[illegible] For
Telford [illegible] Regeneration
[illegible]ments Holdings Limited
09077673

TELFORD HOMES PLC

DEVELOPING IN LONDON DELIVERING SUSTAINABLE GROWTH

ANNUAL REPORT 2017

Registered Number

'OUR CONFIDENCE IN DELIVERING FURTHER GROWTH REMAINS UNCHANGED, SUPPORTED BY THE CHRONIC NEED FOR HOMES IN LONDON.'

Jon Di-Stefano
Chief Executive

HIGHLIGHTS OF THE YEAR

REVENUE
£291.9m
2016: £245.6m

GROSS MARGIN*
22.3%
2016: 26.5%

OPERATING MARGIN*
13.4%
2016: 15.0%

PROFIT BEFORE TAX
£34.1m
2016: £32.2m

EPS
36.8p
2016: 39.3p

GEARING
7.0%
2016: 9.3%

DIVIDEND PER SHARE
15.7p
2016: 14.2p

DEVELOPMENT PIPELINE
£1.5bn
2016: £1.6bn

FORWARD SALES
£546m
2016: £579m

* Before all interest charges including those expensed within cost of sales of £[illegible] million (2016: £[illegible] million) and nil (2016: £0.4 million) of non-recurring costs in relation to the [illegible] House acquisition.

Discover more online at:
www.telfordhomes.london

AT A GLANCE

AN OVERVIEW OF TELFORD HOMES

HACKNEY SQUARE

E9

Housing Design Award winner 2016

DEVELOPMENT PIPELINE

£1.5bn

NET ASSETS

£204m

What we do

Telford Homes Plc is an AIM listed developer of residential-led, mixed use sites in London, where the need for homes far exceeds supply.

Our customers include individual investors from the UK and overseas, owner-occupiers and housing associations. Increasingly we are working with institutional investors in the build to rent sector, a growing market in London.

Founded in 2000, we now directly employ 248 people and have a development pipeline of over 4,000 homes.

We are a respected partner to landowners, housing associations, local authorities, build to rent investors and our supply chain.

We are investing in the communities we create via our new sustainability strategy and we look after our people, who are the real heart of our business.

INVESTMENT CASE

PROVEN STRATEGY

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

P12 Read more about our strategy

MARKET OPPORTUNITY

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

P08 Read more about our market

STRONG PARTNERSHIPS

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

P10 Read more about our business model

KNOWLEDGE & EXPERIENCE

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

P48 Read about our Board of directors

Where we operate

The business has traditionally focused on East London, but the need for new homes is so great that we have recently expanded our horizons across a wider area. Telford Homes is skilled in all aspects of London development and we can apply our knowledge and expertise to a wider range of opportunities in new boroughs.

We develop in non-prime locations to maintain an affordable price point for our individual customers and our strategic move into build to rent provides scope to work with investment partners across London.

SUBSTANTIAL PIPELINE

Development pipeline of over 4,000 homes representing £1.5 billion of future revenue.

Read more in the Chief Executive's review

DE-RISKED SALES

Forward sales secured of £546 million giving visibility over future cash flows and profits.

Read more in the Financial review

QUALITY & SERVICE

Delivering quality homes to a diverse customer mix with a 99% recommendation rate in 2016.

Read more in the Chief Executive's review

GROWING BUSINESS

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

Read more in the Chairman's statement

STRATEGIC REPORT

VIBE E8

- Completed residential development of 101 apartments in Dalston
- Incorporating a new two-form entry primary school
- Shortlisted for Housing Design Award 2017

CHAIRMAN'S STATEMENT

DEVELOPING IN LONDON: A STRONG PERFORMANCE

'We are well positioned to continue the growth of Telford Homes thanks to the strength of our performance in the undersupplied non-prime London housing market and our increasing activity in the build to rent sector.'

Performance

Notwithstanding some uncertainty created by the outcome of the EU referendum, we have experienced robust demand for our homes from individual investors and owner-occupiers. Our ability to deliver forward sold homes to our customers on programme, together with a step change in our presence in the build to rent sector, saw Telford Homes achieving excellent results for the year to 31 March 2017. I am particularly pleased that we achieved a 99 per cent customer recommendation rate in 2016 a notable endorsement of our commitment to quality and service.

Since February 2016 we have exchanged contracts on four significant build to rent transactions with a range of investors, indicative of our growing reputation in the sector as a trusted delivery partner. Along with monitoring external influences on the Group, the development of our build to rent strategy has been one of the principal areas of focus for the Board this year. This sector complements our historic focus on individual sales to investors and owner-occupiers and is well aligned with our forward selling philosophy. The attractive return on capital and lower risk profile associated with build to rent will facilitate accelerated growth for Telford Homes, although the Board remains mindful of ensuring the business grows in a controlled manner in order that our high standards of operational performance are upheld.

Dividend

The Board is pleased to declare a final dividend of 8.5 pence per share, making a total of 15.7 pence per share for the year, an increase of just over 10 per cent compared with the previous year (2016: 14.2 pence). Our policy is to pay one third of earnings as dividends in each financial year. For the year to 31 March 2017 however, the Board has fulfilled its promise to increase the dividend payment above that level in order to offset the dilution in earnings resulting from the equity placing in late 2015. Therefore, the interim dividend together with the full year dividend equates to over 40 per cent of earnings for this financial year. The final dividend will be paid on 14 July 2017 to those shareholders on the register at the close of business on 16 June 2017. The ex-dividend date is therefore 15 June 2017.

Culture and values

I have always been proud of the single team culture and strong values of Telford Homes. In the last year we have recruited talented people from outside of the business at levels not seen previously. As Telford Homes continues to grow and our strategy evolves, there is a need to ensure that the culture that has made the business so successful to date is preserved, yet able to adapt to the requirements of a larger organisation. For this reason, the Group plans to review its corporate vision, mission and values during 2017 to ensure these reflect the evolving position of the business and allow us to capitalise on the opportunities that lie ahead.

Andrew Wiseman
Chairman

'I am delighted to be able to look back on another excellent year, and, on behalf of the Board, I wish to thank all of our employees for their hard work in delivering these results.'

In a year that has seen strong operational growth, our admirable health and safety record merits mention. Health and safety is the first item on the agenda at monthly Board meetings and our performance is testament to the sound policies and procedures in place, as well as the deep-rooted sense of responsibility that pervades the organisation.

Another core principle in our approach is the emphasis placed upon sustainability. Although this has been a consideration in the Group's way of operating for some years, following the appointment in 2016 of a Head of Sustainability, the philosophy has been formalised into our 'Building a Living Legacy' strategy. A number of core targets have been established within this strategy and we are committed to achieving these in the coming years.

Outlook

I am delighted to be able to look back on another excellent year, and, on behalf of the Board, I wish to thank all our employees for their hard work in delivering these results. I am excited by the strength of our development pipeline and the promising opportunities that lie ahead for Telford Homes to play an increasing role in meeting the need for new homes in London.

Andrew Wiseman
Chairman
30 May 2017

MARKET OVERVIEW

DEVELOPING IN LONDON: FAVOURABLE FUNDAMENTALS

The principal driver of the London housing market remains the chronic imbalance between supply and demand and this is particularly the case at Telford Homes' typical price point. Housing starts reduced in 2016, further exacerbating the situation.

Economic outlook

London's economic growth has outpaced that of the rest of the UK for the last ten years, with the exception of 2009 to 2010 (see chart 1), and it is projected that London will remain the fastest growing region, although its pace of expansion could reduce from around 2.5 per cent in 2015 to an average of just under 2 per cent in 2017-18.

The economic environment is proving to be robust and the economy has performed better than expected post the EU referendum vote, with the housing market remaining resilient.

Demand and population growth in London

There has been consistent, long term growth in London's population (see chart 2). This has led to ever growing demand for housing in the capital which has not been matched by the number of homes built.

Over the past few years there has been a recovery in the housing market driven by wider economic recovery, increased access to low cost mortgage financing, improved availability of land through the planning process and Government support for the housing sector. These remain key drivers for the market over the longer term with the outlook strong in the near term.

The immediate impact of the EU referendum in June 2016 was relatively short-lived, with the widespread positive attitude adopted within the UK maintaining consumer and business confidence. However, the medium term impact of the referendum as exit terms are negotiated is yet to be seen.

'With prices high in central boroughs, the search for value and for higher price growth prospects in recent years has led to a surge in demand in Outer London locations. These characteristics are being sought by both owner-occupiers and investors and we expect this trend to escalate over the next five years.'

JLL UK Residential Forecasts November 2016

Housing starts reduce

There were circa 17,000 new build starts in London for the year to June 2016, down from around 25,000 in 2015 (see chart 3). This was the lowest level since 2012 and intensifies the cumulative deficit built up over decades.

Tax changes

The move to a tiered system of Stamp Duty Land Tax (SDLT) in recent years has assisted the majority of the Group's customers because Telford Homes' typical price point is lower than the £925,000 threshold where higher rates are now payable. However, legislation introduced on 1 April 2016 increased by three per cent the SDLT payable by purchasers of buy-to-let or second homes. This has led to many UK-based investors becoming more circumspect about new purchases, although overseas buyers have been less deterred, with the fall in the value of sterling since the EU referendum undoubtedly a factor. Build to rent investors factor SDLT into their acquisition model prior to any offer to purchase being made.

Changes have also been introduced to mortgage interest tax relief for investors. Prior to April 2017, landlords could deduct mortgage interest and other finance-related costs from their rental income before calculating their tax liability. This relief will be removed gradually between 2017 and 2020, although a 'tax credit' worth 20 per cent of the mortgage interest cost will remain allowable.

Increasing rental demand

Affordability of housing in London is challenging. In 2016, seven of the ten least affordable local authority locations in the UK were in London. Unsurprisingly therefore the number of households renting homes in London has increased by 450,000 in the last 10 years. The increase in average private rents in London relative to the rest of England is indicative of the demand for rented accommodation in the capital (see chart 4).

Government support

The Housing White Paper published in February 2017 seeks to address some of the issues that have inhibited housing supply. Proposals including accelerating the planning process, making available more development land and supporting SME builders in order to build sector capacity are encouraging.

The planning regime has historically been a key constraint on the housebuilding industry's ability to provide the number of new homes needed to keep pace with demand. Approval rates have improved over the last few years since the introduction of the National Planning Policy Framework, although the process to obtain planning permission and discharge conditions can remain arduous, with the shortage of local authority planning officers a key factor.

The Government's Help to Buy scheme now provides an equity loan of up to 40 per cent in London and this has further increased the number of potential customers who can benefit at price points up to £600,000. Whilst the scheme remains available it will assist many people to own their own home in London who otherwise could not raise enough finance.

Outlook

Despite macroeconomic uncertainty, particularly in relation to the outcome of the EU referendum, market fundamentals remain favourable. The attraction of London, as evidenced by its growing population and shortage of housing supply points to a continuing need for new homes, particularly in the locations and at the price points that Telford Homes develops.

BUSINESS MODEL

DEVELOPING IN LONDON: AN INTEGRATED BUSINESS

Our clear and simple business model has consistently delivered value to our stakeholders.

Our key resources and relationships

RESOURCES

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

RELATIONSHIPS

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

What we do

LAND ACQUISITION

PLANNING

DESIGN

CONSTRUCTION

SALES

How we create value

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

FORWARD SOLD POSITION
£546m

CUSTOMER RECOMMENDATION RATE
99%

Sharing value with our stakeholders

Our clients and communities
A focus on quality and service together with our sustainability commitments through our 'Building a Living Legacy' strategy.

P38 Read more about our sustainability strategy

Our people
Rewarding and stimulating career paths with responsibility, empowerment and opportunities for training and development.

P34 Read more about our people

Shareholders
We have grown pre-tax profit tenfold since 2012, paying at least one third of earnings as dividends each year.

P22 Read more in the financial review

EARNINGS PER SHARE
36.8p

DIVIDEND PER SHARE
15.7p

AMBITION AND STRATEGY

DEVELOPING IN LONDON: DRIVING OUR GROWTH PLANS

We have a clear plan to achieve our ambition of doubling our output of homes, underpinned by a philosophy of operating responsibly and efficiently.

Our ambition

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

Our strategy

Increasing our average site size to achieve economies of scale

In the last few years we have been able to achieve enhanced returns by deploying our resources on larger development sites. We have increased our minimum site size threshold to focus our land buying accordingly.

OPERATE EFFICIENTLY

Broadening our geographic focus within London to access more opportunities

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

ACCESS TO LAND

Focusing on affordable non-prime locations for open market sale homes

We continue to manage the development pipeline to ensure our average price point remains affordable to potential owner-occupiers, investors and their tenants. The average price of the open market homes in our current pipeline is £527,000.

MEETING DEMAND

Positioning Telford Homes as a key build to rent developer and partner across London

Selling homes to build to rent investors has been a significant change in our strategy since the start of 2016. Build to rent delivers enhanced capital returns and can accelerate our growth whilst also reducing our reliance on debt.

ACCELERATING GROWTH

Maintaining a strong forward sold position to limit risk

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

REDUCING RISK

Driving the evolution of our sustainability strategy

We have developed our sustainability strategy 'Building a Living Legacy' and recruited a Head of Sustainability to drive implementation across the business. The core priorities and targets are described on page 38.

OPERATE RESPONSIBLY

CHIEF EXECUTIVE'S REVIEW

DEVELOPING IN LONDON: A POSITIVE OUTLOOK

'In addition to strong financial results for the year to 31 March 2017, our growing reputation as a build to rent partner is unlocking an exciting source of future growth.'

Performance

I am delighted to report record levels of revenue and profit for the year to 31 March 2017. Pre-tax profits continued to increase, reaching £34.1 million (2016: £32.2 million), slightly ahead of the level anticipated at the beginning of the year due to more open market completions in the second half of the year and additional build to rent profit recognition. The gross margin before interest charges of 22.3 per cent and the operating margin before interest of 13.4 per cent were in line with expectations. Both reflect the increasing mix between developments sold to individual buyers and build to rent transactions secured at lower margins in exchange for enhanced capital returns.

Despite uncertainty in relation to the outcome of the EU referendum and tax changes impacting primarily UK based individual investors, our underlying market has remained resilient. Any potential dampening effect of these factors has been outweighed by the structural imbalance between supply and need for new homes in London, particularly at our typical price point.

Our forward selling strategy continues to be at the heart of our model. We sell homes early in the development cycle as a means of de-risking projects and advancing investment into new opportunities. This means that trading activity undertaken in each financial year will typically deliver revenue and profit over the following two to three years, giving the Board substantial visibility over future profit levels and expected cash flows. We receive deposits when contracts are exchanged for individual properties and, as at 31 March 2017, £68.1 million of deposits had been taken in advance of future completions. This additional funding supports further investment in the development pipeline and reduces the need to draw down debt finance. We start the financial year with a substantial order book of forward sales of £546 million (1 April 2016: £579 million). This secure and de-risked position is underpinning our stated expectations for growth over the next few years.

Following some recent land acquisitions, our development pipeline stands at £1.5 billion of future revenue and represents more than five times the revenue generated in the year to 31 March 2017. The average anticipated price of the open market homes within the pipeline is £527,000 (2016: £513,000). This is in line with our model of seeking non-prime opportunities where the average sales price is below £1,000 per square foot, and hence the majority of homes are priced between £350,000 and £700,000.

Jon Di-Stefano
Chief Executive

CHIEF EXECUTIVE'S REVIEW

In February 2017, we added to the pipeline with the acquisition of a sizeable development site, the former London Electricity Board (LEB) building on Cambridge Heath Road, E2 for £30.2 million. The anticipated gross development value of the site is approximately £95.0 million. Subject to planning consent, we expect to start work on site in 2018 and to finish in 2021. Post year end we have exchanged contracts to acquire Stone Studios in Hackney Wick for 120 homes plus commercial space, and have been selected as the preferred partner of the London Borough of Brent to develop 236 homes in South Kilburn. Both sites have full planning consent and we expect to start on site later this year.

Customer mix

The Group's customer mix for the year to 31 March 2017 has moved significantly towards institutional build to rent investors, with this sector representing 77 per cent of sales generated (2016: 24 per cent) compared with individual investors from the UK and overseas at 20 per cent (2016: 69 per cent) and owner-occupiers at three per cent (2016: seven per cent). In total, including build to rent transactions, we exchanged contracts for the sale of 501 open market properties in the year to 31 March 2017 (2016: 463).

Individual open market sales

As our build to rent business has grown, and we have continued to pursue our forward sales strategy, we have naturally seen lower numbers of sales to owner-occupiers. Unless they are cash buyers, owner-occupiers are typically unable to purchase more than six months ahead of completion. However, there is clearly significant demand from this part of the market and over the last few weeks we have had a very encouraging response to the launch of the residual availability at Bermondsey Works leading to 22 owner-occupier reservations, 20 of which are being purchased under the Government's Help to Buy scheme.

