Press Release **28 November 2018**

Telford Homes Plc

("Telford Homes" or the "Group")

Interim Results

Telford Homes Plc (AIM:TEF), the London focused residential property developer, today announces its interim results for the six months ended 30 September 2018 ("H1 2019" or the "period").

Highlights

- Total revenue in H1 2019 increased by 31 per cent to £129.6m (H1 2018: £99.3m)
- Total profit before tax in the period rose by 16.1 per cent to £10.1m (H1 2018: £8.7m)
- Increased interim dividend by 6.3 per cent to 8.5 pence (H1 2018: 8.0 pence)
- Remain confident in long-term strategy of delivering an increased number of much needed homes in non-prime locations of the chronically undersupplied London market
- Strategic shift towards build to rent over the last three years well timed and this sector is expected to form a significant part of the London market going forward
- Telford Homes is at the forefront of build to rent in London delivering over 1,750 homes in the sector and working with multiple institutional partners
- Progressing towards a full build contract with Greystar after planning secured for 894 build to rent homes at Parkside, Nine Elms
- Exchange of contracts expected shortly with major institutional partner for 257 homes at Equipment Works, Walthamstow
- Partnering with an established property owner to develop 700 homes in East London, representing a key milestone in the Group's long-term growth strategy
- Excellent progress made in process to identify long term institutional investment partner to accelerate build to rent activity
- Continuing to secure individual open market sales, particularly for homes priced under £600,000, despite short-term market uncertainty
- Substantial development pipeline of £1.65 billion of future revenue comprising just over 5,000 homes

Jon Di-Stefano, Chief Executive of Telford Homes, commented: "Telford Homes made pleasing progress during the first half of the financial year, despite an increasingly uncertain economic and political backdrop. Our strategic shift towards purpose built rental homes sold to institutional investors continues to be beneficial to our risk profile and growth potential whilst also being well timed in terms of the changing requirements of our typical customers in London.

We are committed to our strategy which is built upon a fundamental undersupply of homes in non-prime locations in London and our belief that short-term market sentiment does not alter the long-term structural imbalance between housing supply and housing need. These factors, coupled with our excellent reputation as a trusted build to rent partner and the associated change in our business model, give us the confidence to look forward to more success in future years."

- Ends -

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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.

CHIEF EXECUTIVE'S REVIEW

Telford Homes made pleasing progress during the first half of the financial year, despite an increasingly uncertain economic and political backdrop. Our strategic shift towards purpose built rental homes sold to institutional investors continues to be beneficial to our risk profile and growth potential whilst also being well timed in terms of the changing requirements of our typical customers in London. At £537,000, the average expected price in our development pipeline, excluding subsidised affordable housing, remains firmly under the psychologically significant £600,000.

We still have work to do in order to achieve our original target of exceeding £50 million of total profit before tax for the year to 31 March 2019 and Brexit brings a certain amount of unpredictability to that. Regardless, we remain extremely confident in our long-term strategy of delivering an increased number of much needed homes in non-prime locations of the chronically undersupplied London market.

Strategic shift towards build to rent developments

We continue to sell homes to a diverse mix of customers including build to rent investors, housing associations, owner-occupiers and individual investors. Allowing for recent economic uncertainty and adverse tax changes for individual investors, our strategic shift towards build to rent over the last three years has been well timed and remains our core focus for three reasons:

- Firstly, the higher return on capital achieved on build to rent transactions which require no debt and limited equity investment. Although margins are more modest than for individual open market sales, these forward funded developments also serve to de-risk our development pipeline

- Secondly, there continues to be significant demand from institutions looking to invest in build to rent and as a result there is no shortage of capital inflows to the sector. These institutions want to acquire a pipeline of rental properties as quickly as possible and many need the land finding, planning and construction skills that we already have

- Finally, we believe that the robust and undersupplied London rental market is moving in the direction of institutionally-owned, purpose-built developments. Tenants of such properties can enjoy higher levels of service, longer and more secure tenancies, better amenities and a greater sense of community. New generations of our customers are demanding a higher quality rental product and Telford Homes is well placed to help meet that demand. The proportion of people renting continues to increase in London due to the greater flexibility it offers and the lack of the significant financial commitment that comes with a mortgage. As a result, the market is starting to mirror that in many US cities where build to rent has been introduced over the last 25 years and made renting a way of life. We expect this trend to continue in London and potentially in other areas of the UK.

