miller

Building for generations

Annual Report 2012

About Us

The Miller Group is a major UK property business specialising in housebuilding, commercial property, construction and integrated asset management services.

Housebuilding

Miller Homes is the ninth largest volume housebuilder in the UK, operating from eight geographic regions across the country. We have a reputation for award-winning innovation and customer focus.

Construction

Miller Construction is a multi-disciplinary construction business providing 'end-to-end' property solutions through long term relationships with clients.

Commercial Property

Miller Developments is a major property development and trading business operating across the UK. We focus on brownfield sites and working in joint venture with public and private sector partners.

Mining

Miller Mining operates in joint venture with Argent Group Plc at the UK's largest opencast coal mine and land reclamation project at Ffos-y-fran in Wales.

Pictured:

Front cover
Graysmill Gait, Edinburgh

Key Performance Indicators

The KPIs below demonstrate the progress the Group has made. Trading performance is significantly ahead of 2011 and we have enhanced long term value with improvements in our landbank, order book and development pipeline.

Turnover (£)
619.9m

NAV (£)
236.5m

Landbank – Owned and consented plots
8,087

PBIT (£)
29.2m

Construction order book (£)
1.53bn

Landbank – Strategic plots
10,641

PBT (£)
6.6m

Development pipeline (sq ft)
13m

Mining reserves (tonnes)
7.3m

Delivering for our shareholders

All four businesses made a positive contribution to Group profits.

I am pleased to report that the Group returned to profitability in 2012.

Group profit before interest of £29.2m (2011: £20.8m before exceptional items) is 40% ahead of 2011.

All four businesses made a positive contribution. The main drivers behind the increased profit were Homes, where new land purchased at current hurdle rates delivered increased margins, and Mining, where we benefited from coal prices hedged at favourable rates.

Profit before tax of £6.6m (2011: loss £30.4m before exceptional items) was ahead of expectations. Core borrowings at £149m are comfortably within our current facilities of £238.5m.

Refinancing
In February 2012 we completed a major refinancing of the Group, attracting £160m of new equity investment into the business and refinancing our senior debt with new five year committed term facilities. This has equipped us with additional investment capital and significantly strengthened our balance sheet.

GSO Capital Partners, a division of one of the world's leading investment and advisory firms, The Blackstone Group, is now the major shareholder.

Together with our other main shareholders, Royal Bank of Scotland, Lloyds Banking Group, Noble Grossart and key management, we have a committed and supportive investor base.

They also require us to continue to strengthen our processes and performance.

These events have transformed the Group's financial strength, providing a stable platform from which to grow the business.

The Board was restructured during the year and comprises a high calibre mix of shareholder representatives and non-executive directors, alongside the Group Chief Executive and Group Finance Director.

Economy
The prospects for our three core businesses are, in large part, tied to the overall strength of the UK economy. While there have been conflicting economic signals over recent months, we can take some encouragement from the increased understanding of the important contribution the housebuilding industry can make to a recovery. Through our membership of the HBF, we play an active role in such debates.

There have been a number of government-backed initiatives to stimulate demand. We have benefited from these with an additional 426 units recently awarded under the extended FirstBuy initiative.

The Board is confident that the Group is well equipped to take full advantage of opportunities to increase value for its shareholders.

NewBuy and MI New Home, the respective initiatives of the Westminster and Holyrood governments to work with housebuilders in order to increase the number of 95% loan to value mortgages, now have traction. We are confident that this will have a major impact in 2013 and beyond.

We are also encouraged by the pragmatic announcements being made on planning. Simplifying and speeding up this process will stimulate demand and accelerate economic recovery.

Corporate responsibility (CR)
Our businesses use the country's resources and interact closely with communities. Therefore, we place CR and health and safety as top priorities. We made good progress during the year, exceeding targets and benchmarking very favourably against our peers. Further details are contained in the Corporate Responsibility review on page 40.

People
This has been a milestone year for the Group regarding its shareholders, but there has been great consistency within the management team. Employee turnover is low, signalling that the Group is an exciting place to work and that we are a responsible employer.

On behalf of the Board, I thank all employees for their hard work during 2012 and wish them well in 2013.

Outlook

Markets are becoming more predictable and stable. The Group has a strong balance sheet, committed long term bank facilities and high quality management teams.

We have made good progress in improving the margins in our consented landbank and, in addition, we have a valuable strategic land portfolio which will underpin our future land requirements. Together with a record Construction order book and a high quality commercial property development pipeline, the Group is strongly positioned for 2013 and beyond.

The Board is confident that the Group is well equipped to take full advantage of opportunities to increase value for its shareholders.