We have seen robust demand from individual investors underpinned by a thriving rental market primarily caused by an imbalance between supply and demand for rental properties at the right price point. Amongst these sales it is pleasing to see a number of repeat purchasers, who often opt to wait for the launch of the next Telford Homes development rather than investing elsewhere. In the 2016 calendar year, we achieved a 99 per cent customer recommendation rate, an outstanding performance that sustains the high levels achieved in previous years (2015: 99 per cent).

Our last significant launch to individual investors was the second phase of City North, Finsbury Park, in November 2016, which secured 73 new sales for a combined value of over £43 million. The success of this is evidence that high quality homes in desirable locations remain sought after by investors across the world. Subsequent to City North, developments that could have been more widely launched for sale have instead been sold to build to rent investors as part of our new strategic focus. Notwithstanding this we are confident that there remains a healthy market for our typical product from individual buyers.

Build to rent

We have increased our presence in the London build to rent sector over the last year. Since February 2016 we have entered into four build to rent transactions comprising of nearly 500 homes, together worth over £230 million. Telford Homes is a valued partner to large-scale investors, given our record in delivering complex residential projects, and we are proud to have become recognised as a significant build to rent developer in such a short space of time.

In December 2016, we exchanged contracts for the sale of The Forge, Redclyffe Road, E6 to M&G Real Estate. The sale consisted of the freehold interest in the land and construction of 125 homes for a net consideration of £48.6 million. This was our third build to rent transaction, and the second with M&G. At the end of March 2017 our joint venture, Chobham Farm North LLP, exchanged contracts on our fourth significant build to rent transaction. Contracts were exchanged for the sale of 112 of the 297 open market homes at New Garden Quarter, Stratford E15, for a net consideration of £53.7 million. The sale, to a subsidiary of our joint venture partner Notting Hill Housing Group, was for the first phase of open market homes at this development and removed the need for third party debt finance.

As we have previously reported we are actively looking into establishing longer term relationships with build to rent investors. We anticipate that this type of partnership will enable Telford Homes to buy land with a secured build to rent sale already in place subject to any planning requirements. This will bring focus to our acquisition of build to rent opportunities, allowing us to move swiftly to secure sites and to take advantage of an increased desire for purpose built rental homes from local councils and the Mayor of London.

CHIEF EXECUTIVE'S REVIEW

Market context

The principal market developments in the year have been a level of nervousness created by the outcome of the EU referendum and tax changes, namely the three per cent stamp duty surcharge on second properties and the phased removal of tax relief on mortgage interest. The potentially negative impact of these factors on our performance has been mitigated by the chronic imbalance between the supply of and need for homes in London. Our business model of developing homes that people can afford to either buy or rent is built upon this fundamental and longstanding driver of demand.

Although the EU referendum result created a degree of uncertainty, this has not to date been a significant cause for concern for the Group. We chose to defer launches for a short period while the immediate furore died down, something that our focus on forward selling allows us the flexibility to do. Demand remained buoyant however and neither have we seen significant pressure on labour availability or materials due to the result, especially as there has not been a dramatic increase in the supply of homes in London. We will continue to monitor the negotiations with the EU, looking for stability throughout the process and assurances as soon as possible on the rights of EU workers to remain in the UK. We consider that these are already vital considerations for both sides, which supports our confidence in continuing with our current strategy for growth.

The shift of our business model towards build to rent has helped to cushion us from the impact of the tax changes. In any case sales to overseas investors have remained robust, evidenced by the launches of the Liberty Building just over a year ago and more recently City North. We have seen particular success over the last three years in selling to investors based in China. This is despite any potential tempering of demand in relation to leaving the EU or the additional three per cent stamp duty, both of which have been offset for some buyers by favourable movements in exchange rates.

We have, however, seen a reduction in the number of UK based individuals seeking to invest in buy-to-let properties. These investors have been more sensitive than overseas buyers to the uncertainty resulting from the EU referendum, and have also been deterred by the increase in stamp duty and the reducing ability to benefit from tax relief on mortgage interest. Despite these tax changes the attractive rental yields that are bringing institutional investors into the market should also encourage individuals to invest again once their confidence returns.

Objectives and strategy

Our primary objective is to build more homes in London and to grow in a controlled manner to meet some of the shortfall between supply and need in the capital. We are on track to achieve our stated ambition to generate significant growth in pre-tax profits over the next two years, and also to create a platform for sustaining a bigger business that can continue to grow in the longer term.

Our strategic priority is to further increase our activity in the build to rent sector. Our business is very capital intensive and this restricts our rate of growth if we are relying on our own sources of capital. A key attraction of build to rent is that forward funded developments do not require much, if any, of our equity, nor any debt finance. This allows us to accelerate the growth of the business, provided we have the operational capacity to do so, and to combine that with reducing our longer term reliance on debt.

As well as the focus on increasing our presence in build to rent, we are expanding our geographical reach beyond our historical heartland of boroughs in the East of London. We still expect to operate in our key boroughs, but as the business grows in scale we are looking to broaden the spread of individual sale and build to rent opportunities. An example of this in action is the South Kilburn site in partnership with Brent, a borough in which we have not previously developed.

We believe our skillset can be deployed to develop homes across London, maintaining a strong pipeline of developments for individual buyers in non-prime locations and for build to rent investors.

Another decision that has resulted from our increased scale is to target larger sites, typically of 50 or more units, in order to secure economies of scale. This also fits with the minimum scale of investment for most build to rent investors and ensures we are not spending time on smaller sites that historically contribute much less to profits and disproportionately take up operational capacity.

Having a solid foundation of forward sold properties now allows us the flexibility to hold back some open market homes until later in the development time frame, should we wish to take advantage of an active owner-occupier market, supported in some instances by Help to Buy. We have seen recent success with Help to Buy at Bermondsey Works, having held back the residual availability with that objective.

We do not expect Help to Buy to become as fundamental to Telford Homes as it is to many other developers, but it will help us to maintain support for those who still wish to purchase their own home.

We are planning dedicated sales centres on more of our sites, working together with our central sales location in Stratford. In these instances, including at Bow Garden Square, St Pauls Way, E3 and the remainder of New Garden Quarter, we will be commencing sales much later in the development process than would normally be the case. We expect this to bring a healthy balance to our overall sales mix ensuring that we are able to flexibly adjust to any future demand changes across our various customer segments.

In the last 12 months we have taken a big step forward in terms of our commitment to sustainability. We now have a Head of Sustainability and a fully-fledged strategy, 'Building a Living Legacy', including a commitment to achieving a range of targets over the next seven years.

CHIEF EXECUTIVE'S REVIEW

These targets address economic, social and environmental aspects of building a sustainable business for the benefit of all our stakeholders. You can read more about this on page 38.

Ever mindful of needing to work as efficiently as possible, we have increased our adoption of modern methods of construction to speed up the delivery of certain developments, something the Government has been encouraging the sector to do. Not only is this beneficial to our customers and investors but it also improves our return on capital. Examples include the off-site construction of brick cladding at our Manhattan Plaza development and the use of a lightweight metal frame structure at The Pavilions, one of our build to rent schemes. Along with the rest of the industry, we will be looking at how we can increase the use of these methods and others to deliver homes more quickly and efficiently.

More detail on our strategy is available on page 12.

Outlook

We anticipate that the lack of supply of new homes relative to need in non-prime areas of London will continue to provide ample opportunity for the growth of Telford Homes in the foreseeable future. Our increased focus on build to rent, with de-risked sales requiring reduced levels of equity and no debt finance, allows us to evaluate ways to grow at a faster rate. Although build to rent projects generate a moderately lower net margin, our return on capital is much improved and longer term debt requirements will be lower.

We expect to continue our successes in the build to rent sector due to the increasing appetite of a range of potential investors. In particular, we will pursue longer term partnerships whilst also maintaining an awareness of other opportunities.

We anticipate that over the next few years build to rent could represent as much as half of our total revenue pipeline.

The Board is comfortable with the development pipeline, and we have avoided acquiring land at inflated prices. We have equity and debt available to add to the pipeline, and will do this where opportunities are consistent with our strategy and meet our financial hurdles. Prospects spanning a variety of locations are being evaluated on an ongoing basis and in greater numbers than in 2016. This, together with the successful tenders for our recent acquisitions, is encouraging in terms of securing access to our most important raw material.

We are confident in our product and market place as we look to the future. Over 80 per cent of the anticipated gross profit for the year to 31 March 2018 has been secured, and Telford Homes is on track to deliver over £40 million of profit before tax. In addition, for the year to 31 March 2019, we have secured over 60 per cent of the anticipated gross profit and expect profit before tax to exceed £50 million.

The strength of our performance and outlook are testament to the hard work and commitment of everyone at Telford Homes. I am proud of our way of working, our exemplary rate of employee retention and our excellent health and safety record and all the more so in view of the exceptional growth we have achieved in the last few years. I want to thank everyone that makes Telford Homes a special place to work and I look forward to another exciting period of growth ahead.

Jon Di-Stefano
Chief Executive
30 May 2017

FINANCIAL REVIEW

DEVELOPING IN LONDON: A RECORD YEAR

'Telford Homes has experienced another year of excellent results, achieving growth in profit before tax for the fifth year running from £3 million in 2012 to just over £34 million this year.'

The Group has seen success in forward selling homes through traditional channels but has also increased its focus and prominence in the London build to rent sector, entering into three more build to rent contracts in the year. The Group has continued to invest in land and work in progress but still has substantial headroom within its £180 million revolving credit facility available to achieve its aspirations of increasing profit to over £50 million by March 2019.

Presentation of joint ventures

In the year to 31 March 2015, the Group adopted IFRS 11 'Joint Arrangements' which states that joint ventures should be accounted for as equity investments rather than by proportional consolidation. The Group's joint ventures are an integral part of the business and 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. The Board suggests investors follow its lead in assessing the business on the results that include a proportional share of joint ventures.

Operating results

Revenue, including the Group's share of joint ventures, has increased to a record £291.9 million (2016: £245.6 million), up 18.9 per cent on the prior year. On a GAAP basis, excluding the Group's share of joint ventures, revenue increased to £266.0 million (2016: £242.7 million).

Katie Rogers
Group Financial Director

FINANCIAL REVIEW

The number of open market residential completions was lower than the prior year at 289 (2016: 482), however the average selling price was higher at £531,000 (2016: £417,000). The reduction in completions is purely down to availability of finished stock with fewer units physically available to handover in the current financial year. Similarly, the increase in average price is a function of the mix of developments completing in each year in terms of product and their location together with relatively modest sales price inflation.

The reduction in revenue from open market completions was more than offset by an increase in both subsidised affordable housing revenue and build to rent revenue recognised in the year. In the year to 31 March 2017, the Group exchanged contracts to deliver 400 affordable homes (2016: 87 homes) and entered into three new build to rent contracts to deliver 387 build to rent homes (2016: 156 homes) over the next few years.

The Group continues to recognise revenue from the sale of affordable homes and build to rent homes under contract accounting on a percentage of completion basis throughout the build programme. Revenue recognised from affordable housing was £50.1 million (2016: £19.1 million) and from build to rent contracts it was £76.5 million (2016: £19.9 million). This includes the new contracts exchanged during the year together with the ongoing profit recognition on contracts exchanged in previous years.

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

A further advantage of build to rent sales is that they are forward funded by the investors and therefore they offer exceptional returns on capital.

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, if any, equity is used during construction and no debt is required. In return for these benefits the Group is accepting a moderately reduced net margin on build to rent contracts with a lower sale price being partly offset by savings in selling expenses and interest costs.

During the year to 31 March 2017, the Group sold one small undeveloped site for £5.0 million. Similar to the two sites sold in the prior year for a total of £6.7 million, this sale is a result of a change in strategic direction where smaller sites have become less attractive to build out and the Group is able to leverage its greater operational size to focus on larger scale developments. The Group has also continued its programme of disposing of older freehold assets, generating revenue of £4.9 million (2016: £1.7 million).

Gross profit has increased to £63.2 million from £63.1 million, including the Group's share of joint ventures. Gross profit is stated after expensing loan interest that has been capitalised within inventories of £1.9 million (2016: £1.9 million) and, before charging this interest, the gross margin was 22.3 per cent compared to 26.5 per cent last year.

The decrease in gross profit margin was as expected with two main reasons for the reduction. Firstly, the margin achieved on open market sale completions of 25.4 per cent was lower than that achieved last year (2016: 27.3 per cent) but slightly ahead of the Group's target when appraising new sites of 24 per cent. The margin recognised on open market homes is expected to trend down towards the target margin over time as older developments which benefitted from more significant sales price inflation and minimal build cost inflation are replaced with sites appraised more recently.

Secondly, a greater proportion of the revenue this year is generated from build to rent contracts which attract a lower gross margin to compensate for the advantages of being forward funded and for savings in selling expenses and interest costs. The Group expects build to rent transactions to achieve a gross margin of approximately 12 to 13 per cent which represents the normal target margin of 24 per cent less savings in selling expenses and interest costs of circa eight per cent and therefore a net difference of up to four per cent offset by a substantially improved return on capital. The margin achieved on the build to rent revenue recognised in the year to 31 March 2017 was well ahead of that target at 16.0 per cent due to some of the land being purchased at more advantageous rates prior to becoming part of the build to rent portfolio. Future build to rent margins are still expected to be around 12 to 13 per cent.

Administrative expenses have increased to £20.8 million (2016: £19.3 million) including the Group's share of joint ventures and £20.7 million excluding joint ventures (2016: £19.1 million). This increase is mainly due to higher employee costs as the Group continues to recruit and reward the talent required to establish a structure appropriate for growth. As a percentage of revenue administrative expenses remain consistent year on year at circa seven per cent.

Selling expenses have reduced significantly to £5.1 million (2016: £9.4 million) including the Group's share of joint ventures and £4.1 million excluding the Group's share of joint ventures (2016: £9.2 million). This reduction is partly due to the lower number of open market completions but also reflects the Group's move towards build to rent, which has reduced the number of homes available to sell on the open market. During the year, there was only one significant launch, City North, incurring selling expenses of £0.9 million, compared to three launches in the previous year which resulted in combined selling expenses of £4.5 million. The homes sold under the three build to rent contracts entered into during the year would previously have been anticipated to be sold on the open market at some point over the next few years and therefore the build to rent transactions will generate significant sales cost savings over the same period.

The Group's operating margin (calculated before interest and the costs associated with the United House acquisition in the prior year) reduced to 13.4 per cent (2016: 15.0 per cent). This reduction is due to the increased proportion of build to rent profit this year which also generates interest cost savings below the operating margin line.

FINANCIAL REVIEW

Profit before tax including the Group's share of joint ventures has increased to a record high of £34.1 million from £32.2 million and to £34.6 million excluding the Group's share of joint ventures (2016 £32.3 million). The Board expects the year to 31 March 2018 to show significant growth in pre-tax profits and again in the following year. A large proportion of this growth is already visible due to the scale of the development pipeline and the Group's substantial forward sold position.

Finance costs

Finance costs actually incurred in the year, including the Group's share of joint ventures increased to £5.3 million (2016: £4.5 million) and reduced to £4.3 million excluding the Group's share of joint ventures (2016: £4.4 million).

Average borrowings in the year were higher at £55.1 million (2016: £50.6 million), with the interest charged on these borrowings of £2.2 million (2016: £2.2 million) being capitalised into work in progress as required by IAS 23.

Finance costs charged directly to the income statement primarily consist of amortised arrangement fees and non-utilisation fees on the Group's £180 million revolving credit facility and the new £110 million facility with LaSalle Residential Finance Fund secured in July 2016 to fund our joint venture scheme, City North. Non-utilisation fees including our share of joint ventures have increased to £2.5 million (2016: £1.7 million), of which £1.6 million is attributable to the revolving credit facility (2016: £1.7 million) and £0.9 million to the City North facility (2016: £nil).

Dividend

The Board's policy is to pay one third of earnings as dividends. Following the equity placing concluded in November 2015, the Board committed to paying a dividend equivalent to one third of earnings adjusted to remove the dilutive effect of the new shares for both the year to 31 March 2016 and the year to 31 March 2017. As a result, a final dividend of 8.5 pence per share has been proposed. Together with the 7.2 per cent interim dividend paid on 6 January 2017 this makes the total dividend for the year 15.7 pence (2016: 11.[illegible] pence). This equates to just over 40 per cent of earnings and delivers a yield of circa four per cent based on the share price at 31 March 2017. The final dividend is expected to be paid on 14 July 2017 to those shareholders on the register at the close of business on 16 June 2017.

Despite an increase in profit after tax, earnings per share has decreased from 39.3 pence to 36.8 pence. This is due to the equity placing which increased the number of shares in issue throughout the year to 31 March 2017 but only for part of the previous year, thereby increasing the weighted average number of shares in issue year on year.