Current build to rent trading

We are progressing well with our existing build to rent projects and in August 2018 we handed over The Pavilions, our first build to rent development, which was purchased by L&Q in 2016. We are getting closer to build completion of the two schemes we are working on with M&G Real Estate in Carmen Street and Redclyffe Road and the same applies to the build to rent block at New Garden Quarter which was sold to Folio, a subsidiary of Notting Hill Genesis. All of our institutional partners are very pleased with progress to date.

In relation to new build to rent projects we are now moving towards entering a full build contract with Greystar for 894 build to rent homes at Parkside in Nine Elms and we expect to start on site early in 2019. In addition, at the Annual General Meeting in July the Group announced that we had commenced contractual negotiations with a major build to rent investor for the sale of 257 homes at Equipment Works in Walthamstow and that process is nearly complete with a formal announcement of exchange of contracts expected shortly.

In October 2018 we also announced that we have been chosen to partner a major land owner to obtain planning consent for around 700 homes on a site in East London, with a view to developing a combination of subsidised affordable housing, build to rent homes for the landowner and individual sale homes. This partnership, on a substantial project with a respected and established property owner, is another key milestone in our build to rent strategy and we expect to announce further details in the near future once we have agreed more detailed terms.

Finally, with the help of Savills, we are making excellent progress towards identifying at least one institutional investor with whom we can forge a long-term partnership for future build to rent activity. Our belief is that such a relationship could lead to more efficient ways of buying land, the ability to design bespoke build to rent schemes that match our partner’s requirements and a much shorter contractual process. The aim is to create a significant long-term build to rent pipeline to the benefit of both parties. We anticipate being in a position to select a partner by the end of 2018 with a view to entering into a contractual arrangement and making a formal announcement early in 2019.

Individual open market sales

Despite lower liquidity in the market as a consequence of the uncertainty around Brexit we have continued to secure individual sales, particularly for homes priced below £600,000, on developments that are complete or close to completion. These sales have typically been to first time owner-occupiers, many of whom have purchased under the Help to Buy scheme. We were pleased to see the Government extend Help to Buy until 2023 although we do not see any future end to the scheme or other potential changes as a material risk to the Group given that we have only made just under 100 sales using Help to Buy over the five years since it was introduced.

Homes priced above £600,000 are currently more difficult to sell especially if customers already own a home and are delaying a new purchase due largely to negative market commentary and sentiment. Fortunately, this price point represents a relatively small proportion of our overall portfolio and we continue to make progress selling homes above this level albeit at a much slower rate of sale than we would normally expect.

Following the very successful launch of the individual open market sale homes at New Garden Quarter, Stratford, at the beginning of the calendar year, we recently held our second 'off-plan' launch of 2018. The combined UK and overseas launch of Gallions Point, E16 resulted in 15 sales, with performance suppressed by Brexit worries and the potential risk of increased stamp duty for overseas investors. Although we were disappointed with the outcome, the majority of the homes at Gallions Point are priced under £600,000 with completions due in 2020 and we are confident that they will be very 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 pipeline with build to rent transactions and individual owner-occupier sales now drawing our focus instead.

Whilst build to rent has become our strategic focus, homes for individual open market sale remain an important part of our business model. This was underlined by our recent purchase from Greystar of part of their site in Greenford, our first in the London Borough of Ealing. Telford Homes will deliver 194 homes for individual open market sale at an average selling price of circa £500,000 and 84 affordable homes for shared ownership. We intend to begin work on site in mid-2019, with completion anticipated in 2022. As well as supporting our goal of operating in a broader footprint of London boroughs, this acquisition demonstrates the strength of our relationship with Greystar and how build to rent partnerships can lead to opportunities in other areas.

