total remuneration.	Executive Directors receive benefits in line with market practice, principally life assurance, private medical insurance and a Company car/car allowance.	Set at a level which the Committee deems appropriate.	Not applicable.
Pension	To provide an appropriate level of retirement benefit.	Executive Directors are eligible to participate in the Group's defined contribution pension plan.	Pension contributions are set at 10 per cent of base salary and are paid in addition to base salary.	Not applicable.
Share Incentive Plan (SIP)	To increase employee ownership of shares.	Executive Directors are entitled to participate in a tax qualifying all employee SIP.	Executive Directors can invest an amount per year and receive a matching award from the Company as permitted by the UK tax legislation. Further details on the SIP is included on page 94.	Not subject to performance measures, in line with HMRC guidance.

DIRECTORS' REMUNERATION REPORT

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus	Rewards performance against annual targets which support the strategic direction of the Group.	<p>The Company has adopted a new bonus scheme.</p> <p>Awards are based on annual performance.</p> <p>Pay-out levels are determined by the Committee after the year end based on performance against targets.</p> <p>The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance.</p> <p>Any bonus earned is paid in cash.</p>	The maximum annual bonus opportunity is 70 per cent of base salary.	<p>Performance measures are set annually and aligned with key financial, strategic and/or personal targets.</p> <p>Currently 100 per cent of the bonus is based on PBT performance.</p> <p>Stretching targets are required for maximum pay-out.</p>
LTIP	To drive and reward the achievement of longer term objectives, support retention and promote share ownership for Executive Directors.	<p>The Company has adopted a new LTIP.</p> <p>Awards can be made over conditional shares and/or nil cost or nominal cost share options.</p> <p>Vesting will be subject to the achievement of specified performance conditions over a period of three years.</p> <p>Awards may be subject to malus provisions at the discretion of the Committee.</p>	<p>The normal maximum LTIP opportunity is 100 per cent of salary in respect of a financial year.</p> <p>Under the LTIP rules, an award of up to 200 per cent of salary may be granted in respect of a financial year but only in very exceptional circumstances.</p>	<p>Relevant performance measures are set that reflect underlying business performance.</p> <p>For awards granted in 2017, the vesting of awards will be subject to three year cumulative EPS targets.</p> <p>Stretching targets are required for maximum pay-out.</p>

Explanation of performance measures chosen

Performance measures are selected that are aligned with the performance of the Group and the interest of shareholders. Stretching performance targets are set each year for the annual bonus and long term incentive awards. When setting these performance targets, the Committee will take into account a number of different reference points, which may include the Group's business plan and strategy and economic environment. Full vesting will only occur for what the Committee considers to be stretching performance.

The annual bonus is based on PBT performance which is a key financial performance metric of the Group.

The LTIP is based on EPS performance as the Committee considers this to be a key measure of long term sustainable business performance.

The Committee retains the ability to adjust or set different performance measures if events occur which cause the Committee to determine that the measures are no longer appropriate and that amendment is required so that they can achieve their original purpose.

Awards and options may be adjusted in the event of a variation of share capital in accordance with the rules of the LTIP.

Legacy remuneration

The Committee has the right to settle remuneration arrangements that were put in place prior to this Policy being created. These being:

- The bonus scheme applicable to Executive Directors from 1 April 2013 to 31 March 2017 involved a proportion of the bonus earned in the year (up to 50 per cent) being deferred and paid out to each director in equal instalments over the next three years, subject to a minimum level of profit being achieved in these years. Therefore, subject to the minimum level of profit being achieved in the financial years to March 2018, March 2019 and March 2020, deferred bonus payments will be paid in line with the rules of this scheme. The amount carried forward under this scheme for each director is included on page 58.
- During 2006 the Company set up a Deferred Payment Share Purchase Plan (DPSPP) for the benefit of select employees. Further details are given in note 18 to the financial statements. The Remuneration Committee is responsible for approving any offers of shares made under the DPSPP although further grants are very unlikely.
- Approved and unapproved share options have been granted to Executive Directors in previous years under the Telford Homes Plc Employee Share Option Scheme. Outstanding options detailed on page 58 can still be exercised under the rules of the scheme.