Balance sheet and cash

Net assets at 31 March 2017 were £204.3 million, an increase from £187.0 million last year mainly due to retained profits. This equates to net assets per share of 271.3 pence (31 March 2016: 249.8 pence). There has been a significant amount of investment in land and work in progress with inventories, including the Group's share of joint ventures, increasing from £285.6 million to £339.4 million. Excluding joint ventures, inventories increased from £239.0 million to £287.7 million with the balance being recorded within investments in joint ventures.

Investment in joint ventures has increased from £42.1 million to £47.6 million. The increase is mainly a result of completing on the purchase of Gallions Quarter during the year. This is a joint venture with Notting Hill Housing Group and was part of the acquisition of the regeneration business of United House Developments in September 2015. Completion on this site was conditional on the satisfaction of certain conditions which were concluded on 28 July 2016.

The majority of the inventories balance is land and work in progress with minimal finished stock units due to our successful forward sales strategy. The Group does not typically land bank sites and therefore the vast majority of land held within inventories is under construction or is being progressed through the planning system. Included within inventories are £4.3 million of freehold assets held for future resale (2016: £[illegible] million).

Land creditors, including the Group's share of joint ventures, are £28.4 million (2016: £nil) and £26.9 million (2016: £nil) excluding joint ventures.

FINANCIAL REVIEW

Included within land creditors is £26.9 million in relation to a development site on Cambridge Heath Road E2, where the Group has exchanged contracts with completion due upon vacant possession of the site expected in the next few months. The remaining land creditors relate to our share of the land payment for two of our joint venture sites: Baltron Tower (£0.3 million) and Gallions Quarter (£1.1 million), where the original land contracts include a deferred land payment mechanism.

The Group continues to secure forward sales and benefit from the deposits received in advance of those sales completing. The Group had secured £546 million in forward sales at 1 April 2017 which will be recognised in future years. This is comprised of £397 million in relation to individual open market contracts, £40 million of affordable housing revenue and £109 million of build to rent revenue.

Total deposits received in advance on the open market contracts secured as at 31 March 2017 reduced slightly to £33.[illegible] million (2016: £[illegible] million). Non-refundable deposits are paid on exchange of contracts with a minimum 10 per cent received at that point and, where the Group is selling well ahead of completion, a further 10 per cent is paid 12 months after exchange. The full amount of any deposit received is available to the Group to invest in the business.

Borrowings

The Group continues to fund its development costs through a combination of debt and equity and, despite significant investment in land and work in progress, net debt has reduced to £14.[illegible] million (2016: £[illegible] million). This is partly due to open market completion proceeds received during the year but [illegible] [illegible]

The Board is comfortable with the potential for increased levels of debt and gearing given that many of the Group's developments have been substantially de-risked by the level of forward sales secured.

Telford Homes has a £180 million revolving credit facility which is available to fund developments that are not joint ventures. This facility, from a club of four banks, runs until March 2019 and is governed by standard corporate covenants together with site covenants on a portfolio basis. The margin payable on this facility varies from 2.8 per cent to 4 per cent over LIBOR depending on gearing. The Group has benefited from low gearing levels throughout the year and therefore the margin paid has been at the lower end of the range. As at 31 March 2017 the Group had drawn £55 million (2016: £40 million) of this facility, leaving headroom of £125 million to fund future site acquisitions and construction costs.

Joint venture developments are funded outside of the revolving credit facility with site specific loans secured as and when required. In July 2016, the Group secured a £[illegible] million facility with [illegible]Salle Residential Finance Fund to fund its 50 per cent owned joint venture at City North and in February 2017 it signed a £32 million facility with Williams and Glyn to fund Baltron Tower in which the Group has a 25 per cent stake. The Group's joint venture with Notting Hill Housing Group at New Garden Quarter is not expected to require any external debt finance due to a proportion of the development being sold for build to rent.

The Group [illegible]

Katie Rogers
Group Financial Director
30 May 2017

PRINCIPAL RISKS & UNCERTAINTIES

DEVELOPING IN LONDON: MANAGING RISK

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

Risk	Potential impact	Mitigation	Commentary
Attracting and retaining high-calibre employees	An inability to recruit and retain employees with appropriate skill sets can introduce cost, delays in bringing developments forward or quality issues. Increased employee turnover can create instability and uncertainty. Skills and experience lost are difficult to replace and loss of knowledge within the business can affect overall efficiency.	• The Group's Human Resources programme includes management trainee schemes, succession planning and training tailored to each discipline. • Remuneration packages are benchmarked against industry standards to ensure competitiveness. • Employee statistics including turnover and absence are monitored monthly. • Exit interviews and an employee engagement survey are used to identify any areas for improvement.	Skilled employees are critical to delivering the Group's growth strategy, improving key financial metrics and the continued delivery of attractive returns to shareholders.
Availability of materials and labour	The availability of materials and subcontracted labour for each site can affect both the length of the construction programme and the cost of construction. Build cost inflation will impact directly on the margin achieved on each site where this is in excess of forecasts.	• Planning of the construction programme and timely management of the tender process reduces the risk of delays. • Thorough tender process ensures that competitive rates are achieved on every trade. • Working in partnership with subcontractors and making timely payments to build mutually beneficial relationships. • Close monitoring of build cost inflation and appropriate provisioning, coupled with an early fixing of build costs where possible.	The outcome of the EU referendum has increased uncertainty around labour availability, however no immediate change has been noted.
Cash requirements and bank finance	Significant initial outlays of capital supported by bank finance are required for property development. This is coupled with lengthy time periods before the majority of the cash inflows on each project. The availability of sufficient borrowing facilities is therefore critical to enable the servicing of liabilities.	• The Group maintains a detailed cash flow forecast which extends five years ahead and is subject to continual re-assessment and sensitivity analysis to ensure it is not operating beyond its financial capacity. • The cash flow position is reviewed by the Board and the Group's banking partners on a regular basis. • The Group has excellent relationships with its banking partners and has secured sufficient facilities to enable it to take advantage of appropriate land buying and operational opportunities. • Deposits received from forward selling properties provide a source of equity which can be reinvested in new sites. • The Group's increased focus on build to rent results in cash inflows earlier in the development cycle.	The Group has continued to invest in land and work in progress but still has substantial headroom within its £180 million revolving credit facility available to achieve its growth aspirations.

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

PRINCIPAL RISKS & UNCERTAINTIES

Risk	Potential impact	Mitigation	Commentary
Land acquisition	The Group needs new land to maintain a development pipeline and to enable the business to continue to operate at a certain capacity. This land needs to be sourced in appropriate locations and where optimum planning consents can be obtained. The appraisal process that determines the price paid for land is critical in maintaining margins and return on equity at acceptable levels.	• The Group's strong relationships with various land owners, including local authorities and affordable housing providers, plays a key role in its ability to acquire new sites. • A robust land appraisal process ensures each project is financially viable and consistent with the Group's strategy.	The Group has successfully added to its development pipeline in the last few months. That pipeline represents over 4,000 homes valued at £1.5 billion.
Planning process	Delays in achieving suitable planning permissions can affect the number of properties that can be brought to market and impact the timing of future cash flows. Failure to achieve a suitable planning permission may lead to cost write offs or reduced margins on individual developments.	• A planning and risk assessment is conducted prior to any land purchase. • Strong relationships are maintained with local authorities, planning officers and local communities to best understand underlying policy and planning prospects. While this cannot remove planning risks it mitigates them as much as possible.	The Board ensures that the Group is not overexposed to planning risks by limiting the total investment in sites without a planning permission at any one time.
Political environment	Changes in laws and regulations can have a direct impact on the Group and the costs incurred on each development. Changes in both local and national Government can have a direct bearing on the regulatory environment.	• The potential impact of changes in Government policy and new laws and regulations are monitored and communicated throughout the business and operations are planned accordingly. • There is broad consensus amongst all main political parties that more needs to be done to improve the supply of new housing which is a positive for the housebuilding industry.	The early calling of a general election in June 2017 has increased uncertainty in the short term, however once the result is known it should provide greater clarity looking ahead.
Sustainability	Failure to address sustainability issues could affect the Group's ability to acquire land, gain planning permission, manage its reputation effectively, and address the demand for sustainable living.	• 'Building a Living Legacy' is our strategy to create places that will stand the test of time by making a positive long term contribution to London's local communities and the environment. It's underpinned by short to long term objectives (set out on pages 38 to 45) that will ensure that sustainability risks are recognised and addressed. • To manage environmental risks, the Group has put in place an Environmental Management System that is accredited to BS EN ISO 14001:2004 and is audited bi-annually by the British Standards Institute.	As a responsible business we have been working in innovative and sustainable ways for many years. Moving forward, we will continue to shape our 'Building a Living Legacy' strategy.

OUR PEOPLE

CREATING A GREAT PLACE TO WORK: ENGAGING AND DEVELOPING OUR PEOPLE

Our employees are at the heart of our business and we consistently strive to ensure they are engaged and have the opportunity to develop in a job they enjoy.

Overview

We recognise that it's our people that make us different, and we strive to recruit, retain, engage and develop the best. We pride ourselves on our unique and supportive culture, and have worked hard to inspire this in the colleagues that we have welcomed to the organisation in the last year.

In an average day we have over 1,000 people on our sites and at head office, of which 248 are directly employed with the remainder being employed by our subcontractor partners.

Learning and development

Following the appointment of a dedicated Learning and Development Manager we have enhanced our Management Trainee scheme, and now have a programme for five areas of the business: Technical; Commercial; Construction; Engineering and Planning. We are working to ensure that all trainees receive a consistent experience of being mentored and developed, by enhancing the skills of our management team.

Over the last year, a record number of people from across the business attended one or more training courses and workshops, and more than one third of our senior managers achieved an ILM (Institute of Leadership and Management) accreditation. We are proud to have been awarded a significant grant from the CITB (Construction Industry Training Board) to invest in our training schemes.

As well as equipping Telford Homes employees with the skills they need, we are committed to working to address the skills shortage in the wider industry. We have an average intake of five Higher Apprentices per year, we encourage our subcontractors to offer apprenticeships, and the Group also partners with local authorities such as through Skillsmatch in Tower Hamlets to offer opportunities to young people.

We are proud to have above industry average levels of employee retention, which is currently running at 90%.

Recruitment and retention

Last year we strengthened our team, particularly in Operations. Just over 50 new starters joined Telford Homes, meaning that 20 per cent of our workforce was new to the organisation. We expect this figure to be higher next year, to support the growth of the business. Even with this rate of growth we have been able to retain our unique culture, thanks to the Telford Homes behaviours that run through the business and which are now included as a core element of our induction process. These include: strong and consistent performance; respect for our people and customers; teamwork; integrity and commitment, and effective leadership. Our workforce is diverse, and our behaviours help us strive to drive performance in a consistent way across the team.

Employee engagement

We undertook our first employee satisfaction survey in July 2016. The response was excellent, and we were extremely pleased that overall satisfaction with Telford Homes as an employer and intention to be working for Telford Homes in 12 months' time were both at levels exceeding 90 per cent. These results reflect how hard we strive to create a great place to work. The survey also highlighted a few areas for improvement and we have put in place action plans across all departments to address some of the issues raised.

HEALTH & SAFETY

KEEPING PEOPLE SAFE: AN EXCELLENT RECORD

The occupational health and safety of everyone involved in our business or affected by it is a vital consideration in everything we do.

Policies and procedures

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

We have developed a comprehensive set of policies and procedures covering all of our operations, and these are constantly updated and communicated to relevant employees and everyone else working on our sites. Our procedures identify all of the relevant risks and hazards that are likely to be encountered in the course of our work and, more importantly, set out the appropriate precautionary control measures to ensure work is undertaken safely.

We also require our supply chain partners to employ competent people and encourage their continuing professional development. We expect the highest occupational health and safety standards from each supplier, and this is a key consideration when awarding contracts. We monitor our suppliers on an ongoing basis and take the necessary steps to ensure they meet our high expectations, including offering subsidised on-site training specifically for their employees, often at no cost to our partners.

The Group's Health and Safety Management System is accredited to BS OHSAS 18001:2007 and is audited every six months by the British Standards Institution (BSI) in accordance with their stringent processes.

We have an Executive Safety Committee and an Operational Safety Forum whose members

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

are senior employees with extensive industry experience. Both of these groups meet regularly and are instrumental in developing significant changes to the way occupational health and safety is managed and to our policies and procedures. This ensures we are constantly up to date with any changes in working practices or regulations. John Fitzgerald is the Board director with overall responsibility for occupational health and safety.

Training and development

Telford Homes operates in an industry where up to date qualifications, standards and knowledge are vital to the safe and successful operation of the business. The Board views training, particularly through apprenticeships and our Management Trainee programmes, as an essential investment in the future of the Group and the construction industry more broadly.

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

Performance

The year to 31 March 2017 has been our busiest on record, with over 2.55 million person hours worked. There were just three reportable injuries (RIDDOR) during the period resulting in an Accident Frequency Rate (AFR) of 0.12. The construction industry average AFR for the year to 31 March 2016 was 0.35

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

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

Summary

Although our occupational health and safety performance in the year has been excellent, we are not complacent and continue to strive for improvement. We will ensure that, as the business grows, we have systems in place to train new staff and suppliers in our policies and procedures

We remain confident that our comprehensive procedures and investment in training mean that Telford Homes is doing everything possible to minimise health and safety risks within the business, now and in the foreseeable future

PERSON HOURS WORKED

2.55m

ACCIDENT FREQUENCY RATE

0.12

SUSTAINABILITY

OUR NEW STRATEGY: 'BUILDING A LIVING LEGACY'

As a responsible business, we have been working in innovative and sustainable ways for many years. We launched our 'Building a Living Legacy' (BLL) sustainability strategy in 2016. It underpins our commitment to create places that stand the test of time by making a positive long term contribution to London's built environment.

Economic, social and environmental principles are central to our business strategy and support our ambition to create thriving places for future generations. Under the strategy, we have developed a Living Legacy framework to help manage four priority areas and supporting targets, where we believe we can have the greatest positive impact by 2024.

SHORT TERM TARGETS		2016 TARGETS		2017 TARGETS	
LIVING LEGACY	Creating thriving places that enable people to live sustainable lifestyles	• Create a Living Legacy development framework using best practice placemaking principles		• Trial the Living Legacy development framework on one new project	• Develop a Living Legacy toolkit
BALANCED RESOURCES	Making our money work harder through efficient use of resources across our business	• Set targets to reduce energy, greenhouse gas emissions and waste and increase recycling rate	• Set a target to increase our use of sustainably sourced timber	• Align our procurement policy with 'Building a Living Legacy' objectives	• Set targets to reduce water consumption
[illegible]	Collaborating with our partners to identify innovative building techniques and deliver the homes of the future	• Agree focus areas for research into sustainable innovations	• Establish innovation working groups for all new developments	• Present a yearly review of innovative sustainable building solutions to design teams	
	Investing in people and relationships to ensure we deliver lasting value for all stakeholders	• Set up a Sustainability Steering Committee and appoint Living Legacy champions	• Embrace the principles behind the Modern Slavery Act 2015 and carry out a key risk review	• Ensure all our staff complete our Building a Living Legacy induction	• Integrate employee wellbeing questions into our staff survey

A new approach

This is the first year of reporting our sustainability performance against our BLL strategy. The strategy will enable us to enhance the quality of life for our customers, while supporting our operations and delivering value for our stakeholders and shareholders.

Launched partly in response to known national policy and the London Plan, the BLL strategy was developed through a detailed political, economic, social, technological, legal and environmental (PESTLE) analysis and a collaborative materiality assessment.

Moving forward, we will continue to shape the strategy taking into consideration changes to the above, as well as sectoral analysis such as JLL's 'Big Eight for Real Estate', which sets out interconnected sustainability trends through to 2030.

Our approach to materiality

As part of our annual business planning, the Board set out ambitions for formalising our BLL strategy in 2016. To ensure a robust and transparent approach, we engaged with our employees and development partners to identify the most important sustainability issues for Telford Homes and our stakeholders.

The materiality review consisted of internal workshops, key stakeholder interviews, a peer analysis and review of sustainability legislation, including an analysis of our position in the NextGeneration sustainability benchmark.

This process enabled us to develop a clear materiality matrix, identify our key focus areas and create a roadmap to 2024, complete with targets and key performance indicators. Through our research, we have also set the ambition to improve on our current 18th place position in the NextGeneration benchmark of UK Housebuilders, aiming to be in the top 10 by 2018.

Strong sustainability governance

Following our materiality review, a detailed recommendation was made for the Board to provide oversight and high-level sustainability governance, which led to the creation of a dedicated BLL Steering Committee. Our Chief Executive chairs the committee.