Land acquisition and development pipeline

Alongside the projects mentioned above we are appraising several other opportunities to add to our considerable development pipeline and we are engaged in detailed discussions on two further sites. In addition, we recently announced that Telford Homes has been selected to be on the Greater London Authority's 'London Development Panel 2' which is expected to bring forward sites currently in public ownership over the next few years. Our current development pipeline stands at just over 5,000 homes, including Parkside in Nine Elms, and has a gross development value of £1.65 billion.

Interim results to 30 September 2018

Our financial results in any given period are influenced by the number of individual open market completions achieved and the timing of entering into new construction contracts with affordable housing providers and build to rent investors. As was the case in the year to 31 March 2018, we expect a much greater number of open market completions in the second half of the financial year together with a number of new construction contracts and therefore the results for the financial year to 31 March 2019 will again be weighted towards the second half. All relevant developments remain on track and legal completions of homes already sold are proceeding as planned.

Total revenue in the first half of the year was £129.6 million, a 31% increase on the same period last year (H1 2018: £99.3 million), mainly due to a greater number of open market residential completions. Total profit before tax was £10.1 million, up from £8.7 million in the six months to 30 September 2017. GAAP revenue, excluding the Group's share of joint ventures, was £118.8 million (H1 2018: £86.7 million). GAAP profit before tax was £10.2 million (H1 2018: £8.8 million). For further details refer to note 6 and note 7.

The adjusted gross margin for the first half was 23.2 per cent with the corresponding figure for the year to 31 March 2018 being 26.5 per cent. This reduction was anticipated and is due mainly to a changing mix of build to rent and individual open market sales with an increasing proportion of build to rent lowering the gross margin, albeit offset by higher project specific returns on capital. There have also been a few isolated cases of modest build cost pressures in later trades as projects complete. However, general construction activity in London, particularly residential development, does appear to have reduced a little in recent months which tends to take some of the pressure off trades that are otherwise in high demand.

The adjusted operating margin for the six months to 30 September 2018 was 9.8 per cent down from 11.5 per cent in the same period last year due to the same factors impacting the gross margin. The adjusted operating margin in the year to 31 March 2018 was 16.7 per cent with the comparable H1 performance this year affected by the mix of projects noted above and more significantly the fact that revenue will be weighted to the second half while overheads remain relatively stable throughout the year.

Our net debt has increased to £122.7 million (FY 2018: £103.1 million) as projected, on account of building out some of our individual sale schemes and gearing is up to 52.2 per cent at 30 September 2018 from 44.6 per cent at 31 March 2018.

Adoption of IFRS 15 'Revenue from contracts with customers'

The Group adopted IFRS 15 'Revenue from contracts with customers' from 1 April 2018. This has changed the Group's accounting policy for some directly attributable sales costs which, under the new standard, are required to be prepaid and then expensed at the time of corresponding revenue and profit recognition rather than expensed as incurred. This has resulted in a restatement of opening reserves at 1 April 2018 by an increase of £1.8 million net of deferred tax, mainly in relation to agent's commission, with a corresponding increase in prepayments held on the balance sheet. This prepaid commission will unwind over the next few years as forward sold properties complete and profit is recognised. The first £0.5 million of the restated prepaid commission has accordingly been expensed in the six months to 30 September 2018.

Dividend

The Group's dividend policy is to pay one third of earnings across each financial year. The Board is pleased to declare an increase in the interim dividend to 8.5 pence (H1 2018: 8.0 pence). This dividend will be paid on 11 January 2019 to those shareholders on the register at the close of business on 7 December 2018. The ex-dividend date is therefore 6 December 2018.