Philip Bowman
Chairman

Strategic delivery

We made excellent progress across all businesses, laying the foundation for growth in the years ahead.

I am pleased to report a year where we made excellent progress across all businesses, laying the foundation for growth in the years ahead.

In Homes, we increased completions by 5% to 1,831 units (2011: 1,745 units). Our owned and consented landbank has a gross development value of £1.5bn. In addition, our strategic land has a gross development value of £1.8bn. These landbanks will underpin our growth in the short and medium term.

We have also significantly improved the length and quality of our Construction order book.

Our secured order book including preferred bidder positions is £844m. In addition, we have six framework agreements which, based on our win rate to date, have the potential to generate an additional £686m over the next five years.

Developments is making good progress in developing out its major asset holdings in Fort William, Aberdeen, Glasgow, Warrington and Birmingham. There are also a number of exciting new opportunities under review. We have a development pipeline of 13m sq ft.

Landbank

	Plots	GDV £m
Owned	5,203	918
Consented	2,884	621
Allocated/draft allocation	10,641	1,854
Total	**18,728**	**3,393**

Order book

	Contracts £m	Preferred bidders £m	Probable £m	Total £m
Framework agreements	92	275	686	1,053
PPP	63	56	–	119
Services	142	12	–	154
Other contracting	125	79	–	204
Total	**422**	**422**	**686**	**1,530**

We continue to maintain a selective and disciplined approach to land purchasing with a particular emphasis on good quality, suburban developments with traditional layouts and a product mix which is appropriate for the given location.

Finally, Mining has now completed 42% of the total excavation task at Ffos-y-fran with 33% of coal extracted. We have 7.3m tonnes of low cost, high quality coal reserves still to extract.

Strategy

The Group operates a diverse business model with two asset-backed businesses, Homes and Developments, complemented by a UK-wide Construction business and our Mining joint venture (with Argent Group) in South Wales. During the year we set out updated clear strategic objectives. All four businesses have defined investment parameters and key performance indicators against which we measure performance.

Housing has the funding and infrastructure to produce around 2,000 units per annum from its existing regional businesses. Margins will increase as we replace legacy land with new land purchased at today's hurdle rates. We also expect to benefit from drawing down land from our strategic land portfolio. Through our lead role in the planning and development process, this land has a higher embedded margin than land acquired in the open market.

We continue to maintain a selective and disciplined approach to land purchasing, with a particular emphasis on good quality, suburban developments with traditional layouts and a product mix which is appropriate for the given location.

Construction is firmly focussed on a number of key clients who have long term programmes of work in place. We provide 'end to end' estate solutions which support the whole life development and management of assets. We are also focussing on framework agreements with public sector organisations and regulated industries which will represent a growing share of our order book.

In Developments, our focus is on pre-let development, the purchase of land with potential for planning enhancement and maximising value from our existing portfolio. We are also seeking new opportunities where we can use our development skills to create institutional investment product.

Mining has a ten year programme of work at Ffos-y-fran and the ability to add to this reserve with coal from the adjacent site at Nant Llesg where a planning application will shortly be submitted.

The successful implementation of our strategy depends on strong leadership provided to our teams, the quality of our people, the strength of our values and the clarity of our vision. The following pages highlight our approach.

Keith. M. Miller

Keith M Miller CBE
Group Chief Executive

Our Aim

To deliver world class levels of service to our customers, outstanding levels of performance for our shareholders and to be the industry's best partner, employer and sustainable developer.

We have been building on these principles for generations and it is our aim to deliver the best products and services possible.

The diversity of our businesses equips us with a broad range of expertise and a depth of experience which, we believe, differentiates us from many others in the sector.

We are justifiably proud of our history and heritage. However, we recognise that in today's fast-moving world, innovation and continuous improvement are key to the future success of our businesses.

Creating a positive impact on the communities and the environments in which we work is embedded in our way of doing business. We are extremely committed to our corporate responsibilities and are very proud of our achievements in this area.