In line with best practice, we will report progress against the strategy by adopting an integrated reporting approach in the future. This will ensure that we are comprehensively communicating our journey towards BLL to a wider audience.

Over the next few pages we outline our progress across each of the four priority areas to date.

OUR SUSTAINABILITY MISSION

Built by passionate people and strong relationships, we will use innovative land, design and development solutions to create a legacy of high quality sustainable homes and places.

SUSTAINABILITY

LIVING LEGACY: CREATING THRIVING PLACES

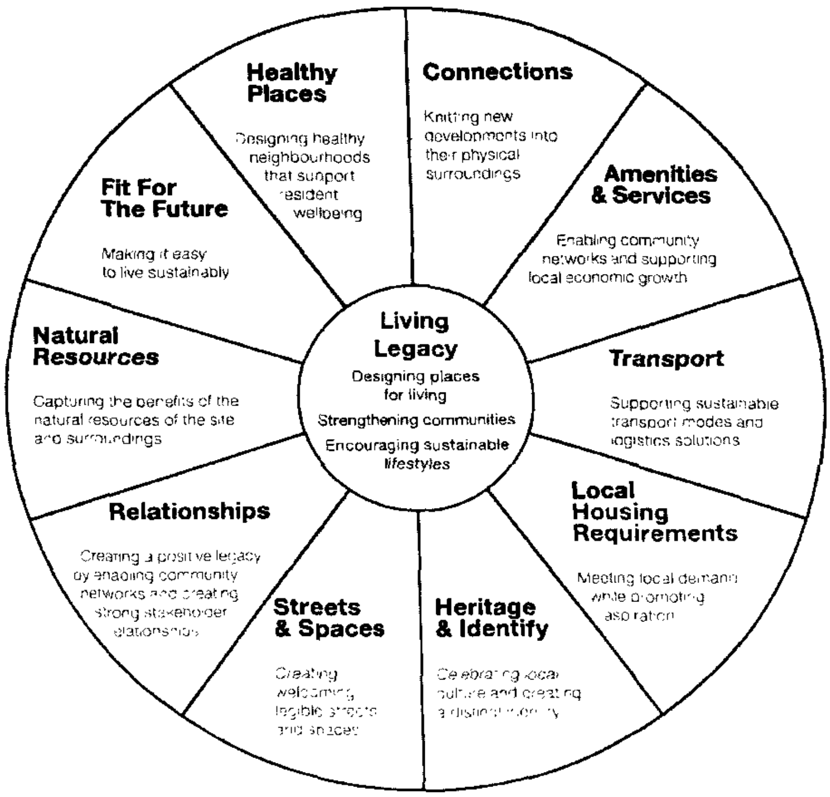
We are committed to creating a legacy of high quality sustainable homes, mixed use buildings and thriving places across London. Through collaboration with local stakeholders, our approach to place shaping will bring economic prosperity and healthy, sustainable lifestyles for residents, occupants and visitors.

OBJECTIVE 1:

Create a Living Legacy framework using best practice principles

Following a detailed review of existing *policies, emerging urban* design frameworks, socioeconomic and environmental standards, and the emerging consultations of the London Plan, we have developed a comprehensive Living Legacy framework.

The framework consists of 10 principles and a series of supporting objectives, which we believe are vital towards creating strong communities and encouraging sustainable lifestyles:



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OBJECTIVE 2:

Trial the Living Legacy development framework on one new project

We have trialled the framework within several new mixed use schemes of varying scales in differing London boroughs such as the LEB Building in the London Borough of Tower Hamlets. Initial stakeholder reviews are helping us to test the principles and its flexibility. We will continue to test it and gather important feedback to inform our approach moving forward.

OBJECTIVE 3:

Develop a Living Legacy toolkit

We have created a toolkit that will inform project briefings and live throughout the development lifecycle to embed Living Legacy principles at each project phase.

It is likely that the toolkit will be further developed during the emerging consultations of the London Plan in 2017/18, and nuanced on live projects.

LOOKING TO THE FUTURE:

Monitoring trends to create a Living Legacy

To safeguard our strategy and to deliver a positive long term contribution to London's built environment, we have undertaken a detailed analysis of the socioeconomic and environmental priorities in a cross-section of London boroughs including Brent, Enfield, Hackney, Newham, Southwark and Tower Hamlets.

We will continue to monitor societal trends such as the demographic expectations of Baby Boomers and Generations X, Y and Z, which are increasingly important to ensure that our [illegible] strategy delivers on our ambitions.

SUSTAINABILITY

BALANCED RESOURCES: EFFICIENT USE OF RESOURCES ACROSS OUR BUSINESS

With finite resources, rising commodity costs and the ever increasing drive for operational efficiency, it's vital we balance the resources we use to contribute to a sustainable future. Our balanced resources objectives focus on reducing our environmental impact whilst improving cost efficiency and creating long term resilience.

OBJECTIVE 1:

Set targets to reduce energy, greenhouse gas emissions and waste, and increase recycling rate

We have set the goal of reducing waste intensity, energy usage and Greenhouse Gas (GHG) emissions by three per cent per annum across all our sites and corporate offices.

We monitor our Scope 1, 2 and 3 (business travel) GHG emissions usage for our business activities. We will shortly be reporting our GHG emissions on the sustainability section of our corporate website.

In the long term, we are engaged in developing carbon positive and zero waste to landfill practices.

OBJECTIVE 2:

Set a target to increase our use of sustainably sourced timber

We are committed to procuring at least 90 per cent of our timber from sustainable sources such as the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC) Chain of Custody Certification. We are also committed to eliminating the use of illicit timber in our operations and supply chain.

OBJECTIVE 3:

Align our procurement policy with 'Building a Living Legacy' objectives

We have started reviewing the introduction of BLL ambitions into existing policies and are planning the release of a suite of interrelated policies in 2017.

OBJECTIVE 4:

Set targets to reduce water consumption

We have set a three per cent annual reduction target for water intensity across all our sites and corporate offices. Additionally, we have incorporated Blue-Green Cities infrastructure in a number of our projects to contribute to urban biodiversity and promote naturally oriented water cycle systems

LOOKING TO THE FUTURE:

Measuring our social return on investment

As we make strong progress against our objectives, we will look to report the related cost savings of our environmental initiatives. In line with the Social Value Act, we will also report on our Social Return on Investment (SRI) when developing integrated value chains to deliver sustainable homes, mixed used schemes and neighbourhoods

CREATIVE BUILDING SOLUTIONS: DELIVERING THE HOMES OF THE FUTURE

Homebuilding and the delivery of mixed use schemes is becoming increasingly complex and calls for a broader range of skills, knowledge and innovation than ever before. We have a long tradition of completing schemes using innovative building solutions, whilst being risk averse and commercially astute. Our approach emphasises long term collaboration with partners to identify fit for purpose solutions for our customers.

OBJECTIVE 1:

Agree focus areas for research into sustainable innovations

A wide range of creative and innovative building solutions and systems were further developed in 2016. These were implemented across numerous projects from residential homes to schools colleges, churches and mosques. These examples are used to advise clients, partners and future investors of the most appropriate delivery models.

Our experience and ability to manage risk, whilst maintaining high levels of health and safety and customer satisfaction, is testament to our enduring ability to implement the right solutions in the right areas.

OBJECTIVE 2:

Establish innovation working groups for all new developments

Our projects are thoroughly assessed by Project Teams and an Executive Steering Group to ensure they meet Telford Homes' rigorous standards. An Innovation Forum has also been instigated and various design, technical, procurement, process including Building Information Modelling (BIM), Modern Methods of Construction (MMC) and social innovations are being discussed for further research.

Our Standard Assessment Procedure performance goes beyond regulation, and 80 per cent of our homes benefit from low carbon or renewable technologies.

OBJECTIVE 3:

Present a yearly review of innovative sustainable building solutions to design teams

A range of creative building solutions and systems were formally reported to the BLL Steering Committee and its innovation Forum in 2016. Relevant solutions are also briefed to design teams for consideration in future projects.

LOOKING TO THE FUTURE:

Moving towards a circular economy

Whilst there is no legislative driver to integrate circular economy principles into our business model, BLL principles underpin our profitable growth strategy. As we move towards integrated reporting and measuring our CR [illegible] we will [illegible] our approach contributes to a circular economy.

SUSTAINABILITY

SMART BUSINESS:
INVESTING IN PEOPLE AND RELATIONSHIPS TO DELIVER LASTING VALUE

Our people and value chain are our greatest assets, which is why we are investing in them to deliver our 2024 objectives. We are making good progress against our smart business objectives and ambition to create lasting value for our stakeholders.

OBJECTIVE 1:
Set up a Sustainability Steering Committee and appoint Living Legacy champions

Executive directors and senior managers were nominated to sit on our BBL Steering Committee in 2016. Members were tasked with operational and strategic deliverables to promote sustainability within Telford Homes.

To support BLL implementation, Living Legacy champions were also appointed to build capacity and promote sustainability knowledge throughout the year. Each department has defined responsibilities and actions that contribute to the achievement of our 2016-2018 targets.

Progress against our areas of focus will continue to be reviewed every three months, and horizon scanning will ensure that we are quick to respond to emerging trends.

OBJECTIVE 2:
Embrace the principles behind the Modern Slavery Act 2015 and carry out a key risk review

We continued to engage with our value chain in light of legislative change, by way of example the Modern Slavery Act, and to help develop supply chain capacity and resilience, given the chronic shortage of homes in London.

Our prompt payment and longstanding preferred supplier commitments ensure we are maintaining strong relationships with our key suppliers. An update of our value chain risk assessment will be published in 2017.

Since Telford Homes was founded in 2000, we have not faced any warnings or prosecutions relating to our sustainability practices. Over the reporting period, BSI's auditing of our ISO14001 systems did not raise any non-conformances. In 2017, we will transition from the ISO14001 2004 standard to 2015 accreditation.

OBJECTIVE 3:
Ensure all our staff complete our 'Building a Living Legacy' induction

In 2016, all staff attended BLL presentations and new starters were inducted in the strategy. Additionally, more comprehensive BLL training is being rolled out across all priority areas.

OBJECTIVE 4:
Integrate employee wellbeing questions into our staff survey

During 2016, we included wellbeing questions in our first staff survey. The feedback and results were very positive, and will provide a good platform for ongoing engagement and future comparison.

LOOKING TO THE FUTURE:
Building advocacy and strong partnerships

Citizenship and advocacy is an important part of being a smart business. By networking and knowledge sharing, we are developing innovative solutions for our customers.

To ensure that our strategy is future-proofed, we participate in various committees and forums, including [illegible] Future of London, Home Builders Federation Skills Partnership, NextGeneration initiative, NHBC Standards Committee and the UK Green Building Council.

GOVERNANCE

1 Andrew Wiseman BA [illegible]

Chairman (60)

Andrew Wiseman, together with close colleagues, founded Telford Homes Plc in December 2000 following [illegible] years with Furlong Homes [illegible]. Andrew [illegible] the flotation of Telford Homes on AIM in December 2001, building an excellent relationship with institutional investors. In his role as Chief Executive of Telford Homes, from formation until January 2017 when he became Chairman, Andrew positioned the Group as a partner of affordable housing providers as well as a first-class developer of open market homes. He is also a Strategic Board member of Optivo which is one of the largest London housing Associations following its creation by the merger of Amicus Horizon with Viridian in 2017.

2 Jon Di-Stefano MA [illegible] ACA

Chief Executive (42)

Jon Di-Stefano joined Telford Homes Plc as Financial Director in October 2002. Prior to this he had [illegible] years with Matthew [illegible] following five years with Arthur Andersen. Jon built up a strong finance function over a number of years and played a significant role in establishing relationships with the Group's banking partners and institutional investors. Jon became Chief Executive in July 2017 and since his appointment he has overseen significant profit growth and increasing shareholder value. Supported by the rest of the Board he is responsible for the Group's strategic direction including setting the land buying strategy. His areas of focus [illegible] the approach to risk management and all other long term business planning.

3 Katie Rogers BA [illegible] ACA

Group Financial Director (36)

Katie Rogers joined Telford Homes Plc in 200[illegible] as Financial Analyst following four years at PwC. Katie progressed to Group Financial Controller within a year and was appointed to the Board as Group Financial Director in July 2017. Besides leading and managing the finance team for the Group, she is responsible for long term profit forecasts and for maintaining ongoing relationships with the Group's banking partners. In 2015 Katie secured a [illegible] million four-year revolving credit facility with a club of banks and in 2016 secured a [illegible] 10 million joint venture facility with LaSalle Investment Management. Together with Jon, Katie also develops and maintains relationships with institutional investors and is involved in share placings. She is also the director with overall responsibility for Human Resources and IT across the Group.

4 David Campbell

Group Sales & Marketing Director (51)

David Campbell joined Telford Homes in November 2011 and was appointed as Group Sales & Marketing Director in April 2012. He is responsible for all residential and commercial property sales, along with customer relationships and customer service. David has over 30 years' experience operating as both a Sales & Marketing Director and Regional Managing Director for a number of major residential and mixed use developers including the Berkeley Group, Barratt Developments and Wilson Bowden Plc. He brings a wide appreciation of the development process and the importance of strategic planning for long term complex projects.

5 John Fitzgerald [illegible]

Group Managing Director (46)

John Fitzgerald began his career in 1987 with Willmott Dixon Construction followed by Willmott Dixon Housing. He has over 25 years' experience in the construction and housebuilding sector and spent the four years prior to joining Telford Homes with Furlong Homes, where he was responsible for their more prestigious developments. He joined Telford Homes in February 2003 and was appointed a Board director in 200[illegible]. In his role as Group Managing Director he is responsible for operations across the business including construction, health and safety and sustainability.

6 David Durant

Group Planning & Design Director (55)

David Durant is a co-founder of Telford Homes Plc and has over 30 years' experience in the construction and housebuilding sectors including 14 years at Furlong Homes, where he was Group Technical Director from 1997 to 2000. David has been Group Managing Director since the start of the Company's operations in 2001 until 2005. Since 2005, David's role has focused on securing major planning consents, product design and maintaining key partnerships.

7 James Furlong

Director (81)

[illegible]

8 Frank Nelson

Senior Non Executive Director (65)

[illegible]

9 Jane Earl

Non Executive Director (60)

[illegible]

GOVERNANCE

Application of principles

Although not formally required to do so, the directors have sought to embrace the principles contained in the UK Corporate Governance Code (the Code) issued by the Financial Reporting Council applicable to fully listed companies, in formulating and applying the Group's corporate governance policies. These policies are tailored to ensure that they are appropriate to the Group's circumstances given the size of the Group.

Directors

The Company and Group are managed by a Board of directors and they have the necessary skills and experience to effectively operate and control the business. There are nine directors in total, of whom two are Non Executive Directors. Frank Nelson and Jane Earl, the Non Executive Directors, are considered independent and they sit on both the Audit and Remuneration Committees. The Board meets once a month and the directors make every effort to attend all Board meetings. Further details on the Board's skills and experience are set out within their biographies on pages 48 and 49.

The Board is responsible for taking all major strategic decisions and also addressing any significant operational matters. In addition, the Board reviews the risk profile of the Group and ensures that an adequate system of internal control is in place. Management information systems are in place to enable the directors to make informed decisions to properly discharge their duties.

The roles of the Chairman and the Chief Executive are separate. The Chairman is responsible for running the Board and he meets regularly and separately with the Chief Executive and the Non Executive Directors to discuss matters for the Board.

As the business has developed, the composition of the Board has been under constant review to ensure that it remains appropriate to the managerial requirements of the Group. One third of the directors retire annually in rotation in accordance with the Company's articles of association. This enables the shareholders to decide on the election of the Company's Board.

The Board takes decisions regarding the appointment of new directors as a whole and this is only done following a thorough assessment of a potential candidate's skills and suitability for the role. New directors are given a full induction to the Group where required so as to ensure that they can properly fulfil their role and meet their responsibilities.

All directors are offered appropriate coaching and training to develop their knowledge and ensure they remain up to date in relevant matters for which they have responsibility as a member of the Board.

The Chairman's statement and Chief Executive's review, included in this annual report, give the Board's current assessment of the Group's prospects. The directors are responsible for preparing the financial statements as set out in the statement of directors' responsibilities. The responsibilities of the auditors are set out in their report.

Remuneration committee

Details concerning the composition and meetings of the Remuneration Committee are contained in the directors' remuneration report on pages 52 to 59.

Audit committee

During the period, the Audit Committee, which is chaired by Frank Nelson an independent Non Executive Director, has met three times with the external auditors being in attendance on all occasions. The Non Executive Directors meet separately with the auditors twice a year.

The committee has a responsibility for reviewing the financial statements provided to shareholders. In addition the committee reviews the business and financial risks and internal controls as described below.

The duties of the committee also include ensuring that the auditors provide a cost effective service to the Group and remain objective and independent and to consider from time to time the need for an internal audit function.