Non Executive Directors' remuneration policy

The remuneration policy for the Non Executive Directors is to pay fees necessary to attract an individual of the calibre required taking into consideration the size and complexity of the business and the time commitment of the role.

Details are set out in the table below:

Approach to setting fees	Basis of fee	Other items
The fees of the Non Executive Directors are agreed by the Chairman and CEO.	Fees may include a basic fee and additional fees for further responsibilities (for example Chairman of the Remuneration and Audit Committee).	Non Executive Directors do not receive any benefits or pension contributions. They are entitled to participate in the SIP.
Fees are reviewed annually.		
Fees are set taking into account the level of responsibility, relevant experience and specialist knowledge of each Non Executive Director.	Fees are paid in cash.	Travel and other reasonable expenses incurred in the course of performing their duties are reimbursed.

Service contracts

The Executive Directors have service contracts that can be terminated on 12 months notice. These provide for termination payments equivalent to 12 months base salary and contractual benefits.

The Non Executive Directors have letters of appointment that can be terminated on three months notice.

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Statement of consideration of shareholder views

The Committee considers shareholder feedback received on remuneration matters, including issues raised at the AGM as well as any additional comments received during any other meetings with shareholders.

Annual report on Remuneration

Remuneration

The directors' emoluments for the year ended 31 March 2017 are as follows:

Name	Salary & fees	Bonus earned	Benefits	Pension	Total 2017	Total 2016
Executive Directors						
Andrew Wiseman ¹	113,250	113,250	18,445	11,325	256,270	321,219
Jonathan Di-Stefano	322,500	218,711	31,394	32,250	604,855	531,633
David Campbell	231,750	218,711	12,814	23,175	486,450	449,429
David Durant ²	149,062	152,400	12,159	14,909	328,530	368,282
John Fitzgerald	231,750	218,711	23,801	23,175	497,437	454,028
James Furlong ³	55,437	56,750	20,726	-	132,913	174,909
Katie Rogers ⁴	121,145	218,711	11,251	22,367	373,474	445,540
Non Executive Directors						
Jane Earl ⁵	55,500	-	-	-	55,500	9,167
Frank Nelson	56,250	-	-	-	56,250	52,750
David Holland ⁶	21,666	-	-	-	21,666	62,750
	1,358,310	1,197,244	130,590	127,201	2,813,345	2,869,707

1 Andrew Wiseman reduced working hours from 1 July 2016 in line with reduced responsibilities

2 David Durant reduced working hours from 1 January 2016 in line with reduced responsibilities

3 James Furlong reduced working hours from 1 January 2016 in line with reduced responsibilities

4 Katie Rogers commenced maternity leave on 1 April 2016 and returned to work on 13 January 2017

5 Jane Earl was appointed as Non Executive Director on 5 February 2016

6 David Holland resigned as Non Executive Director on 14 July 2016

Notes to the table

Base salaries

The base salaries are reviewed on 1 January each year for the Executive Directors. The base salary which applies from 1 January 2017 is set out below.

Name	2017
Andrew Wiseman	103,000
Jonathan Di-Stefano	330,000
David Campbell	237,000
David Durant	152,400
John Fitzgerald	237,000
James Furlong	56,750
Katie Rogers	237,000

Annual bonus

The bonus earned in the year was in relation to the bonus scheme applicable from 1 April 2013 to 31 March 2017. Under this bonus scheme, each Executive Director was entitled to earn an annual bonus equivalent to 0.6 per cent of profit before tax subject to a minimum level of profits being achieved in each year and capped at 100 per cent of salary at the date the bonus is payable. Up to 50 per cent of the bonus earned in each year is 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 bonus scheme account for each director is set out below:

