telfordhomes

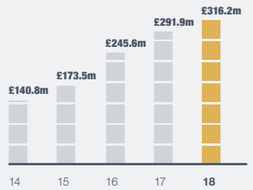
ANNUAL REPORT 2018

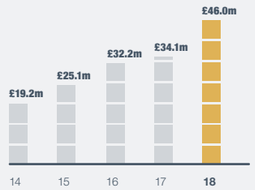
DEVELOPING THE HOMES AND CREATING THE PLACES THAT LONDON NEEDS

CONTENTS

CGI
Denotes a computer generated image

HIGHLIGHTS





TOTAL REVENUE
£316.2m
2017: £291.9m

TOTAL PROFIT BEFORE TAX
£46.0m
2017: £34.1m

ADJUSTED GROSS MARGIN
26.5%
2017: 22.3%

GEARING
44.6%
2017: 7.0%

ADJUSTED OPERATING MARGIN
16.7%
2017: 13.4%

DEVELOPMENT PIPELINE
£1.3bn
2017: £1.5bn

EARNINGS PER SHARE
49.8p
2017: 36.8p

FORWARD SALES
£344m
2017: £546m

DIVIDEND PER SHARE
17.0p
2017: 15.7p

CUSTOMER RECOMMENDATION RATE
100%
2017: 99%

Telford Homes Plc use a range of statutory performance measures in accordance with Generally Accepted Accounting Principles (GAAP) and alternative performance measures (APMs) when reviewing the performance of the Group against its strategy. As a result, all highlights include the Group's share of joint venture results. Statutory revenue in accordance with GAAP is £294.8 million (2017: £266.0 million) and profit before tax is £46.3 million (2017: £34.6 million).

Definitions of APMs and detailed calculations and reconciliations to statutory figures can be found in note 22. For details of the Group's key performance indicators see pages 34 and 35.

OUR AWARD WINNING YEAR

RESI Awards 2018 WINNER

winner of housebuilder awards 2017

The Building Good Employer Guide 2017

NEXT GENERATION SILVER

2018 ROSPA Gold Medal Award

HOUSING DESIGN AWARDS

UNITED KINGDOM PROPERTY AWARDS ARCHITECTURE in association with BENTLEY Award Winner 2017-2018

View our new corporate video on our website
www.telfordhomes.london

AT A GLANCE

ESTABLISHED IN 2000, TELFORD HOMES HAS GROWN TO BECOME ONE OF LONDON'S LARGEST RESIDENTIAL DEVELOPERS

Who we are

Today we have over 280 employees dedicated to developing the homes and creating the places that London needs.

Our goal is to significantly increase our output of new homes over the next few years to help address the chronic shortage in London.

Our success is driven by keeping our promises and being a trusted partner to everyone we work with.

Meeting the needs of our customers and the local community on each development is our central focus from initial concept to final delivery.

What we do

Telford Homes Plc is a listed developer of residential-led, mixed use sites in London.

We focus on brownfield opportunities in locations across London where the need for homes far exceeds supply.

We invest in the communities we create through our sustainability strategy: 'Building a Living Legacy'.

We have extensive knowledge and expertise in acquiring land, obtaining planning permissions and designing and building high quality developments.

Our buildings are bespoke designs consisting of various housing tenures alongside commercial properties and community buildings.

Our customers include individual investors, owner-occupiers, housing associations and, increasingly, institutional investors in the build to rent sector, a growing market in London.

Being a valued partner to landowners, housing associations, local authorities, build to rent investors and our supply chain is a key part of Telford Homes' strong brand reputation, as is looking after everyone who works for us.

E8

VIBE

A completed mixed use development of 101 open market homes and a new primary school. It received nine awards in 2017 alone, including a Housing Design Award.

INVESTMENT CASE

PROVEN STRATEGY

Focus on non-prime locations across London and forward selling to de-risk.

Read about our strategy on **page 14**

MARKET OPPORTUNITY

Chronic shortage of homes in London and increasing build to rent investor demand.

Read our market overview on **page 16**

STRONG PARTNERSHIPS

A respected partner to our stakeholders, encouraging new opportunities to work together.

See our business model on **page 12**

KNOWLEDGE & EXPERIENCE

A highly motivated team with extensive experience of planning and complex construction in London.

Read about our Board of directors **page 50**

SUBSTANTIAL PIPELINE

Development pipeline of over 4,000 homes representing £1.3 billion of future revenue.

See our Chief Executive's review **page 18**

DE-RISKED SALES

Forward sales secured of £344 million giving visibility over future cash flows and profits.

See our Financial review **page 26**

QUALITY & SERVICE

Delivering quality homes to a diverse customer mix with an 100% recommendation rate in 2017.

See our Chief Executive's review **page 18**

GROWING BUSINESS

Driving significant pre-tax profit growth and paying an increasing dividend to shareholders.

See our Chief Executive's review **page 18**

STRATEGIC REPORT

LAND ACQUISITION

WE BUY BROWNFIELD SITES IN LONDON IN NON-PRIME LOCATIONS WHERE DEMAND EXCEEDS SUPPLY

PLANNING

WE USE OUR IN-DEPTH KNOWLEDGE OF EACH BOROUGH TO WORK WITH THEIR PLANNING TEAMS AND PROVIDE IMAGINATIVE CONCEPTS THAT ALIGN WITH POLICY

NW6

Brent

SOUTH KILBURN

Through the London Development Panel, in 2017, the Group was selected by the London Borough of Brent as their partner to redevelop a significant 3.2 acre site for 236 homes located close to Kilburn Park station.

South Kilburn is undergoing major regeneration and our involvement represents an exciting new relationship with Brent and our first development in the borough. Work is underway on site with completion anticipated in 2021.

NUMBER OF HOMES	PERCENTAGE OF AFFORDABLE HOMES	DUE FOR COMPLETION
236	47%	2021

"WE HAVE SOLD LAND TO TELFORD HOMES ON A NUMBER OF OCCASIONS AND THEY HAVE BEHAVED IMPECCABLY AND AT PACE ON EACH AND EVERY OCCASION."

DARREN ARNOLD
DIRECTOR, DEVELOPMENT, SAVILLS

DESIGN

WE CREATE DEVELOPMENTS THAT FIT IN WITH LOCAL COMMUNITIES AND MEET THE NEEDS OF OUR CUSTOMERS

CONSTRUCTION

WE CONTROL THE CONSTRUCTION PROCESS WITH OUR EXTENSIVE IN-HOUSE EXPERTISE, ACTING AS MAIN CONTRACTOR TO DELIVER A QUALITY PRODUCT ON PROGRAMME

N4

CITY NORTH
London N4

CITY NORTH

City North is a mixed use development that is being delivered through a joint venture with the Business Design Centre. It features 355 new homes and 109,000 sq.ft of commercial space and is due for completion in 2020.

We have developed the detailed design and are constructing the scheme. We are working with London Underground and Network Rail to provide an enhanced station at Finsbury Park with step-free access.

NUMBER OF HOMES	COMMERCIAL SPACE (SQ.FT)	DUE FOR COMPLETION
355	109,000	2020

"CITY NORTH HAS BEEN CAREFULLY CONSIDERED IN TERMS OF ITS DESIGN AND CONSTRUCTION BY THE TELFORD HOMES TEAM."

DOMINIC JONES
CHIEF EXECUTIVE, BUSINESS DESIGN CENTRE GROUP LTD

SALES

BALANCING A MIX OF INDIVIDUAL INVESTORS, OWNER-OCCUPIERS AND BUILD TO RENT INVESTORS ALONGSIDE AFFORDABLE HOUSING PROVIDERS

CUSTOMERS

OUR STRONG FOCUS ON QUALITY AND CUSTOMER SERVICE IS DEMONSTRATED BY OUR 100 PER CENT CUSTOMER RECOMMENDATION RATE IN 2017

E15

NEW GARDEN QUARTER
STRATFORD E15

NEW GARDEN QUARTER

We secured detailed planning consent for this mixed use scheme on Olympic legacy land. In a joint venture with Notting Hill Housing Group (NHHG), we are developing 471 homes and over 10,000 sq.ft of commercial space.

The first phase of 286 homes have been sold to Folio London for build to rent and NHHG for affordable homes. In the second phase, the Group successfully launched the homes for sale in January 2018 securing over 100 reservations.

NUMBER OF HOMES	LAND PRICE	DUE FOR COMPLETION
471	£44m	2019

"WE ARE VERY CONFIDENT THAT THE HOMES FOR MARKET RENT AT NEW GARDEN QUARTER WILL BE IN HIGH DEMAND GIVEN THE HIGH QUALITY OF PRODUCT SPECIFICATION AND FINISH."

LIZZIE STEVENS,
DIRECTOR OF MARKET RENT, FOLIO LONDON

BUSINESS MODEL

OUR STRAIGHTFORWARD BUSINESS MODEL HAS CONSISTENTLY DELIVERED VALUE TO OUR STAKEHOLDERS

Our key resources and relationships

RESOURCES

- Land
- Knowledge
- Construction expertise
- Our people
- Respected brand
- Strong balance sheet

RELATIONSHIPS

- Land owners
- Local authorities
- Housing associations
- Our customers
- Build to rent investors
- Supply chain

What we do

LAND ACQUISITION
Brownfield sites in London, with or without planning in non-prime locations where demand exceeds supply.

PLANNING
Using our knowledge of each borough to work with their planning teams and provide imaginative concepts that align with policy.

DESIGN
Developments that fit in with local communities and meet the needs of our customers.

CONSTRUCTION
Controlling the process with in-house expertise to deliver a quality product on programme.

SALES AND CUSTOMERS
Balancing a mix of individual investors, owner-occupiers and build to rent investors alongside affordable housing providers.

How we create value

- Buying the right land in the right locations
- Taking planning risk and optimising a policy compliant scheme
- Taking control of the whole development process
- Securing forward sales to reduce risk
- Driving capital returns through build to rent
- Delivering excellent customer service

FORWARD SOLD POSITION
£344m

CUSTOMER RECOMMENDATION RATE
100%

Sharing value with our stakeholders

OUR CLIENTS AND COMMUNITIES
A focus on quality and service together with our sustainability commitments through our 'Building a Living Legacy' strategy.

Read more about our sustainability strategy **page 46**

OUR PEOPLE
Rewarding and stimulating career paths with responsibility, empowerment and opportunities for training and development.

Read more about our people **page 40**

SHAREHOLDERS
We have grown total pre-tax profit to over £46 million and we pay at least one third of earnings as dividends each year.

Read more in the Financial review **page 26**

EARNINGS PER SHARE
49.8p

DIVIDEND PER SHARE
17.0p

Reinvestment

Reinvestment

AMBITION AND STRATEGY

WE HAVE A CLEAR PLAN TO ACHIEVE OUR AMBITION OF SIGNIFICANTLY INCREASING OUR OUTPUT OF HOMES

Our ambition

There is a chronic shortage of new homes in London. Our goal is to grow Telford Homes over the next few years to help address this shortage. This will involve significantly increasing our output of homes in one of the world's greatest cities.

Our strategy

GROWING THE OPERATIONAL CAPACITY OF THE BUSINESS

We have put in place a new operational structure which is enabling the Group to expand efficiently. Our strategic focus on build to rent provides the opportunity for significant growth in the future.

For more information, see page 18

OPERATE EFFICIENTLY

BROADENING OUR GEOGRAPHIC FOCUS WITHIN LONDON TO ACCESS MORE OPPORTUNITIES

We are improving our access to land opportunities and increasing the potential for new relationships by enlarging our target area of operation to all non-prime locations across London. We have the knowledge and expertise to successfully develop in new boroughs.

For more information, see page 18

ACCESS TO LAND

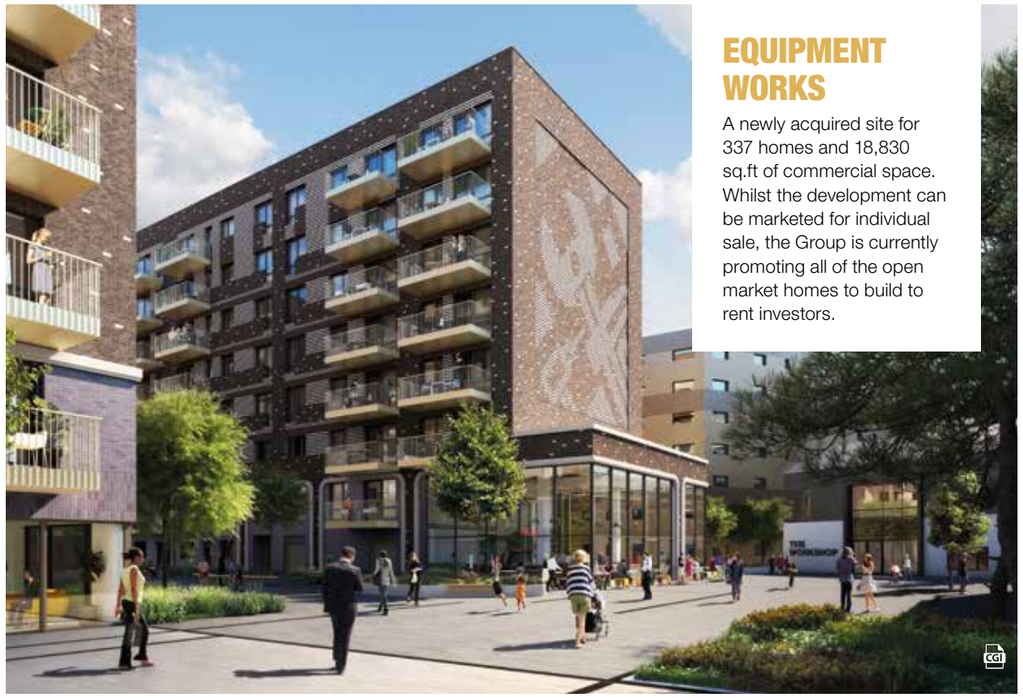
FOCUSING ON AFFORDABLE LOCATIONS FOR OPEN MARKET SALE HOMES

We continue to manage the development pipeline to ensure our average price point remains affordable to potential owner-occupiers, investors and their tenants. The average price of the open market homes in our current pipeline is £539,000.

For more information, see page 18

MEETING DEMAND

E17



EQUIPMENT WORKS

A newly acquired site for 337 homes and 18,830 sq.ft of commercial space. Whilst the development can be marketed for individual sale, the Group is currently promoting all of the open market homes to build to rent investors.

POSITIONING TELFORD HOMES AS A KEY BUILD TO RENT DEVELOPER AND PARTNER ACROSS LONDON

Selling homes to build to rent investors has been a significant change in our strategy since the start of 2016. Build to rent delivers enhanced capital returns, reduces our reliance on debt and will increase output.

For more information, see page 18

ACCELERATING GROWTH

MAINTAINING A STRONG FORWARD SOLD POSITION TO LIMIT RISK

We have always de-risked significant developments by securing forward sales early in the development process. This strategy has positioned the business well in economic downturns and increased our access to finance.

For more information, see page 26

REDUCING RISK

DRIVING THE EVOLUTION OF OUR SUSTAINABILITY STRATEGY

The Group's marked improvement in the 2017 NextGeneration sustainable housing benchmark report has been driven by our 'Building a Living Legacy' sustainability strategy, which we launched in 2016.

For more information, see page 46

OPERATE RESPONSIBLY

MARKET OVERVIEW

THE NEED FOR HOUSING IN LONDON CONTINUES TO GROW AND SUPPLY CONSTRAINTS ARE AN ONGOING ISSUE

Economic backdrop

The rate of economic growth in London has exceeded that of the UK overall for most of the last two decades. Chart 1 shows regional trends in average real Gross Valued Added (GVA) growth before the global financial crisis (1998–2007), during the crisis (2008–09) and since the crisis (2010–16). London's economy recovered most quickly from the global financial crisis, driven by a resurgent business services sector. PwC forecasts that, in the short term, London's growth will be closer to the national average, pointing to constraints such as transport congestion (which will be eased by the imminent opening of Crossrail) and the lack of affordable housing that is more pronounced than in other regions.

Although some indicators are pointing to a slowdown in the rate of growth, overall the economy – in the UK and in London specifically – has performed more strongly than anticipated in the aftermath of the EU referendum. In its Medium-term Planning Projections published in November 2017, the Greater London Authority (GLA) forecasted that London's Gross Value Added will outpace that of the UK overall, growing by 2.1 per cent in 2017, slowing slightly to 1.8 per cent in 2018, before picking up to 2.6 per cent in 2019.

The London employment market remains strong. The number of jobs in the capital was at a record high in 2016, at 5.8 million, with this number projected to continue to grow.

Supply and demand

Whilst most indicators show an increase in new housing completions in London over the last two years, the number of new housing starts has fallen (chart 2) and remains well short of projected need.

