



**29 May 2019**

**Telford Homes Plc**  
(‘Telford Homes’ or the ‘Group’)

**Final Results**

Telford Homes Plc (AIM:TEF), the London focused residential property developer, today announces its final results for the year ended 31 March 2019.

**Highlights**

- Record total revenue up 12 per cent to £354.3 million (2018: £316.2 million) with the proportion from build to rent developments at 31 per cent (2018: 21 per cent)
- Strategic shift towards build to rent developments accelerated in the period with a greater emphasis on lower risk and less capital intensive developments
- Total profit before tax in line with the Group’s previous announcement at £40.1 million (2018: £46.0 million) due to the increased proportion of lower margin build to rent developments within total revenue
- Gearing reduced to 37.0 per cent at 31 March 2019 (September 2018: 52.2 per cent)
- Proposed final dividend of 8.5 pence per share, maintaining the total dividend for the year at 17.0 pence per share (2018: 17.0 pence)
- Completed and handed over in excess of 300 build to rent homes to date with a further 1,422 currently in progress
- Entered into strategic build to rent partnerships with Invesco and M&G Real Estate to accelerate growth in the sector and expecting to develop significant pipelines with both in the coming years
- Development pipeline of 4,900 homes (2018: 4,000) with a total expected gross development value of £1.59 billion (2018: £1.31 billion)
- The split of the current pipeline in terms of the number of homes is now expected to be 70 per cent on build to rent led developments and 30 per cent on developments led by individual sales
- No change to the Group’s profit before tax expectations for FY 2020
- Recognised in the 2018 NextGeneration sustainable housing benchmark report as the most improved housebuilder for the second consecutive year.

**Commenting on the Final Results, Jon Di-Stefano, CEO of Telford Homes, said:** “Our business model is increasingly focused on build to rent housing and the reduced risk and lower capital requirements it brings. Despite some challenges, our performance in the year to 31 March 2019 represents a great achievement for Telford Homes with revenue at an all-time high due primarily to an increased proportion of build to rent contracts.

Over the last three years we have made substantial progress against our objective to increase our output of build to rent homes to meet demand from institutional investors and to deliver high quality rental properties in the capital. There remains a long-term structural imbalance between housing supply and housing need in London. Our recently announced partnerships with Invesco and M&G signal our reputation as a trusted build to rent partner, and as such are a significant step as we continue to develop our profile at the forefront of this burgeoning sector.”

**- Ends -**

**For further information:**

**Telford Homes Plc**

Jon Di-Stefano, Chief Executive Officer

Katie Rogers, Chief Financial Officer

Guy Lambert, Head of Corporate Communications

Tel: +44 (0) 1992 809 800

[www.telfordhomes-ir.london](http://www.telfordhomes-ir.london)

**Shore Capital (Nomad and Joint Broker)**

Dru Danford / Patrick Castle

Tel: +44 (0) 20 7408 4090

**Peel Hunt LLP (Joint Broker)**

Charles Batten / Capel Irwin

Tel: +44 (0) 20 7418 8900

**Media enquiries:**

**Buchanan**

Henry Harrison-Topham / Vicky Hayns / Steph Watson

[telfordhomes@buchanan.uk.com](mailto:telfordhomes@buchanan.uk.com)

Tel: +44 (0) 20 7466 5000

[www.buchanan.uk.com](http://www.buchanan.uk.com)

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

**Analyst meeting**

A meeting for analysts will be held at 09.00am today, 29 May 2019, at the offices of Buchanan, 107 Cheapside, London EC2V 6DN. A copy of the Final Results presentation is available at the Company's website: <http://www.telfordhomes-ir.london>

An audio webcast of the analysts meeting will be available after 12pm today: <https://webcasting.buchanan.uk.com/broadcast/5cd2abfecfde5e11cc8243ad>

## **CHIEF EXECUTIVE OFFICER'S REVIEW**

Our business model is increasingly focused on build to rent housing and the reduced risk and lower capital requirements it brings. Whilst the financial year to 31 March 2019 was not without its challenges, we remain confident that our strategic move towards the growing rental market in London will enable us to increase our delivery of much needed new homes in the years ahead.

### **Performance overview**

Total revenue in the year to 31 March 2019 reached a record £354.3 million, up 12 per cent on last year (2018: £316.2 million), with the proportion from build to rent developments also at a record level of 31 per cent (2018: 21 per cent). GAAP revenue, excluding the Group's share of joint ventures, was £336.1 million (2018: £294.8 million). Profit margins remained at or above target levels with the margin on individual sale developments at 28.3 per cent (target 24 per cent) and the build to rent margin at 13.2 per cent (target 12 to 13 per cent). This has been achieved against a more uncertain and challenging market backdrop.

Total profit before tax has reduced to £40.1 million (2018: £46.0 million) due to the increased proportion of lower margin build to rent developments within total revenue. GAAP profit before tax, excluding joint ventures, was £40.3 million (2018: £46.3 million). Whilst absolute profits have fallen this should be considered in the context of a growing business delivering higher output but with a greater emphasis on lower risk and less capital intensive developments. As a result, our gearing has reduced considerably to 37.0 per cent (March 2018: 44.6 per cent; September 2018: 52.2 per cent).

We had hoped to achieve even more but, as previously reported, a number of factors hampered our ability to reach our original target of £50 million of profit before tax for FY 2019. The individual sale market in London has been subdued by a prolonged period of uncertainty and customer expectations of enhanced discounts and incentives led to reduced prices on those sales that were secured.