People

As a sign of our commitment to the build to rent sector, we recently welcomed Caroline Radford to the new role of Build to Rent Development Manager. Caroline is responsible for all existing and future build to rent relationships and contracts, and reports to our Group Financial Director, Katie Rogers.

As we announced in October 2018, Frank Nelson, Non-Executive Director, stepped down from the Board due to other commitments. We are grateful to Frank for his contribution to Telford Homes since January 2015 and wish him well. We are in the process of seeking a suitable replacement and will make a further announcement at the appropriate time.

Operating responsibly

We are very proud of our record on sustainability especially since we introduced 'Building a Living Legacy', our strategy to create places with a positive long-term contribution to London's built environment, in 2016. This is an area of increasing importance for our partners and a key factor in our ability to secure mutually beneficial partnerships.

Aside from our recognised environmental credentials, we play an important role in engaging with and developing communities. The recent opening of a primary school in St. Paul's Way, Tower Hamlets brings the total number of new school places created by Telford Homes in the last three years to 1,690. The multiple use site including the new school, 109 mixed tenure homes, a community centre / sports hall and a mosque is our third development based around building a new school and has been well received and praised by each of the stakeholders involved in the scheme.

Outlook

In our trading update on 10 October 2018 we reiterated our original target of exceeding £50 million of total pre-tax profit for the year to 31 March 2019. We also identified that the greatest risk to achieving that target was approximately 90 homes that were still to be sold of which 25 were priced above £600,000. Since that date we have made good progress and now have just under 60 sales still to achieve of which 20 are priced above £600,000. However, the uncertainty arising from Brexit and indeed the wider political situation remains a concern across the sector making it difficult to accurately predict sales rates over the coming months. Individual sales already secured, combined with existing construction contracts for build to rent and subsidised affordable housing and new construction contracts that are expected to be exchanged before 31 March 2019, would amount to total profit before tax in excess of £40 million. This provides us with a strong base to work towards our £50 million target by securing further individual sales that will complete in the remainder of financial year.

We are committed to our strategy which is built upon a fundamental undersupply of homes in non-prime locations in London and our belief that short-term market sentiment does not alter the long-term structural imbalance between housing supply and housing need. These factors, coupled with our excellent reputation as a trusted build to rent partner, the associated change in our business model and the new opportunities this growing sector brings, give us the confidence to look forward to more success in future years.

Jon Di-Stefano
Chief Executive
27 November 2018

GROUP INCOME STATEMENT INCLUDING PROPORTIONAL SHARE OF JOINT VENTURE RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

	Non-GAAP 6 months ended 30 September 2018 £000	**Non-GAAP 6 months ended 30 September 2017 £000**	**Non-GAAP Year ended 31 March 2018 £000**
Total revenue	**129,624**	**99,341**	**316,241**
Cost of sales	(101,172)	(75,660)	(236,772)
Total gross profit	**28,452**	**23,681**	**79,469**
Administrative expenses	(13,331)	(11,272)	(24,159)
Selling expenses	(3,982)	(2,246)	(6,548)
Total operating profit	**11,139**	**10,163**	**48,762**
Finance income	745	310	898
Finance costs	(1,814)	(1,775)	(3,622)
Total profit before income tax	**10,070**	**8,698**	**46,038**
Income tax expense	(1,744)	(1,607)	(8,623)
Profit after income tax	**8,326**	**7,091**	**37,415**

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 further definitions and reconciliations, see note 7.