London's population reached a new peak in 2015, having grown by 135,000 between 2014 and 2015. GLA projections indicate growth of 874,000 between 2015 and 2025, and a further 528,000 between 2025 and 2035, which would bring London's population to just over 10 million.

There is a very clear disconnect between demand and supply of housing. GLA analysis of Office for National Statistics (ONS) data shows that, over the last 20 years, the number of jobs in London has grown by 40 per cent and the population by 25 per cent, but the number of homes by only 15 per cent (chart 3).

The most recent draft of the GLA's London Plan states a need to build 66,000 new homes in London per year through to 2030, a considerably greater figure than has been built over the last 20 years.

The rise of renting

GLA analysis of ONS and PwC data indicates that private renting is rising rapidly and is projected to reach similar levels to owner occupation by 2025 (chart 4). There are now more than a million private renting households in the capital.

> **"LESS THAN HALF OF THE HOMES NEEDED EACH YEAR HAVE BEEN BUILT OVER THE PAST 20 YEARS. WITH LONDON'S POPULATION SET TO GROW BY AN AVERAGE OF 100,000 PEOPLE A YEAR, DESPITE BREXIT, LONDON'S HOUSING SUPPLY PROBLEMS LOOK SET TO REMAIN."**
>
> **JLL UK RESIDENTIAL FORECASTS**
> **November 2017**

Affordability of housing is an issue across the UK, and is particularly pronounced in London. ONS analysis indicates that the ratio of median house prices to median gross salary is almost 12.9 in London, significantly greater than the already high figure of 7.6 for England and Wales. This figure has increased from less than 9 in 2009.

However mortgage availability and willingness to lend are strong, and while mortgage rates increased in September 2017 following the 0.25 percentage point increase in the Bank of England's base rate, they are still at historically low levels.

The increased move to rental housing is partly driven by affordability issues but increasingly also by a willingness and desire to retain flexibility, particularly through renting good quality new homes, a rising number of which are purpose built for tenants. ONS data indicates that growth in private rental prices in London was relatively modest at 0.4 per cent in the 12 months to December 2017. However Savills anticipate that as wages return to growth in the context of high employment, rents will grow at a faster rate.

There have been several changes to the buy-to-let tax regime in recent years, including a 3 per cent Stamp Duty Land Tax (SDLT) surcharge on second homes or investment properties, the gradual removal of mortgage interest tax relief, changes to capital gains tax and the introduction of mortgage affordability stress tests. These have caused individual UK investors to be more circumspect, although overseas investors have remained active in the market, with the depreciation of sterling since the EU referendum a favourable influence.

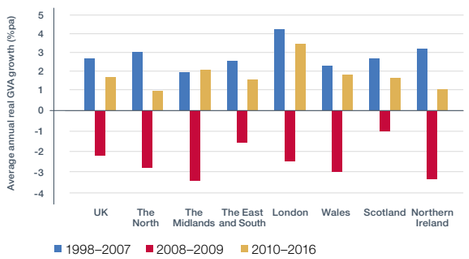
Any reduction in individual buy-to-let investor demand is more than compensated by a surge in institutional capital looking for long term investment in rental housing. According to professional services and investment management firm JLL, in 2017 London received total inward investment of over £25 billion, which was £14 billion more than any other global city. Due to a lack of housing supply and the increased demand for private rental homes more and more of this investment is being directed to residential property. This trend underpins the Group's strategy of focusing on build to rent developments in the coming years.

Outlook

There is a clear recognition across political parties of the urgent need to build more homes in the country overall, and specifically in London. Long-run trends in population growth and the cumulative impact of years of undersupply point to an ongoing need for high quality new homes at an affordable price for both purchase and rent. This market dynamic is driving the Group's desire to increase output and therefore to help address London's housing shortage over the coming years.

CHART 1

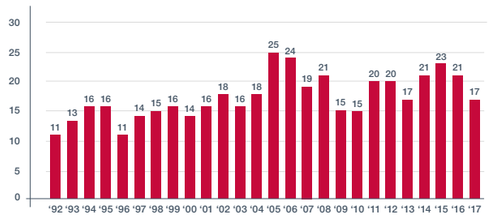
ECONOMIC GROWTH



Source: PwC analysis of ONS data

CHART 2

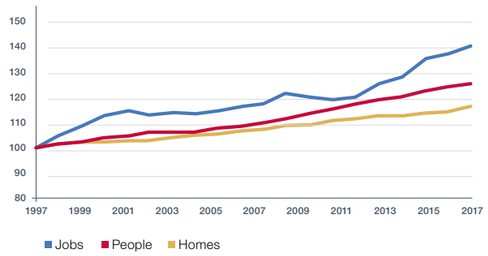
ANNUAL HOUSING STARTS IN LONDON ('000s)



Source: MHCLG

CHART 3

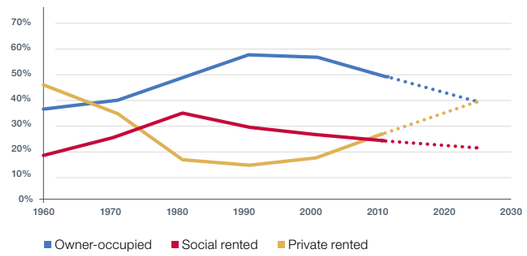
INDEXED TREND IN NUMBER OF JOBS, PEOPLE AND HOMES IN LONDON (1997=100)



Source: GLA

CHART 4

DECADAL TREND IN HOUSEHOLD TENURES, LONDON 1961–2011, WITH PWC PROJECTION TO 2025



Source: GLA

E15

NEW GARDEN QUARTER
STRATFORD E15

New Garden Quarter is a mixed use development of 471 new homes, over 10,000 sq.ft of commercial space and a new two acre public park.

CHIEF EXECUTIVE'S REVIEW

IT GIVES ME GREAT PLEASURE TO REPORT THAT TELFORD HOMES HAS ACHIEVED RECORD LEVELS OF REVENUE AND PROFIT ONCE AGAIN IN THE YEAR TO 31 MARCH 2018

Our substantial development pipeline and increasing expertise in the burgeoning London build to rent sector underpin our confidence for the future.

Performance

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

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

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

Market context and sales

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

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

> "THE STRENGTH OF OUR POSITION AND OUR ABILITY TO CAPITALISE ON THE EXCITING POSSIBILITIES AHEAD ARE A RESULT OF THE HARD WORK AND DEDICATION OF THE WHOLE TELFORD HOMES TEAM."

Jon Di-Stefano
Chief Executive

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

CHIEF EXECUTIVE'S REVIEW

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

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

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

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

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

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

E3

BOW GARDEN SQUARE
London E3

In a partnership with the housing association Poplar HARCA, Bow Garden Square is providing 109 mixed tenure homes, a new primary school, mosque and nursery.

N4

A significant development in North London comprising 355 apartments and 109,000 sq.ft of retail, leisure and office space adjacent to Finsbury Park station.

CHIEF EXECUTIVE'S REVIEW

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

Development pipeline

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

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

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

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

External market developments

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

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

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

CHIEF EXECUTIVE'S REVIEW

Build to rent also features in the new draft London Plan and the new draft National Planning Policy Framework, demonstrating that politicians recognise that it can be a core part of the solution to the housing shortfall.

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

Strategy

Our key objective is to develop the homes and create the places that London needs. We are making sound progress towards achieving our stated ambition to generate marked growth in pre-tax profits, and have made great strides in putting in place the internal structures and capabilities to support further growth in the coming years. Over the next few years we have the ability, the desire and the market opportunity to do far more in London than we are already doing. Our focus on the build to rent sector has helped us to broaden our geographical reach across London and it is the core of our current strategy if we are going to achieve our growth ambitions without taking excessive risk or needing additional equity capital. We also remain committed to driving our sustainability initiatives, and measuring our ability to deliver against our targets. We were delighted to be recognised as the most improved homebuilder in the 2017 NextGeneration sustainable housing benchmark report, moving up from seventeenth to sixth place in the rankings. The benchmark enables developers to understand the sustainability of their operations and the places and homes they build. The criteria are based on best practice standards and guidance, and are designed to be challenging and go beyond statutory requirements or standard practice. This progress recognises the ongoing development of our 'Building a Living Legacy' sustainability strategy and is a real achievement for a business of our size.

People and culture

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

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

Outlook

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

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

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

Jon Di-Stefano
Chief Executive
29 May 2018

N1

L&Q

THE PAVILIONS

A residential development of 156 new homes on a complex site. The homes have been sold to L&Q for build to rent and affordable housing.

FINANCIAL REVIEW

TELFORD HOMES HAS EXPERIENCED ANOTHER RECORD BREAKING YEAR FUELLED BY **HIGHER THAN EXPECTED MARGINS** IN A ROBUST MARKET ENVIRONMENT

Katie Rogers
Group Financial Director

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

Presentation of results and alternative performance measures

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

The Board has prepared an income statement and a balance sheet using proportional consolidation along with Generally Accepted Accounting Principles (GAAP) compliant versions presenting joint ventures as equity investments. The key performance indicators and other figures within this report include the Group's share of joint venture results. For further details, definitions and reconciliations of alternative performance measures see notes 2 and 22.

E15

STRATOSPHERE

A mixed use development in the heart of Stratford incorporating 341 new homes, office and retail space. It received an International Property Award 2017 for Best Residential High-Rise Development in the UK.

E14

The redevelopment of Poplar Business Park has delivered 195 homes and reprovided commercial space for Workspace Group Plc, close to Blackwall Reach DLR station and Canary Wharf.

FINANCIAL REVIEW

Operating results

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

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

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

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

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

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

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

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

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

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

FINANCIAL REVIEW

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

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

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

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

Finance costs

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

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

Dividend

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

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

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

Balance sheet

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

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

E15

A residential development of 181 homes located in the heart of Stratford overlooking the Queen Elizabeth Olympic Park and Westfield Stratford City.

FINANCIAL REVIEW

Forward sales

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

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

Borrowings

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

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

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

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

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

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

Katie Rogers
Group Financial Director
29 May 2018

SE16

A completed mixed use development incorporating 158 new homes, a primary school, a City of London sixth form academy and one of the longest roof terraces in London.

KEY PERFORMANCE INDICATORS

WE MONITOR PERFORMANCE AGAINST OUR STRATEGIC OBJECTIVES THROUGH THE FOLLOWING KPIs

For definitions of APMs see note 22

Profitability and efficiency		Definition	Why we measure it
Total profit before tax £46.0m	2018 £46.0m 2017 £34.1m 2016 £32.2m	Total profit before tax is defined as IFRS profit before tax plus the Group's share of profit before tax from its joint ventures.	Total profit before tax demonstrates the overall underlying profitability of the Group across all developments. This key metric is also used to determine Board and senior management bonuses.
Adjusted operating margin 16.7%	2018 16.7% 2017 13.4% 2016 15.0%	Adjusted operating margin is calculated as the total operating profit, adjusted for interest expensed through cost of sales, divided by total revenue, expressed as a percentage.	Adjusted operating margin demonstrates how efficiently the business is being operated.

Growth and risk		Definition	Why we measure it
Development pipeline £1.3bn	2018 £1.3bn 2017 £1.5bn 2016 £1.6bn	Development pipeline is defined as revenue under our control, including the Group's share of joint venture revenue, to be recognised in future years.	The availability of land is a key input to our business and we continually monitor our development pipeline to ensure we have sufficient land to deliver on our growth strategy.
Average open market price in development pipeline £539k	2018 £539k 2017 £527k 2016 £513k	This is the average revenue expected across all of the open market homes in the development pipeline.	The average open market price in our development pipeline measures how successful we have been in our aim of focusing on affordable non-prime locations when exposed to sales price risk.
Forward sales £344m	2018 £344m 2017 £546m 2016 £579m	Forward sales is calculated as revenue secured by exchange of contracts, including the Group's share of joint venture revenue, to be recognised in future years.	Forward sales measure the Group's exposure to risk and provide security over the Group's ability to service its debt facilities.
Gearing 44.6%	2018 44.6% 2017 7.0% 2016 9.3%	Gearing is calculated as net debt (borrowings less cash), including the Group's share of joint venture net debt, divided by net assets expressed as a percentage.	Gearing measures our exposure to debt risk and indicates the efficiency of the Group's capital structure.

Shareholder value		Definition	Why we measure it
Earnings per share ('EPS') 49.8p	2018 49.8p 2017 36.8p 2016 39.3p	EPS is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the Share Incentive Plan.	EPS measures returns generated for shareholders. This key metric is used to set targets and monitor performance under the Long Term Incentive Plan (LTIP) for the Board and senior management.
Dividend per share ('DPS') 17.0p	2018 17.0p 2017 15.7p 2016 14.2p	Dividend per share is the dividend paid per ordinary share.	The dividend per share is a measure of income returned to shareholders.

Operational		Definition	Why we measure it
Customer recommendation rate 100%	2018 100% 2017 99% 2016 99.5%	The percentage of customers returning an In House Research survey who would recommend Telford Homes to a friend.	Delivering high levels of customer satisfaction enhances our reputation and reduces the costs associated with rectifying poor quality work.
Accident frequency rate 0.11	2018 0.11 2017 0.12 2016 0.00	Accident Frequency Rate (AFR) is calculated as the number of injuries (RIDDOR) per year divided by the hours worked per year multiplied by 100,000. (RIDDOR = Reporting of Injuries, Diseases & Dangerous Occurrences Regulations)	Health and safety is a priority for Telford Homes. It is vital that we measure our ability to monitor and manage the health and safety impact of everything we do.
Employee retention rate 90%	2018 90% 2017 90% 2016 90%	Unplanned leavers in the year as a percentage of the average number of employees.	Retaining our employees is crucial in achieving our strategy and maintaining our strong culture and brand.
NextGeneration sustainability benchmark 6th	2018 6th 2017 17th 2016 20th	This benchmark enables homebuilders, Government, affordable housing providers, investors, employees and the public to understand the sustainability of homebuilders' operations and the new homes they build.	To demonstrate our sustainability performance within the 25 largest housebuilders in the UK.

PRINCIPAL RISKS AND UNCERTAINTIES

THE GROUP'S FINANCIAL AND OPERATIONAL PERFORMANCE IS SUBJECT TO A NUMBER OF RISKS

These risks are continually assessed by the Board to mitigate and minimise their impact on the business. There are also a number of risks which are outside of the Group's control. The principal risks facing the business are set out below.

Risk	Potential impact	Mitigation	Commentary
Attracting and retaining high-calibre employees	An inability to recruit and retain employees with appropriate skill sets can introduce cost, delays in bringing developments forward or quality issues. Increased employee turnover can create instability and uncertainty. Skills and experience lost are difficult to replace and loss of knowledge within the business can affect overall efficiency.	• The Group's Human Resources programme includes management trainee schemes, succession planning and training tailored to each discipline. • Remuneration packages are benchmarked against industry standards to ensure competitiveness. • Employee statistics including turnover and absence are monitored monthly. • Exit interviews and an annual employee engagement survey are used to identify any areas for improvement.	Skilled employees are critical to deliver the Group's growth strategy, improving key financial metrics and the continued delivery of attractive returns to shareholders.
Availability of materials and labour	The availability of materials and subcontracted labour for each site can affect both the length of 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 reduces the risk of delays. • Thorough tender process ensures that competitive rates are achieved on every trade. • Working in partnership with subcontractors and making timely payments to build mutually beneficial relationships. • Close monitoring of build cost inflation and appropriate provisioning, coupled with an early fixing of build costs where possible.	Brexit has introduced increased uncertainty around labour availability. The most recent negotiations with the EU appear to point to a degree of sense from both sides, but this is subject to any final agreement.
Cash requirements and bank finance	Significant initial outlays of capital supported by bank finance are required for property development. This is coupled with lengthy time periods before the majority of the cash inflows on each project. The availability of sufficient borrowing facilities is therefore critical to enable the servicing of liabilities.	• The Group maintains a detailed cash flow forecast which extends five years ahead and is subject to continual re-assessment and sensitivity analysis to ensure it is not operating beyond its financial capacity. • The cash flow position is reviewed by the Board and the Group's banking partners on a regular basis. • The Group has excellent relationships with its banking partners and has sufficient loan facilities to enable it to take advantage of appropriate land buying and operational opportunities. • Deposits received from forward selling properties provide a source of equity which can be reinvested in new sites. • The Group's increased focus on build to rent results in cash inflows earlier in the development cycle.	The Group has continued to invest in land and work in progress but still has substantial headroom within its new £210 million revolving credit facility available to achieve its growth aspirations. This facility extends to December 2022.