Relations with shareholders

The Company has institutional shareholders and is, where practicable, willing to enter into a dialogue with them. The Chief Executive and the Group Financial Director meet regularly with institutional investors within the confines of relevant legislation and guidance.

The Board invites communication from its private investors and encourages participation by them at the Annual General Meeting (AGM). All Board members present at the AGM are available to answer questions from shareholders. Notice of the AGM in excess of 21 clear days is given and the business of the meeting is conducted with separate resolutions, voted on initially by a show of hands and with the result of the voting being clearly indicated.

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to mitigate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board is of the view that there is an ongoing process for identifying, evaluating and managing the Group's significant risks and that it has been in place for the period ended 31 March 2017 and up to the date of approval of the annual report and accounts, and that it is regularly reviewed by the Board.

The internal control procedures are delegated to Executive Directors and senior management in the Group, operating within a clearly defined departmental structure. The Board regularly reviews the internal control procedures in the light of the ongoing assessment of the Group's significant risks.

On a monthly basis, management accounts, including a comprehensive cash flow forecast, are reviewed by the Board in order to provide effective monitoring of financial performance. At the same time the Board considers other significant strategic, organisational and compliance issues to ensure that the Group's assets are safeguarded and financial information and accounting records can be relied upon. The Board formally monitors monthly progress on each development.

DIRECTORS' REMUNERATION REPORT

Statement from the Chairman of the Remuneration Committee

Dear Shareholder,

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

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

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

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

Review of the year to 31 March 2017

As described earlier in the annual report the Group has performed well during the year, delivering record revenues and profit before tax of £291.8 million and £34.1 million respectively. Consequently, Executive Directors earned an annual bonus equivalent to 0.6 per cent of profit before tax (capped at 100 per cent of salary if applicable), 50 per cent of which will be deferred and paid out to each director in equal instalments over the next three years in line with the bonus scheme rules.

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

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

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

Outlook for the year to 31 March 2018

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

Jane Earl
Chairman of the Remuneration Committee
30 May 2017

Directors' Remuneration Policy

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

Key principles

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

The policy is based on the following principles:

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

Executive Directors' Remuneration Policy

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

DIRECTORS' REMUNERATION REPORT

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

Explanation of performance measures chosen

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

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

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

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

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

Legacy remuneration

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

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

Non Executive Directors' remuneration policy

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

Details are set out in the table below:

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

Service contracts

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

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

DIRECTORS' REMUNERATION REPORT

Statement of consideration of shareholder views

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

Annual report on Remuneration

Remuneration

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

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

1 Andrew Wiseman reduced working hours from 1 July 2016 in line with reduced responsibilities
2 David Durant reduced working hours from 1 January 2016 in line with reduced responsibilities
3 James Furlong reduced working hours from 1 January 2016 in line with reduced responsibilities
4 Katie Rogers commenced maternity leave on [illegible] April 2016 and returned to work on 13 January 2017
5 Jane Earl was appointed as Non Executive Director on 5 February 2016
6 David Holland resigned as Non Executive Director on 14 July 2016

Notes to the table

Base salaries

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

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

Annual bonus

The bonus earned in the year was in relation to the bonus scheme applicable from 1 April 2013 to 31 March 2017. Under this bonus scheme, each Executive Director was entitled to earn an annual bonus equivalent to 0.6 per cent of profit before tax *subject to a minimum level of profits being achieved in each year and capped at 100 per cent of salary at the date the bonus is* payable. Up to 50 per cent of the bonus earned in each year is deferred and paid out to each director in equal instalments over the next three years, again subject to a minimum level of profit being achieved in these years.

The bonus scheme account for each director is set out below:

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

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

Benefits

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

DIRECTORS' REMUNERATION REPORT

Directors' interests in shares and share options

Directors' interests in shares are disclosed in the report of the directors.

The share options held by the directors in the Telford Homes Plc Employee Share Option Scheme at 31 March 2017 and the movements during the year then ended were as follows:

	Company scheme	31 March 2016 Number	Exercised in year Number	31 March 2017 Number	Exercise price	Dates exercisable
Jonathan Di-Stefano	unapproved	60,000	–	60,000	75p	1 Oct 2005 to 1 Oct 2018
	unapproved	100,000	–	100,000	90.5p	9 Feb 2015 to 9 Feb 2022
	approved	33,000	(33,000)	–	90.5p	9 Feb 2015 to 9 Feb 2022
David Campbell	unapproved	67,000	–	67,000	90.5p	9 Feb 2015 to 9 Feb 2022
	approved	33,000	–	33,000	90.5p	9 Feb 2015 to 9 Feb 2022
John Fitzgerald	approved	33,000	–	33,000	90.5p	9 Feb 2015 to 9 Feb 2022
Katie Rogers	unapproved	100,000	(100,000)	–	79p	23 May 2014 to 23 May 2021

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

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

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

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

Composition of the Remuneration Committee

The Remuneration Committee comprises the independent Non Executive Directors, being Jane Earl and Frank Nelson. The Committee makes recommendations to the Board on Executive Directors' service agreements and remuneration. In doing so it has undertaken relevant research to ensure that remuneration levels are competitive with the industry average. Generally the Committee meet three times during the year, however in the current year the Committee has met five times to enable full consideration to be given to the decisions required regarding the new bonus structure and LTIP.

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

Advisors

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

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

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

Salaries/fees

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

Annual bonus

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

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

Bonus payments will be settled in cash.

Long Term Incentive Plan

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

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

Approval

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

Jane Earl
Chairman of the Remuneration Committee
30 May 2017

REPORT OF THE DIRECTORS

The directors present their report and the audited consolidated financial statements for the year ended 31 March 2017.

Results and dividends

Telford Homes is an AIM listed public limited company incorporated and domiciled in the United Kingdom.

The principal activity of the Group is that of property development

Profit after income tax for the year ended 31 March 2017 was £27,519,000 (2016: £25,726,000).

The directors recommend a final dividend of 8.5 pence per ordinary share which, together with the interim dividend of 7.2 pence paid on 6 January 2017, making a total of 15.7 pence for the year (2016: 14.2 pence).

Going concern

The Group's business activities, together with factors likely to affect its future development and performance, are set out in the Chairman's statement and the Chief Executive's review on pages 6 and 7 and 14 to 21 and the management of risks and uncertainties affecting the Group are set out on pages 30 to 32. The financial position of the Group, its cash flows and borrowing facilities are described in the financial review on pages 22 to 29. In addition note 22 to the financial statements includes details of the Group's financial instruments and its exposure to credit risk and liquidity risk.

The directors have assessed the Group's projected business activities and available financial resources together with detailed forecasts for cash flow and relevant sensitivity analysis. The directors believe that the Group is well placed to manage its business risks successfully.

After making appropriate enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly the directors continue to adopt the going concern basis in preparing the annual report and accounts.

Substantial shareholdings

Based on shareholder analysis as at 15 May 2017 and as far as the Company is aware the following represents interests in excess of three per cent in its ordinary share capital:

	Number of shares held	Percentage
Hargreaves Lansdown (Stockbrokers)	5,429,418	7.21%
Barclayshare Nominees Ltd	4,536,543	6.02%
TD Direct Investing Nominees (Europe) Ltd	4,392,195	5.83%
Schroders – Cazenove Capital Management Ltd	3,095,825	4.11%
Liontrust Investment Partners LLP	2,988,112	3.97%

Telford Homes Trustees Ltd holds 2,128,563 shares (2.82 per cent) and includes shares held on behalf of employees under the Share Incentive Plan (note 18).

Directors

Details of the directors of the Company are shown on pages 48 to 49.

Jon Di-Stefano, Frank Nelson and Katie Rogers retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' interests

The directors of the Company are listed below together with their interest in the shares of the Company at 31 March 2017 and movements in the year:

	At 31 March 2016 Number	Share Incentive Plan Number	Market acquisitions and disposals Number	At 31 March 2017 Number
Andrew Wiseman	2,325,433	3,494	–	2,328,927
Jonathan Di-Stefano	370,161	3,490	33,000	406,651
David Campbell	42,988	1,381	–	44,369
David Durant	1,292,357	3,494	(146,650)	1,149,201
John Fitzgerald	109,738	2,775	–	112,513
James Furlong	1,256,789	3,494	(207,582)	1,052,701
Katie Rogers	81,447	2,781	45,000	129,228
Jane Earl	–	1,048	–	1,048
Frank Nelson	28,365	1,098	–	29,463

These interests include shares purchased under the Telford Homes Share Incentive Plan (SIP) which all employees, including directors, are eligible to participate in. All shares purchased under the SIP are matched by shares provided by the Company on a one for one basis. These 'matching' shares are also included in the interests stated but must remain in the SIP for a period of not less than three years otherwise they are forfeited. Further details on the SIP are included in note 18 to the financial statements.

Details of share options held by directors are given in the directors' remuneration report on page 58.

Ordinary shares

The Company issued 443,000 new ordinary shares during the year, 193,000 in respect of share options being exercised and a further 250,000 to satisfy the requirements of the Share Incentive Plan. Further information is disclosed in note 18.

The Company's investment in own shares relates solely to the Share Incentive Plan and further details of the total holding and movements in the holding are disclosed in note 18.

REPORT OF THE DIRECTORS

Employees

The Group places considerable value on the involvement of its employees and keeps them informed of all relevant matters on a regular basis. Telford Homes is an equal opportunities employer and all applications for employment are considered fully on the basis of suitability for the job.

Charitable donations

The Group made charitable donations of £73,000 for the year ended 31 March 2017 (2016: £57,000). These donations were made to a number of different charities supporting a broad range of good causes.

Annual General Meeting

The Annual General Meeting will be held at the registered office at Telford House, Queensgate, Britannia Road, Waltham Cross, Hertfordshire on 13 July 2017 at 12.30pm.

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting in accordance with section 489 of the Companies Act 2006.

Each of the directors at the time this report was approved has confirmed the following:

- so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each director has taken steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Richard Ellis
Company Secretary
30 May 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Strategic report

The strategic report for the Group, including a fair review of the Group, a description of the principal risks and uncertainties facing the Group, the development and performance of the Group during the financial year, the Group's position at the financial year end and an analysis of the Group's key performance indicators, can be found from pages 1 to 45.

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

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the directors, whose names and functions are listed on pages 48 to 49 confirm that, to the best of their knowledge:

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

The directors are responsible for the maintenance and integrity of the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KEY MANAGEMENT INFORMATION

GROUP INCOME STATEMENT

including proportional share of joint venture results
31 March 2017

	Non-GAAP Year ended 31 March 2017 £000	Non-GAAP Year ended 31 March 2016 £000
Revenue	**291,921**	**245,581**
Cost of sales	(228,720)	(182,438)
Gross profit	**63,201**	**63,143**
Administrative expenses	(20,805)	(19,250)
Selling expenses	(5,091)	(9,365)
Operating profit	**37,305**	**34,528**
Finance income	160	153
Finance costs	(3,337)	(2,478)
Profit before income tax	**34,128**	**32,203**
Income tax expense	(6,609)	(6,477)
Profit after income tax	**27,519**	**25,726**

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 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 key management information and Generally Accepted Accounting Principles (GAAP) compliant information, accounting for joint ventures under IFRS 11 as equity investments, is included in note 2 of the financial statements.

GROUP BALANCE SHEET

including proportional share of joint venture results
31 March 2017

	Non-GAAP 31 March 2017 £000	Non-GAAP 31 March 2016 £000
Non-current assets		
Goodwill	818	383
Property, plant and equipment	1,272	1,485
Trade and other receivables	100	-
Deferred income tax assets	-	230
	2,190	2,098
Current assets		
Inventories	339,380	285,610
Trade and other receivables	42,893	31,362
Cash and cash equivalents	39,834	20,856
	422,107	337,828
Total assets	**424,297**	**339,926**
Non-current liabilities		
Trade and other payables	(1,527)	(1,358)
Financial liabilities	(1,096)	(661)
Deferred income tax liabilities	(194)	-
	(2,817)	(2,019)
Current liabilities		
Trade and other payables	(159,878)	(109,363)
Borrowings	(54,085)	(38,182)
Financial liabilities	-	(194)
Current income tax liabilities	(3,232)	(3,198)
	(217,195)	(150,937)
Total liabilities	**(220,012)**	**(152,956)**
Net assets	**204,285**	**186,970**
Capital and reserves		
Issued share capital	7,529	7,485
Share premium	107,395	106,423
Retained earnings	89,361	73,062
Total equity	**204,285**	**186,970**

NOTES TO THE FINANCIAL STATEMENTS
31 March 2017

FINANCIAL STATEMENTS

GROUP INCOME STATEMENT

31 March 2017

	Note	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Total revenue	1	**291,921**	**245,581**
Less share of revenue from joint ventures		(25,946)	(2,902)
Group revenue	1	**265,975**	**242,679**
Cost of sales		(208,966)	(180,869)
Gross profit		**57,009**	**61,810**
Administrative expenses		(20,727)	(19,056)
Selling expenses		(4,143)	(9,177)
Share of results of joint ventures	9	4,634	965
Operating profit	1	**36,773**	**34,542**
Finance income	4	90	117
Finance costs	4	(2,231)	(2,344)
Profit before income tax		**34,632**	**32,315**
Income tax expense	5	(7,113)	(6,589)
Profit after income tax		**27,519**	**25,726**
Earnings per share:			
Basic	7	36.8p	39.3p
Diluted	7	36.6p	38.9p

All activities are in respect of continuing operations.

GROUP STATEMENT OF COMPREHENSIVE INCOME

31 March 2017

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Movement in derivative financial instruments hedged	(241)	(466)
Movement in deferred tax on derivative financial instruments hedged	37	93
Other comprehensive expense net of tax (items that maybe subsequently reclassified into profit or loss)	**(204)**	**(373)**
Profit for the year	27,519	25,726
Total comprehensive income for the year	**27,315**	**25,353**

BALANCE SHEET

31 March 2017

		Group		Company	
	Note	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000
Non current assets					
Goodwill	8	289	304	–	-
Investments	9	-	–	23,037	19,464
Investments in joint ventures	9	47,554	42,101	1	1
Property, plant and equipment	10	1,272	1,485	1,272	1,485
Trade and other receivables		100	-	100	-
Deferred income tax assets	11	–	190	–	492
		49,215	44,080	24,410	21,442
Current assets					
Inventories	12	287,652	238,976	266,851	232,868
Trade and other receivables	13	38,288	31,662	79,847	58,703
Cash and cash equivalents	14	38,629	20,709	36,882	20,620
		364,569	291,347	383,580	312,191
Total assets		**413,784**	**335,427**	**407,990**	**333,633**
Non current liabilities					
Trade and other payables	15	(1,527)	(1,358)	(1,277)	(1,108)
Financial liabilities	22	(1,096)	(661)	(1,096)	(661)
Deferred income tax liabilities	11	(323)	-	(110)	-
		(2,946)	(2,019)	(2,483)	(1,769)
Current liabilities					
Trade and other payables	15	(149,516)	(104,871)	(148,712)	(103,831)
Borrowings	16	(53,805)	(38,182)	(53,805)	(38,182)
Financial liabilities	22	-	(194)	-	(194)
Current income tax liabilities		(3,232)	(3,191)	(3,043)	(3,100)
		(206,553)	(146,438)	(205,560)	(145,307)
Total liabilities		**(209,499)**	**(148,457)**	**(208,043)**	**(147,076)**
Net assets		**204,285**	**186,970**	**199,947**	**186,557**
Capital and reserves					
Issued share capital	17	7,529	7,485	7,529	7,485
Share premium		107,395	106,423	107,395	106,423
Retained earnings		89,361	73,062	85,023	72,649
Total equity		**204,285**	**186,970**	**199,947**	**186,557**

The Company made a profit for the year of £23,594,000 (2016: £23,776,000).