Our results for the year were also affected by the delay of two build contracts anticipated to exchange in FY 2019 but pushed back to FY 2020 due primarily to planning issues. Despite this, our performance in the year represents a great achievement for Telford Homes with revenue at an all-time high and profit before tax reducing largely due to our successful change in strategy towards lower margin build to rent homes.

### **Strategic shift towards build to rent**

We sell homes to diverse customer segments including build to rent investors, housing associations, owner-occupiers and individual investors. The strategy we have been pursuing for some time of increasing the proportion of our homes sold to the build to rent sector has been further validated by a more uncertain market for individual sales to owner-occupiers and a significant drop in demand from individual investors.

There is a fundamental imbalance between demand and supply of rental properties in London at affordable rent levels and we firmly believe that institutionally owned build to rent developments are key to increasing housing delivery in London. As we have outlined previously, there are three primary reasons that this sector is attractive to Telford Homes:

- Firstly, the higher return on capital associated with build to rent transactions, which require no debt and limited equity investment. In return, the profit margin is lower than for individual sale developments but the forward funded nature of build to rent de-risks our development pipeline.
- Secondly, there is significant demand from institutions looking to invest in build to rent housing in London. Keen to develop pipelines of rental properties as quickly as possible, investors are seeking to access skills that Telford Homes already has in terms of site sourcing, planning and construction.
- Finally, this investment demand is underpinned by the growing proportion of customers who are renting rather than buying due partly to affordability constraints but also increasingly a desire for flexibility and as a lifestyle choice. Purpose-built rental developments typically offer better customer amenities, improved on-site services and more secure and flexible tenancies. Together with a greater sense of community, these factors make build to rent housing the ideal product for new generations wanting to live in London.

Whilst we will continue to target owner-occupiers on specific developments and particularly at prices up to £600,000, sales to individual investors no longer represent a significant part of our future pipeline. Having reviewed our existing portfolio, we expect to change a number of developments that were planned as individual sale schemes to build to rent. As a result, the expected split of our current development pipeline, by number of homes, is 70 per cent on build to rent led developments and 30 per cent on developments led by individual sales.

### **Build to rent performance**

We are making strong progress on our existing build to rent projects having already completed and handed over in excess of 300 homes with a further 1,422 currently in progress. The latter number includes 890 homes at Parkside in Nine Elms for Greystar where we are mobilising to start work in June 2019. However it does not include any developments already under construction that we are planning to deliver as build to rent, but where we have not yet entered into any forward funding agreement with an investor.

August 2018 marked an important step for Telford Homes when we handed over The Pavilions, our first institutional build to rent development, which was purchased by L&Q in 2016. Since then we have handed over the build to rent homes at New Garden Quarter to Folio, part of Notting Hill Genesis. We are also approaching build completion on two schemes we are developing for M&G Real Estate ('M&G'), being Carmen Street and The Forge. Both developments will be handed over this calendar year and we are particularly excited to be approaching this important milestone in our relationship.

Our growing track record in build to rent has been enhanced by the recent sale of our Equipment Works site in Walthamstow to a joint venture between Greystar and Henderson Park for £105.5 million. This will be our third development working alongside Greystar, following on from Parkside and our acquisition of part of their significant site in Greenford, Ealing. We have formed a strong partnership together and we expect to extend that in the future. The Equipment Works transaction is on a forward funded basis and comprises the sale of the freehold interest in the land and the construction of 257 build to rent homes.

### **Build to rent partnership agreements**

To cement our position as one of London's leading build to rent developers, we recently concluded an extensive selection process managed by Savills to identify strategic partners for forward fund transactions. We are delighted to have entered partnership agreements with both Invesco and M&G. The decision to select two partners is a reflection of the high quality of the potential partners in the final stage of our selection process. We have agreed in principle to work with each partner on schemes of different sizes to provide clarity and to align with their respective investment preferences. Both are well established investors in the London build to rent market, and the new partnership formalises the strong relationship we already have with M&G.

We believe that our partnership led approach will increase the efficiency of buying land and designing build to rent schemes to meet each investor's requirements. Having a standard set of documents should also expedite the process of contracting on individual transactions. We expect to develop a significant pipeline for both M&G and Invesco in the coming years and we will continue to work with other investors where we have been approached directly, or on sites that do not meet the partnership criteria. To have attracted such well respected and ambitious organisations as long-term partners is very pleasing and an indication of our growing reputation as a build to rent developer of choice in London.

### **Individual open market sales**

Despite a subdued market, we continued to generate sales and this was particularly the case for homes priced below £600,000 on our developments that were complete or close to completion. These sales have been mostly to owner-occupiers, many of whom took advantage of the Help to Buy scheme. We were pleased to see the Government extend Help to Buy until 2023, although the scheme itself is not expected to be material to our longer-term business plan given our increased focus on rental homes.

Since the end of FY 2019 we have continued to make steady progress across the schemes we have available for sale and we are particularly pleased to have all of the homes at Bow Garden Square reserved, with the majority completed and handed over. Bow Garden Square is a partnership with Poplar HARCA that includes 109 homes together with a new school and a mosque. It was recently declared 'Development of the Year' at the 2019 'RESI Awards' and this achievement is testament to our usual high standards in terms of design and the quality of the finished scheme.