Risk	Potential impact	Mitigation	Commentary
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 the impact on repeat purchase and customer recommendation rates.	• The Group ensures that the right product and systems solutions are integrated early in the development lifecycle to minimise project risk. • The construction teams work very closely with the customer service team and quality reviews are performed at each stage of construction. • Customer surveys are conducted on handover of homes and results are analysed and acted upon.	The Group is an industry leader in the housebuilder customer recommendation rankings. Achieving a 100% recommendation rate emphasises its strong focus on both producing a quality product and looking after its customers.
Economic environment	Demand for the Group's homes from both investors and owner-occupiers is dependent on confidence in the economy and local housing markets. This confidence is heavily influenced by factors outside the Group's control such as interest rates, the availability and costs of mortgage finance, rental incomes, unemployment and increasing consumer costs for other goods and services. The wider economic impacts of the outcome of the EU referendum may also be felt by the housebuilding industry in future.	• The Group's policy is to sell early in the development process, where practical and possible, to minimise risk and the number of unsold units at practical completion. • Forward sales are being secured with housing associations and overseas and UK based buyers. Build to rent sales are also helping to give certainty to cash flow and earn higher capital returns.	The economic impacts of the outcome of the EU referendum will be monitored and mitigated where possible by the Board with the appropriate action being taken in a timely manner.
Health and safety	A deterioration in the Group's health and safety standards could put employees, contractors, site visitors or the general public at risk of injury or death and could lead to litigation or penalties and damage Telford Homes' reputation.	• Investment in training, the promotion of health and safety to all employees and extensive policies and procedures all contribute to ensure that high standards are maintained. • The Group has a dedicated Health and Safety team who conduct regular health and safety audits, augmented by an external advisor. • Processes and procedures are modified as required with a view to achieving continuous improvement.	Continued focus upon health and safety seeks to further reduce injury rates and manage the risks inherent in the construction process.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk	Potential impact	Mitigation	Commentary
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 Group's strong relationships with various land owners, including local authorities and affordable housing providers, plays a key role in our ability to acquire new sites. • A robust land appraisal process ensures each project is financially viable and consistent with the Group's strategy.	The Group has successfully added to its development pipeline in the last few months. This pipeline represents over 4,000 homes valued at £1.3 billion.
Planning process	Delays in achieving suitable planning permissions can 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.	• A planning and risk assessment is conducted prior to any land purchase. • Strong relationships are maintained with local authorities, planning officers and local communities to best understand their requirements, underlying policy and planning prospects. While this cannot remove planning risks it mitigates them as much as possible.	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.
Political environment	Changes in laws and regulations can have a direct impact on 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.	• The potential impact of changes in Government policy and new laws and regulations, such as potential changes to building regulations post the Grenfell fire tragedy in June 2017, are monitored and communicated throughout the business and operations are planned accordingly. • There is broad consensus amongst all main political parties that more needs to be done to improve the supply of new housing, which is a positive for the housebuilding industry.	The general election in June 2017 increased uncertainty in the short term, however the effect was relatively brief.
Sustainability	Failure to address sustainability issues could affect the Group's ability to acquire land, gain planning permission, manage its reputation effectively, and address the demand for sustainable living.	• 'Building a Living Legacy' is the Group's strategy to create places that will stand the test of time by making a positive long term contribution to London's local communities and the environment. It is underpinned by short to long term objectives that will ensure that sustainability risks are recognised and addressed. • To manage environmental risks, the Group has put in place an Environmental Management System that is accredited to BS EN ISO 14001:2004 and is audited bi-annually by the British Standards Institute.	As a responsible business, the Group has been working in innovative and sustainable ways for many years. Moving forward, it will continue to shape and develop its 'Building a Living Legacy' strategy.

E6

M&G REAL ESTATE

THE FORGE

A residential development of 192 homes. All the homes have been sold to M&G Real Estate for build to rent and East Thames for affordable housing.

OUR PEOPLE

OUR EMPLOYEES ARE AT THE HEART OF OUR BUSINESS AND WE CONSISTENTLY STRIVE TO ENSURE THEY HAVE THE OPPORTUNITY TO DEVELOP IN A JOB THEY ENJOY

We were named a Top 50 UK employer by Building magazine, where we were noted for our employee retention, leadership and overall employee satisfaction.

The Building Good Employer Guide 2017

Growth and change

We recognise that it's our people that make us different, and we strive to recruit, retain, engage and develop the best. We continue to encourage our unique and supportive culture, which we believe sets us apart from other housebuilders.

The year to 31 March 2018 was a year of growth and change for the Group. We welcomed 76 new employees into the business, equating to one quarter of our workforce. In an average day we have just over 1,600 people on our sites or at head office, of which just under 300 are directly employed and the remainder are employed by our subcontractor partners.

In addition to the new employees we are recruiting, we went through a restructure of the Group's operational departments to ensure the business was positioned well for future growth. The number, size and complexity of our projects has increased in recent years and we realised we needed to structure our operational teams in a different way. The changes to our structure will enable us to manage the growth of our business, ensuring everyone has the capacity to do their job well. The change has also created additional career opportunities for employees, whilst still maintaining our friendly and successful culture.

OUR PEOPLE VALUES

- STRONG AND CONSISTENT PERFORMANCE
- RESPECT FOR OTHERS
- TEAMWORK
- INTEGRITY AND COMMITMENT

Employee engagement

Despite the changes within our business last year, we are proud that we have maintained our unique culture. Our culture is built on some core 'Telford Homes behaviours', and last year we took all employees through a behaviours training session to ensure that everyone understood what our core behaviours look like in practice. Our behaviours now form an integral part of our induction, appraisal and performance processes and are a key consideration when assessing an individual for promotion.

We continue to report strong levels of employee retention, currently running at 90 per cent, unchanged from last year.

We carried out our second employee satisfaction survey in 2017 and overall satisfaction with Telford Homes as an employer increased to 98 per cent with the intention to be working for the Group in 12 months' time increasing to 95 per cent. These results truly reflect how hard we strive to create a great place to work. We had several great suggestions from employees on improvements to their working life at Telford Homes and as a result we are planning to launch a Loyalty Award Scheme amongst other initiatives.

> "WE ARE PROUD TO HAVE AN ABOVE INDUSTRY AVERAGE EMPLOYEE RETENTION RATE WHICH IS CURRENTLY RUNNING AT 90%."

EMPLOYEE LENGTH OF SERVICE

Less than 1 year	25%
1 to 5 years	36%
6 to 10 years	17%
More than 10 years	22%

2017 Employee survey results

Response rate	Employee satisfaction	Expect to work here next year	Recommend to others
83% 2017	98% 2017	95% 2017	99% 2017
85% 2016	96% 2016	91% 2016	98% 2016

DEVELOPMENT AND TRAINING

WE WANT EVERYONE AT TELFORD HOMES TO HAVE THE ABILITY TO **PROGRESS THEIR CAREER** AND WE ARE FOCUSED ON PROMOTING FROM WITHIN

Career development

Our growth in the last few years has created some fantastic opportunities for our employees to take on more senior roles and to develop with the business. Last year we carried out a succession planning exercise in our operations departments to identify those ready for the next step in their career. We also took the opportunity to define our hierarchy and revisit our job descriptions to give clarity to the different levels within the business. This enabled us to show our employees in a simple manner how they could work towards making the next step in their career with Telford Homes.

As a result of this work we have identified the need to develop the 'Telford Homes Academy'. This will ensure that our people have the right skills for the roles they carry out and the roles they are developing towards. There will be five programmes developed, one for each significant point in an individual's career.

We have already launched our 'Careers Under Construction' Trainee Programme and currently have 23 trainees within the business, of which 13 were recruited last year. The trainee scheme provides a structured and supportive programme that includes a two day induction that helps the new trainees settle in and get to know some of their colleagues, a workbook specific to their discipline and opportunities to experience other parts of the business. Last year six of our trainees successfully completed their programme and graduated. The trainee programme will form part of the new Telford Homes Academy which we expect to set up over the next two years.

Training

Over the last year, we delivered 750 training sessions, a substantial increase on the 149 sessions we delivered in the previous year. This equates to an average of three training days for each employee.

In the past year 14 people in the construction department have been working towards the achievement of an NVQ in Construction Management. To date, six people have completed their qualification and we expect the remaining eight to do so within the next six months.

As well as equipping Telford Homes employees with the skills they need, we are committed to working to address the skills shortage in the wider industry.

We encourage our subcontractors to offer apprenticeships, and also partner with local authorities such as Skillsmatch in Tower Hamlets to offer opportunities to young people. We are also investing in a Local Labour Manager to help our teams deliver their local labour commitments.

750

TRAINING SESSIONS DELIVERED OVER THE LAST YEAR

> "WE ARE DELIGHTED TO BE SETTING UP THE 'TELFORD HOMES ACADEMY'."

HEALTH AND SAFETY

THE HEALTH AND SAFETY OF EVERYONE INVOLVED IN OUR BUSINESS IS A VITAL CONSIDERATION IN EVERYTHING WE DO

This year our occupational health and safety performance was once again recognised by RoSPA when we received our ninth consecutive gold medal award.

2018
RoSPA
Gold Medal Award

Policies and procedures

The Board actively promotes a positive health and safety culture within the business and ensures that this is reflected in all of our policies and procedures, as well as in our approach to the training and development of the people involved in our operations. Health and safety is the first agenda item at monthly Board meetings.

Our comprehensive set of policies and procedures cover all of our operations. They 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 to ensure work is undertaken safely and with due regard for people's health.

We also require our supply chain partners to employ competent people and encourage their continuing professional development. We expect the highest health and safety standards from each supplier, and this is a key consideration when awarding contracts. We monitor our suppliers on an ongoing basis and take the necessary steps to ensure they meet our high expectations.

The Group's Health and Safety Management System is accredited to BS OHSAS 18001:2007 and during 2018–19 we will be migrating to ISO45001:2018.

Our Health and Safety team currently has three qualified Institution of Occupational Safety and Health practitioners who provide advice across the Group and play a vital part in reviewing and developing our health and safety procedures. This is further enhanced by our Executive Health and Safety Committee and our Operational Health and Safety Forum, whose members are senior construction managers with extensive industry experience. Collectively they are instrumental in driving best practice, sharing initiatives and ensuring that we are conversant with any changes in working practices or regulations.

John Fitzgerald remains the Board director with overall responsibility for health and safety.

Training

Telford Homes operates in an industry where competent people with up to date qualifications, standards and knowledge are vital to the safe and successful operation of the business.

The Board views training, particularly through apprenticeships and our trainee programme, as an essential investment in the future of the Group and the construction industry more broadly. We also offer subsidised training to our contractors specifically for their employees, often at no cost to our partners.

We invest in a rigorous health and safety training programme to ensure that all employees have the appropriate skills and knowledge, and these are evaluated in the context of their role and prospective changes to the external environment. The needs of new employees are carefully assessed to identify and address their specific requirements.

Performance

The year to 31 March 2018 has been our busiest on record, with over 3.5 million person hours worked (2017: 2.55 million). There were just four reportable injuries (RIDDOR)[1] during the period, resulting in an Accident Frequency Rate (AFR)[2] of 0.11 (2017: 0.12). The construction industry average AFR for the year to 31 March 2017 was 0.28.

We carefully monitor the nature of all accidents and incidents to ensure we learn from them, and adjust our training requirements and procedures accordingly. The majority of our accidents this year arose from simple behavioural failings of the people involved and we are continuing with our behavioural focused training programmes to make people aware of these basic mistakes and the impacts they can have.

This year our occupational health and safety performance was once again recognised by the Royal Society for the Prevention of Accidents (RoSPA) when we received our ninth consecutive gold medal award. These awards and the BSI certification are recognition of the very high standard of the Group's overall approach to health and safety.

Summary

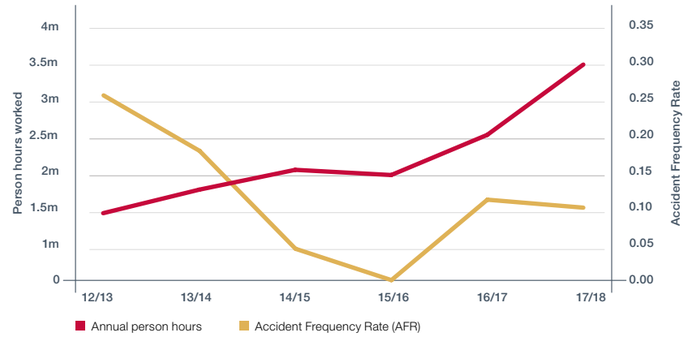
Although our health and safety performance in the year has been excellent, we continue to strive for improvement by being proactive. We will ensure that, as the business continues to grow, we have the systems in place to train new employees and suppliers in our health and safety culture, policies and procedures.

We remain confident that our comprehensive procedures and investment in training mean that the Group is doing everything possible to minimise health and safety risks as a result of its activities, now and in the foreseeable future.

PERSON HOURS WORKED
3.5m

ACCIDENT FREQUENCY RATE
0.11

bsi. OHSAS 18001 Occupational Health and Safety Management
OHS 55229



1. Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
2. AFR = $\frac{\text{injuries (RIDDOR) per year}}{\text{hours worked per year}} \times 100{,}000$

SUSTAINABILITY

WE ARE COMMITTED TO CREATING A LEGACY OF HIGH QUALITY SUSTAINABLE HOMES AND PLACES

Built by passionate people and strong relationships, our ambition of significantly increasing our output of homes is underpinned by a philosophy of operating responsibly and efficiently. As a result, economic, social and environmental principles are central to our business strategy and guide our day-to-day activities and actions.

Our strategy

To reinforce our commitment to operating in a sustainable way we launched our 'Building a Living Legacy' (BLL) sustainability strategy in 2016. It underpins our commitment to creating places that stand the test of time and we are dedicated to making a positive long term contribution to London's built environment.

Under the strategy, we have developed a Living Legacy framework to help manage our four priority areas and supporting targets, where we believe we can have the greatest positive impact.

building a
LIVING
LEGACY

Identifying our priorities

2017 marks the second year of reporting our sustainability performance against our BLL strategy and for the first time we are publishing a separate Sustainability Report to fully communicate our progress.

We believe our brand purpose of 'developing the homes and creating the places that London needs' aligns with the longer term desire of national and local politicians and all other stakeholders. In the short to medium term, we believe we are well positioned to grow Telford Homes in a sustainable manner. During 2018, we will undertake a materiality review to look beyond our current BLL strategy to 2030.

In the Sustainability Report we fully explain the positive progress we have made during the last year against the objectives we had set ourselves. In addition, during the reporting period, we commenced the measurement and monitoring of a range of new objectives to fast track our BLL strategy.

We were absolutely delighted to be recognised as the most improved homebuilder according to the 2017 NextGeneration sustainable housing benchmark report, which also saw the Group obtain a Silver Level award.

Engaging with our stakeholders

Creating a positive legacy by enabling community networks and promoting strong stakeholder relationships is a key principle in what we do.

Project teams engage with stakeholders throughout the development life cycle to help enrich existing communities.

Strong governance

Overseen by the Board, our BLL Steering Committee meets quarterly to provide high level sustainability governance and ensure the strategy is being successfully implemented.

The Chief Executive chairs the Committee, which is made up of senior level representatives from across all business functions.

The Committee is further assisted by departmental champions who support various related working parties and forums, including our Innovation Forum.

For more information on our sustainability progress, download our Building a Living Legacy Sustainability Report 2018:
www.telfordhomes-ir.london

		PROGRESS AGAINST 2017 TARGETS	STATUS	HIGHLIGHTS		
LIVING LEGACY	Creating thriving places that enable people to live sustainable lifestyles	• Trial the Living Legacy development framework on one new project • Develop a Living Legacy toolkit	✓ ✓	**22** DESIGN & QUALITY AWARDS IN 2017–18	**80%** SUPPLY CHAIN SPEND IS WITH SMALL AND MEDIUM SIZED ENTERPRISES	**£51m** SUPPLY CHAIN SPEND WITH BUSINESSES REGISTERED IN LONDON BOROUGHS
BALANCED RESOURCES	Making our money work harder through efficient use of resources across our business	• Align our procurement policy with 'Building a Living Legacy' objectives • Set targets to reduce water consumption	✓ ✓	**13.7%** REDUCTION IN OUR SITE CO_2e INTENSITY	**90%** OF WASTE DIVERTED FROM LANDFILL	**16%** REDUCTION OF WATER USAGE IN NEW HOMES
CREATIVE BUILDING SOLUTIONS	Collaborating with our partners to identify innovative building techniques and deliver the homes of the future	• Present a yearly review of innovative sustainable building solutions to design teams	✓	**13%** SPEND INVESTED IN MODERN METHODS OF CONSTRUCTION	**44%** REDUCTION IN CO_2 IN NEW HOMES	**100%** NEW BUILD SCHEMES BENEFIT FROM LOW CARBON OR RENEWABLE TECHNOLOGIES
SMART BUSINESS	Investing in people and relationships to ensure we deliver lasting value for all stakeholders	• Ensure all our staff complete our 'Building a Living Legacy' induction • Integrate employee wellbeing questions into our staff survey	✓ ✓	**6th** OVERALL MOST IMPROVED NEXTGENERATION SUSTAINABLE HOUSEBUILDER	**90%** EMPLOYEE RETENTION	**100%** DIRECT EMPLOYEES PAID LONDON LIVING WAGE

GOVERNANCE

BOARD OF DIRECTORS

Andrew Wiseman BA (Hons), FCMA

Chairman

Andrew Wiseman, together with close colleagues, founded Telford Homes Plc in December 2000 following 10 years with Furlong Homes Plc. 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 January 2012 when he became Chairman, Andrew positioned the Group as a partner of affordable housing providers as well as a first-class developer of open market homes.