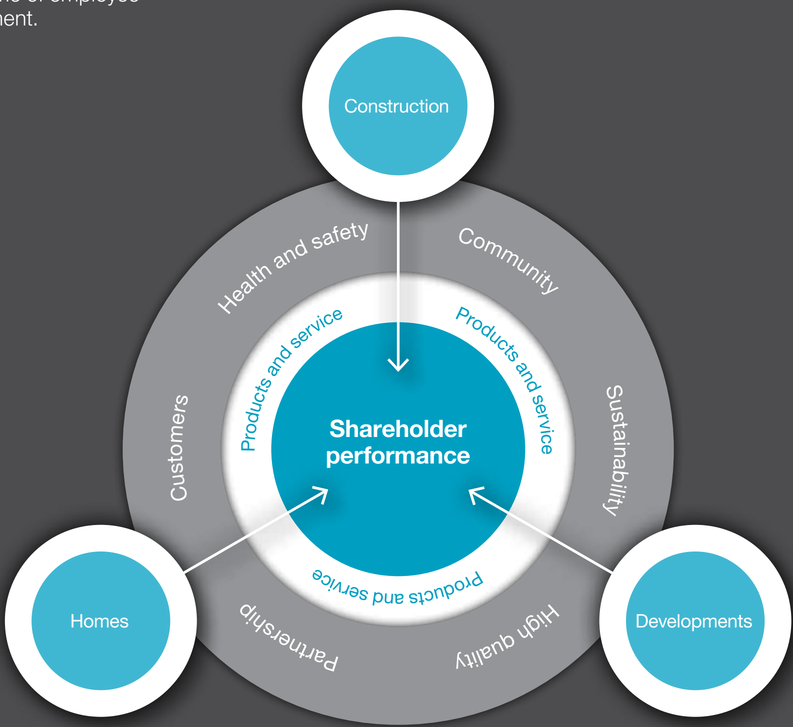
In addition, we adopt a partnership approach to the way we engage with all our customers, suppliers, consultants and other stakeholders: always striving to deliver ahead of expectations.

Our high calibre employees are dedicated and passionate about the quality products and services that they deliver. To ensure this is achieved day in, day out, our teams are supported through an on-going programme of employee development.

It is our aim to achieve the highest standards of health and safety for our teams and for our clients at all times and this is a fundamental part of our business practice. A well-established safety strategy and a policy and procedure framework are in place to ensure that all of our staff members are fully aware of their personal and corporate duties and responsibilities.

Our ultimate goal is to deliver a quality product for our clients with every project we undertake. Our attention to detail is achieved through an established process of continuous improvement and our robust quality management systems.

Our word is our bond. Our bond is to be committed to our customers, our staff and the world in which we live. That is why we are aiming to achieve zero impact on the environment by 2020.



For more than 75 years the Group has operated with a set of core values that underpin all of our activities and deliver shareholder value.

Today, they are as vital as ever in driving the performance of our business...

Pictured:
We take immense pride in our reputation for quality and customer care.

Building for Generations

Creating a world class customer experience

We have built our reputation on providing the highest standards of quality and care for our customers throughout the entire home-buying journey. 97% of our customers would recommend us to their best friend and the Home Builders Federation awarded us five stars for customer satisfaction.

Read more about Miller Homes from page 22

Building for Generations

Dedicated to delivering a high quality product

We enjoyed our most successful year to date in the NHBC Pride in the Job Awards, the housebuilding industry's most prestigious awards programme. This recognition clearly demonstrates the on-going commitment of our teams to provide the best quality homes for each and every one of our buyers.

Read more about Miller Homes from page 22

Pictured:

Site managers from the East Midlands celebrate their achievements in the NHBC Pride in the Job Awards.

Pictured:

Working with our partners at Middlesbrough College on the successful delivery of their new MC6 building.

Building for Generations

Building partnerships with clients to provide ‘end to end’ property solutions

To us, each project is as individual as each of our clients. With the expertise and experience to offer services across the whole life of a project, our approach involves tailoring our teams and our delivery to meet each client’s specific requirements.

Read more about Miller Construction from page 26


miller
www.miller.co.uk
YOUR SAFETY STARTS HERE
All drivers and visitors must report to site office
High visibility jackets must be worn
Safety helmets
be worn
Hand protection
be worn
SITE SPEED
5
SECURITY

Pictured:
Setting high standards in health and safety.

Building for Generations

Leading approach to health and safety

'Zero incidents every day' is not just a phrase, it's our approach. Our clients can be assured that each Miller employee is committed to ensuring health and safety is our number one priority.

Read more about Miller Construction from page 26

Pictured:

We developed and delivered Nottingham's greenest ever office building for energy company E.ON.

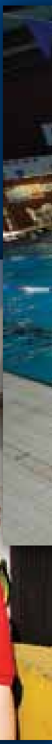
Building for Generations

Creating sustainable environments

We have a forward looking commitment to sustainability. With each project we deliver, sustainability is always embedded into the design process and continued throughout the construction phase, bringing immeasurable benefits to local communities.

Read more about Miller Developments from page 30













MAYBELL CLOSE


Building for Generations

Engaging positively with communities

We are actively committed to supporting the communities in which we operate and strive to create opportunities which we believe will bring genuine long term benefits to those who live and work there.