These financial statements were authorised for issue by the Board of directors on 30 May 2017 and signed on its behalf by

Jonathan Di-Stefano
Chief Executive

Katie Rogers
Group Financial Director

STATEMENT OF CHANGES IN EQUITY

31 March 2017

Group statement of changes in equity	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 April 2015	**6,025**	**58,551**	**55,812**	**120,388**
Profit for the year	–	–	25,726	25,726
Total other comprehensive expense	–	–	(373)	(373)
Excess tax on share options	–	–	(75)	(75)
Dividend on equity shares	–	–	(8,443)	(8,443)
Proceeds of equity share issues	1,460	47,872	–	49,332
Share-based payments	–	–	218	218
Purchase of own shares	–	–	(598)	(598)
Sale of own shares	–	–	795	795
Balance at 31 March 2016	**7,485**	**106,423**	**73,062**	**186,970**
Profit for the year	–	–	27,519	27,519
Total other comprehensive expense	–	–	(204)	(204)
Excess tax on share options	–	–	(5)	(5)
Dividend on equity shares	–	–	(11,135)	(11,135)
Proceeds of equity share issues	44	972	–	1,016
Share-based payments	–	–	255	255
Purchase of own shares	–	–	(860)	(860)
Sale of own shares	–	–	729	729
Balance at 31 March 2017	**7,529**	**107,395**	**89,361**	**204,285**

Company statement of changes in equity	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 April 2015	**6,025**	**58,551**	**52,349**	**116,925**
Profit for the year	–	–	28,776	28,776
Total other comprehensive expense	–	–	(373)	(373)
Excess tax on share options	–	–	(75)	(75)
Dividend on equity shares	–	–	(8,443)	(8,443)
Proceeds of equity share issues	1,460	47,872	–	49,332
Share-based payments	–	–	218	218
Purchase of own shares	–	–	(598)	(598)
Sale of own shares	–	–	795	795
Balance at 31 March 2016	**7,485**	**106,423**	**72,649**	**186,557**
Profit for the year	–	–	23,594	23,594
Total other comprehensive expense	–	–	(204)	(204)
Excess tax on share options	–	–	(5)	(5)
Dividend on equity shares	–	–	(11,135)	(11,135)
Proceeds of equity share issues	44	972	–	1,016
Share-based payments	–	–	255	255
Purchase of own shares	–	–	(860)	(860)
Sale of own shares	–	–	729	729
Balance at 31 March 2017	**7,529**	**107,395**	**85,023**	**199,947**

CASH FLOW STATEMENT

31 March 2017

	Group		Company	
	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Cash flow from operating activities				
Operating profit	36,773	34,542	31,927	33,295
Depreciation	599	610	599	610
Share-based payments	255	218	255	218
Profit on sale of tangible assets	(20)	(44)	(20)	(44)
(Increase) decrease in inventories and work in progress	(46,525)	17,914	(31,832)	22,406
Increase in receivables	(6,726)	(19,969)	(21,244)	(44,946)
Increase in payables	44,953	11,499	45,190	8,380
Share of results from joint ventures	(4,634)	(965)	–	–
	24,675	43,805	24,875	19,919
Interest paid and debt issue costs	(3,898)	(4,017)	(3,898)	(4,017)
Income tax paid	(6,511)	(5,468)	(6,415)	(5,243)
Dividend received from subsidiaries	–	–	800	1,770
Cash flow from operating activities	**14,266**	**34,320**	**15,362**	**12,429**
Cash flow from investing activities				
Distribution from joint ventures	12,045	5,750	–	2,437
Investment in joint ventures	(9,308)	(25,638)	(17)	–
Purchase of tangible assets	(387)	(1,067)	(387)	(1,067)
Proceeds from sale of tangible assets	20	44	20	44
Consideration paid for business combination	(3,556)	(18,562)	(3,556)	(18,562)
Interest received	90	117	90	117
Cash flow from investing activities	**(1,096)**	**(39,356)**	**(3,850)**	**(17,031)**
Cash flow from financing activities				
Proceeds from issuance of ordinary share capital	1,016	49,332	1,016	49,332
Purchase of own shares	(860)	(598)	(860)	(598)
Sale of own shares	729	795	729	795
Increase in bank loans	15,000	–	15,000	–
Repayment of bank loans	–	(55,000)	–	(55,000)
Dividend paid	(11,135)	(8,443)	(11,135)	(8,443)
Cash flow from financing activities	**4,750**	**(13,914)**	**4,750**	**(13,914)**
Net increase (decrease) in cash and cash equivalents	**17,920**	**(18,950)**	**16,262**	**(18,516)**
Cash and cash equivalents brought forward	20,709	39,659	20,620	39,136
Cash and cash equivalents carried forward	**38,629**	**20,709**	**36,882**	**20,620**

STATEMENT OF ACCOUNTING POLICIES

31 March 2017

Basis of preparation

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRS) including International Accounting Standards (IAS) and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted for use in the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention as modified for reassessment of derivatives at fair value and on a going concern basis.

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of the amounts, events or actions, actual results ultimately may differ from those estimates. The most significant estimates made by the directors in these financial statements are set out in 'Critical accounting judgements and key sources of estimation uncertainty'.

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

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

Accounting policies

The accounting policies set out on these pages have been applied consistently for all periods presented in these financial statements.

Basis of consolidation

[illegible]

Exemptions

The directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented an income statement or statement of comprehensive income for the Company alone.

Joint ventures

A joint venture is an entity in which the Group holds an interest with one or more other parties where a contractual arrangement has established joint control over the entity. Joint ventures are accounted for using the equity method of accounting. Under this method, the Group's share of post-tax results of joint ventures are included in the Group's operating profit in the consolidated income statement and its interest in their net assets is included within investments in the consolidated balance sheet.

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

Revenue and profit recognition

Properties for open market sale

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

Construction contracts

Contracts are treated as construction contracts when they have been specifically negotiated for the construction of a development or a number of properties and the risks and rewards of the construction transfer to the customer over time. These contracts can be for the construction of open market homes sold under build to rent contracts or for the construction of affordable homes sold to affordable housing providers. Revenue is only recognised on a construction contract where the outcome can be estimated reliably. Revenue and costs are recognised by reference to the stage of completion of contract activity at the balance sheet date. This is normally measured by an assessment of work performed to date [illegible]

[illegible]

On the balance sheet, the Group reports the net contract position for each contract either as an asset or liability. A contract represents an asset where costs incurred plus recognised profits exceed progress billing and a contract represents a liability where the opposite is the case. These are disclosed as 'Amounts recoverable on contracts'.

Sale of freehold assets

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

Grant income

Grants received are recognised as revenue in the income statement to match with the related costs that they are intended to compensate.

Selling expenses

Selling expenses are charged to the income statement as incurred.

Employee benefits

In accordance with IAS 19, employee benefits are recognised as an expense in the period they are earned by the employee. Under the Group's annual bonus scheme for Executive Directors and senior management there is a deferred element to be paid in future years. This deferred element is recognised as an expense over the remaining period dependant on the employee's continued service.

Borrowings

Interest bearing bank loans and overdrafts are initially measured at fair value, being proceeds received net of transaction costs and are subsequently measured at amortised cost, using the effective interest rate method.

Borrowing costs directly relating to the development of properties that take a substantial period of time to get ready for sale are capitalised within inventories. Capitalisation of borrowing costs commences from the date of initial expenditure on a given development and continues until the properties are ready for sale.

The capitalisation of borrowing costs is suspended where there are prolonged periods when development activity on a site is interrupted. Capitalisation is not normally suspended during a period when substantial technical and administrative work is being carried out.

All other borrowing costs are charged to the income statement using the effective interest method. Borrowing costs paid are classified as operating activities in the cash flow statement.

Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

Hedge accounting – interest rate swaps

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

Operating leases

Operating lease rentals are charged to the income statement on a straight line basis over the life of the lease.

Pension costs

Contributions paid to group personal pension schemes (defined contribution), in respect of employees, are charged to the income statement as incurred.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis at rates calculated to write down the cost, less estimated residual value, of each asset over its expected useful life as follows:

Leasehold improvements	-	shorter of term of lease and 10 years
Plant and machinery	-	2 to 5 years
Motor vehicles	-	3 years

Goodwill

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

Investments

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

Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Share-based payments

In accordance with FRS 2, the fair value of equity settled share options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured as at the date the options are granted using the Black-Scholes-Merton pricing model and is charged equally over the vesting period. The amount recognised as an expense is adjusted each reporting period to reflect the actual number of options that are expected to vest.

With respect to share-based payments, a deferred tax asset is recognised on the relevant tax base. The tax base is then compared to the cumulative share-based payment expense recognised in the income statement. Deferred tax arising on the excess of the tax base over the cumulative share-based payment expense recognised in the income statement has been recognised directly in equity.

Own shares

Shares held by employee benefit trusts in order to satisfy awards under the Group's share plans are included net within equity until such time as the shares are vested to the relevant employees.

Critical accounting judgements and key sources of estimation uncertainty

Construction contract revenue and profit recognition

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

Contract revenue is recognised from the date of exchange of construction contracts and once there is reasonable certainty that all conditions will be met, at a rate equivalent to the value of work undertaken in respect of the development. Contract profit on construction contracts is recognised in proportion to revenue only to the extent that the total eventual profit on the contract can be foreseen with reasonable certainty.

Carrying value of land and work in progress

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

Future adoption of new and revised Standards and Interpretations

At the date of the authorisation of these financial statements, there are a number of standards, amendments and interpretations that have been published but are not yet effective for the year ended 31 March 2017 and have not been adopted early.

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

IFRS 15 'Revenue from contracts with customers' will be effective for the Group for the year ending 31 March 2019. The standard remains subject to industry interpretation and consensus. The Group has already identified that there will be an impact on the timing of recognition of some selling expenses which are currently expensed as incurred, but in the future will need to be capitalised and expensed as cost of sales on legal completion of the properties. The Group continues to assess other potential impacts of the standard including considering whether any changes will be required to the recognition of revenue from construction contracts. It is not practical to provide an estimate of the full impact of IFRS 15 until the Group has completed its assessment.

The following standards are expected to impact the Group but are not yet EU endorsed.

- IFRS 16 'Leases' is expected to impact the recognition of leases currently recognised as operating leases. This would apply to the Group's property lease for its office premises and motor vehicle leases.
- Amendments to IAS 7 'Statement of cash flows' on disclosure initiative expected to impact the disclosure of liabilities arising from financing activities.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2017

1 Operating profit

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Operating profit is stated after charging (crediting):		
Depreciation		
– owned assets	599	610
Operating lease rentals		
– property	475	377
– motor vehicles	699	659
Profit on sale of tangible assets	(20)	(44)

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
The following has been charged in respect of auditors' remuneration:		
Audit and related services (PricewaterhouseCoopers LLP)		
Statutory audit of the Company and Group financial statements	96	117
The audit of joint venture and subsidiary accounts pursuant to legislation	17	14
Other services including non-audit services (PricewaterhouseCoopers LLP)		
Tax compliance services	34	40
Interim review	20	19
All other non-audit services	14	120

Amounts payable to the Company's auditors and their associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

In the year to March 2016, there was £118,000 included within non-audit services in relation to non-recurring fees for financial due diligence relating to the acquisition of the regeneration business of United House Developments.

Grant income

The Group was allocated £0.4 million of grant from the Mayor's Housing Covenant 2015–2018 programme, all of which had been received at 31 March 2017 (2016: £nil). Grant income is recognised as revenue in the income statement on a percentage of completion basis to match with the costs it is intended to compensate. The total grant allocation is made up of individual site by site allocations, the receipt of which is dependent upon constructing the planned affordable housing on each site.

Revenue

Our accounting policies for revenue recognition on open market sales. construction contracts and freehold assets are outlined on pages 74 and 75. The revenue recognised in the year was as follows:

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

Year ended March 2016	GAAP £000	Add share of joint ventures £000	Non-GAAP £000
Open market revenue	203,172	–	203,172
Contract revenue	37,901	1,391	39,292
Freehold sales	270	1,380	1,650
Other	1,336	131	1,467
Group revenue	242,679	2,902	245,581
Share of revenue from joint ventures	2,902	(2,902)	–
Total revenue	**245,581**	**–**	**245,581**

NOTES TO THE FINANCIAL STATEMENTS

31 March 2017

2 Segmental reporting

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

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

Year ended 31 March 2017	Management information £000	Remove share of joint ventures £000	GAAP £000
Revenue	291,921	(25,946)	265,975
Cost of sales	(228,720)	19,754	(208,966)
Gross profit	63,201	(6,192)	57,009
Administrative expenses	(20,805)	78	(20,727)
Selling expenses	(5,091)	948	(4,143)
Share of results of joint ventures	–	4,634	4,634
Operating profit	37,305	(532)	36,773
Net finance costs	(3,177)	1,036	(2,141)
Profit before income tax	34,128	504	34,632
Income tax expense	(6,609)	(504)	(7,113)
Profit after income tax	**27,519**	**–**	**27,519**
Inventories	339,380	(51,728)	287,652
Other assets	84,917	41,215	126,132
Total liabilities	(220,012)	10,513	(209,499)
Net assets	**204,285**	**–**	**204,285**

Year ended 31 March 2016	Management information £000	Remove share of joint ventures £000	GAAP £000
Revenue	245,581	(2,902)	242,679
Cost of sales	(182,438)	1,569	(180,869)
Gross profit	63,143	(1,333)	61,810
Administrative expenses	(19,250)	194	(19,056)
Selling expenses	(9,365)	188	(9,177)
Share of results of joint ventures	–	965	965
Operating profit	34,528	14	34,542
Net finance costs	(2,325)	98	(2,227)
Profit before income tax	32,203	112	32,315
Income tax expense	(6,477)	(112)	(6,589)
Profit after income tax	**25,726**	**–**	**25,726**
Inventories	[illegible]	[illegible]	[illegible]
Other assets	[illegible]	[illegible]	[illegible]
Total liabilities	[illegible]	[illegible]	[illegible]
Net assets	**186,970**	**–**	**186,970**

3 Employee benefit expense

The average monthly number of people employed by the Group and Company, including Executive Directors, during the year analysed by activity was as follows:

	Year ended 31 March 2017 Number	Year ended 31 March 2016 Number
Construction	106	104
Administration	132	115
	238	**219**

The employment costs of all employees included above were:

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Wages and salaries	18,039	16,501
Social security costs	2,120	1,910
Other pension costs – group personal pension arrangements	743	688
Share-based payments (note 18)	254	218
	21,156	**19,317**

The Company operates a group personal pension scheme for its employees. At 31 March 2017 payments of £88,118 were due to the scheme (2016: £94,411).

Six current directors are accruing benefits under group personal pension arrangements (2016: Six).

Key management remuneration

Key management personnel, as defined under IAS 24 (Related Party Disclosures), have been identified as the directors as all key decisions are reserved for the Board, along with the Company Secretary/Director of Legal Services, who attends all Board meetings. These figures include the full remuneration of key management personnel during the year.

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Wages and salaries (including bonuses)	2,909	3,259
Social security costs	384	421
Other pension costs	145	163
	3,438	**3,843**

Included within wages and salaries during the year ended 31 March 2017 are contractual notice period and deferred bonus payments totalling £nil payable for loss of office (2016: £356,000).

Detailed disclosures of directors' individual remuneration, pension entitlement and share options for those directors who served in the year are given in the tables in the directors' remuneration report on pages 56 to 59 and therefore are not repeated here but form part of this note.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2017

4 Finance income and costs

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Finance income		
Interest income on short term bank deposits	54	101
Other interest income	36	16
	90	117
Finance costs		
Interest payable on bank loans and overdrafts	(1,608)	(1,721)
Amortisation of facility fees	(623)	(623)
	(2,231)	(2,344)
Net finance costs	**(2,141)**	**(2,227)**

Further information on borrowings is given in note 22.

5 Taxation

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
United Kingdom corporation tax on profits for the year	6,616	6,550
Adjustment in respect of prior periods	14	8
Total current taxation	6,630	6,558
Deferred taxation (note 11)	483	31
Income tax expense	**7,113**	**6,589**

In addition to the amount charged to the income statement, deferred tax of £45,000 relating to share-based payments and financial instruments hedged has been charged directly to equity and £76,000 relating to current tax have been credited directly to equity (2016: £341,000 charged and £359,000 credited).

Reconciliation of effective tax rate

The tax assessed for the year is higher (2016: higher) than the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities. The differences are explained below:

Profit before income tax	34,632	32,315
Profit on ordinary activities before taxation at the rate of corporation tax	6,926	6,463
Effects of:		
Joint ventures results reported net of tax	247	22
Losses not recognised	1	-
Adjustment in respect of prior periods	14	8
Expenses not deductible for tax purposes	56	113
Tax effect of share-based payments	-	(13)
Tax relief on land remediation costs	(27)	(4)
Adjustment to losses carried forward	(74)	-
Profits taxable at deferred tax rate	(30)	-
Income tax expense	**7,113**	**6,589**

The applicable tax rate was 20.0% (2016: 20.0%).

Deferred tax expected to reverse in the year to 31 March 2018 has been measured using the effective rate that will apply in the United Kingdom for the period of 19% (2016: 20%).

NOTES TO THE FINANCIAL STATEMENTS

31 March 2017

6 Dividend paid

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Prior year final dividend paid in July 2016 of 7.7p (July 2015: 6.0p)	5,746	3,618
Interim dividend paid in January 2017 of 7.2p (January 2016 6.5p)	5,389	4,825
	11,135	**8,443**

The final dividend proposed for the year ended 31 March 2017 is 8.5 pence per ordinary share. This dividend was declared after 31 March 2017 and as such the liability of £6,400,000 has not been recognised at that date.