He is also a Strategic Board member of Optivo, which is one of the largest London Housing Associations, following its creation by the merger of Amicus Horizon with Viridian in 2017.

Jon Di-Stefano MA (Econ), ACA

Chief Executive

Jon Di-Stefano joined Telford Homes in 2002 and was appointed as Chief Executive in July 2011. Jon has overseen a prolonged period of business growth resulting in significant increases in reported profits and shareholder value. Supported by the rest of the Board he has overall responsibility for the strategic direction of the Group including the land buying strategy, the increased focus on build to rent, the approach to risk management and all other long term business planning. Jon is also responsible for managing relationships with the Group's shareholders and other significant stakeholders.

In September 2017 Jon was appointed as a Non Executive Director and member of the Audit Committee of Urban&Civic plc.

John Fitzgerald FRICS, ICIOB

Group Managing Director

John Fitzgerald joined Telford Homes in 2003 and was first appointed as Board Director in March 2004. In his current role as Group Managing Director he is responsible for operations across the business including construction, health, safety and sustainability. John has recently overseen the internal restructuring of the Group's operations. He has been influential in developing the joint venture relationships with the Group's partners.

John began his career in 1987 with Willmott Dixon Construction followed by Willmott Dixon Housing and has 30 years' experience in construction and housebuilding. He sits on the Leadership board of the Home Building Skills Partnership.

David Campbell

Group Sales & Marketing Director

David Campbell joined Telford Homes in November 2011 and was appointed as Group Sales & Marketing Director in April 2012. He is responsible for all residential and commercial property sales, along with customer relationships and customer service.

David has over 30 years' experience, 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. He brings a wide appreciation of the development process and the importance of strategic planning for long term complex projects.

Katie Rogers BA (Hons), ACA

Group Financial Director

Katie Rogers joined Telford Homes Plc in 2007 and was appointed as Group Financial Director in July 2011. As well as leading and managing the finance team for the Group, she is responsible for long term profit forecasts and for maintaining ongoing relationships with the Group's banking partners.

In 2017 Katie secured a £210 million five year revolving credit facility with a club of banks and in 2016 secured a £110 million joint venture facility with LaSalle Investment Management. Together with Jon Di-Stefano, Katie also develops and maintains relationships with institutional investors and build to rent investors. She has overall responsibility for delivering the Group's build to rent strategy.

Jerome Geoghegan BA (Hons)

Group Land & Planning Director

Jerome Geoghegan joined Telford Homes in January 2018 and was appointed to the Board in February 2018. Jerome has been working in residential development for over 25 years and for the past 20 years was at the L&Q Group, most recently as the Executive Director of Development and Sales.

Prior to that he was at East Thames Housing Group. Jerome led on the significant and successful growth of L&Q, delivering substantial volumes of new homes through regeneration and placemaking. He also led on creating their own construction arm and acquiring and overseeing a strategic land business. He is responsible for the Group's land buying strategy, land acquisition and maintaining key partnerships.

Frank Nelson

Non Executive Director, Chairman of the Audit Committee and Senior Independent Director

Frank Nelson joined the Board of Telford Homes in January 2015. Frank is a qualified accountant, and he has over 25 years' experience in the housebuilding, infrastructure and energy sectors. He was Finance Director of the housebuilding and construction group Galliford Try plc from 2000 until 2012. He was previously Finance Director of Try Group Plc from 1987, leading the Company through its flotation in 1989 and subsequent merger with Galliford.

He is presently Senior Independent Director at McCarthy and Stone Plc, Eurocell Plc and HICL Infrastructure. Frank also acts as an advisor to certain private businesses.

Jane Earl

Non Executive Director and Chairman of the Remuneration Committee

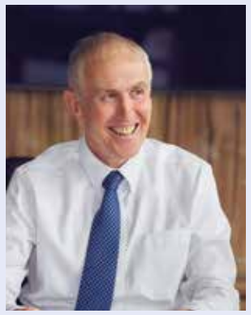
Jane Earl joined the Board of Telford Homes in February 2016. Jane holds a degree in law and has a broad range of experience as a Non Executive Director, following a career in central and local Government.

Jane is currently Non Executive Board member of Vivid Housing Association, where she chairs the Remuneration and Nominations Committee. Previous Non Executive positions include Spektrix, the Planning Inspectorate and the Valuation Office Agency. Her executive roles included Director of the Asset Recovery Agency and Chief Executive of Wokingham Unitary Council. Jane was latterly Chief Executive of Rich Mix Cultural Foundation in Tower Hamlets.

■ Audit Committee ■ Remuneration Committee

CORPORATE GOVERNANCE REPORT

Introduction from our Chairman



I have pleasure in introducing the Corporate Governance Report which sets out our approach to governance and provides information on how the Board of directors and its committees operate.

As an AIM listed company, we recognise the importance of applying sound governance principles in the successful running of the Group. Although not required to do so, we have sought to embrace the principles contained in the UK Corporate Governance Code (2016) where appropriate.

We are mindful of the changes to the governance requirements for AIM listed companies and given the size and nature of the Company and composition of the Board we intend, in so far as is practical and appropriate, to formally adopt and adhere to the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies (the QCA Code) and will report accordingly in our next annual report.

The role and composition of the Board

The Company and Group are managed by a Board of directors (the Board) chaired by Andrew Wiseman. 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 Board to make informed decisions to properly discharge their duties. A formal schedule of matters reserved for the Board's approval was adopted as at 31 March 2018 and will be reviewed annually. These include matters relating to:

- the Group's strategic aims and objectives;
- the structure and capital of the Group;
- financial reporting, financial controls and dividend policy;
- internal control, risk and the Group's risk appetite;
- the approval of significant contracts and expenditure; and
- any changes to Board membership and structure.

The Board currently consists of six Executive Directors and two Independent Non Executive Directors. David Durant and James Furlong resigned from the Board on 1 February 2018. Jerome Geoghegan was appointed Group Land and Planning Director on 1 February 2018.

Both the Non Executive Directors are considered by the Board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement in accordance with the QCA Code.

The Board believes it is appropriate to have a Senior Independent Non Executive Director and Frank Nelson fulfils this role. Frank Nelson is available to shareholders where concerns have not been resolved through the normal channels of communication with the Board and for when such contact would be inappropriate.

The Board has sufficient members to contain the appropriate balance of skills and experience to effectively operate and control the business. No one individual has unfettered powers to make decisions.

The roles of the Chairman and the Chief Executive are separate, with their roles and responsibilities clearly divided and set out in writing. The Chairman's main responsibility is the leadership and management of the Board and its governance. He meets regularly and separately with the Chief Executive and the Non Executive Directors to discuss matters for the Board.

The Chief Executive is responsible for the leadership and day-to-day management of the Group. This includes formulating and recommending the Group's strategy for Board approval in addition to executing the approved strategy.

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.

The Chief Executive's review, included in this annual report, provides 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.

The Board meets regularly, at least 12 times a year and more frequently if necessary. In addition to this the Board attends an annual strategy meeting.

The following table shows directors' attendance at scheduled Board and committee meetings during the year:

Name	Board	Audit	Remuneration
Andrew Wiseman	12/12	–	–
Jon Di-Stefano	12/12	–	–
Katie Rogers	12/12	–	–
David Campbell	11/12	–	–
John Fitzgerald	11/12	–	–
Jerome Geoghegan[1]	2/2	–	–
David Durant[2]	5/8	–	–
James Furlong[3]	7/8	–	–
Frank Nelson	11/12	3/3	4/4
Jane Earl	11/12	3/3	4/4

1 Jerome Geoghegan joined the Board 1 February 2018.

2 David Durant resigned from the Board 1 February 2018.

3 James Furlong resigned from the Board 1 February 2018.

Board committees

The Board has an Audit Committee and a Remuneration Committee to oversee and consider issues of policy outside main Board meetings. The Board does not consider it necessary to have a separate Nominations Committee and any future recommendations for appointments to the Board will be considered by the Board as a whole.

Each of the Audit and Remuneration Committee has written terms of reference setting out its duties, authority and reporting responsibilities, copies of which are available on the Company's website (www.telfordhomes-ir.london).

During the year, the Chairman of each committee provided the Board with a summary of key issues considered at the committee meetings. Board committees are authorised to engage the services of external advisers as they deem necessary in the furtherance of their duties at the Company's expense. Details concerning the composition and meetings of the committees are contained in the Audit Committee Report on pages 56 to 57 and the Remuneration Committee Report on pages 58 to 65.

Board effectiveness

The skills and experience of the Board are set out in their biographical details on pages 50 to 51. The skills, experience and knowledge of each director gives them the ability to constructively challenge strategy and decision making and scrutinise performance.

Induction of new directors

New directors are given a full induction to the Group, tailored to the existing knowledge and experience of the director concerned, so as to ensure that they can properly fulfil their role and meet their responsibilities.

Time commitments

The Board has determined that the time commitment of Non Executive Directors should be 24 days per annum. The time commitment for Non Executive Directors is set out in the relevant Non Executive Directors letter of appointment. In practice, the Non Executive Directors exceed the minimum time commitment through their involvement in all aspects of the business.

CORPORATE GOVERNANCE REPORT

Continued development

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.

Performance evaluation

The Board intends to conduct an evaluation of its own performance and that of its principal committees during 2018. The effectiveness of the Board and its committees will be kept under review in accordance with corporate governance best practice.

Conflicts of interest

The Company's Articles of Association provide for the Board to authorise any actual or potential conflicts of interest. The Board considers directors' conflicts of interest at each meeting.

Independent professional advice

Directors have access to independent professional advice at the Company's expense. In addition, they have access to the advice and services of the Company Secretary who is responsible to the Board for advice on corporate governance matters.

Election of directors

In accordance with the Company's Articles of Association, Andrew Wiseman and David Campbell will retire and offer themselves for re-election at the Annual General Meeting (AGM). Jerome Geoghegan, who was appointed since the last AGM, will be put forward for election.

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 Group 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 AGM. All Board members present at the AGM are available to answer questions from shareholders. Notice of the AGM is in excess of 21 clear days 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 controls

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.

There is an ongoing process for identifying, evaluating and managing the Group's significant risks and this has been in place for the period ended 31 March 2018 and up to the date of approval of the annual report and accounts and 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 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.

Andrew Wiseman
Chairman
29 May 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Strategic report

The strategic report for the Group, including a fair review of the Group, a description of the principal risks and uncertainties facing the Group, the development and performance of the Group during the financial year, the Group's position at the financial year end and an analysis of the Group's key performance indicators, can be found from pages 4 to 47.

The strategic report has been reviewed and signed off by the Board of directors.

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 Parent 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 and the Company 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 IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and 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.

Each of the directors, whose names and functions are listed on pages 50 to 51 confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; and
- the report of the directors and strategic report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.

The directors consider that the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and the Company's performance, business model and strategy.

AUDIT COMMITTEE REPORT

Statement from the Chairman of the Audit Committee

I am pleased to present the Audit Committee Report for 2018. This report provides shareholders with an overview of the activities carried out by the Committee during the year.

The Committee is responsible for ensuring that the financial performance of the Group is properly measured and reported on. Its role includes monitoring the integrity of the financial statements (including annual and interim accounts and results announcements), reviewing any changes to accounting policies, reviewing and monitoring the extent of the non-audit services undertaken by external auditors, advising on the appointment of external auditors and meeting with external auditors without management present.

Members of the Audit Committee

The Committee consists of two independent Non Executive Directors: myself (as Chairman) and Jane Earl. Other members of the Board may attend Committee meetings by invitation if required. During the period the Committee met three times with the external auditors being in attendance on all occasions and the Non Executive Directors met separately with the external auditors twice.

Duties

The main duties of the Audit Committee for the year commencing 1 April 2018 are set out in its Terms of Reference, which were approved and adopted at year end and can be found at www.telfordhomes-ir.london. It is intended that these will be kept under continuous review to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice.

The main items of business considered by the Audit Committee during the year included:

- review of the financial statements and annual report;
- consideration of the external audit report and management representation letter;
- going concern review;
- review of the 2018 audit plan;
- review of suitability of the external auditor;
- consideration of the impact of new accounting standards including guidance by the Financial Reporting Council (FRC);
- approval of the response letter to the FRC's Conduct Committee;
- review of the interim results;
- assessment of the need for an internal audit function; and
- meeting with the external auditor without management present.

Role of the external auditor

The Audit Committee monitors the relationship with the external auditor, PricewaterhouseCoopers LLP, to ensure that auditor independence and objectivity are maintained. As part of its review the Committee monitors the provision of non-audit services by the external auditor. The breakdown of fees between audit and non-audit services is provided in note 1 of the Group's financial statements. The non-audit fees relate to tax advice for the Group. Having reviewed the auditor's independence and performance, the Committee recommends that PricewaterhouseCoopers LLP be reappointed as the Group's auditor at the next AGM.

AUDIT COMMITTEE REPORT

External audit process

The external auditor prepares an audit plan for its review of the full year financial statements. The audit plan sets out the scope of the audit, areas to be targeted and audit timetable. This plan is reviewed and agreed in advance by the Committee. Following the audit, the auditor presented their findings to the Audit Committee for discussion. No major areas of concern were highlighted by the auditor during the year, however, areas of significant risk and other matters of audit relevance are regularly communicated.

Financial Reporting Council

The Group received a letter from the Financial Reporting Council's Conduct Committee on 23 January 2018, which informed us that they had carried out a review of the annual report for the year ended 31 March 2017 and had identified one question with regards to the accounting treatment of construction services provided to joint ventures. This was subsequently responded to and the accounting treatment approved, with further disclosure around this area included in the accounting policies. This matter has now been brought to a satisfactory conclusion. The FRC also raised a number of disclosure matters which, if material, should be considered in the annual report for the year ended 31 March 2018. The Committee is satisfied that these matters have been considered and additional disclosures included in the accounts if appropriate.

Internal audit

At present the Group does not have an internal audit function and the Committee believes that management is able to derive assurance as to the adequacy and effectiveness of internal controls and risk management procedures without one.

Whistleblowing

The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters.

Approval

This report was approved by the Board on 29 May 2018 and signed on its behalf by:

Frank Nelson
Chairman of the Audit Committee

REMUNERATION COMMITTEE REPORT

Statement from the Chairman of the Remuneration Committee

I am pleased to present the Remuneration Committee Report for 2018, which sets out the remuneration earned and paid to the Directors in the year ended 31 March 2018.

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 this report for the year as a matter of best practice.

The Committee operates under a defined set of Terms of Reference, which were approved and adopted at year end and which can be found at www.telfordhomes-ir.london. It is intended that these will be kept under continuous review to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice.

The annual report on remuneration provides details of the amounts earned in respect of the year ended 31 March 2018 and how the directors' remuneration policy will be operated for the year commencing 1 April 2018.

The annual report on remuneration, detailed on pages 62 to 65, is subject to an advisory shareholder vote at the 2018 AGM.

Review of the year to 31 March 2018

During the year, the Committee worked to embed the new Annual Bonus Scheme and Long Term Incentive Plan (LTIP) as the primary incentive mechanism. The first awards under the LTIP were granted following shareholder approval at the 2017 AGM. As described earlier in the annual report the Group has performed well during the year, delivering record total revenue of £316.2 million and total profit before tax of £46.0 million. Consequently, the Executive Directors earned an annual cash bonus equivalent to 64.63 per cent of salary and in addition to this will continue to be paid their deferred annual bonus this year and over the next two years in line with the historic Deferred Annual Bonus Scheme rules.

The Committee remains committed to a fair and responsible approach to executive pay whilst ensuring it remains in line with best practice and appropriately incentivises Executive Directors over the longer term to deliver the Group's strategy. The Board remains focused to ensuring that the Company retains and develops the talents needed to deliver on its growth targets.

Accordingly, 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.

Outlook for the year to 31 March 2019

- A key focus will be the new governance requirements for AIM listed companies and how these will be applied.
- It is intended that an annual review of the effectiveness of the Committee by both the Board and Committee itself will be undertaken. The initial review is to be conducted during the year.
- Salary increases for 2019 will be considered in December 2018, applicable from 1 January 2019 and will be fully disclosed and explained in next year's report.