	Executive bonus brought forward	Earned for the year	Amount paid during the year	Executive bonus carried forward
Andrew Wiseman	139,413	113,250	(136,080)	116,583
Jonathan Di-Stefano	174,813	218,711	(188,440)	205,084
David Campbell	174,813	218,711	(188,440)	205,084
David Durant	155,768	152,400	(148,937)	159,231
John Fitzgerald	174,813	218,711	(188,440)	205,084
James Furlong	20,417	56,750	(71,333)	5,834
Katie Rogers	174,813	218,711	(188,440)	205,084
	1,014,850	1,197,244	(1,110,110)	1,101,984

This bonus scheme has now been replaced with the new bonus scheme set out in the Executive Directors' Remuneration Policy on pages 53 to 54. The bonus carried forward will be released and paid over the next three years in line with the scheme rules.

Benefits

The taxable benefits for the Executive Directors in the year included a car allowance or Company car and private medical insurance. Jon Di-Stefano and John Fitzgerald's benefits also include interest relating to a loan arising from the DPSPP scheme, further details on this share scheme are given in note 18.

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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 2017 and the movements during the year then ended were as follows:

	Company scheme	31 March 2016 Number	Exercised in year Number	31 March 2017 Number	Exercise price	Dates exercisable
Jonathan Di-Stefano	unapproved	60,000	–	60,000	75p	1 Oct 2005 to 1 Oct 2018
	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	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
John Fitzgerald	approved	33,000	–	33,000	90.5p	9 Feb 2015 to 9 Feb 2022
Katie Rogers	unapproved	100,000	(100,000)	–	79p	23 May 2014 to 23 May 2021

On 10 June 2016 Jonathan Di-Stefano exercised 33,000 approved share options. The market price on this date was 355.75p.

On 28 June 2016 Katie Rogers exercised 100,000 unapproved share options. The market price on this date was 265.75p.

No share options were granted to directors or forfeited by directors in the year ended 31 March 2017 or the year ended 31 March 2016.

In total the share-based payments charge in respect of directors' share options was £nil (2016: £nil).

Composition of the Remuneration Committee

The Remuneration Committee comprises the independent Non Executive Directors, being Jane Earl and Frank Nelson. 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. Generally the Committee meet three times during the year, however in the current year the Committee has met five times to enable full consideration to be given to the decisions required regarding the new bonus structure and LTIP.

The Chairman, Chief Executive Officer and Group Financial Director attend meetings and provide information and support as requested. They are not present when their remuneration package is considered.

Advisors

During the year, the Committee received advice from Deloitte LLP. The Committee is satisfied that the advice received is independent and objective.

Implementation of Directors' Remuneration Policy for the financial year commencing 1 April 2017

Information on how the Company intends to implement the Directors' Remuneration Policy for the financial year commencing on 1 April 2017 is set out below:

Salaries/fees

Salaries for the Executive Directors and fees for the Non Executive Directors will be reviewed in January 2018 and will be disclosed in the Remuneration report next year, although the Committee does not anticipate making salary increases greater than the awards being made to the wider workforce. The provision of benefits will remain unchanged.

Annual bonus

The new bonus scheme set out in the Remuneration Policy table will be implemented from 1 April 2017. The maximum bonus opportunity for Executive Directors will be 70 per cent of base salary subject to achieving stretched PBT targets.

To achieve maximum pay-out, reported PBT is required to exceed target PBT performance by at least 10 per cent. If reported PBT is more than 20 per cent under target PBT performance, no annual bonus is earned.

Bonus payments will be settled in cash.

Long Term Incentive Plan

Awards will be granted under the LTIP following the 2017 Annual General Meeting, subject to shareholder approval of the LTIP. Vesting of the awards will be subject to three year cumulative EPS targets. The maximum award under this scheme is 100 per cent of base salary.

To achieve maximum vesting, cumulative EPS over three years is required to exceed target EPS performance by at least 10 per cent. If cumulative EPS is more than five per cent below EPS target performance, no LTIP awards vest.

Approval

This report was approved by the Board on 30 May 2017 and signed on its behalf by:

Jane Earl

Chairman of the Remuneration Committee

30 May 2017