7 Earnings per share

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

Earnings per share have been calculated using the following figures:

	Year ended 31 March 2017	Year ended 31 March 2016
Weighted average number of shares in issue	74,716,939	65,498,340
Dilution – effect of share schemes	395,643	572,176
Diluted weighted average number of shares in issue	75,112,582	66,070,516
Profit on ordinary activities after taxation	£27,519,000	£25,726,000
Earnings per share:		
Basic	36.8p	39.3p
Diluted	36.6p	38.9p

8 Goodwill

	Group £000	Company £000
Net carrying amount at 1 April 2015	–	–
Additions through business combination	304	–
Net carrying amount at 31 March 2016	304	-
Impairment of goodwill	(15)	–
Net carrying amount at 31 March 2017	**289**	**-**

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

Impairment of goodwill of £15,000 (2016: £nil) is as a result of a change in the tax rate at which deferred tax is recognised on the fair value of the net assets acquired.

9 Investments

Company

Investments in subsidiary undertakings

	2017 £000	2016 £000
At 31 March valued at cost	**23,037**	**19,464**

On 30 June 2015, the Group acquired and took control of the regeneration business of UHD from United House Group Holdings Limited (UHGHL). The regeneration business of UHD consisted of a group of companies that had various interests in four significant development opportunities in North and East London. Completion of one of the developments, held by Gallions Limited, was conditional on UHGHL securing a legal interest in the site. On 28 July 2016, those conditions were met and the Group completed its acquisition of Gallions Limited.

There have been no other additions or disposals of investments in subsidiary undertakings during the year ended 31 March 2017.

The significant undertakings of the Group comprise:

	Share of ordinary capital held by the Group	Country of registration	Accounting date	Principal activity
Telford Homes (Creekside) Limited	100%	Scotland	31 March	Property development
Island Gardens Limited	100%	England	31 December	Property development
Telford Homes Regeneration Developments Holdings Limited	100%	England	31 March	Property development
Telford Homes Balfron Towers Limited	100%	England	31 December	Property development
Telford Homes City North Limited	100%	England	31 March	Property development
Telford Homes Chrisp Street Limited	100%	England	31 December	Property development
Chrisp Street Developments Limited	100%	England	31 March	Property development
Gallions Limited	100%	England	31 March	Property development

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

Investments in joint ventures

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
At 31 March valued at cost	**47,554**	**42,101**	**1**	**1**

Investments in joint ventures

The joint ventures which principally affect profits and net assets of the Group comprise.

	Share of ordinary capital held by *the Group*	Country of *registration*	Accounting *date*	*Principal activity*
Chobham Farm North LLP	50%	England	31 March	Property development
St Leonards Developments LLP	50%	England	31 December	Property development
City North (Telford Homes) Limited	50%	England	31 March	Property development
Armada 1 South Development LLP	50%	England	30 November	Property development
Gallions 2B Development LLP	50%	England	30 November	Property development

NOTES TO THE FINANCIAL STATEMENTS

31 March 2017

9 Investments continued

On 28 July 2016, as a result of the completed acquisition of Gallions Limited from LHGHL, the Group acquired an interest in the joint ventures Armada 1 South Development LLP and Gallions 2B Development LLP. There have been no other additions or disposals of investments in joint ventures during the year ended 31 March 2017.

A full list of subsidiary undertakings and joint ventures not disclosed within this note is included on page 101.

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

Year ended 31 March 2017	Armada 1 South Development LLP £000	Gallions 2B Development LLP £000	Chobham Farm North LLP £000	St Leonards Developments LLP £000	City North (Telford Homes) Ltd £000	Other £000	Total £000
Revenue	–	–	48,494	840	2,503	–	51,837
Operating profit	–	–	9,865	838	498	36	11,237
Finance income (expense)	–	–	(1)	189	(2,171)	4	(1,979)
Profit (loss) before tax	–	–	9,864	1,027	(1,673)	40	9,258
Current assets	7,742	362	47,186	5,397	58,279	88	119,054
Cash	–	–	5	–	2,055	350	2,410
Current liabilities	(5,580)	–	(4,011)	(2)	(17,746)	(132)	(27,471)
Amounts due to members	(2,162)	(362)	(33,396)	(4,055)	–	(4)	(39,979)
Net assets	–	–	9,784	1,340	42,588	302	54,014
Remove joint venture partners share of net assets	–	–	(4,892)	(670)	(21,294)	(151)	(27,007)
Remove share of amounts due to joint venture partners	1,081	181	16,698	2,028	–	2	19,990
Remove pre-acquisition reserves		–	–	–	1,551	–	1,551
Consolidation adjustments	2,389	–	129	(16)	(3,494)	(2)	(994)
Investments in joint ventures	**3,470**	**181**	**21,719**	**2,682**	**19,351**	**151**	**47,554**

Year ended 31 March 2016	Bishopsgate Apartments LLP £000	Mulatel LLP £000	Chobham Farm North LLP £000	St Leonards Developments LLP £000	City North (Telford Homes) Ltd £000	Total £000
Revenue	3,388	2,504	–	360	–	6,252
Operating profit (loss)	1,858	523	(79)	207	(500)	2,009
Finance income (expense)	3	–	–	106	(1,699)	(1,590)
Profit (loss) before tax	1,861	523	(79)	313	(2,199)	419
Current assets	100	63	52,082	2,609	40,685	95,539
Cash	37	244	6	–	8	295
Current liabilities	(11)	(169)	(2,325)	(2)	(487)	(2,994)
Amounts due to members	–	(2)	(49,842)	(2,294)	–	(52,138)
Net assets (liabilities)	126	136	(79)	313	40,206	40,702
Remove joint venture partners share of net assets	(63)	(68)	40	(157)	(20,103)	(20,351)
Remove share of amounts due to joint venture partners	–	1	24,921	1,147	–	26,069
Remove pre-acquisition reserves	–	–	–	–	1,551	1,551
Consolidation adjustments	1	(2)	(77)	280	(6,072)	(5,870)
Investments in joint ventures	**64**	**67**	**24,805**	**1,583**	**15,582**	**42,101**

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

After removing the share of joint ventures not owned by the Group and consolidation adjustments, the share of results of joint ventures figure included in the Group income statement for the year ended 31 March 2017 is £4,634,000 (2016: £965,000).

NOTES TO THE FINANCIAL STATEMENTS

31 March 2017

10 Property, plant and equipment

Group and Company	Leasehold improvements £000	Plant and machinery £000	Motor vehicles £000	Total £000
Cost				
At 1 April 2015	810	2,003	68	2,881
Additions	493	574	–	1,067
Disposals	–	(433)	–	(433)
At 31 March 2016	1,303	2,144	68	3,515
Additions	232	155	–	387
Disposals	(70)	(43)	(68)	(181)
At 31 March 2017	**1,465**	**2,256**	**–**	**3,721**
Depreciation				
At 1 April 2015	357	1,454	42	1,853
Charge	120	467	23	610
Disposals	–	(433)	–	(433)
At 31 March 2016	477	1,488	65	2,030
Charge	170	427	2	599
Disposals	(70)	(43)	(67)	(180)
At 31 March 2017	**577**	**1,872**	**–**	**2,449**
Net book value				
At 31 March 2016	826	656	3	1,485
At 31 March 2017	**888**	**384**	**–**	**1,272**

Authorised capital expenditure that was contracted, but not provided for, in these financial statements amounted to £314,000 in relation to leasehold improvements to head office premises (2016: £nil).

11 Deferred income tax

Group and Company	Group 31 March 2017 £000	Group 31 March 2016 £000	Company 31 March 2017 £000	Company 31 March 2016 £000
Deferred tax assets	595	550	519	548
Deferred tax liabilities	(918)	(360)	(629)	(56)
Deferred tax (liabilities) assets	**(323)**	**190**	**(110)**	**492**

As permitted by IAS 12 (Income Taxes), certain deferred tax assets and liabilities have been offset as they arise in the same tax jurisdiction and are settled on a net basis.

The movement on the deferred income tax account is as follows:

	Group 31 March 2017 £000	Group 31 March 2016 £000	Company 31 March 2017 £000	Company 31 March 2016 £000
Brought forward	190	866	492	866
Charged to the income statement	(483)	(31)	(557)	(33)
Charged directly to equity	(45)	(341)	(45)	(341)
Recognised through goodwill	15	(304)	–	–
	(323)	**190**	**(110)**	**492**

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

Group	Capital allowances £000	Share-based payments £000	Financial instrument transactions £000	Losses carried forward £000	Fair value adjustments £000	Consolidation adjustments £000	Total £000
At 1 April 2015	46	743	77	–	–	–	866
(Charged) credited to the income statement	(18)	(15)	–	2	–	–	(31)
(Charged) credited directly to equity	–	(434)	93	–	–	–	(341)
Recognised through goodwill	–	–	–	–	(304)	–	(304)
At 31 March 2016	28	294	170	2	(304)	–	190
Credited (charged) to the income statement	11	2	–	74	–	(570)	(483)
(Charged) credited directly to equity	–	(82)	37	–	–	–	(45)
Recognised through goodwill	–	–	–	–	15	–	15
At 31 March 2017	**39**	**214**	**207**	**76**	**(289)**	**(570)**	**(323)**

Company	Capital allowances £000	Share-based payments £000	Financial instrument transactions £000	Losses carried forward £000	Fair value adjustments £000	Consolidation adjustments £000	Total £000
At 1 April 2015	46	743	77	–	–	–	866
Charged to the income statement	(18)	(15)	–	–	–	–	(33)
(Charged) credited directly to equity	–	(434)	93	–	–	–	(341)
At 31 March 2016	[illegible]	294	170	–		–	492
Credited (charged) to the income statement	[illegible]	[illegible]	–	–	–	[illegible]	[illegible]
(Charged) credited directly to equity	–	[illegible]	[illegible]	–	–	–	[illegible]
At 31 March 2017	**39**	**214**	**207**	**–**	**–**	**(570)**	**(110)**

The cumulative net deferred tax credited directly to equity amounts to £399,000 (2016: £444,000).

NOTES TO THE FINANCIAL STATEMENTS

31 March 2017

12 Inventories

	Group		Company	
	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000
Development properties	**287,652**	**238,976**	**266,851**	**232,868**

All inventories are considered to be current in nature. The operating cycle is such that a proportion of inventories will not be realised within 12 months. It is not possible to determine with accuracy when specific inventory will be realised as this will be subject to a number of issues such as consumer demand and planning permission delays.

Included within development properties for the Group are freehold interests held for future sale of £4,304,000 (2016: £5,703,000). During the year ended 31 March 2017, the Group recognised £2,323,000 of new freehold interests and disposed of £3,724,000 of freehold interests, receiving sales proceeds of £4,856,000 (2016: the Group disposed of £144,000 of freehold interests, receiving sales proceeds of £270,000 and recognised £730,000 of new freehold interests). Included within development properties for the Company are freehold interests held for future sale of £4,304,000 (2016: £4,476,000).

The value of inventories expensed in cost of sales by the Group in the year ended 31 March 2017 was £203,504,000 (2016: £179,807,000). Costs capitalised by the Group during the year include interest of £2,151,000 (2016: £2,186,000), which is capitalised based on the site specific cost of borrowings.

During the year the Group conducted a review of the net realisable value of its inventories. Where the estimated net realisable value has changed due to movements in cost and revenue estimates and this was less than the carrying value within the balance sheet, the Group has written down the value of inventories. The total amount recognised as an expense was £363,000 (2016: £135,000).

13 Trade and other receivables

	Group		Company	
	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000
Current receivables				
Amounts recoverable on contracts	[illegible]	[illegible]	[illegible]	[illegible]
Amounts owed by Group undertakings	–	–	16,253	[illegible]
Amounts owed by joint ventures	[illegible]	[illegible]	[illegible]	[illegible]
Trade receivables	[illegible]	[illegible]	[illegible]	[illegible]
Other receivables	[illegible]	[illegible]	[illegible]	[illegible]
Prepayments and accrued income	[illegible]	[illegible]	[illegible]	[illegible]
	38,288	**31,662**	**79,847**	**58,703**

Amounts recoverable on contracts

Total contract revenue of £[illegible] (2016: £[illegible]) has been recognised by the Group in the year.

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

	Group		Company	
	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	22,408	14,828	22,408	14,774
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	22,408	14,828	22,408	14 774

[illegible]

14 Cash and cash equivalents

	Group		Company	
	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000
Cash at bank and in hand	**38,629**	**20,709**	**36,882**	**20,620**

15 Trade and other payables

	Group		Company	
	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000
Current payables				
Trade payables	39,146	10,571	39,146	10,571
Amounts due to joint ventures	–	42	–	42
Amounts recoverable on contracts (note 13)	3,272	7,790	3,272	7,790
Deposits received in advance	62,059	70,277	62,059	70,277
Social security and other taxes	656	640	656	640
Accrued expenses	17,476	15,551	16,672	14,511
Land creditors	26,907	–	26,907	–
	149,516	**104,871**	**148,712**	**103,831**
Non-current				
Due in more than one year and less than five years				
Accrued expenses	**1,527**	**1,358**	**1,277**	**1,108**
Total trade and other payables	**151,043**	**106,229**	**149,989**	**104,939**

As at 31 March 2017, deposits received in advance including the Group's share of joint ventures amounted to £68,085,000 (2016: £70,277,000).

Land creditors represent the fair value of land payments the Group is committed to but are not yet payable. As at 31 March 2017 the total value of land creditors including the Group's share of joint ventures amounted to £28,420,000 (2016: £nil).

16 Borrowings

	Group		Company	
	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000
Bank loans	55,000	40,000	55,000	40,000
Transaction costs	(1,195)	(1,818)	(1,195)	(1,818)
	53,805	**38,182**	**53,805**	**38,182**

Further information on borrowings is given in note 22.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2017

17 Share capital

Group and Company	31 March 2017 £000	31 March 2016 £000
Authorised		
100,000,000 (2016: 100,000,000) ordinary shares of 10p each	10,000	10,000
Allotted, called up and fully paid		
75,293,000 ordinary shares of 10p each (2016: 74,850,000)	7,529	7,485

During the year, 193,000 shares were issued at prices ranging from 64.0p to 90.5p as a result of share options being exercised.

On 31 March 2017, 250,000 ordinary shares were issued at 343.5p to Telford Homes Trustees Limited to satisfy the requirements of the Share Incentive Plan (note 18).

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

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

All shares rank equally in respect of shareholder rights.

18 Employee Share Schemes

Telford Homes Plc Employee Share Option Scheme

A charge is made to the income statement to reflect the calculated fair value of employee share options. This charge is calculated at the date of grant of the options and is charged equally over the vesting period.

The Group operates both an approved share option scheme and an unapproved share option scheme. Awards under each scheme are made periodically to new employees. All schemes are equity-settled and options can normally be exercised three years after the grant date.

The Group has used the Black-Scholes-Merton formula to calculate the fair value of granted options. Individual calculations have been performed for groups of share options with differing exercise prices and dates. The assumptions applied to the Black-Scholes-Merton formula for share options issued and the fair value per option are set out below:

	2017	2016
Expected life of options based on options exercised to date	4 years	4 years
Volatility of share price based on three year share price history	33%	25%
Dividend yield	4.2%	4.0%
Risk free interest rate	0.25%	0.5%
Weighted average share price at date of grant	312p	383p
Weighted average exercise price	312p	383p
Weighted average fair value per option	£0.52	£0.47

Expected volatility was determined by considering the volatility levels historically for the Group. Volatility in more recent years is considered to have more relevance than earlier years for the period reviewed.

The charge calculated for the year ended 31 March 2017 is £43,000 (2016: £27,000).

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

	2017		2016	
	Number 000s	**Weighted average exercise price**	**Number 000s**	**Weighted average exercise price**
Outstanding at 1 April	972	165p	1,352	104p
Granted in the year	48	312p	183	383p
Forfeited in the year	(26)	348p	(20)	247p
Exercised in the year	(193)	82p	(543)	84p
Outstanding at 31 March	**801**	**188p**	**972**	**165p**
Exercisable at 31 March	**507**	**95p**	**689**	**91p**

The aggregate fair value of options granted in the year was £25,000 (2016: £86,000).

A total of 193,000 share options were exercised at a weighted average price of 82p in the year ended 31 March 2017 (2016: 542,772 shares at 84p).