Following the successful launch of New Garden Quarter in Stratford at the beginning of 2018, we held an off-plan launch of Gallions Point in the UK and Asia in October last year. We were disappointed to secure only 15 sales, with demand predominantly dampened by economic uncertainty in relation to Brexit. The majority of the homes at Gallions Point are priced under £600,000, with completions scheduled for 2020, and we believe that they will be attractive to owner-occupiers at the appropriate time. Sales to individual investors, whether in the UK or overseas, no longer represent a significant part of our future plans and we do not expect a change in demand from that sector in the short-term.

Whilst we expect the more subdued market for sales to continue throughout 2019, individual sales to owner-occupiers remain an important part of our business. For example, the site we acquired from Greystar in Greenford will see the development of 194 homes for individual open market sale at an average selling price of circa £500,000 along with 84 subsidised affordable homes for shared ownership. The scheme is expected to be completed in 2022 and will be released for sale much nearer to that time, at a point when Help to Buy will still be available. We will continue to work hard to secure sales on developments closer to completion and those already completed whilst we await greater economic certainty, particularly in terms of the outcome of Brexit.

### **Development pipeline**

In February 2019 we were pleased to acquire a site, subject to obtaining satisfactory planning consent, on International Way in Stratford from LCR, the Department for Transport and HS1 Ltd. The site represents our third land acquisition involving LCR and the development is anticipated to deliver around 380 new homes together with commercial space.

Our development pipeline now includes 4,900 homes (including Parkside), with a total expected gross development value of £1.59 billion (2018: £1.31 billion). This pipeline is weighted towards build to rent developments, as noted earlier, and the homes expected to be for individual sale are valued at an average price of circa £550,000 in line with our target.

Around 950 of the homes in our development pipeline are currently going through the planning process. Whilst we have experienced some frustrating delays in achieving planning consents on certain developments, we continue to believe that our deep knowledge and strong relationships across London put us in the best possible position to navigate this difficult environment. We were disappointed to have our planning application for the LEB Building in Bethnal Green refused recently. However, this was expected and allowed for when we reported a planning delay in our trading update in February 2019. We will appeal the decision and we expect a successful outcome.

We are actively engaged in identifying new opportunities to add to our pipeline and particularly those that suit build to rent investors and our new partnerships. We are in various stages of negotiations on several sites that we hope to conclude over the course of the next financial year.

## **People and culture**

One of our key differentiators is our friendly and supportive culture, which is reflected in the consistently high scores we achieve in our employee satisfaction surveys. Our dedicated employees continue to deliver tremendous work across the whole Group and to overcome any challenges that come their way. Together we have positioned the business well for the future and I would like to thank all of our employees, and indeed each of our suppliers and subcontractors, for their help and efforts in the last year. We have won numerous awards in the last 12 months and we are always delighted whenever we receive external recognition for our work.

In the last year we have focused on creating a culture that promotes positive mental health in our business and raises understanding of this important issue in the construction industry. We established a 'Health and Wellbeing Group' who launched a week long programme of events to support World Mental Health Day in October 2018. The purpose was to ensure employees understand that we are committed to their mental health in the workplace and to provide support when they need it. We also established several resources to ensure mental health remains one of our key priorities outside of this week of events. The week was so well received that we did the same again in May 2019 and this time we extended the activities across our development sites.

In March 2019 we officially launched the new 'Telford Homes Academy' when our first cohort of 'Budding Managers' started their development programme. The Academy aims to provide training and development for every career stage, from trainees through to first time managers and then on to senior managers. It will not only support and develop those who aspire to progress, but also drive capability and excellence for everyone at any level within Telford Homes. Business growth will continue to present some fantastic opportunities for our employees to take on new roles and our Academy will ensure they are ready to do that.

As we announced in October 2018, Frank Nelson, Non-Executive Director since 2015, stepped down from the Board due to other commitments. We are in the process of seeking a suitable replacement and expect to make a further announcement in due course.

We put immense effort into ensuring all of our customers are happy with their new homes whether they are individuals, build to rent investors or housing associations. In 2018 we were delighted to secure an independently surveyed customer recommendation rate of 99 per cent, which is exceptionally high for our industry. In a time when there is ever increasing focus on the quality of new homes we are very proud of this result and the frequent praise we receive from our development partners.



## **Sustainability**

We were delighted to be recognised in the 2018 NextGeneration sustainable housing benchmark report as the most improved housebuilder for the second consecutive year. Our fourth place ranking (from sixth in 2017 and seventeenth in 2016) also saw us receiving our first Gold Level award. These achievements are testament to our commitment to sustainable and responsible house building under our 'Building a Living Legacy' strategy. We launched this strategy in 2016 to help us create places that make a positive long-term contribution to London's built environment. Sustainability is increasingly a consideration for partners and our work in this area enhances our ability to secure and maintain mutually beneficial relationships.

## **Dividend**

The Board recommends a final dividend of 8.5 pence per share giving a total dividend for the year of 17.0 pence per share (FY 2018: 17.0 pence). Historically, our policy has been to pay at least one third of annual earnings to shareholders in dividends. In light of the lower capital requirements associated with our growing number of build to rent transactions, the Board expects to exceed this threshold in the future. In the short-term we expect to maintain an annual dividend of at least the 17.0 pence per share recommended for this year.

## **Outlook**

There have been no changes to our profit before tax expectations for FY 2020 since the Group's trading update in February 2019. Beyond FY 2020 we continue to expect profits to grow again, reflecting our increased focus on lower risk and less capital intensive build to rent developments.