On behalf of the Board

Jane Earl

Chairman of the Remuneration Committee

29 May 2018

Directors' remuneration policy

This section sets out the directors' remuneration policy. The Committee considers the remuneration policy annually to ensure that it continues to underpin the Group's strategy. The policy set out below applies for three years from the 2017 AGM.

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; and
- ensure that an appropriate proportion of the package is determined by targets linked to the Group's performance.

Executive Directors' remuneration policy

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 100.	Not subject to performance measures, in line with HMRC guidance.

REMUNERATION COMMITTEE 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.	The Company has adopted a new bonus scheme. Awards are based on annual performance. Pay-out levels are determined by the Committee after the year end based on performance against targets. The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance. Any bonus earned is paid in cash.	The maximum annual bonus opportunity is 70 per cent of base salary.	Performance measures are set annually and aligned with key financial,strategic and/or personal targets. Currently 100 per cent of the bonus is based on total profit before tax (PBT) performance. Stretching targets are required for maximum pay-out.
LTIP	To drive and reward the achievement of longer term objectives, support retention and promote share ownership for Executive Directors.	The Company has adopted a new LTIP. Awards can be made over conditional shares and/ or nil cost or nominal cost share options. Vesting will be subject to the achievement of specified performance conditions over a period of three years. Awards may be subject to malus provisions at the discretion of the Committee.	The normal maximum LTIP opportunity is 100 per cent of salary in respect of a financial year. 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.	Relevant performance measures are set that reflect underlying business performance. For awards granted in 2017, the vesting of awards will be subject to three year cumulative EPS targets. Stretching targets are required for maximum pay-out.

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 total 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 63.
- 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 (ESOP). Outstanding options detailed on page 64 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 Chief Executive. 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 may include a basic fee and additional fees for further responsibilities (for example Chairman of the Remuneration and Audit Committee). Fees are paid in cash.	Non Executive Directors do not receive any benefits or pension contributions. Travel and other reasonable expenses incurred in the course of performing their duties are reimbursed.

Details of current Executive Directors' contracts

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.

Details of letters of appointment and notice periods for Non Executive Directors

Non Executive Directors have letters of appointment for an initial period of three years subject to termination on three months' notice.

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.

REMUNERATION COMMITTEE REPORT

Annual report on remuneration

Remuneration

The directors' emoluments for the year ended 31 March 2018 are as follows:

Name	Salary & fees	Deferred Annual Bonus Scheme*	Annual Bonus Scheme	Benefits	Pension	Total 2018	Total 2017
Executive Directors							
Andrew Wiseman	103,875	62,750	–	19,810	10,387	196,822	256,270
Jon Di-Stefano	332,500	97,791	214,879	35,951	33,250	714,371	604,855
David Campbell	239,000	97,791	154,453	12,675	23,900	527,819	486,450
David Durant[1]	124,967	80,391	78,842	10,992	12,497	307,689	328,530
John Fitzgerald	239,000	97,791	154,453	18,316	23,900	533,460	497,437
James Furlong[2]	47,438	4,584	–	17,308	–	69,330	132,913
Jerome Geoghegan[3]	47,935	–	50,000	2,756	4,793	105,484	–
Katie Rogers	239,000	97,791	154,453	14,143	23,900	529,287	373,474
Non Executive Directors							
Jane Earl	59,120	–	–	–	–	59,120	55,500
Frank Nelson	62,800	–	–	–	–	62,800	56,250
	1,495,635	**538,889**	**807,080**	**131,951**	**132,627**	**3,106,182**	**2,791,679**

* The amounts paid under the Deferred Annual Bonus Scheme were earned in previous years and released in line with the rules of the scheme. For further details see page 63.

1 David Durant resigned from the Board on 1 February 2018.

2 James Furlong resigned from the Board on 1 February 2018.

3 Jerome Geoghegan joined the Board on 1 February 2018. He was awarded a one-off joining bonus of £50,000. He will join the LTIP and Annual Bonus Scheme from 1 April 2018.

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 for each director from 1 January 2018 is set out below.

Name	2018
Andrew Wiseman	106,500
Jon Di-Stefano	340,000
David Campbell	245,000
John Fitzgerald	245,000
Jerome Geoghegan	245,000
Katie Rogers	245,000

Annual bonus

A new annual bonus scheme was adopted from 1 April 2017 and replaced the Deferred Annual Bonus Scheme applicable from 1 April 2013 to 31 March 2017. An element of bonus paid in the current year relates to the Deferred Annual Bonus Scheme. Details of all bonuses earned and paid out for each director is set out below:

Deferred Annual Bonus Scheme

Eligible participants are listed in the table below.

	Deferred bonus brought forward	Amount paid during the year	Deferred bonus carried forward
Andrew Wiseman	116,583	(62,750)	53,833
Jon Di-Stefano	205,084	(97,791)	107,293
David Campbell	205,084	(97,791)	107,293
David Durant	159,231	(80,391)	78,840
John Fitzgerald	205,084	(97,791)	107,293
James Furlong	5,834	(4,584)	1,250
Katie Rogers	205,084	(97,791)	107,293

The above bonus amounts paid in the year relate to the Deferred Annual Bonus Scheme which ended in 2017 and under which no further amounts can be earned. 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 was 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 carried forward will be released and paid over the next two years in line with the scheme rules.

Annual Bonus Scheme

Eligible participants are listed in the table below.

	Earned and paid in the year
Jon Di-Stefano	214,879
David Campbell	154,453
David Durant	78,842
John Fitzgerald	154,453
Katie Rogers	154,453

The above bonus amounts earned and paid in the year relate to the Annual Bonus Scheme which came into effect on 1 April 2017. David Durant earned the amount stated above for his participation in the Annual Bonus Scheme from 1 April 2017 until his resignation from the Board on 1 February 2018. Under this bonus scheme performance measures are set annually and aligned with key financial, and strategic targets. Currently 100 per cent of the bonus is based on total PBT performance with stretching targets required for maximum pay-out.

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.

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.

REMUNERATION COMMITTEE REPORT

Directors' interests in shares and share options

Directors' interests in shares of the Company at 31 March 2018 and movements in the year are listed below.

	At 31 March 2017 Number	Share Incentive Plan Number	Forfeited SIP Number	Market acquisitions and disposals Number	At 31 March 2018 Number
Andrew Wiseman	2,328,927	2,997	–	(125,000)	2,206,924
Jon Di-Stefano	406,651	2,995	–	–	409,646
David Campbell	44,369	1,193	–	1,500	47,062
John Fitzgerald	112,513	2,383	–	–	114,896
Jerome Geoghegan	–	–	–	–	–
Katie Rogers	129,228	2,390	–	–	131,618
Jane Earl	1,048	–	(545)	6,342	6,845
Frank Nelson	29,463	–	(1,105)	–	28,358

These interests include shares purchased under the Telford Homes Share Incentive Plan (SIP) which all employees, including Executive 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 18 to the financial statements. Frank Nelson and Jane Earl as Independent Non Executive Directors no longer participate in the SIP.

The share options held by the directors in the Telford Homes Plc ESOP and LTIP at 31 March 2018 and the movements during the year then ended were as follows:

	Company scheme	31 March 2017 Number	Granted during the year	Exercised in year Number	31 March 2018 Number	Exercise price	Dates exercisable
Jon Di–Stefano	ESOP unapproved	60,000	–	–	60,000	75p	1 Oct 2005 to 1 Oct 2018
	ESOP unapproved	100,000	–	–	100,000	90.5p	9 Feb 2015 to 9 Feb 2022
	LTIP	–	80,498	–	80,498	Nil	14 Jul 2020 to 14 Jul 2027
Katie Rogers	LTIP	–	57,812	–	57,812	Nil	14 Jul 2020 to 14 Jul 2027
David Campbell	ESOP unapproved	67,000	–	–	67,000	90.5p	9 Feb 2015 to 9 Feb 2022
	ESOP approved	33,000	–	–	33,000	90.5p	9 Feb 2015 to 9 Feb 2022
	LTIP	–	57,812	–	57,812	Nil	14 Jul 2020 to 14 Jul 2027
John Fitzgerald	ESOP approved	33,000	–	–	33,000	90.5p	9 Feb 2015 to 9 Feb 2022
	LTIP	–	57,812	–	57,812	Nil	14 Jul 2020 to 14 Jul 2027

In total the share-based payments charge in respect of directors' share options was £139,000 (2017: £nil).

Composition of the Remuneration Committee

The Remuneration Committee comprises the independent Non Executive Directors, namely 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 four times to enable full consideration to be given to the decisions required regarding the new bonus structure and LTIP.

The Chairman, Chief Executive 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 did not receive any external advice.

Implementation of directors' remuneration policy for the financial year commencing 1 April 2018

Information on how the Company intends to implement the directors' remuneration policy for the financial year commencing on 1 April 2018 is set out below:

Salaries and fees

Salaries for the Executive Directors and fees for the Non Executive Directors will be reviewed in December 2018 and will be disclosed in the annual report on remuneration 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 maximum bonus opportunity for Executive Directors will be 70 per cent of base salary subject to achieving stretched total PBT targets.

To achieve maximum pay-out, total PBT is required to exceed target PBT by at least 10 per cent. If total PBT is more than 20 per cent under target PBT, 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 release of final results for 12 months ended 31 March 2018. 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 by at least 10 per cent. If cumulative EPS is more than five per cent below EPS target, no LTIP awards vest.

Approval

This report was approved by the Board on 29 May 2018 and signed on its behalf by:

Jane Earl

Chairman of the Remuneration Committee

DIRECTORS' REPORT

The directors present their report together with the audited consolidated financial statements for the year ended 31 March 2018. The Corporate Governance Report on pages 52 to 54 forms part of this report.

Principal activity

Telford Homes is an AIM listed public limited company incorporated and domiciled in the United Kingdom. The principal activity of the Group is property development.

Result and dividend

Profit after income tax for the year ended 31 March 2018 was £37,415,000 (2017: £27,519,000).

The directors recommend a final dividend of 9.0 pence per ordinary share which, together with the interim dividend of 8.0 pence paid on 12 January 2018, make a total of 17.0 pence for the year (2017: 15.7 pence).

Going concern

The Group's business activities, together with factors likely to affect its future development and performance, are set out in the Chief Executive's review on pages 18 to 25 and the management of risks and uncertainties affecting the Group are set out on pages 36 to 39. The financial position of the Group, its cash flows and borrowing facilities are described in the Financial review on pages 26 to 33. In addition note 21 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

Based on shareholder analysis as at 15 May 2018 and as far as the Company is aware, the following represents interests in excess of three per cent in its ordinary share capital:

	Number of shares held	Percentage
Hargreaves Lansdown (Stockbrokers)	5,753,940	7.62
Octopus Investments	5,451,285	7.22
Interactive Investor	4,670,896	6.19
Investec Wealth and Investment	3,421,068	4.53
Barclays Smart Investor	2,413,756	3.20

Telford Homes Trustees Ltd holds 2,084,497 shares (2.76 per cent) and includes shares held on behalf of employees under the Share Incentive Plan (note 18).

Directors

Details of the directors of the Company are shown on pages 50 to 51.

Andrew Wiseman and David Campbell retire by rotation at the next AGM and, being eligible, offer themselves for re-election. Jerome Geoghegan was appointed to the Board on 1 February 2018 and, being eligible, offers himself for election at the next AGM.

Directors' interests

The directors' interests in the Company's shares and options over ordinary shares are shown on page 64.

Directors' and Officers' liability insurance

The Company maintains appropriate directors' and officers' liability insurance in respect of itself and its directors and officers. The directors may also be indemnified in accordance with the Company's Articles of Association and to the maximum extent permitted by law, although no such indemnities are currently in place. The insurance does not, and any indemnities if granted would not, provide cover where the relevant director or officer has acted fraudulently or dishonestly.

Share capital

As at 31 March 2018, the Company's share capital consisted of 75,516,000 issued and fully paid ordinary shares with a nominal value of 10 pence per share. The holders of ordinary shares are entitled to one vote per share at the meetings of the Company.

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 18.

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 £77,000 for the year ended 31 March 2018 (2017: £73,000). These donations were made to a number of different charities supporting a broad range of good causes.

Disclosure of information to auditor

Each of the directors who held office at the date of approval of this report confirms that, so far as he or she is aware, there is no relevant audit information of which the Company's external auditor is unaware and that he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's external auditor is aware of that information.

External auditor

PricewaterhouseCoopers LLP has expressed willingness to continue in office as external auditor and as such a resolution to reappoint them will be proposed at the forthcoming AGM.

Annual General Meeting

The AGM will be held at the registered office at Telford House, Queensgate, Britannia Road, Waltham Cross, Hertfordshire on 12 July 2018 at 12.30pm.

By order of the Board

Monique Woudberg
Company Secretary
29 May 2018

KEY MANAGEMENT INFORMATION

KEY MANAGEMENT INFORMATION

GROUP INCOME STATEMENT

INCLUDING PROPORTIONAL SHARE OF JOINT VENTURE RESULTS

31 MARCH 2018

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

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

The Group's joint ventures are an integral part of the business and all developments are treated consistently within the business whether wholly owned or partially owned in a joint venture structure. In addition, the proportion of results generated from joint ventures will fluctuate year to year depending on the timing of developments.

As such the Board believes that the financial results presented in this way are the most appropriate for assessing the true underlying performance of the business. A reconciliation between the key management information income statement and balance sheet and Generally Accepted Accounting Principles (GAAP) compliant information, accounting for joint ventures under IFRS 11 as equity investments, is included in note 2 of the financial statements. The key management information presented in this way is deemed to be an alternative performance measure. For further details on alternative performance measures, including further definitions and reconciliations, see note 22.

GROUP BALANCE SHEET

INCLUDING PROPORTIONAL SHARE OF JOINT VENTURE RESULTS

31 MARCH 2018

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

FINANCIAL STATEMENTS

GROUP INCOME STATEMENT

31 MARCH 2018

	Note	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Total revenue	1	**316,241**	**291,921**
Less share of revenue from joint ventures		(21,460)	(25,946)
Revenue	1	**294,781**	**265,975**
Cost of sales		(220,026)	(208,966)
Gross profit		**74,755**	**57,009**
Administrative expenses		(24,055)	(20,727)
Selling expenses		(5,706)	(4,143)
Share of results of joint ventures	9	2,443	4,634
Operating profit	1	**47,437**	**36,773**
Finance income	4	773	90
Finance costs	4	(1,902)	(2,231)
Profit before income tax		**46,308**	**34,632**
Income tax expense	5	(8,893)	(7,113)
Profit after income tax		**37,415**	**27,519**
Earnings per share:			
Basic	7	49.8p	36.8p
Diluted	7	49.4p	36.6p

All activities are in respect of continuing operations.

GROUP STATEMENT OF COMPREHENSIVE INCOME

31 MARCH 2018

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

BALANCE SHEET

31 MARCH 2018

		Group		Company	
	Note	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
Non current assets					
Goodwill	8	289	289	–	–
Investments	9	–	–	23,037	23,037
Investments in joint ventures	9	54,259	47,554	–	1
Property, plant and equipment	10	2,471	1,272	2,471	1,272
Trade and other receivables		–	100	–	100
Deferred income tax assets	11	–	–	191	–
		57,019	49,215	25,699	24,410
Current assets					
Inventories	12	300,008	287,652	230,006	266,851
Trade and other receivables	13	57,853	38,288	154,271	79,847
Cash and cash equivalents	14	12,808	38,629	11,638	36,882
		370,669	364,569	395,915	383,580
Total assets		**427,688**	**413,784**	**421,614**	**407,990**
Non current liabilities					
Trade and other payables	15	(1,268)	(1,527)	(901)	(1,277)
Financial liabilities	22	(360)	(1,096)	(360)	(1,096)
Deferred income tax liabilities	11	(193)	(323)	–	(110)
		(1,821)	(2,946)	(1,261)	(2,483)
Current liabilities					
Trade and other payables	15	(77,891)	(149,516)	(78,829)	(148,712)
Borrowings	16	(112,259)	(53,805)	(112,259)	(53,805)
Financial liabilities	22	(200)	–	(200)	–
Current income tax liabilities		(4,426)	(3,232)	(4,087)	(3,043)
		(194,776)	(206,553)	(195,375)	(205,560)
Total liabilities		**(196,597)**	**(209,499)**	**(196,636)**	**(208,043)**
Net assets		**231,091**	**204,285**	**224,978**	**199,947**
Capital and reserves					
Issued share capital	17	7,551	7,529	7,551	7,529
Share premium		108,178	107,395	108,178	107,395
Retained earnings		115,362	89,361	109,249	85,023
Total equity		**231,091**	**204,285**	**224,978**	**199,947**

The Company made a profit after income tax for the year of £35,465,000 (2017: £23,594,000).