GROUP BALANCE SHEET INCLUDING PROPORTIONAL SHARE OF JOINT VENTURE RESULTS AT 30 SEPTEMBER 2018

	Non-GAAP 30 September 2018 £000	Non-GAAP 30 September 2017 £000	Non-GAAP 31 March 2018 £000
Non current assets			
Goodwill	818	818	818
Property, plant and equipment	2,804	2,229	2,543
Trade and other receivables	6,913	3,913	5,896
	10,535	6,960	9,257
Current assets			
Inventories	367,646	379,119	373,859
Trade and other receivables	53,085	34,412	49,792
Total cash and cash equivalents	25,144	35,330	13,829
	445,875	448,861	437,480
Total assets	**456,410**	**455,821**	**446,737**
Non current liabilities			
Trade and other payables	(703)	(1,215)	(1,268)
Financial liabilities	(499)	(649)	(360)
Deferred income tax liabilities	(705)	(181)	(48)
	(1,907)	(2,045)	(1,676)
Current liabilities			
Trade and other payables	(69,874)	(150,547)	(92,445)
Total borrowings	(147,780)	(95,215)	(116,899)
Financial liabilities	-	-	(200)
Current income tax liabilities	(1,739)	(1,830)	(4,426)
	(219,393)	(247,592)	(213,970)
Total liabilities	**(221,300)**	**(249,637)**	**(215,646)**
Net assets	**235,110**	**206,184**	**231,091**
Capital and reserves			
Issued share capital	7,570	7,534	7,551
Share premium	108,354	107,470	108,178
Retained earnings	119,186	91,180	115,362
Total equity	**235,110**	**206,184**	**231,091**

GROUP INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

	Note	Unaudited 6 months ended 30 September 2018 £000	Unaudited 6 months ended 30 September 2017 £000	Audited Year ended 31 March 2018 £000
Total revenue		**129,624**	**99,341**	**316,241**
Less share of revenue from joint ventures		(10,862)	(12,654)	(21,460)
Group revenue		**118,762**	**86,687**	**294,781**
Cost of sales		(92,641)	(65,379)	(220,026)
Gross profit		**26,121**	**21,308**	**74,755**
Administrative expenses		(13,278)	(11,218)	(24,055)
Selling expenses		(3,738)	(2,155)	(5,706)
Share of results of joint ventures		1,500	1,577	2,443
Operating profit		**10,605**	**9,512**	**47,437**
Finance income		630	258	773
Finance costs		(1,035)	(929)	(1,902)
Profit before income tax		**10,200**	**8,841**	**46,308**
Income tax expense	3	(1,874)	(1,750)	(8,893)
Profit after income tax		**8,326**	**7,091**	**37,415**
Earnings per share:				
Basic	5	11.0p	9.4p	49.8p
Diluted	5	11.0p	9.4p	49.4p

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

	Unaudited 6 months ended 30 September 2018 £000	Unaudited 6 months ended 30 September 2017 £000	Audited Year ended 31 March 2018 £000
Movement in derivative financial instruments hedged	61	447	536
Movement in deferred tax on derivative financial instruments hedged	(12)	(85)	(102)
Other comprehensive income net of tax (items that may subsequently be reclassified into profit or loss)	**49**	**362**	**434**
Profit for the period	8,326	7,091	37,415
Total comprehensive income for the period	**8,375**	**7,453**	**37,849**

GROUP BALANCE SHEET
AT 30 SEPTEMBER 2018

	Unaudited 30 September 2018 £000	Unaudited 30 September 2017 £000	Audited 31 March 2018 £000
Non current assets			
Goodwill	289	289	289
Investments in joint ventures	68,334	56,793	54,259
Property, plant and equipment	2,673	2,229	2,471
	71,296	59,311	57,019
Current assets			
Inventories	272,284	319,411	300,008
Trade and other receivables	66,979	35,048	57,853
Cash and cash equivalents	24,617	31,925	12,808
	363,880	386,384	370,669
Total assets	**435,176**	**445,695**	**427,688**
Non current liabilities			
Trade and other payables	(703)	(1,215)	(1,268)
Financial liabilities	(499)	(649)	(360)
Deferred income tax liabilities	(922)	(454)	(193)
	(2,124)	(2,318)	(1,821)
Current liabilities			
Trade and other payables	(58,653)	(141,246)	(77,891)
Borrowings	(137,550)	(94,117)	(112,259)
Financial liabilities	-	-	(200)
Current income tax liabilities	(1,739)	(1,830)	(4,426)
	(197,942)	(237,193)	(194,776)
Total liabilities	**(200,066)**	**(239,511)**	**(196,597)**
Net assets	**235,110**	**206,184**	**231,091**
Capital and reserves			
Issued share capital	7,570	7,534	7,551
Share premium	108,354	107,470	108,178
Retained earnings	119,186	91,180	115,362
Total equity	**235,110**	**206,184**	**231,091**