Over the last three years we have made substantial progress against our objective to increase our output of build to rent homes to meet demand from institutional investors and to deliver high quality rental properties in the capital. There remains a long-term structural imbalance between housing supply and housing need in London. Our partnerships with Invesco and M&G signal our reputation as a trusted build to rent partner and as such are a significant step as we continue to develop our profile at the forefront of this burgeoning sector. We are excited to work more closely with both partners to capitalise on new opportunities to deliver much needed homes within market leading projects.

Ultimately, we believe Telford Homes has a robust long-term outlook based on a model that is less cyclical, lower risk and less capital intensive, building on our recognised skillset and excellent reputation, and underpinned by demand from both institutional investors and rental customers.

**Jon Di-Stefano**

Chief Executive Officer

29 May 2019

## **FINANCIAL REVIEW**

Telford Homes is pleased to report an increase in total revenue to a record high of £354.3 million despite a more challenging economic and political environment. However, total profit before tax reduced to £40.1 million due to an increase in the proportion of revenue derived from build to rent developments. Build to rent transactions generate lower margins but reduce exposure to market risk and require no debt and limited equity investment. As a result, gearing reduced to 37.0 per cent at 31 March 2019 from 52.2 per cent at 30 September 2018.

### **Presentation of results and Alternative Performance Measures**

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

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

### **Operating results**

Total revenue increased to £354.3 million from £316.2 million last year (GAAP 2019: £336.1 million, 2018: £294.8 million) with the increase mainly generated from build to rent contracts. The Group recognises revenue on build to rent developments, including subsidised affordable housing contracts on these schemes, as contract revenue on a percentage of completion basis throughout the build programme. Build to rent developments contributed revenue, including the Group's share of joint venture results, of £108.7 million (2018: £67.7 million). This includes new contracts in the year but also ongoing profit recognition on contracts exchanged in previous years as the build programme spans a number of years.

Revenue from individual open market sale developments decreased to £231.7 million (2018: £244.2 million). This includes 390 open market completions (2018: 476) with an average price of £552,000 (2018: £473,000) together with subsidised affordable housing revenue on these schemes recognised on a percentage of completion basis. The increase in the average price of the open market completions reflects the mix of homes and developments completing in each period in terms of product and location. Other revenue in the year of £13.9 million (2018: £4.3 million) relates mainly to two small land sales of legacy assets together with freehold sales in the year.

The Group's strategy to increase the number of homes developed for build to rent investors will, over time, result in an even 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 is in line with the prior year at £79.3 million (2018: £79.5 million) and on a GAAP basis £75.0 million (GAAP 2018: £74.8 million). Total gross profit is stated after expensing loan interest that has been capitalised within inventories of £4.5 million (2018: £4.2 million) and therefore before charging this interest the adjusted gross margin was 23.7 per cent compared to 26.5 per cent last year. Total gross profit is similar to the prior year despite an increase in revenue due to the increasing proportion of the revenue arising from lower margin build to rent developments.

On build to rent developments, 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 2019 was in line with the target margin at 13.2 per cent albeit lower than the 18.1 per cent achieved in the year to 31 March 2018 when build cost savings achieved in that year improved the profit margin.

The margin achieved on open market sale developments of 28.3 per cent was largely consistent with that achieved last year (2018: 28.4 per cent) and remains ahead of the Group's target when appraising new sites of 24 per cent. A significant proportion of the open market completions in the current year were from two sites, Stratford Central and The Liberty Building, both of which were substantially forward sold a number of years ago where the sales achieved had benefitted from some price inflation prior to launch. The margin recognised on open market developments is expected to trend down towards the target margin over time as older developments which benefitted from sales price inflation are replaced by sites acquired more recently.

Administrative expenses have increased to £27.6 million (2018: £24.2 million), including the Group's share of joint ventures, and £27.4 million excluding joint ventures (2018: £24.1 million). This rise is mainly due to higher employee costs which have enabled the Group to deliver an increase in revenue in this year and investment in knowledge and experience and an operational structure which enables further growth in the future. As a percentage of revenue, administrative expenses have remained relatively similar year on year at circa 7.8 per cent.

Selling expenses have increased to £9.8 million (2018: £6.5 million) including the Group's share of joint ventures and £9.0 million excluding the Group's share of joint ventures (2018: £5.7 million). The Group adopted IFRS 15 'Revenue from contracts with customers' from 1 April 2018 and the prior year figures have not been restated and are therefore not prepared on a like-for-like basis, see note 2 for further details. As a result of adopting IFRS 15, selling expenses in the year to March 2019 are £0.9 million higher than they would have been under the previous accounting standard and therefore on a comparable basis, selling expenses have increased by £2.4 million. The increase in selling expenses is largely due to the nature of the individual sale market at present with more intensive marketing required to secure sales including advertising and on-site development specific sales centres and show apartments. There was also more agents commission payable in relation to build to rent developments this year due to the exchange of a forward fund contract for Equipment Works.

The Group's adjusted operating margin has decreased by over three percentage points to 13.1 per cent (2018: 16.7 per cent) flowing through from the lower gross margin achieved as a result of more build to rent activity together with an increase in sales costs as a proportion of revenue due to the more challenging market environment.

Total profit before tax has decreased from the record high achieved last year of £46.0 million to £40.1 million (GAAP 2019: £40.3 million, 2018: £46.3 million). This was below our original market expectations of £50 million due to a subdued London sales market resulting in a slower sales rate and a delay on two build contracts that were expected to exchange in FY 2019 and are now anticipated in FY 2020.