These financial statements were authorised for issue by the Board of directors on 29 May 2018 and signed on its behalf by:

Jon Di-Stefano
Chief Executive

Katie Rogers
Group Financial Director

Company number: 4118370

STATEMENT OF CHANGES IN EQUITY

31 MARCH 2018

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

Company statement of changes in equity	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 April 2016	**7,485**	**106,423**	**72,649**	**186,557**
Profit for the year	–	–	23,594	23,594
Total other comprehensive expense	–	–	(204)	(204)
Excess tax on share options	–	–	(5)	(5)
Dividend on equity shares	–	–	(11,135)	(11,135)
Proceeds of equity share issues	44	972	–	1,016
Share-based payments	–	–	255	255
Purchase of own shares	–	–	(860)	(860)
Sale of own shares	–	–	729	729
Balance at 31 March 2017	**7,529**	**107,395**	**85,023**	**199,947**
Profit for the year	–	–	35,465	35,465
Total other comprehensive income	–	–	434	434
Excess tax on share options	–	–	43	43
Dividend on equity shares	–	–	(12,383)	(12,383)
Proceeds of equity share issues	22	783	–	805
Share-based payments	–	–	455	455
Purchase of own shares	–	–	(726)	(726)
Sale of own shares	–	–	763	763
Members distribution from joint ventures	–	–	175	175
Balance at 31 March 2018	**7,551**	**108,178**	**109,249**	**224,978**

CASH FLOW STATEMENT

31 MARCH 2018

	Group		Company	
	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Cash flow from operating activities				
Operating profit	47,437	36,773	45,605	31,927
Depreciation	906	599	906	599
Share-based payments	455	255	455	255
Profit on sale of property, plant and equipment	(2)	(20)	(2)	(20)
(Increase) decrease in inventories and work in progress	(8,145)	(46,525)	40,958	(31,832)
Increase in receivables	(19,465)	(6,726)	(74,827)	(21,244)
(Decrease) increase in payables	(73,150)	44,953	(71,406)	45,190
Share of results from joint ventures	(2,443)	(4,634)	–	–
	(54,407)	24,675	(58,311)	24,875
Interest paid and debt issue costs	(6,393)	(3,898)	(6,295)	(3,898)
Income tax paid	(7,385)	(6,511)	(7,223)	(6,415)
Dividend received from subsidiaries	–	–	–	800
Cash flow from operating activities	**(68,185)**	**14,266**	**(71,829)**	**15,362**
Cash flow from investing activities				
Distribution from joint ventures	20,016	12,045	175	–
Investment in joint ventures	(24,781)	(9,308)	–	(17)
Purchase of property, plant and equipment	(2,105)	(387)	(2,105)	(387)
Proceeds from sale of property, plant and equipment	2	20	2	20
Consideration paid for business combination	–	(3,556)	–	(3,556)
Interest received	773	90	54	90
Cash flow from investing activities	**(6,095)**	**(1,096)**	**(1,874)**	**(3,850)**
Cash flow from financing activities				
Proceeds from issuance of ordinary share capital	805	1,016	805	1,016
Purchase of own shares	(726)	(860)	(726)	(860)
Sale of own shares	763	729	763	729
Increase in bank loans	60,000	15,000	60,000	15,000
Dividend paid	(12,383)	(11,135)	(12,383)	(11,135)
Cash flow from financing activities	**48,459**	**4,750**	**48,459**	**4,750**
Net (decrease) increase in cash and cash equivalents	**(25,821)**	**17,920**	**(25,244)**	**16,262**
Cash and cash equivalents brought forward	38,629	20,709	36,882	20,620
Cash and cash equivalents carried forward	**12,808**	**38,629**	**11,638**	**36,882**

STATEMENT OF ACCOUNTING POLICIES

31 MARCH 2018

Basis of preparation

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRS) including International Accounting Standards (IAS) and IFRS Interpretations Committee (IFRS IC) 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 (GAAP) 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' on page 81.

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

Joint ventures are an integral part of the business and the Board has included an income statement and a balance sheet using proportional consolidation for the results of joint ventures within the Group's financial statements. These are presented in addition to the GAAP compliant versions of the income statement and balance sheet which present joint ventures as equity investments. For further information see notes 2 and 22.

Accounting policies

The accounting policies set out on these pages 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 and its subsidiaries and the Group's share of results of joint ventures. The results of subsidiaries and joint ventures 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.

Joint ventures

A joint venture 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. Joint ventures are accounted for using the equity method of accounting. Under this method, the Group's share of post-tax results of joint ventures are included in the Group's operating profit in the consolidated income statement and its interest in their net assets is included within investments in the consolidated balance sheet.

As joint ventures are an integral part of the business, total revenue, including the Group's share of joint venture revenue, is presented on the face of the income statement and reconciled to revenue which is the GAAP compliant revenue amount.

The Company provides construction services to its joint ventures on an agency basis, effectively acting as a paying agent charging on construction costs to the relevant joint venture with no mark-up. No revenue or costs are recognised by the Company in respect of these re-billing transactions. A management fee is charged for this service and a consolidation adjustment is included in the Group accounts to remove the Company's share of management fee earned.

Revenue and profit recognition

Properties for open market sale

Revenue and profit is recognised at the point of legal completion of each property. Revenue is the contract price of each property net of any incentives and profit is calculated based on an assessment of the overall revenues and costs expected on that particular development. The assessment of total revenues and total costs expected on each development requires a degree of estimation although in the majority of cases, at the point of handover of open market properties, the development will be nearing completion and therefore profits are more certain.

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 and the risks and rewards of the construction transfer to the customer over time. These contracts can be for the construction of open market homes sold under build to rent contracts or 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 proportion of overall cost basis. Where variations are received, these are recognised as revenue by reference to the stage of completion of contract activity at the balance sheet date, these variations are not normally material to the Group.

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 interests

Revenue and profit are recognised at the point of legal completion of each freehold interest sale.

Management fees

Management fees in relation to construction services provided to its joint ventures are recognised as revenue, as earned, within the income statement.

Selling expenses

Selling expenses are charged to the income statement as incurred.

Employee benefits

In accordance with IAS 19 employee benefits are recognised as an expense in the period they are earned by the employee. Under the Group's Deferred Annual Bonus Scheme applicable from 1 April 2013 to 31 March 2017 for Executive Directors and senior management, there is a deferred element to be paid in future years. This deferred element is recognised as an expense over the remaining period dependant on the employees' continued service.

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 relating 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 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.

Hedge accounting – interest rate swaps

The Group has adopted hedge accounting for its interest rate swaps designated as cash flow hedges. The hedge is used to mitigate financial exposure to movements in interest rates. Changes in intrinsic fair value are recognised in other comprehensive income to the extent that the cash flow hedge is determined to be effective. All other changes in fair value are recognised immediately in the income statement. The hedged item is the London Interbank Offered Rate (LIBOR) element of a variable rate bank loan. The accumulated gains and losses previously recognised in other comprehensive income are classified into the income statement as a financial expense over the life of the loan. This has the effect of fixing the LIBOR element of the interest rate recognised in the income statement to the hedge rate over the life of the swap. The effectiveness of the hedge is tested prospectively and retrospectively on an annual basis.

STATEMENT OF ACCOUNTING POLICIES

31 MARCH 2018

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

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the consideration transferred over the fair value of net assets acquired. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the cash-generating unit (CGU) containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Investments

Interests in subsidiary undertakings and joint ventures are valued at cost less impairment.

Business combinations

The Group accounts for business combinations on the date control is transferred to the Group and applies the acquisition method of accounting for business combinations. The identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at the fair value at the acquisition date. Acquisition related costs are expensed as incurred.

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. The cost of these interests are estimated at initial recognition on the basis of a multiple of annual ground rents and are not subsequently revalued. These are held for future sale.

Planning costs

Planning costs are capitalised and recognised as an asset in work in progress when there is probable future economic benefit expected to arise from those costs.

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.

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.

Land creditors

Land creditors are recognised at the point the Group has a commitment to purchase land and all substantive contractual conditions have been satisfied. The liability is initially valued at fair value and discounted to present value. Subsequently the difference between the nominal value and the initial fair value is amortised over the length of the payment period and charged to inventory, increasing the value of the land creditor so that at the date of maturity the land creditor equals the payment required. The Group charges the unwinding of the fair value to inventory as it will be undertaking activities that are necessary to prepare the asset for its intended use, when in the rare situation this is not the case, this charge is expensed.

Deposits received in advance

Deposits received on exchange of contracts of open market properties are included 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 12 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 12 months from the balance sheet date.

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

Construction contract accounting is applied to affordable and build to rent contracts which can contribute significantly to revenue and profits in a financial year. As such, judgements and estimations required as part of contract accounting can have an impact on profit recognised in each financial year and the timing profile of total profit recognised on each site.

Judgement

Contract revenue is recognised from the date of exchange of construction contracts, and once there is reasonable certainty that all conditions will be met. Judgement is required to assess the level of certainty around these conditions to ensure management is satisfied they will be met. Revenue is then recognised 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.

STATEMENT OF ACCOUNTING POLICIES

31 MARCH 2018

Estimation

Assessing the percentage complete on each contract involves estimation of the total expected costs to be incurred until the end of the contract. Forecasting the total expected costs includes making assumptions regarding construction costs including cost inflation. The earlier in the development programme, the greater the level of estimation required. Due to the Group's experience, internal expertise and close relationships with subcontractors, it is able to ensure these estimates are as accurate as possible. Recognition of profit also involves estimation of the total expected revenues from each site and therefore the expected profit margin that will be achieved. The expected profit margins for individual sites are updated on a regular basis and are reviewed by the Board as part of established controls procedures. Estimation is required to assess whether the total eventual profit on each contract can be foreseen with reasonable certainty.

Carrying value of land and work in progress

Estimation

Inventories include land and work in progress in respect of development sites. On each development estimation is required to assess whether the cost of land and any associated work in progress is in excess of its net realisable value (see note 12).

Future adoption of new and revised Standards and Interpretations

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 2018 and have not been adopted early.

The following EU endorsed standards are expected to impact the Group.

IFRS 15 'Revenue from contracts with customers' will be effective for the Group for the year ending 31 March 2019. The application of the standard remains subject to industry interpretation and consensus.

The Group has already identified that there will be an impact on the timing of recognition of some selling expenses which are currently expensed as incurred but in accordance with IFRS 15 will need to be capitalised and expensed as cost of sales in line with the revenue recognised for the relevant contract. This will result in reserves being restated by £1,777,000 at 31 March 2018.

Based on further assessment by the Group, the standard is not considered to have an impact on the Group's open market sales, revenue from which will continue to be recognised on legal completion.

Revenue from contracts for the construction of open market homes sold under build to rent contracts or for the construction of affordable homes sold to affordable housing providers is not expected to be impacted significantly. The new standard allows for recognition over time, from the date at which it is considered that the customer controls the asset, which is the Group's current practice. The Group consider the asset to be controlled by the customer from the date of exchanging contracts.

To determine progress towards satisfying these contracts and thus the timing and proportion of revenue to be recognised, the new standard allows for revenue to be recognised based on the entity's resources consumed relative to total resources expected to be consumed. The Group consider land to be a key resource consumed in order to satisfy these contracts and as such will be included when determining the proportion of revenue to be recognised.

The nature of the individual contracts will need to be assessed as they are entered into, however, if the standard were to be applied to the Group's financial statements for the year ended 31 March 2018 , it would not have an impact on the revenue reported by the Group.

IFRS 16 'Leases' is expected to impact the accounting for leases currently recognised as operating leases. This would apply to the Group's property lease for its office premises and motor vehicle leases which will be recognised on the balance sheet. The Group continues to assess other potential impacts of the standard, as such it is not practical to provide an estimate of the full impact of IFRS 16 until the Group has completed its assessment.

The following standard is relevant to the Group but is not expected to have a material impact.

Amendments to IFRS 2, 'Share-based payments' classification and measurement of share-based payment transactions.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2018

1 Operating profit

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Operating profit is stated after charging (crediting):		
Depreciation – owned assets	906	599
Operating lease rentals – property	614	475
– motor vehicles	633	699
Profit on sale of property, plant and equipment	(2)	(20)

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £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	107	96
The audit of joint ventures and subsidiary accounts pursuant to legislation	18	17
Other services including non-audit services (PricewaterhouseCoopers LLP)		
Tax compliance services	33	34
Interim review	20	20
All other non-audit services	25	14

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.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2018

1 Operating profit continued

Revenue

Our accounting policies for revenue recognition on open market sales, construction contracts and freehold assets are outlined on pages 78 and 79. The revenue recognised in the year was as follows:

Year ended March 2018	GAAP £000	Add share of joint ventures £000	Non-GAAP £000
Open market revenue	225,133	–	225,133
Contract revenue	65,462	21,318	86,780
Freehold sales	740	–	740
Other	3,446	142	3,588
Revenue	294,781	21,460	316,241
Share of revenue from joint ventures	21,460	(21,460)	–
Total revenue	**316,241**	**–**	**316,241**

Year ended March 2017	GAAP £000	Add share of joint ventures £000	Non-GAAP £000
Open market revenue	158,880	–	158,880
Contract revenue	100,898	25,728	126,626
Freehold sales	4,850	–	4,850
Other	1,347	218	1,565
Revenue	265,975	25,946	291,921
Share of revenue from joint ventures	25,946	(25,946)	–
Total revenue	**291,921**	**–**	**291,921**

2 Segmental reporting

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

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

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

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

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3 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 2018 Number	Year ended 31 March 2017 Number
Construction	110	106
Administration	155	132
	265	**238**

The employment costs of all employees included above were:

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Wages and salaries	20,351	18,039
Social security costs	2,403	2,120
Other pension costs – group personal pension arrangements	835	743
Share-based payments (note 18)	455	255
	24,044	**21,157**

The Company operates a group personal pension scheme for its employees. At 31 March 2018 payments of £109,937 were due to the scheme (2017: £88,118).

Six current directors are accruing benefits under group personal pension arrangements (2017: six).

Key management remuneration

Key management personnel, as defined under IAS 24 (Related Party Disclosures), have been identified as the Board of directors as all key decisions are reserved for the Board (2017 includes Company Secretary). These figures include the full remuneration of key management personnel during the year.

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Wages and salaries (including bonuses)	2,656	2,909
Social security costs	351	384
Other pension costs	133	145
Share-based payments	139	–
	3,279	**3,438**

Detailed disclosures of directors' individual remuneration, pension entitlement and share options for those directors who served in the year are given in the tables in the directors' remuneration report on pages 62 to 63 and therefore are not repeated here, but form part of this note.

4 Finance income and costs

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Finance income		
Interest income on short term bank deposits	12	54
Other interest income	761	36
	773	90
Finance costs		
Interest payable on bank loans and overdrafts	(1,288)	(1,608)
Amortisation of facility fees	(614)	(623)
	(1,902)	(2,231)
Net finance costs	**(1,129)**	**(2,141)**

Further information on borrowings is given in note 21.

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5 Taxation

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
United Kingdom corporation tax on profits for the year	9,148	6,616
Adjustment in respect of prior periods	(48)	14
Total current taxation	9,100	6,630
Deferred taxation (note 11)	(207)	483
Income tax expense	**8,893**	**7,113**

In addition to the amount charged to the income statement, deferred tax of £77,000 relating to share-based payments and financial instruments hedged has been charged directly to equity and £19,000 relating to current tax have been credited directly to equity (2017: £45,000 charged and £76,000 credited).

Reconciliation of effective tax rate

The tax assessed for the year is higher (2017: higher) than the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities. The differences are explained below:

Profit before income tax	46,308	34,632
Profit on ordinary activities before taxation at the rate of corporation tax	8,799	6,926
Effects of:		
Joint ventures results reported net of tax	234	247
Losses not recognised	–	1
Adjustment in respect of prior periods	(48)	14
(Additional expenses deductible) expenses not deductible for tax purposes	(90)	56
Tax effect of share-based payments	22	–
Tax relief on land remediation costs	(24)	(27)
Adjustment to losses carried forward	–	(74)
Profits taxable at deferred tax rate	–	(30)
Income tax expense	**8,893**	**7,113**

The applicable tax rate was 19.0% (2017: 20.0%).

Deferred tax expected to reverse in the year to 31 March 2019 has been measured using the effective rate that will apply in the United Kingdom for the period of 19% (2017: 19%).

A reduction to the United Kingdom corporation tax rate has been announced reducing the rate by 2% to 17% from 1 April 2020. The change has not been substantially enacted at the balance sheet date and therefore has not been recognised in these financial statements. The impact of the proposed change is not expected to be material to the Group.

6 Dividend paid

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

The final dividend proposed for the year ended 31 March 2018 is 9.0 pence per ordinary share. This dividend was declared after 31 March 2018 and as such the liability of £6,800,000 has not been recognised at that date.