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018 (UNAUDITED)

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 31 March 2018	**7,551**	**108,178**	**115,362**	**231,091**
IFRS 15 restatement (note 2)	-	-	1,777	1,777
Balance at 1 April 2018	**7,551**	**108,178**	**117,139**	**232,868**
Profit for the period	-	-	8,326	8,326
Total other comprehensive income	-	-	49	49
Excess tax on share options	-	-	90	90
Dividend on equity shares	-	-	(6,764)	(6,764)
Proceeds of equity share issues	19	176	-	195
Share-based payments	-	-	200	200
Sale of own shares	-	-	146	146
Balance at 30 September 2018	**7,570**	**108,354**	**119,186**	**235,110**

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017 (UNAUDITED)

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 April 2017	**7,529**	**107,395**	**89,361**	**204,285**
Profit for the period	-	-	7,091	7,091
Total other comprehensive income	-	-	362	362
Excess tax on share options	-	-	43	43
Dividend on equity shares	-	-	(6,378)	(6,378)
Proceeds of equity share issues	5	75	-	80
Share-based payments	-	-	191	191
Sale of own shares	-	-	510	510
Balance at 30 September 2017	**7,534**	**107,470**	**91,180**	**206,184**

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018 (AUDITED)

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 April 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**

GROUP CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

	Unaudited 6 months ended 30 September 2018 £000	Unaudited 6 months ended 30 September 2017 £000	Audited Year ended 31 March 2018 £000
Cash flow from operating activities			
Operating profit	10,605	9,512	47,437
Depreciation	584	350	906
Share-based payments	200	191	455
Profit on sale of tangible fixed assets	(1)	-	(2)
Decrease (increase) in inventories	30,057	(29,864)	(8,145)
(Increase) decrease in receivables	(6,908)	3,585	(19,465)
Decrease in payables	(19,298)	(9,758)	(73,150)
Share of results from joint ventures	(1,500)	(1,577)	(2,443)
	13,739	**(27,561)**	**(54,407)**
Interest paid and debt issue costs	(3,582)	(1,336)	(6,393)
Income tax paid	(4,113)	(3,063)	(7,385)
Cash flow from operating activities	**6,044**	**(31,960)**	**(68,185)**
Cash flow from investing activities			
Distribution from joint venture	-	8,557	20,016
Investment in joint ventures	(12,083)	(16,219)	(24,781)
Purchase of tangible assets	(786)	(1,307)	(2,105)
Proceeds from sale of tangible assets	1	-	2
Interest received	56	13	773
Cash flow from investing activities	**(12,812)**	**(8,956)**	**(6,095)**
Cash flow from financing activities			
Proceeds from issuance of ordinary share capital	195	80	805
Purchase of own shares	-	-	(726)
Sale of own shares	146	510	763
Increase in bank loans	25,000	40,000	60,000
Dividend paid	(6,764)	(6,378)	(12,383)
Cash flow from financing activities	**18,577**	**34,212**	**48,459**
Net increase (decrease) in cash and cash equivalents	**11,809**	**(6,704)**	**(25,821)**
Cash and cash equivalents brought forward	12,808	38,629	38,629
Cash and cash equivalents carried forward	**24,617**	**31,925**	**12,808**

NOTES

1 Basis of preparation

The interim financial statements have been prepared on the basis of the recognition and measurement requirements of International Financial Reporting Standards (IFRS) in issue that are either endorsed by the EU and effective at 31 March 2019 or are expected to be endorsed and effective at 31 March 2019.