### **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 marginally to £8.9 million (2018: £8.8 million) and includes £2 million of non-utilisation fees, £0.9 million of amortised arrangement fees and £5.4 million of interest capitalised on developments. Finance costs have not increased despite a rise in average borrowings in the year at £156.0 million (2018: £111.7 million) due to the full year benefit of the new lower rate revolving credit facility signed in December 2017.

### **Dividend**

The current policy is to pay one third of earnings as dividends however the Board has committed to paying more than this over the next few years where earnings are expected to be lower than those reported for the year to March 2018. During this time, the Board expects the annual dividend to be at least 17 pence per share. In the future, the Board anticipates enhancing the Group's dividend policy to take account of the reduced capital requirements of build to rent transactions.

The Board is recommending a final dividend for the year of 8.5 pence which, together with the interim dividend of 8.5 pence paid on 11 January 2019, makes a total dividend for the year of 17.0 pence (2018: 17.0 pence). Earnings per share equate to 44.6 pence (2018: 49.8 pence) and therefore the dividend payment is 38 per cent of earnings. The final dividend is expected to be paid on 19 July 2019 to those shareholders on the register at the close of business on 7 June 2019. The ex-dividend date is 6 June 2019.

## **Balance sheet**

Net assets at 31 March 2019 were £252.9 million, an increase from £231.1 million last year mainly due to retained profits. This equates to net assets per share of 333 pence (31 March 2018: 306 pence).

Inventories, including the Group's share of joint ventures, are the most significant proportion of net assets at £320.6 million (2018: £373.9 million). Excluding joint ventures, inventories decreased from £300.0 million to £197.4 million. 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 value of unsold finished properties within inventories was £15.7 million at 31 March 2019 (2018: £34.8 million).

In the future a greater proportion of the Group's revenue is expected to be derived from construction contracts, in particular build to rent, and this will ultimately reduce the level of work in progress held on the balance sheet. This is because work in progress is charged out to cost of sales throughout the course of development on a percentage of completion basis as profit is recognised. This differs to open market individual sale homes whereby the work in progress balance builds up throughout the development until handover of each unit when revenue and profit is recognised in full.

## **Development pipeline**

The Group has a development pipeline of 4,900 homes (31 March 2018: 4,000 homes) with a value of £1.59 billion (31 March 2018: £1.31 billion). Over 80 per cent of the units in the development pipeline have a planning consent and are in design or under construction.

The Group seeks to de-risk the development pipeline by securing forward sales whenever possible. In the past a substantial proportion of these forward sales have been to individual investors but going forward they are more likely to be achieved predominantly through build to rent transactions and the sale of subsidised affordable housing. Currently 60 per cent of the homes in our pipeline that are under construction are forward sold.

## **Borrowings**

The Group funds its development costs through a combination of debt and equity unless subject to a forward funding arrangement. Due to the strategic shift towards build to rent and therefore more forward funded developments, the business has continued to grow but with a reduction in net debt to £93.6 million (2018: £103.1 million) and lower gearing at 37.0 per cent (2018: 44.6 per cent).

We still anticipate a relatively modest level of debt within the Group to fund open market individual sale developments in a capital efficient way using the relatively cheap debt funding available. However, the Board has stated that gearing is expected to remain under 50 per cent going forward as open market individual sale homes become a reducing proportion of the pipeline.

Telford Homes has sufficient headroom within its five year £210 million revolving credit facility signed in December 2017 with Natwest, HSBC, Santander and AIB. As at 31 March 2019, the Group had drawn £106.7 million of this facility, leaving headroom of £103.3 million to fund future site acquisitions and construction costs. The Group remains well within the development and corporate covenants stipulated within the facility and maintains excellent long-term relationships with its banking partners.

Joint venture developments are funded outside of the revolving credit facility with site specific loans secured as and when required. The Group has a £110 million facility with Lasalle Residential Finance Fund to fund its 50 per cent owned joint venture at City North and a £35 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 sufficient headroom within existing debt facilities and less need for debt going forward with the strategic shift into build to rent. Forward funded build to rent developments will enable Telford Homes to grow with a lower risk and less capital intensive strategy. Despite build to rent generating lower profit margins, the limited equity requirement will enable swifter growth and therefore higher absolute profits in the medium-term with lower overall gearing requirements.

**Katie Rogers**

Chief Financial Officer

29 May 2019



**GROUP INCOME STATEMENT INCLUDING PROPORTIONAL SHARE OF JOINT VENTURE RESULTS FOR THE YEAR ENDED 31 MARCH 2019**

	<b>Non-GAAP Year ended 31 March 2019 £000</b>	<b>Non-GAAP Year ended 31 March 2018 £000</b>
<b>Total revenue</b>	<b>354,329</b>	<b>316,241</b>
Cost of sales	(275,011)	(236,772)
<b>Total gross profit</b>	<b>79,318</b>	<b>79,469</b>
Administrative expenses	(27,577)	(24,159)
Selling expenses	(9,831)	(6,548)
<b>Total operating profit</b>	<b>41,910</b>	<b>48,762</b>
Finance income	1,659	898
Finance costs	(3,446)	(3,622)
<b>Total profit before income tax</b>	<b>40,123</b>	<b>46,038</b>
Income tax expense	(6,492)	(8,623)
<b>Total profit after income tax</b>	<b>33,631</b>	<b>37,415</b>

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

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

The key management information presented in this way is deemed to be an Alternative Performance Measure. For further details on Alternative Performance Measures, including definitions and reconciliations, see note 7.