7 Earnings per share

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

Earnings per share have been calculated using the following figures:

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

8 Goodwill

	Group £000	Company £000
Net carrying amount at 1 April 2016	304	–
Impairment of goodwill	(15)	–
Net carrying amount at 31 March 2017	289	–
Impairment of goodwill	–	–
Net carrying amount at 31 March 2018	**289**	**–**

Goodwill arose during the year ended 31 March 2016 as a result of the acquisition of the regeneration business from United House Developments (UHD). The total consideration on acquisition was £18,562,000 compared to the net assets acquired of £18,258,000 resulting in goodwill of £304,000.

Impairment of goodwill in the year ended 31 March 2017 was a result of a change in the tax rate at which deferred tax is recognised on the fair value of the net assets acquired.

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9 Investments

Company

Investments in subsidiary undertakings

	2018 £000	2017 £000
At 31 March valued at cost	**23,037**	**23,037**

On 27 November 2017 a new wholly owned subsidiary, Equipment Works Limited, formerly Telford Homes (Brentford) Limited, was incorporated to acquire and develop a site in Walthamstow. There have been no other additions or disposals of investments in subsidiary undertakings during the year ended 31 March 2018.

The significant subsidiary undertakings 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
Island Gardens Limited	100%	England	31 December	Property development
Telford Homes Regeneration Developments Holdings Limited	100%	England	31 March	Property development
Telford Homes Balfron Towers Limited	100%	England	31 December	Property development
Telford Homes City North Limited	100%	England	31 March	Property development
Telford Homes Chrisp Street Limited	100%	England	31 December	Property development
Chrisp Street Developments Limited	100%	England	31 March	Property development
Gallions Limited	100%	England	31 March	Property development
Equipment Works Limited	100%	England	30 November	Property development

The directors have taken advantage of the exemption available under Section 479A of the Companies Act 2006 relating to the requirement for the audit of individual accounts for the Group's subsidiary undertakings.

Investments in joint ventures

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
At 31 March valued at cost	54,259	47,554	–	1

Investments in joint ventures

The joint ventures 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
Chobham Farm North LLP	50%	England	31 March	Property development
St Leonards Developments LLP	50%	England	31 December	Property development
City North (Telford Homes) Limited	50%	England	31 March	Property development
Armada 1 South Development LLP	50%	England	31 March	Property development
Gallions 2B Development LLP	50%	England	31 March	Property development

There have been no material additions or disposals of investments in joint ventures during the year ended 31 March 2018.

A full list of subsidiary undertakings and joint ventures not disclosed within this note are included on page 109.

Investments in joint ventures are accounted for under the equity method. The financial information of the joint ventures are summarised below and reconciled to the Group balance sheet.

Year ended 31 March 2018	Armada 1 South Development LLP £000	Gallions 2B Development LLP £000	Chobham Farm North LLP £000	St Leonards Developments LLP £000	City North (Telford Homes) Ltd £000	Total £000
Revenue	11,863	–	29,977	480	1,137	43,457
Operating profit (loss)	2,463	(2)	3,666	478	115	6,720
Finance income	–	–	–	471	10	481
Finance expense	–	–	–	–	(3,107)	(3,107)
Profit (loss) before tax	2,463	(2)	3,666	949	(2,992)	4,084
Income tax credit	–	–	–	–	538	538
Current assets	13,780	1,758	50,053	11,057	77,721	154,369
Cash	1,395	–	189	38	312	1,934
Current liabilities trade and other payables	(14,445)	(436)	(13,916)	(28)	(19,800)	(48,625)
Current liabilities other	–	–	–	–	(10,104)	(10,104)
Amounts due from (to) members	1,733	(1,324)	(22,874)	(8,778)	(11,255)	(42,498)
Net assets (liabilities)	2,463	(2)	13,452	2,289	36,874	55,076
Remove joint venture partners share of (net assets) liabilities	(1,232)	1	(6,726)	(1,144)	(18,437)	(27,538)
Remove share of amounts due (from) to joint venture partners	(866)	662	11,437	4,389	5,627	21,249
Remove pre-acquisition reserves	–	–	–	–	1,551	1,551
Consolidation adjustments	2,181	(1)	(384)	(465)	2,590	3,921
Investments in joint ventures	**2,546**	**660**	**17,779**	**5,069**	**28,205**	**54,259**

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2018

9 Investments continued

Year ended 31 March 2017	Armada 1 South Development LLP £000	Gallions 2B Development LLP £000	Chobham Farm North LLP £000	St Leonards Developments LLP £000	City North (Telford Homes) Ltd £000	Other £000	Total £000
Revenue	–	–	48,494	840	2,503	–	51,837
Operating profit	–	–	9,865	838	498	36	11,237
Finance income	–	–	–	189	13	4	206
Finance expense	–	–	(1)	–	(2,184)	–	(2,185)
Profit (loss) before tax	–	–	9,864	1,027	(1,673)	40	9,258
Income tax credit	–	–	–	–	213	–	213
Current assets	7,742	362	47,186	5,397	58,279	88	119,054
Cash	–	–	5	–	2,055	350	2,410
Current liabilities trade and other payables	(5,580)	–	(4,011)	(2)	(15,865)	(132)	(25,590)
Current liabilities other	–	–	–	–	(1,881)	–	(1,881)
Amounts due to members	(2,162)	(362)	(33,396)	(4,055)	–	(4)	(39,979)
Net assets	–	–	9,784	1,340	42,588	302	54,014
Remove joint venture partners share of net assets	–	–	(4,892)	(670)	(21,294)	(151)	(27,007)
Remove share of amounts due to joint venture partners	1,081	181	16,698	2,028	–	2	19,990
Remove pre-acquisition reserves	–	–	–	–	1,551	–	1,551
Consolidation adjustments	2,389	–	129	(16)	(3,494)	(2)	(994)
Investments in joint ventures	**3,470**	**181**	**21,719**	**2,682**	**19,351**	**151**	**47,554**

The financial information above for joint ventures is presented after having been aligned to the Group's accounting policies.

The Group has received distributions from joint ventures of £175,000 for the year ended 31 March 2018 (2017: £nil).

After removing the share of joint ventures not owned by the Group and consolidation adjustments, the share of results of joint ventures figure included in the Group income statement for the year ended 31 March 2018 is £2,443,000 (2017: £4,634,000).

10 Property, plant and equipment

Group and Company	Leasehold improvements £000	Plant and machinery £000	Motor vehicles £000	Total £000
Cost				
At 1 April 2016	1,303	2,144	68	3,515
Additions	232	155	–	387
Disposals	(70)	(43)	(68)	(181)
At 31 March 2017	1,465	2,256	–	3,721
Additions	984	1,121	–	2,105
Disposals	(271)	(2,088)	–	(2,359)
At 31 March 2018	**2,178**	**1,289**	**–**	**3,467**
Depreciation				
At 1 April 2016	477	1,488	65	2,030
Charge	170	427	2	599
Disposals	(70)	(43)	(67)	(180)
At 31 March 2017	577	1,872	–	2,449
Charge	199	707	–	906
Disposals	(271)	(2,088)	–	(2,359)
At 31 March 2018	**505**	**491**	**–**	**996**
Net book value				
At 31 March 2017	888	384	–	1,272
At 31 March 2018	**1,673**	**798**	**–**	**2,471**

Authorised capital expenditure that was contracted, but not provided for, in these financial statements amounted to £nil (2017: £314,000).

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11 Deferred income tax

	Group		Company	
Group and Company	**31 March 2018 £000**	**31 March 2017 £000**	**31 March 2018 £000**	**31 March 2017 £000**
Deferred tax assets	635	595	496	519
Deferred tax liabilities	(828)	(918)	(305)	(629)
Deferred tax (liabilities) assets	**(193)**	**(323)**	**191**	**(110)**

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:

	Group		Company	
	31 March 2018 £000	**31 March 2017 £000**	**31 March 2018 £000**	**31 March 2017 £000**
Brought forward	(323)	190	(110)	492
Credited (charged) to the income statement	207	(483)	378	(557)
Charged directly to equity	(77)	(45)	(77)	(45)
Recognised through goodwill	–	15	–	–
	(193)	**(323)**	**191**	**(110)**

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

Group	**Capital allowances £000**	**Share-based payments £000**	**Financial instrument transactions £000**	**Losses carried forward £000**	**Fair value adjustments £000**	**Other temporary differences £000**	**Total £000**
At 1 April 2016	28	294	170	2	(304)	–	190
Credited (charged) to the income statement	11	2	–	74	–	(570)	(483)
(Charged) credited directly to equity	–	(82)	37	–	–	–	(45)
Recognised through goodwill	–	–	–	–	15	–	15
At 31 March 2017	39	214	207	76	(289)	(570)	(323)
Credited to the income statement	30	17	–	63	–	97	207
Credited (charged) directly to equity	–	24	(101)	–	–	–	(77)
At 31 March 2018	**69**	**255**	**106**	**139**	**(289)**	**(473)**	**(193)**

Company	**Capital allowances £000**	**Share-based payments £000**	**Financial instrument transactions £000**	**Losses carried forward £000**	**Fair value adjustments £000**	**Other temporary differences £000**	**Total £000**
At 1 April 2016	28	294	170	–	–	–	492
Credited (charged) to the income statement	11	2	–	–	–	(570)	(557)
(Charged) credited directly to equity	–	(82)	37	–	–	–	(45)
At 31 March 2017	39	214	207	–	–	(570)	(110)
Credited to the income statement	30	17	–		–	331	378
Credited (charged) directly to equity	–	24	(101)	–	–	–	(77)
At 31 March 2018	**69**	**255**	**106**	**–**	**–**	**(239)**	**191**

The cumulative net deferred tax credited directly to equity amounts to £322,000 (2017: £399,000).

12 Inventories

	Group		Company	
	31 March 2018 £000	**31 March 2017 £000**	**31 March 2018 £000**	**31 March 2017 £000**
Development properties	**300,008**	**287,652**	**230,006**	**266,851**

All inventories are considered to be current in nature. The operating cycle is such that a proportion of inventories will not be realised within 12 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 £9,130,000 (2017: £4,304,000). During the year ended 31 March 2018 the Group recognised £5,262,000 of new freehold interests and disposed of £436,000 of freehold interests, receiving sales proceeds of £740,000 (2017: the Group disposed of £3,724,000 of freehold interests, receiving sales proceeds of £4,850,000 and recognised £2,325,000 of new freehold interests). Included within development properties for the Company are freehold interests held for future sale of £9,130,000 (2017: £4,304,000).

The value of inventories expensed in cost of sales by the Group in the year ended 31 March 2018 was £218,218,000 (2017: £203,504,000). Costs capitalised by the Group during the year include interest of £4,211,000 (2017: £2,151,000), which is capitalised based on the site specific cost of borrowings. Interest costs capitalised during the year including the Group's share of joint ventures results was £5,175,000 (2017: £2,151,000).

During the year the Group conducted a review of the net realisable value of its inventories. Where the estimated net realisable value has changed due to movements in cost and revenue estimates and this was less than the carrying value within the balance sheet, the Group has written down the value of inventories. The total amount recognised as an expense was £487,000 (2017: £363,000).

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13 Trade and other receivables

	Group		Company	
	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
Current receivables				
Amounts recoverable on contracts	32,723	25,680	32,723	25,680
Amounts owed by Group undertakings	–	–	66,138	18,283
Amounts owed by joint ventures	20,880	8,012	52,121	31,532
Trade receivables	142	117	142	117
Other receivables	1,711	3,073	1,565	2,964
Prepayments and accrued income	2,397	1,406	1,582	1,271
	57,853	**38,288**	**154,271**	**79,847**

Amounts recoverable on contracts

Total contract revenue of £65,462,000 (2017: £100,898,000) has been recognised by the Group in the year.

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

	Group		Company	
	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
Contracts where costs incurred plus recognised profits exceed receipts to date included in receivables	32,723	25,680	32,723	25,680
Contracts where receipts to date exceed costs incurred plus recognised profits included in payables (note 15)	(1,768)	(3,272)	(1,768)	(3,272)
	30,955	**22,408**	**30,955**	**22,408**
Total costs incurred plus recognised profit on contracts	228,584	211,297	228,584	211,297
Receipts to date	(197,629)	(188,889)	(197,629)	(188,889)
	30,955	**22,408**	**30,955**	**22,408**

At 31 March 2018 retentions held by customers for contract work performed by the Group included within amounts recoverable on contracts amounted to £2,458,000 (2017: £2,298,000).

14 Cash and cash equivalents

	Group		Company	
	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
Cash at bank and in hand	**12,808**	**38,629**	**11,638**	**36,882**

15 Trade and other payables

	Group		Company	
	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
Current payables				
Trade payables	21,851	39,146	21,851	39,146
Amounts due to joint ventures	–	–	1,948	–
Amounts recoverable on contracts (note 13)	1,768	3,272	1,768	3,272
Deposits received in advance	26,307	62,059	26,307	62,059
Social security and other taxes	873	656	873	656
Accrued expenses	26,902	17,476	26,082	16,672
Land creditors	190	26,907	–	26,907
	77,891	**149,516**	**78,829**	**148,712**
Non current				
Due in more than one year and less than five years				
Accrued expenses	**1,268**	**1,527**	**901**	**1,277**
Total trade and other payables	**79,159**	**151,043**	**79,730**	**149,989**

As at 31 March 2018 deposits received in advance including the Group's share of joint ventures amounted to £34,331,000 (2017: £68,085,000).

Land creditors represent the fair value of land payments the Group is committed to but are not yet payable. As at 31 March 2018 the total value of land creditors including the Group's share of joint ventures amounted to £1,512,000 (2017: £28,420,000).

16 Borrowings

	Group		Company	
	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
Bank loans	115,000	55,000	115,000	55,000
Transaction costs	(2,741)	(1,195)	(2,741)	(1,195)
	112,259	**53,805**	**112,259**	**53,805**

The movement in borrowings of £58,454,000 is comprised of £60,000,000 cash inflow from bank loans plus non cash transaction costs of £614,000, offset by £2,160,000 cash outflow of transaction costs.

Further information on borrowings is given in note 21.

NOTES TO THE FINANCIAL STATEMENTS

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17 Share capital

Group and Company	31 March 2018 £000	31 March 2017 £000
Authorised		
100,000,000 (2017: 100,000,000) ordinary shares of 10p each	10,000	10,000
Allotted, called up and fully paid		
75,516,000 ordinary shares of 10p each (2017: 75,293,000)	7,551	7,529

During the year 48,000 shares were issued at prices ranging from 64.0p to 294.0p as a result of share options being exercised.

On 31 March 2018, 175,000 ordinary shares were issued at 415.0p to Telford Homes Trustees Limited to satisfy the requirements of the Share Incentive Plan (see note 18).

Ordinary shares may be issued in the future to satisfy the exercise of outstanding share options (see note 18).

Details of own shares held within employee benefit trusts are disclosed in note 18.

All shares rank equally in respect of shareholder rights.

18 Employee Share Schemes

Telford Homes Plc Employee Share Option Scheme

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 Group operates both an approved share option scheme and an unapproved share option scheme (ESOP). 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.

The Group has used the Black-Scholes-Merton formula to calculate the fair value of granted 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 and the fair value per option are set out below.

	2018	2017
Expected life of options based on options exercised to date	3 years	4 years
Volatility of share price based on three year share price history	30%	33%
Dividend yield	4.0%	4.2%
Risk free interest rate	0.25%	0.25%
Weighted average share price at date of grant	392p	312p
Weighted average exercise price	0p	312p
Weighted average fair value per option	348p	52p

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 2018 is £233,000 (2017: £44,000).

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

	2018		2017	
	Number 000's	Weighted average exercise price	Number 000's	Weighted average exercise price
Outstanding at 1 April	801	188p	972	165p
Granted in the year	382	0p	48	312p
Forfeited in the year	(31)	130p	(26)	348p
Exercised in the year	(48)	165p	(193)	82p
Outstanding at 31 March	**1,104**	**125p**	**801**	**188p**
Exercisable at 31 March	**508**	**117p**	**507**	**95p**

The aggregate fair value of options granted in the year was £1,330,000 (2017: £25,000).

A total of 48,000 share options were exercised at a weighted average price of 165p in the year ended 31 March 2018 (2017: 193,000 shares at 82p).

At 31 March 2018 the outstanding options granted over 10p ordinary shares were as follows:

Share schemes	Option price	Number	Date exercisable
ESOP approved	64p	27,500	20 July 2012 to 20 July 2019
	90.5p	98,000	9 Feb 2015 to 9 Feb 2022
	200p	35,000	15 Mar 2016 to 15 Mar 2023
	291.75p	30,846	15 Sep 2019 to 15 Sep 2026
	294p	60,000	28 May 2017 to 28 May 2024
	347p	17,290	28 Feb 2020 to 28 Feb 2027
	383p	124,800	4 Dec 2018 to 4 Dec 2025
ESOP unapproved	75p	60,000	1 Oct 2005 to 1 Oct 2018
	79p	60,000	23 May 2014 to 23 May 2021
	90.5p	167,000	9 Feb 2015 to 9 Feb 2022
	383p	42,200	4 Dec 2018 to 4 Dec 2025
LTIP	0p	382,218	14 July 2020 to 14 July 2027

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31 MARCH 2018

18 Employee Share Schemes continued

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 HM Revenue and Customs and confers certain tax advantages for participating employees.