The interim financial statements do not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006. They are prepared in accordance with IAS 34 interim financial reporting. The figures for the half years ended 30 September 2018 and 30 September 2017 are unaudited. Consistent with previous years, the Board has included within the interim results an income statement and a balance sheet using proportional consolidation for the results of joint ventures along with the Generally Accepted Accounting Principles (GAAP) compliant versions of the income statement and balance sheet which present joint ventures as equity accounted investments.

The interim financial statements were approved by the directors on 27 November 2018 and the GAAP compliant information has been reviewed by the auditors whose review report is unqualified and will be included in the interim report distributed to shareholders.

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 interim financial statements.

The Group's statutory financial statements for the year ended 31 March 2018 were approved by the Board of directors on 29 May 2018, have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain statements under Section 498 of the Companies Act 2006.

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 interim accounts have been prepared under the historical cost convention 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. This 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 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.

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.

3 Taxation

Taxation has been calculated on the profit for the six months ended 30 September 2018 at the estimated effective tax rate of 19.0% (H1 2018: 19.0%).

4 Dividends

The interim dividend declared for the six months ended 30 September 2018 is 8.5 pence per ordinary share and is expected to be paid on 11 January 2019 to those shareholders on the register at the close of business on 7 December 2018. The ex-dividend date is therefore 6 December 2018. This dividend was declared after 30 September 2018.

The interim dividend paid for the six months ended 30 September 2017 was 8.0 pence per ordinary share and the final dividend paid for the year ended 31 March 2018 was 9.0 pence per ordinary share.

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, which are treated as cancelled. 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:

	Unaudited 6 months ended 30 September 2018	**Unaudited 6 months ended 30 September 2017**	**Audited Year ended 31 March 2018**
Weighted average number of shares in issue	75,358,206	75,061,480	75,061,664
Dilution - effect of share schemes	628,201	569,521	669,202
Diluted weighted average number of shares in issue	75,986,407	75,631,001	75,730,866
Profit on ordinary activities after taxation	£8,326,000	£7,091,000	£37,415,000
Earnings per share:			
Basic	11.0p	9.4p	49.8p
Diluted	11.0p	9.4p	49.4p

6 Segmental reporting

The Group has only one reportable segment being housebuilding in the United Kingdom. Financial analysis is presented on this basis to the chief decision makers for the Group these being the directors.

Management information is presented to the directors with the Group's share of joint venture results proportionally consolidated to reflect the true underlying performance of the Group. The Group adopted IFRS 11 'Joint Arrangements' in the year to 31 March 2015 and as such joint ventures within these condensed financial statements are accounted for as equity accounted investments rather than by proportional consolidation. A reconciliation between management information including a proportional share of joint venture results and the GAAP compliant information in the condensed financial statements is as follows:

6 months ended 30 September 2018	**Management information £000**	**Remove share of joint ventures £000**	**GAAP £000**
Revenue	129,624	(10,862)	118,762
Cost of sales	(101,172)	8,531	(92,641)
Gross profit	28,452	(2,331)	26,121
Administrative expenses	(13,331)	53	(13,278)
Selling expenses	(3,982)	244	(3,738)
Share of results of joint ventures	-	1,500	1,500
Operating profit	11,139	(534)	10,605
Net finance costs	(1,069)	664	(405)
Profit before income tax	10,070	130	10,200
Income tax expense	(1,744)	(130)	(1,874)
Profit after income tax	**8,326**	**-**	**8,326**
Inventories	367,646	(95,362)	272,284
Cash and cash equivalents	25,144	(527)	24,617
Other assets	63,620	74,655	138,275
Borrowings	(147,780)	10,230	(137,550)
Other liabilities	(73,520)	11,004	(62,516)
Net assets	**235,110**	**-**	**235,110**