**GROUP BALANCE SHEET INCLUDING PROPORTIONAL SHARE OF JOINT VENTURE  
RESULTS AT 31 MARCH 2019**

	<b>Non-GAAP 31 March 2019 £000</b>	<b>Non-GAAP 31 March 2018 £000</b>
<b>Non current assets</b>		
Goodwill	818	818
Property, plant and equipment	2,716	2,543
	<b>3,534</b>	<b>3,361</b>
<b>Current assets</b>		
Inventories	320,614	373,859
Trade and other receivables	103,005	55,688
Total cash and cash equivalents	33,379	13,829
	<b>456,998</b>	<b>443,376</b>
<b>Total assets</b>	<b>460,532</b>	<b>446,737</b>
<b>Non current liabilities</b>		
Trade and other payables	(894)	(1,268)
Financial liabilities	(2,016)	(360)
Deferred income tax liabilities	(603)	(48)
	<b>(3,513)</b>	<b>(1,676)</b>
<b>Current liabilities</b>		
Trade and other payables	(74,238)	(92,445)
Total borrowings	(127,029)	(116,899)
Financial liabilities	-	(200)
Current income tax liabilities	(2,900)	(4,426)
	<b>(204,167)</b>	<b>(213,970)</b>
<b>Total liabilities</b>	<b>(207,680)</b>	<b>(215,646)</b>
<b>Net assets</b>	<b>252,852</b>	<b>231,091</b>
<b>Capital and reserves</b>		
Issued share capital	7,603	7,551
Share premium	109,274	108,178
Retained earnings	135,975	115,362
<b>Total equity</b>	<b>252,852</b>	<b>231,091</b>

**GROUP INCOME STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2019**

	<b>Note</b>	<b>Year Ended 31 March 2019 £000</b>	<b>Year Ended 31 March 2018 £000</b>
<b>Total revenue</b>		<b>354,329</b>	<b>316,241</b>
Less share of revenue from joint ventures		(18,207)	(21,460)
<b>Revenue</b>		<b>336,122</b>	<b>294,781</b>
Cost of sales		(261,112)	(220,026)
<b>Gross profit</b>		<b>75,010</b>	<b>74,755</b>
Administrative expenses		(27,400)	(24,055)
Selling expenses		(9,047)	(5,706)
Share of results of joint ventures		2,395	2,443
<b>Operating profit</b>		<b>40,958</b>	<b>47,437</b>
Finance income		1,397	773
Finance costs		(2,015)	(1,902)
<b>Profit before income tax</b>		<b>40,340</b>	<b>46,308</b>
Income tax expense	<b>3</b>	(6,709)	(8,893)
<b>Profit after income tax</b>		<b>33,631</b>	<b>37,415</b>
<b>Earnings per share:</b>			
Basic	<b>5</b>	44.6p	49.8p
Diluted	<b>5</b>	44.5p	49.4p

**GROUP STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 MARCH 2019**

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Movement in derivative financial instruments hedged	(1,456)	536
Movement in deferred tax on derivative financial instruments hedged	277	(102)
<b>Other comprehensive (expense) income net of tax (items that may be subsequently reclassified into profit or loss)</b>	<b>(1,179)</b>	<b>434</b>
Profit for the year	33,631	37,415
<b>Total comprehensive income for the year</b>	<b>32,452</b>	<b>37,849</b>

**GROUP BALANCE SHEET**  
**AT 31 MARCH 2019**

	<b>31 March 2019 £000</b>	<b>31 March 2018 £000</b>
<b>Non current assets</b>		
Goodwill	289	289
Investment in joint ventures	85,578	54,259
Property, plant and equipment	2,563	2,471
	<b>88,430</b>	<b>57,019</b>
<b>Current assets</b>		
Inventories	197,440	300,008
Trade and other receivables	108,520	57,853
Cash and cash equivalents	31,540	12,808
	<b>337,500</b>	<b>370,669</b>
<b>Total assets</b>	<b>425,930</b>	<b>427,688</b>
<b>Non current liabilities</b>		
Trade and other payables	(894)	(1,268)
Financial liabilities	(2,016)	(360)
Deferred income tax liabilities	(827)	(193)
	<b>(3,737)</b>	<b>(1,821)</b>
<b>Current liabilities</b>		
Trade and other payables	(62,006)	(77,891)
Borrowings	(104,435)	(112,259)
Financial liabilities	-	(200)
Current income tax liabilities	(2,900)	(4,426)
	<b>(169,341)</b>	<b>(194,776)</b>
<b>Total liabilities</b>	<b>(173,078)</b>	<b>(196,597)</b>
<b>Net assets</b>	<b>252,852</b>	<b>231,091</b>
<b>Capital and reserves</b>		
Issued share capital	7,603	7,551
Share premium	109,274	108,178
Retained earnings	135,975	115,362
<b>Total equity</b>	<b>252,852</b>	<b>231,091</b>