The SIP enables employees to purchase shares up to a value of £1,800 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 2018 is £222,000 (2017: £211,000).

During the year ended 31 March 2018 the trust acquired 175,000 shares at 415.0p. At 31 March 2018 the trust remains interested in 101,069 shares (2017: 137,268) which have not been allocated to employees and a further 213,333 (2017: 216,194) 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 2018 was £644,395 (2017: £777,997). Movements in retained earnings relating to the SIP are shown in the statement of changes in equity.

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 2018, £60,000 of this loan has been repaid leaving an outstanding balance of £566,000 (2017: £626,000).

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. In the year ended 31 March 2018, £65,000 of this loan has been repaid leaving an outstanding balance of £254,000 (2017: £319,000).

Shares held in Trust

At 31 March 2018 employee benefit trusts held interests in 649,402 shares at a nominal value of 10p and this represents 0.9% of the Company's allocated share capital (2017: 724,969 shares at 10p nominal value representing 1.0%).

19 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	
	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
Within one year	700	391	564	584
Between one and five years	2,800	2,800	470	517
Over five years	3,107	3,807	–	–
	6,607	**6,998**	**1,034**	**1,101**

Operating lease payments represent rentals payable by the Company for its office premises and motor vehicles.

The Group in the normal course of business has given guarantees in respect of the Group's share of certain contractual obligations of joint ventures.

20 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 June 2015 David Campbell exchanged contracts on the purchase of an apartment from the Company at its Bermondsey Works development. The purchase price was £351,625, which the Company had received in full as at 31 March 2018 (2017: deposit of £70,325). The purchase was approved at the Annual General Meeting held on 16 July 2015.

There have been no other transactions between key management personnel and the Group other than remuneration in the year ended 31 March 2018.

Transactions between the Group and its joint ventures

The amounts outstanding from joint ventures to the Group and Company for trading balances at 31 March 2018 totalled £20,880,000 (2017: £8,012,000). A total of £31,241,000 was owed to the Company at 31 March 2018 from joint ventures in respect of shareholder advances (2017: £23,520,000). The Company owed joint ventures £1,948,000 at 31 March 2018 (2017: £nil).

The Company has invoiced joint ventures £72,143,000 in the year to 31 March 2018 for construction services (2017: £35,148,000). The Company was invoiced £nil by joint ventures in the year to 31 March 2018 (2017: £nil). Amounts invoiced to joint ventures for management fees, which has been recognised in the Group income statement, totalled £1,401,000 in the year to 31 March 2018 (2017: £491,000).

Amounts owed to joint ventures 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.

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 owed by subsidiaries to the Company at 31 March 2018 totalled £66,138,000 (2017: £18,283,000) and the Company owed subsidiaries £nil (2017: £nil).

The Company has invoiced subsidiaries £1,407,000 in the year to 31 March 2018 for construction services (2017: £2,366,000). The Company has been invoiced £nil in the year to 31 March 2018 by subsidiaries (2017: £nil).

Joint ventures and subsidiaries do not transact with each other.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2018

21 Financial instruments

Categories of financial assets and financial liabilities are as follows:

	Group		Company	
	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
Financial assets				
Loans and receivables:				
Amounts owed by Group undertakings	–	–	66,138	18,283
Amounts owed by joint ventures	20,880	8,012	52,121	31,532
Amounts recoverable on contracts	32,723	25,680	32,723	25,680
Trade receivables	142	117	142	117
Other receivables	1,711	3,073	1,565	2,964
Cash and cash equivalents	12,808	38,629	11,638	36,882
	68,264	**75,511**	**164,327**	**115,458**

None of these financial assets are either past due or impaired.

	Group		Company	
	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
Financial liabilities				
Liabilities held at fair value:				
Interest rate swap	560	1,096	560	1,096
Amortised cost:				
Trade payables and accrued expenses	50,021	58,149	48,834	57,095
Bank loans	115,000	55,000	115,000	55,000
	165,581	**114,245**	**164,394**	**113,191**

The Group has an interest rate swap designated as a cash flow hedge. The hedge is used to mitigate the financial exposure to movements in interest rates. The Group has no direct exposure to exchange rate movements as any purchases or sales outside of the United Kingdom are denominated in sterling.

Interest rate swap

The fair value of the interest rate swap at 31 March 2018 was a £560,000 liability (2017: £1,096,000 liability). This is measured using valuations acquired from third party banks and is a level two valuation. Hedge accounting was applied and no ineffectiveness arose in the period. The notional principal amount of the interest rate swap at the start of the financial year was £50.0 million, increasing to £100.0 million on 4 June 2017.

Trade and other receivables and trade payables

The fair value of trade and other receivables, amounts owed by and to Group undertakings and joint ventures, amounts recoverable on contracts, trade payables and land creditors at 31 March 2018 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 (2017: £nil).

Borrowings

The Group uses loan finance, all of which is denominated in sterling, to acquire development land and undertake site construction. On 18 December 2017 the Group signed a new revolving credit facility for £210 million which extends to December 2022 with a club of four banks being Natwest, HSBC, Santander and Allied Irish Bank. The debt drawn under this facility is secured against the assets of the Group and is monitored by financial covenants. At 31 March 2018 the Group had utilised £115.0 million of this facility leaving an unutilised balance of £95.0 million. Interest is being charged on this facility at LIBOR plus a margin which ranges from 2.6% to 3.3% depending on the Group's level of gearing.

On 22 July 2016 the Group's joint venture City North Finsbury Park Limited signed a £110.0 million development loan facility with LaSalle Residential Finance Fund which extends to May 2020. As at 31 March 2018 City North Finsbury Park Limited had utilised £10.1 million of the facility.

On 22 February 2017 the Group's joint venture Balfron Tower Developments LLP signed a £33.0 million development loan facility with RBS which extends to February 2020. As at 31 March 2018 Balfron Tower Developments LLP had utilised £nil of the facility.

All borrowings are treated as current even though these may be due for settlement after 12 months from the balance sheet date as they are expected to be settled in the Group's normal operating cycle. Furthermore the latest date by which the current tranches utilised under the revolving credit facility are due to be repaid is 5 July 2018. At this point depending on the working capital requirements of the Group the level of borrowings will be reassessed and new tranches placed accordingly. For all borrowings fair value 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 2018 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.

On 15 January 2016 the Group entered into an interest rate swap. The Group receives interest on the swap at LIBOR and pays a fixed rate of 1.080%. The effective date of the swap was 1 October 2016 and the maturity date is 4 March 2019 securing the interest rate paid on £50 million, increasing to £100 million on 4 June 2017, of the Group's £210 million revolving credit facility for this period.

On 7 February 2018 the Group entered into an additional interest rate swap. The Group receives interest on the swap at LIBOR and pays a fixed rate of 1.4725%. The effective date of the swap is 4 March 2019 and the maturity date is 18 December 2022 securing £100 million of the Group's £210 million revolving credit facility for this period.

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 £1,117,000 before tax (2017: £551,000), 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 borrowings.

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 Natwest, HSBC and Santander.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2018

21 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 12 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.

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 12 months after signing the financial statements and are satisfied that it is highly unlikely there will be any breach of 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 and accrued expenses £000	Borrowings £000	Derivative liabilities £000	Total £000
Within one year	48,753	3,973	200	52,926
More than one year and less than two years	441	3,973	–	4,414
More than two years and less than five years	827	125,926	360	127,113
31 March 2018	**50,021**	**133,872**	**560**	**184,453**

	Trade payables and accrued expenses £000	Borrowings £000	Derivative liabilities £000	Total £000
Within one year	56,622	1,925	–	58,547
More than one year and less than two years	716	56,765	1,096	58,577
More than two years and less than five years	811	–	–	811
31 March 2017	**58,149**	**58,690**	**1,096**	**117,935**

The maturity profile of the anticipated future cash flows based on the earliest date on which the Company 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 and accrued expenses £000	Borrowings £000	Derivative liabilities £000	Total £000
Within one year	47,933	3,973	200	52,106
More than one year and less than two years	441	3,973	–	4,414
More than two years and less than five years	460	125,926	360	126,746
31 March 2018	**48,834**	**133,872**	**560**	**183,266**

	Trade payables and accrued expenses £000	Borrowings £000	Derivative liabilities £000	Total £000
Within one year	55,818	1,925	–	57,743
More than one year and less than two years	716	56,765	1,096	58,577
More than two years and less than five years	561	–	–	561
31 March 2017	**57,095**	**58,690**	**1,096**	**116,881**

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2018

22 Key management information and Alternative Performance Measures

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

Our APMs and associated KPIs (see pages 34 and 35) are aligned to our strategy and are used by the Board for planning, reporting, to measure the performance of the business and form the basis of the performance measures linked to remuneration. The measures are also used in discussions with the investment analyst community and current and potential shareholders.

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

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

Key management information is presented to the Board with the Group's share of joint venture results proportionally consolidated and therefore including the relevant share of the results of joint ventures in each line of the income statement and balance sheet as set out on pages 70 and 71.

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

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

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

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

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

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

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

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

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

Adjusted margins

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2018

22 Key management information and Alternative Performance Measures continued

Other APMs

The other APMs and KPIs used by the Group are defined below. Further details of KPIs are also included on pages 34 and 35.

Total finance costs incurred

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

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

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

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

Development pipeline

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

Forward sales

The forward sales statistic is calculated as revenue secured by exchange of contract, including the Group's share of joint venture revenue, to be recognised in future years.

OTHER SIGNIFICANT INTERESTS

The subsidiary undertakings and joint ventures not disclosed in note 9 which the Company holds a significant interest in at 31 March 2018 are set out below.

	Share of ordinary capital held (direct/indirect)	Country of registration	Accounting date	Principal activity
Beechwood Road Management Limited	100%	England	30 April	Property management
Bermondsey Works Management Limited	100%	England	31 May	Property management
Broadway Chambers Management Limited	100%	England	30 June	Property management
Calders Wharf Management Limited	100%	England	31 December	Property management
Chrisp Street Management Limited	100%	England	28 February	Property management
Frampton Park Management Limited	100%	England	30 September	Property management
Horizons Tower Limited	100%	England	31 August	Property management
KDL Residents Limited	100%	England	30 September	Property management
Limeharbour Residents Limited	100%	England	28 February	Property management
Manhattan Plaza Management Limited	100%	England	31 March	Property management
PQ Management Limited	100%	England	30 June	Property management
St Paul's Way CHP Management Limited	100%	England	31 July	Property management
St Paul's Way Residential Management Limited	100%	England	28 February	Property management
Stratford Central Management Limited	100%	England	31 March	Property management
Telford (Stratford Management) Limited	100%	England	31 March	Property management
Telford Homes Trustees Limited	100%	England	31 March	Non-trading company
Stone Studios Management Limited	100%	England	30 September	Property management
Bishopsgate Apartments LLP	50%	England	31 March	Property development
Bishopsgate Apartments No.2 LLP	50%	England	31 March	Non-trading company
CFN Management Limited	50%	England	31 August	Property management
City North Finsbury Park Limited	50%	England	31 March	Property development
City North Finsbury Park Residential Management Company Limited	50%	England	31 March	Property management
City North Islington Limited	50%	England	31 March	Non-trading company
Mulatel LLP	50%	England	31 March	Property development
Balfron Tower Developments LLP	25%	England	31 December	Property development

All the above including those disclosed in note 9 are registered at Telford House, Queensgate, Britannia Road, Waltham Cross, Hertfordshire, EN8 7TF with the exception of City North Islington Limited, which is registered at The Business Design Centre, 52 Upper Street, Islington Green, London, N1 0QH, Telford Homes (Creekside) Limited which is registered at 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, and Chobham Farm North LLP, Armada 1 South Development LLP and Gallions 2B Development LLP which are all registered at Bruce Kenrick House, 2 Kellick Street, London, N1 9FL.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF TELFORD HOMES PLC

Report on the financial statements

Opinion

In our opinion, Telford Homes Plc's Group financial statements and Company financial statements (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 2018 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the annual report 2018 (the "annual report"), which comprise: the Group and Company balance sheets as at 31 March 2018; the Group income statement and Group statement of comprehensive income, the Group and Company cash flow statements, and the Group and Company statement of changes in equity for the year then ended; the statement of accounting policies; and the notes to the financial statements.

Basis for opinion

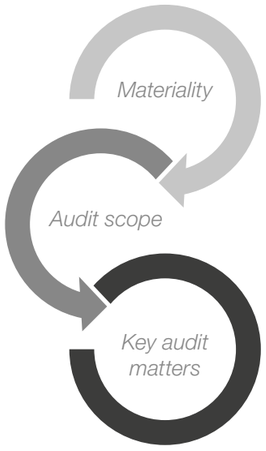
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



- Overall Group materiality: £2.3 million
- Based on 5% of profit before tax
- Overall Company materiality: £2.1 million
- Based on 5% of profit before tax

- One financially significant company in the Group (Telford Homes Plc)
- Audit procedures performed over two of the Group's joint ventures

- Revenue and profit recognition (Group and Company)
- Valuation of inventory (Group and Company)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Revenue and profit recognition Refer to page 56 (Audit Committee report), pages 78 and 79 (Accounting policies) and page 83 (notes 1 and 2). The Group achieves revenue through open market unit sales and construction contracts. Recognition of revenue and profit is calculated using a model that incorporates a number of variable factors and assumptions including: – Estimated open market sales revenues, including commercial unit valuations; – Estimated time and costs to complete building works; and – Valuations of land overages. We focus on this area because of the inherent level of subjectivity and management judgement required in calculating the amount of revenue and profit to be recognised. Changes in any of these key judgements could lead to a material change in the amount of profit recognised during the year.	We understood and evaluated the processes, procedures and controls that the Group has in place in respect of revenue and profit recognition. We evaluated the revenue and profit recognition model and performed the following procedures: – Validated input data to the model and tested the accuracy of calculations; – Assessed the process by which the key judgements and variable factors within the model were estimated by management; – Assessed the accuracy of management's historical forecasts by reviewing the effect of changes in site margins over time for sites contributing material profit during the year; – Understood and challenged the key assumptions that are based on the Group's internal data, such as business plans and contract terms, and evaluated their accuracy; and – Tested that revenue and profit has been recorded in the correct accounting period. We also performed sensitivity testing, to consider the likelihood of changes to key assumptions that would result in a material change to revenue or profit. We found no material exceptions from our testing performed.
Valuation of inventory Refer to page 80 (accounting policies) and page 95 (note 12). The Group holds inventory in the form of development property, which includes finished units, work in progress and freehold interests, with a total carrying value of £300 million. The valuation of inventory is determined by reference to a number of assumptions and judgements, which are subject to levels of estimation. These include estimates of sales prices and costs to complete, assessments of the likelihood of obtaining planning permission on land held for development, the availability of mortgage financing for customers, and the availability of Government schemes aiding first-time buyers. We focus on this area because changes in any of these key judgements could lead to a material change in the carrying value of inventory.	We understood and evaluated the processes, procedures, and controls in place in respect of these inventory balances and assessed key account reconciliation processes. We tested and challenged the reasonableness of the key assumptions underlying the judgmental elements of the inventory balances, which included: – Net realisable values of land for development, finished units, and work in progress; – Inventory write downs during the year and any provisions in place at year end; and – Judgements regarding the capitalisation of costs, or the amounts capitalised, such as the likelihood of obtaining planning consent on sites purchased without such consent. We reviewed management's forecasts to identify any non-profitable sites, and assessed management's assumptions. We compared forecast sales prices to actual prices achieved post year-end and assessed the accuracy of management's historical forecasts by comparing actual sales prices with prior year net realisable values. We also tested the input data of the key drivers of the movement in the inventory balance, reperformed underlying calculations, and performed margin analysis and benchmarking. No material differences were identified from our testing performed.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF TELFORD HOMES PLC

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group operates through the Company and some trading subsidiaries, including joint ventures, and the Group accounts are a consolidation of these entities. The accounting for these entities, along with the Group consolidation and including the joint ventures, is centralised at head office. Our audit scope comprises an audit of the complete financial information of the Group and the Company.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£2.3 million	£2.1 million
How we determined it	5% of profit before tax.	5% of profit before tax.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £86,500 (Group audit) and £86,500 (Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- The directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the annual report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the strategic report and directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described on page 113.

Reporting on other information continued

Strategic report and directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the strategic report and directors' report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the strategic report and directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 55, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Arif Ahmad

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans

29 May 2018

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