At 31 March 2017 outstanding options granted over 10p ordinary shares were as follows:

Share option scheme	Option price	Number	Date exercisable
Group approved	64p	61,500	20 July 2012 to 20 July 2019
	90.5p	108,000	9 Feb 2015 to 9 Feb 2022
	200p	50,000	15 Mar 2016 to 15 Mar 2023
	294p	80,000	28 May 2017 to 28 May 2024
	347p	17,290	28 Feb 2020 to 28 Feb 2027
	383p	124,800	4 Dec 2018 to 4 Dec 2025
	291.75p	30,846	15 Sep 2019 to 15 Sep 2026
Group unapproved	75p	60,000	1 Oct 2005 to 1 Oct 2018
	79p	60,000	23 May 2014 to 23 May 2021
	90.5p	167,000	9 Feb 2015 to 9 Feb 2022
	383p	42,200	4 Dec 2018 to 4 Dec 2025

NOTES TO THE FINANCIAL STATEMENTS

31 March 2017

18 Employee Share Schemes continued

Telford Homes Plc Share Incentive Plan

During the year ended 31 March 2004, Telford Homes Plc set up a Share Incentive Plan (SIP) for the benefit of all of the employees of the Group. This SIP has been approved by the Inland Revenue and confers certain tax advantages for participating employees.

The SIP enables for employees to purchase shares up to a value of £1,800 in each tax year. These shares are known as 'Partnership shares'. Partnership shares are matched on a one for one basis by 'Matching shares' provided by the Group, subject to the shares remaining in the SIP for a period of not less than three years. Dividends are paid on both Partnership and Matching shares and these are allocated to employees as 'Dividend shares'.

The Group has set up a trust to administer the SIP and to hold shares on behalf of individual employees. This trust is an entirely separate entity to the Group and is managed by a corporate trustee, Telford Homes Trustees Limited. The costs associated with the trust are paid for by the Group and the Group finances all share purchases.

The trust has distributed shares as Partnership shares and Dividend shares to employees participating in the scheme. These shares remain in the trust until such time as an employee withdraws from the SIP. Further shares have been allocated to employees as Matching shares and the cost of these shares is being written off over the three year holding period. The charge in the year ended 31 March 2017 is £211,000 (2016: £191,000).

During the year ended 31 March 2017 the trust acquired 250,000 shares at 343.5p. At 31 March 2017 the trust remains interested in 137,268 shares (2016: 140,335) which have not been allocated to employees and a further 216,194 (2016: 212,988) that have been allocated to employees as Matching shares but have not yet vested. Shares in which the trust remains interested do not rank for dividends and all shares that have not yet vested do not count in the calculation of the weighted average numbers of shares used to calculate earnings per share.

Shares held by the SIP are recognised as a deduction from shareholders' funds. The value of these shares at 31 March 2017 was £777,997 (2016: £718,640). Movements in retained earnings relating to the SIP are shown in the statement of changes in equity.

Telford Homes Plc 2006 Deferred Payment Share Purchase Plan

During the year ended 31 March 2007, Telford Homes Plc set up a Deferred Payment Share Purchase Plan (DPSPP) for the benefit of selected senior employees. An employee benefit trust (the Telford Homes Plc 2006 Employee Benefit Trust) was set up with Abacus Corporate Trustee Limited acting as trustee.

Participants in the DPSPP are offered a loan by the trustee to enable them to subscribe for a specified number of shares in the Group at market value. This loan is interest free, repayable on or before the repayment date which is normally 20 years from the date of the loan or on leaving employment or disposing of the shares. The loan has a limited recourse such that repayment is limited to the value of the shares on the repayment date. The Group will lend the trustee sufficient funds to enable the trustee to provide the loans to individual participants. All shares acquired under the DPSPP will be subject to a three year vesting period and are held by the trustee for the benefit of the participants. Offers to participants will be made periodically at the discretion of the directors of Telford Homes Plc.

In September 2006 selected employees were offered, and subscribed for, a total of 550,000 shares at the market value of 260p. These shares were issued on 9 November 2006. On this date the Group provided a loan to the trustee of £1,430,000 to enable the trustee to provide a loan to each of the participants. This loan is repayable at the earlier of the sale of the vested shares and November 2026 and has been recognised as a deduction from shareholders' funds in the statement of changes in equity. In the year ended 31 March 2017, £136,000 of this loan has been repaid, leaving an outstanding balance of £626,000 (2016: £762,000).

In December 2007 selected employees were offered, and subscribed for, a total of 160,000 shares at the market value of 244p. These shares were issued on 14 December 2007. On this date the Group provided a loan to the trustee of £390,400 to enable the trustee to provide a loan to each of the participants. This loan is repayable at the earlier of the sale of the vested shares and December 2027 and has been recognised as a deduction from shareholders' funds in the statement of changes in equity. In the year ended 31 March 2017 £4,000 of this loan has been repaid leaving an outstanding balance of £319,000 (2016: £323,000).

Shares held in Trust

At 31 March 2017 employee benefit trusts held interests in 724,369 shares at a nominal value of 10p this represents 1.0% of the Company's allotted share capital (2016: [illegible] shares at 10p nominal value representing 1.[illegible]%).

19 Commitments and contingent liabilities

Commitments

At 31 March, the Group and Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Property leases		Other leases	
	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000
Within one year	391	467	584	554
Between one and five years	2,800	1,866	517	287
Over five years	3,807	896	–	–
	6,998	**3,229**	**1,101**	**841**

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

On 13 February 2017, the Group entered into a new 10 year contract to lease its existing head office. In addition to this, also on 13 February 2017, the Group entered into a 10 year contract to lease additional space at the same location as its existing head office.

Contingent liabilities

Contingent land payments

On 27 September 2013, the Company purchased its Horizons development in Tower Hamlets. The site was acquired for consideration equating to a variable percentage of the open market sales proceeds that are achieved from the future development. The total payments are expected to be approximately £23.9 million (2016: £24.2 million). Consideration of £22.8 million (2016: £4.0 million) has been paid to date and the remainder will be settled directly from open market sales proceeds on individual legal completion of the remaining two units.

On occasions the Group enters into contracts to purchase land subject to conditions being satisfied such as obtaining a planning consent. At 31 March 2017 the Company had entered into no conditional contracts for which the conditions had not been fully satisfied (2016: £22.7 million).

NOTES TO THE FINANCIAL STATEMENTS

31 March 2017

20 Business combinations

On 30 June 2015, the Group acquired and took control of the regeneration business of United House Developments (UHD) from United House Group Holdings Limited (UHGHL). The regeneration business of UHD consists of a group of companies that have various interests in four significant development opportunities in North and East London.

Completion of one of the developments, Gallions Quarter, was conditional on UHGHL securing a legal interest in the site. On 28 July 2016, those conditions were met and the Group completed its acquisition of Gallions Limited. The consideration for the business combination on 28 July 2016 was £3.56 million.

The consideration paid for the acquisition of Gallions Limited, the fair value of the assets acquired and liabilities assumed at the acquisition date, is as follows:

Consideration as at 28 July 2016	**£000**
Cash	3,556
Total consideration paid	**3,556**

Recognised amounts of identifiable assets acquired and liabilities assumed which were consolidated as at 28 July 2016 were:

	£000
Non current assets	
Investments in joint ventures	3,556
Total fair value of net assets	**3,556**

Acquisition-related costs of £18,000 have been charged to administrative expenses in the consolidated income statement for the year ended 31 March 2017 (2016: £393,000).

Revenue and profit recognised since the date of acquisition are minimal and not significant to the Group.

The fair value of inventories acquired including the Group's share of joint venture inventories was £3,556,000. The method for determining the fair value of inventory is to use the expected selling price less costs to complete, costs of disposal and expected margin for each development.

21 Related party transactions

The Board and certain members of senior management are related parties within the definition of IAS 24 (Related Party Disclosures).

Property purchases by directors of Telford Homes Plc

In June 2015, David Campbell exchanged contracts on the purchase of an apartment from the Company at its Bermondsey Works development. The purchase price was £351,625 and the Company has received a deposit of £70,325 at 31 March 2017 (2016: £35,163) with the balance due on legal completion.

The directors are of the opinion that this sale was made at the open market price. This purchase was approved at the Annual General Meeting held on 16 July 2015.

In August 2016, James Furlong exchanged contracts and completed on the purchase of an apartment from the Company at its development The Junction. The purchase price was £718,000 plus additional fees of £1,985 for changes from standard specification, which the Company has received in full as at 31 March 2017.

The directors are of the opinion that this sale was made at the open market price. This purchase is to be approved at the Annual General Meeting held on 13 July 2017.

There have been no other transactions between key management personnel and the Group other than remuneration in the year ended 31 March 2017 or the year ended 31 March 2016.

Transactions between the Group and its joint ventures

The amounts outstanding from joint ventures to the Group and Company for trading balances at 31 March 2017 totalled £8,012,000 (2016: £2,465,000). A total of £23,520,000 was owed to the Company at 31 March 2017 from joint ventures in respect of shareholder advances (2016: £25,872,000). The Company owed joint ventures £nil at 31 March 2017 (2016: £42,000).

The Company has invoiced joint ventures £35,148,000 in the year to 31 March 2017 for construction services (2016: £9,171,000). The Company was invoiced £nil by joint ventures in the year to 31 March 2017 (2016: £nil).

Amounts owed to joint ventures and balances between the Company and its subsidiaries are non-interest bearing and are repayable when the counterparty has sufficient cash to repay the loans.

Transactions between the Company and its subsidiaries

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. The amounts owed by subsidiaries to the Company at 31 March 2017 totalled £18,283,000 (2016: £1,939,000) and the Company owed subsidiaries £nil (2016: £nil).

The Company has invoiced subsidiaries £2,366,000 in the year to 31 March 2017 for construction services (2016: £1,942,000). The Company has been invoiced £nil in the year to 31 March 2017 by subsidiaries (2016: £nil).

Joint ventures and subsidiaries do not transact with each other.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2017

22 Financial instruments

Categories of financial assets and financial liabilities are as follows.

	Group		Company	
	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000
Financial assets				
Loans and receivables				
Amounts owed by Group undertakings	–	–	[illegible]	[illegible]
Amounts owed by joint ventures	[illegible]	2,465	[illegible]	28,337
Trade receivables	[illegible]	104	[illegible]	104
Other receivables	[illegible]	4,966	[illegible]	4,418
Cash and cash equivalents	[illegible]	20,709	36,892	20,620
	49,831	**28,244**	**89,778**	**55,418**

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

	Group		Company	
	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000
Financial liabilities				
Liabilities held at fair value				
Interest rate swap	1,096	855	1,096	855
Amortised cost				
Trade payables and accrued expenses	58,149	26,122	57,095	25,082
Amounts due to joint ventures	-	42	–	42
Bank loans	55,000	40,000	[illegible]	40,000
	114,245	**67,019**	**113,191**	**65,979**

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

Interest rate swap

The fair value of the interest rate swap at 31 March 2017 was a £1,096,000 liability (2016: £856,000 liability). This is measured using valuations acquired from third party banks and is a level two valuation. Hedge accounting was applied and no ineffectiveness arose in the period. The notional principal amount of the interest rate swap was £50 million during the year, increasing to £100 million on 4 June 2017.

Trade and other receivables and trade payables

The fair value of trade and other receivables, amounts owed by and to Group undertakings and joint ventures, trade payables and fair creditors at 31 March 2017 is equal to the carrying value stated in the balance sheet at that date. There are no amounts included within trade and other receivables currently overdue (2016: £nil).

Borrowings

[illegible]

All borrowings are treated as current even though these may be due for settlement after 12 months from the balance sheet date as they are expected to be settled in the Group's normal operating cycle. For all borrowings fair value is materially equivalent to the original book value.

Market risk

The Group is exposed to the financial risk of changes in interest rates both in terms of changes in the base rate and LIBOR and in terms of individual bank's attitude to market risk and their application of either base rate or LIBOR to new facilities and the margin applied to each new facility.

In order to assess the risk interest costs are forecast on a monthly basis over a five year period using estimates of likely changes in rates and actual costs are compared to that forecast. Volatility of interest costs remained at an acceptable level in the year ended 31 March 2017 as LIBOR remains at a historically low level. Interest on all facilities currently held is charged at floating interest rates and the Group assesses the requirement for fixing interest rates on a regular basis.

From 1 October 2014 the Group reduced its exposure to movements in interest rates by entering into an interest rate swap. The Group receives interest on the swap at LIBOR and pays a fixed rate of 1.115 per cent. The effective date of the swap is 1 October 2014 and the maturity date was 30 September 2016, securing the interest rate paid on £50 million of the Group's £180 million revolving credit facility for this period.

On 15 January 2016 the Group entered into an additional interest rate swap. The Group receives interest on the swap at LIBOR and pays a fixed rate of 1.080 per cent. The effective date of the swap is 1 October 2016 and the maturity date is 4 March 2019, securing the interest rate paid on £50 million, increasing to £100 million from 1 June 2017, of the Group's £150 million revolving credit facility for this period.

The effect on the income statement of a 1 per cent rise and a 1 per cent fall in interest rates has been calculated to assess interest rate sensitivity. Based on average monthly borrowings in the year, a one per cent rise in interest rates would have a negative effect of £551,000 before tax (2016: £288,000) and a one per cent fall in interest rates gives the same but opposite effect.

Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and meet its liabilities as they fall due whilst maintaining an appropriate capital structure to reduce the costs of capital. The Group considers its capital to be all of the components of equity and borrowings.

The Group ensures that there are appropriate controls over the purchase of land and levels of work in progress in the business in order to appropriately manage its capital. In addition, the other methods by which the Group can manage its short term and long term capital structure include adjusting the level of ordinary dividends paid to shareholders, issuing new share capital and arranging debt.

Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations.

Trade and other receivables includes amounts recoverable on contracts which are due from housing associations and balances due from other Group undertakings. The Group considers the credit quality of the various debtors to be good in respect of the amounts outstanding and therefore credit risk is considered to be low.

Surplus cash is held in secure bank deposit accounts with the Royal Bank of Scotland, HSBC, Santander and Lloyds.

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2017

22 Financial instruments continued

The maturity profile of the anticipated future cash flows based on the earliest date on which the Group can be required to pay financial liabilities on an undiscounted basis (including future interest payments using the latest applicable rates) is as follows:

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

	Trade payables and accrued expenses £000	Borrowings £000	Derivative liabilities £000	Total £000
Within one year	26,122	1,544	194	27,860
More than one year and less than two years	542	1,544	–	2,086
More than two years and less than five years	816	41,415	661	42,892
31 March 2016	**27,480**	**44,503**	**855**	**72,838**

The maturity profile of the anticipated future cash flows based on the earliest date on which the Company can be required to pay financial liabilities on an undiscounted basis (including future interest payments using the latest applicable rates) is as follows:

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

	Trade payables and accrued expenses £000	Borrowings £000	Derivative liabilities £000	Total £000
Within one year	25,082	1,544	194	26,820
More than one year and less than two years	542	1,544	–	2,086
More than two years and less than five years	566	41,415	661	42,642
31 March 2016	**26,190**	**44,503**	**855**	**71,548**

SIGNIFICANT UNDERTAKINGS

The subsidiary undertakings and joint ventures not disclosed in note 9 which the Company holds a significant interest in at 31 March 2017 are set out below.

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

All the above are registered at Telford House, Queensgate, Britannia Road, Waltham Cross, Hertfordshire, EN8 7TF, with the exception of City North Islington Limited, which is registered at the Business Design Centre, 52 Upper Street, Islington Green, London, N1 0QH.

Independent auditors' report to the members of Telford Homes Plc

Report on the financial statements

In our opinion:

- Telford Homes Plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2017 and of the group's profit and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements, included within the Annual Report, comprise:

- the Group income statement and Group statement of comprehensive income for the year ended 31 March 2017;
- the Group and Company balance sheet as at 31 March 2017;
- the Group and Company statement of changes in equity for the year then ended;
- the Group and Company cash flow statement for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or

- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

As explained more fully in the Statement of Directors' Responsibilities set out on page 63, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Owen Mackney (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
30 May 2017

ADVISORS

Company Secretary
Richard Colin Ellis

Registered Number
4118370

Registered Office
Telford House
Queensgate
Britannia Road
Waltham Cross
Hertfordshire
EN8 7TF

Auditors
PricewaterhouseCoopers LLP
10 Bricket Road
St Albans
Hertfordshire
AL1 3JX

Corporate Bankers
The Royal Bank of Scotland
250 Bishopsgate
London
EC2M 4AA

HSBC Bank Plc
70 Pall Mall
London
SW1Y 5EZ

Santander Corporate & Commercial Banking
100 Ludgate Hill
London
EC4M 7RE

Allied Irish Bank
Podium Floor
St Helen's
1 Undershaft
London
EC3A 8AB

Solicitors
Reed Smith
The Broadgate Tower
20 Primrose Street
London
EC2A 2RS

Financial and Nominated Advisor
Shore Capital and Corporate Limited
Bond Street House
14 Clifford Street
London
W1S 4JU

Brokers
Shore Capital Stockbrokers Limited
Bond Street House
14 Clifford Street
London
W1S 4JU

Peel Hunt LLP
Moor House
120 London Wall
London
EC2Y 5ET

Registrars
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Financial Public Relations
Buchanan Communications Limited
107 Cheapside
London
EC2V 6DN