**GROUP STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2019**

	<b>Share capital £000</b>	<b>Share premium £000</b>	<b>Retained earnings £000</b>	<b>Total equity £000</b>
<b>Balance at 1 April 2017</b>	<b>7,529</b>	<b>107,395</b>	<b>89,361</b>	<b>204,285</b>
Profit for the year	-	-	37,415	37,415
Total other comprehensive income	-	-	434	434
Movement in excess tax on share options	-	-	43	43
Dividend on equity shares	-	-	(12,383)	(12,383)
Proceeds of equity share issues	22	783	-	805
Share-based payments	-	-	455	455
Purchase of own shares	-	-	(726)	(726)
Sale of own shares	-	-	763	763
<b>Balance at 31 March 2018</b>	<b>7,551</b>	<b>108,178</b>	<b>115,362</b>	<b>231,091</b>
IFRS 15 restatement	-	-	1,777	1,777
<b>Balance at 1 April 2018</b>	<b>7,551</b>	<b>108,178</b>	<b>117,139</b>	<b>232,868</b>
Profit for the year	-	-	33,631	33,631
Total other comprehensive expense	-	-	(1,179)	(1,179)
Movement in excess tax on share options	-	-	(59)	(59)
Dividend on equity shares	-	-	(13,187)	(13,187)
Proceeds of equity share issues	52	1,096	-	1,148
Share-based payments	-	-	(82)	(82)
Purchase of own shares	-	-	(932)	(932)
Sale of own shares	-	-	644	644
<b>Balance at 31 March 2019</b>	<b>7,603</b>	<b>109,274</b>	<b>135,975</b>	<b>252,852</b>

**GROUP CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2019**

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
<b>Cash flow from operating activities</b>		
Operating profit	40,958	47,437
Depreciation	1,207	906
Share-based payments	(82)	455
Profit on sale of property, plant and equipment	(2)	(2)
Decrease (increase) in inventories	107,219	(8,145)
Increase in receivables	(47,728)	(19,465)
Decrease in payables	(15,492)	(73,150)
Share of results from joint ventures	(2,395)	(2,443)
	83,685	(54,407)
Interest paid and debt issue costs	(6,972)	(6,393)
Income taxes paid	(7,582)	(7,385)
<b>Cash flow from operating activities</b>	<b>69,131</b>	<b>(68,185)</b>
<b>Cash flow from investing activities</b>		
Distribution from joint ventures	-	20,016
Investment in joint ventures	(28,592)	(24,781)
Purchase of property, plant and equipment	(1,299)	(2,105)
Proceeds from sale of property, plant and equipment	2	2
Interest received	102	773
<b>Cash flow from investing activities</b>	<b>(29,787)</b>	<b>(6,095)</b>
<b>Cash flow from financing activities</b>		
Proceeds from issuance of ordinary share capital	1,148	805
Purchase of own shares	(932)	(726)
Sale of own shares	644	763
Increase in bank loans	-	60,000
Repayment of bank loans	(8,285)	-
Dividend paid	(13,187)	(12,383)
<b>Cash flow from financing activities</b>	<b>(20,612)</b>	<b>48,459</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>18,732</b>	<b>(25,821)</b>
Cash and cash equivalents brought forward	12,808	38,629
<b>Cash and cash equivalents carried forward</b>	<b>31,540</b>	<b>12,808</b>

## NOTES

### 1 Basis of preparation

The financial information set out above does not constitute statutory accounts for the years ended 31 March 2019 and 31 March 2018 but is derived from those accounts. Statutory accounts for the year ended 31 March 2018 have been delivered to the Registrar of Companies and the statutory accounts for the year ended 31 March 2019 will be delivered to the Registrar of Companies and be available to all shareholders shortly. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under Section 498 (2) or (3) of the Companies Act 2006 or equivalent preceding legislation.

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

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

The statutory accounts for the year ended 31 March 2019, including the comparative information for the year ended 31 March 2018, have been prepared in accordance with International Financial Reporting Standards (IFRS) including International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted for use in the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Directors have assessed the Group's projected business activities and available financial resources together with detailed forecasts for cash flow and relevant sensitivity analysis. The Directors believe that the Group remains well placed to manage its business risks successfully. After making appropriate enquiries the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the statutory accounts for the year ended 31 March 2019.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of uncertainty were principally the same as those applied to the Group's financial statements as at 31 March 2018.



## **2 Accounting policies**

### **Accounting convention**

The statutory accounts for the year ended 31 March 2019 have been prepared under historical cost convention as modified for reassessment of derivatives at fair value and on a basis consistent with the accounting policies in the financial statements for the year ended 31 March 2018 with the exception of the new accounting standards noted below.

The Group has adopted IFRS 15 'Revenue from contracts with customers' from 1 April 2018. Adoption of the new standard has had an impact on the timing of recognition of some directly attributable selling expenses which, under the new standard, are required to be prepaid and then expensed at the time of the corresponding revenue and profit recognition rather than expensed as incurred. The Group has applied the modified retrospective method of transition which has resulted in a restatement of opening reserves at 1 April 2018 by an increase of £1,777,000 net of deferred tax, mainly in relation to agent's commission, with a corresponding increase in the prepayment held on the balance sheet. This prepaid commission will unwind over the next few years as forward sold properties complete and profit is recognised. As a result of adopting IFRS 15 and its impact on directly attributable selling expenses, operating profit for the year ended 31 March 2019 is £912,000 lower than it would have been under the previous accounting method.

The adoption of IFRS 15 has not had an impact on the Group's individual open market sales, revenue from which continues 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 has not been 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 was the Group's usual 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 has been included when determining the proportion of revenue to be recognised.

The Group has also adopted IFRS 9 'Financial instruments' from 1 April 2018, which has replaced IAS 39 'Financial Instruments: Recognition and Measurement' relating to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. Adoption of the new standard has resulted in changes in accounting policies, but has not had a material impact on the financial statements for the year ended 31 March 2019.