6 months ended 30 September 2017	Management information £000	Remove share of joint ventures £000	GAAP £000
Revenue	99,341	(12,654)	86,687
Cost of sales	(75,660)	10,281	(65,379)
Gross profit	23,681	(2,373)	21,308
Administrative expenses	(11,272)	54	(11,218)
Selling expenses	(2,246)	91	(2,155)
Share of results of joint ventures	-	1,577	1,577
Operating profit	10,163	(651)	9,512
Net finance costs	(1,465)	794	(671)
Profit before income tax	8,698	143	8,841
Income tax expense	(1,607)	(143)	(1,750)
Profit after income tax	**7,091**	**-**	**7,091**
Inventories	379,119	(59,708)	319,411
Cash and cash equivalents	35,330	(3,405)	31,925
Other assets	41,372	52,987	94,359
Borrowings	(95,215)	1,098	(94,117)
Other liabilities	(154,422)	9,028	(145,394)
Net assets	**206,184**	**-**	**206,184**

For the 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**

7 Key management information and Alternative Performance Measures

The Chief Executive's review 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 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 and highlighted in this report 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.

	6 months ended 30 September 2018 £000	**6 months ended 30 September 2017 £000**	**Year ended 31 March 2018 £000**
Revenue	118,762	86,687	294,781
Share of joint venture revenue	10,862	12,654	21,460
Total revenue	**129,624**	**99,341**	**316,241**

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

	6 months ended 30 September 2018 £000	**6 months ended 30 September 2017 £000**	**Year ended 31 March 2018 £000**
Gross profit	26,121	21,308	74,755
Share of joint venture gross profit	2,331	2,373	4,714
Total gross profit	**28,452**	**23,681**	**79,469**

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

	6 months ended 30 September 2018 £000	6 months ended 30 September 2017 £000	Year ended 31 March 2018 £000
Operating profit	10,605	9,512	47,437
Share of joint venture operating profit	534	651	1,325
Total operating profit	**11,139**	**10,163**	**48,762**

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.

	6 months ended 30 September 2018 £000	6 months ended 30 September 2017 £000	Year ended 31 March 2018 £000
Profit before tax	10,200	8,841	46,308
Share of joint venture profit before tax	(130)	(143)	(270)
Total profit before tax	**10,070**	**8,698**	**46,038**

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.

	6 months ended 30 September 2018 £000	6 months ended 30 September 2017 £000	Year ended 31 March 2018 £000
Total gross profit	28,452	23,681	79,469
Adjust for interest expensed within cost of sales	1,573	1,258	4,180
Adjusted total gross profit	30,025	24,939	83,649
Total revenue	129,624	99,341	316,241
Adjusted gross margin	**23.2%**	**25.1%**	**26.5%**

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.

	6 months ended 30 September 2018 £000	**6 months ended 30 September 2017 £000**	**Year ended 31 March 2018 £000**
Total operating profit	11,139	10,163	48,762
Adjust for interest expensed within cost of sales	1,573	1,258	4,180
Adjusted total operating profit	12,712	11,421	52,942
Total revenue	129,624	99,341	316,241
Adjusted operating margin	**9.8%**	**11.5%**	**16.7%**

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 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.

	6 months ended 30 September 2018 £000	**6 months ended 30 September 2017 £000**	**Year ended 31 March 2018 £000**
Non-utilisation fees	1,107	1,284	2,445
Amortisation of arrangement fees	439	436	905
Other finance costs	268	55	272
Interest capitalised within work in progress	3,277	2,234	5,175
Total finance costs incurred	**5,091**	**4,009**	**8,797**

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.

	30 September 2018 £000	**30 September 2017 £000**	**31 March 2018 £000**
Total borrowings	147,780	95,215	116,899
Total cash	(25,144)	(35,330)	(13,829)
Net debt	122,636	59,885	103,070
Net assets	235,110	206,184	231,091
Gearing	**52.2%**	**29.0%**	**44.6%**

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.

For a full list of the Group's KPIs and APMs refer to the 2018 Annual Report.

- 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