Amendments to IFRS 2 'Share based payments - classification and measurement of share-based payment transactions' have also been adopted by the Group from 1 April 2019 but this has not had a material impact on the financial statements for the year ended 31 March 2019.

## **3 Taxation**

Taxation has been calculated on the profit for the year ended 31 March 2019 at the estimated effective tax rate of 16.6 per cent (2018: 19.2 per cent).

#### 4 Dividend paid

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Prior year final dividend paid in July 2018 of 9.0p (July 2017: 8.5p)	6,764	6,378
Interim dividend paid in January 2019 of 8.5p (January 2018: 8.0p)	6,423	6,005
	<b>13,187</b>	<b>12,383</b>

The final dividend proposed for the year ended 31 March 2019 is 8.5 pence per ordinary share. This dividend was declared after 31 March 2019 and as such the liability of £6.5 million has not been recognised at that date.

#### 5 Earnings per share

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

Earnings per share have been calculated using the following figures:

	Year ended 31 March 2019	Year ended 31 March 2018
Weighted average number of shares in issue	75,435,736	75,061,664
Dilution - effect of share schemes	179,920	669,202
Diluted weighted average number of shares in issue	75,615,656	75,730,866
Profit on ordinary activities after taxation	£33,631,000	£37,415,000
<b>Earnings per share:</b>		
Basic	44.6p	49.8p
Diluted	44.5p	49.4p

## 6 Segmental reporting

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

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

Year ended 31 March 2019	Management Information £000	Remove share of joint ventures £000	GAAP £000
Revenue	354,329	(18,207)	336,122
Cost of sales	(275,011)	13,899	(261,112)
Gross profit	79,318	(4,308)	75,010
Administrative expenses	(27,577)	177	(27,400)
Selling expenses	(9,831)	784	(9,047)
Share of results of joint ventures	-	2,395	2,395
Operating profit	41,910	(952)	40,958
Net finance costs	(1,787)	1,169	(618)
Profit before income tax	40,123	217	40,340
Income tax expense	(6,492)	(217)	(6,709)
<b>Profit after income tax</b>	<b>33,631</b>	<b>-</b>	<b>33,631</b>
Inventories	320,614	(123,174)	197,440
Cash and cash equivalents	33,379	(1,839)	31,540
Other assets	106,539	90,411	196,950
Borrowings	(127,029)	22,594	(104,435)
Other liabilities	(80,651)	12,008	(68,643)
<b>Net assets</b>	<b>252,852</b>	<b>-</b>	<b>252,852</b>

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)
<b>Profit after income tax</b>	<b>37,415</b>	<b>-</b>	<b>37,415</b>
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)
<b>Net assets</b>	<b>231,091</b>	<b>-</b>	<b>231,091</b>

## 7 Key Management Information and Alternative Performance Measures

This report includes both statutory and Alternative Performance Measures (APMs). The Board uses APMs which, although financial measures of either historical or future performance, financial position or cash flows, are not defined or specified by IFRSs. The APMs, in the Board'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 are aligned to our strategy and are used by the Board for planning, reporting, to measure the performance of the business and form the basis of the performance measures linked to remuneration. The measures are also used in discussions with the investment analyst community and current and potential shareholders.

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

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

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

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

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

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Revenue	336,122	294,781
Share of joint venture revenue	18,207	21,460
<b>Total revenue</b>	<b>354,329</b>	<b>316,241</b>

**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 2019 £000	Year ended 31 March 2018 £000
Gross profit	75,010	74,755
Share of joint venture gross profit	4,308	4,714
<b>Total gross profit</b>	<b>79,318</b>	<b>79,469</b>

**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 2019 £000	Year ended 31 March 2018 £000
Operating profit	40,958	47,437
Share of joint venture operating profit	952	1,325
<b>Total operating profit</b>	<b>41,910</b>	<b>48,762</b>

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

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Profit before tax	40,340	46,308
Share of joint venture loss before tax	(217)	(270)
<b>Total profit before tax</b>	<b>40,123</b>	<b>46,038</b>

### **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.

	<b>Year ended 31 March 2019 £000</b>	<b>Year ended 31 March 2018 £000</b>
Total gross profit	79,318	79,469
Adjust for interest expensed within cost of sales	4,526	4,180
Adjusted total gross profit	83,844	83,649
Total revenue	354,329	316,241
<b>Adjusted gross margin</b>	<b>23.7%</b>	<b>26.5%</b>

**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.

	<b>Year ended 31 March 2019 £000</b>	<b>Year ended 31 March 2018 £000</b>
Total operating profit	41,910	48,762
Adjust for interest expensed within cost of sales	4,526	4,180
Adjusted total operating profit	46,436	52,942
Total revenue	354,329	316,241
<b>Adjusted operating margin</b>	<b>13.1%</b>	<b>16.7%</b>

### **Other APMs**

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

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

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Non-utilisation fees	2,054	2,445
Amortisation of arrangement fees	892	905
Other finance costs	500	272
Interest capitalised within work in progress	5,424	5,175
<b>Total finance costs incurred</b>	<b>8,870</b>	<b>8,797</b>

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

	31 March 2019 £000	31 March 2018 £000
Total borrowings	127,029	116,899
Total cash	(33,379)	(13,829)
Net debt	93,650	103,070
Net assets	252,852	231,091
<b>Gearing</b>	<b>37.0%</b>	<b>44.6%</b>

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

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

**- ENDS -**

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