Read more about Corporate Responsibility from page 40

Our team's commitment and passion to deliver the highest quality products and services have helped us to build a more sustainable future.

The achievements and positive impact our people have on our business have been widely recognised throughout 2012 with many receiving industry recognition and professional accreditation. During 2012, 27 of our site managers achieved recognition through the NHBC's Pride in the Job scheme. This achievement reflects the high calibre and capabilities of Miller Homes' staff with over 40% of our site managers achieving an award – an industry record. Further achievements include finalists in both the Construction Manager of the Year Awards and HR Network Awards and an increase in the number of employees achieving accreditation to the Chartered Institute of Building (CIOB), Royal Institution of Chartered Surveyors (RICS) and Institution of Civil Engineers (ICE).

In turn, we provide our people with a safe working environment and, in 2012, established our own safety, health and environment awards in recognition of the commitment of our site managers to driving home the safety, health and environment message on a daily basis.

We also offer a range of incentives and rewards in return for the efforts of our employees in helping us achieve our business goals and are committed to ensuring all our people have access to opportunities for personal and professional growth through training, development and continuous improvement.

In a bid to attract the best people to our workforce, we recently expanded our graduate scheme to provide two distinct career paths, business and technical, and increased to 18, the number of positions available across both pathways.

We have silver accreditation from Investors In People and undertook an Employee Engagement Survey in 2012 to help us to continue to identify ways in which we can enhance our position as an employer of choice.

Pictured:

Miller Homes' award-winning site managers.

In 2012, all four divisions performed well, returning the Group to profit. We were also successful in building long term value with a significant improvement in the quality of our landbanks, development pipeline and Construction order book.

Our dedication to quality, safety and customer satisfaction was recognised by a succession of awards won for customer satisfaction, build quality, safety and sustainability.

Divisional reviews:

Housebuilding

Building a strong landbank to deliver volume and margin growth.

More detail from page 22

Construction

Building a long and diverse order book to deliver profitable growth.

More detail from page 26

Commercial Property

Building a broad development pipeline from an efficient capital base.

More detail from page 30

Mining

Building a valuable energy resource with a low cost base.

More detail from page 34

Housebuilding.
Building a strong landbank to deliver volume and margin growth.

Key highlights:

£14.5m operating profit

1,831 sales

8,087 plots owned and consented landbank

10,641 plots strategic landbank

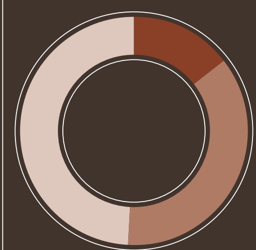
97% customer recommend score

27 Pride in the Job Quality Awards

Pictured:
Scholars Way, Windle, St Helens

Landbank

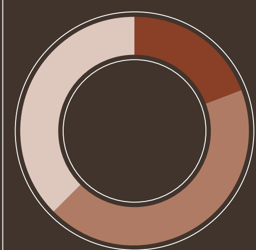
18,728 plots



- Scotland 15%
- North 36%
- Midlands and South 49%

2012 Core unit sales

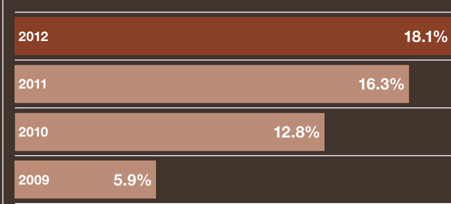
1,517 units



- Scotland 20%
- North 43%
- Midlands and South 37%

Owned and consented landbank – embedded gross margin

18.1%



Business Review: Housebuilding continued

Market

The housing market remained stable and predictable during 2012.

Private reservations per site per week at 0.46 were 10% ahead of 2011. The increase in sales rates followed a fairly consistent pattern across the year with the exception of the third quarter which was impacted negatively by the Olympics. Sale prices were static and cancellation rates of 13% (2011: 17%) remained at historic lows.

The total number of housing completions including management contracts was 1,831 (2011: 1,745). Completions from our owned landbank were 1,517 (2011: 1,632), reflecting a fall in the average number of live outlets from 74 to 63. This trend will reverse in 2013 with the increased investment in our landbank beginning to bear fruit.

Performance

Turnover for the year was £266m (2011: £271m). This reduction from 2011 was due to higher land sales in the previous year. Lower housing completions from our owned landbank in 2012 were offset by a 6% increase in the average selling price to £170,000 (2011: £161,000). The increase in average selling price is a reflection of a higher proportion of family homes being sold in more desirable locations. This trend will continue in 2013 as the proportion of family homes increases.

The level of shared equity driven sales continued to fall. 22% (2011: 32%) of sales required the assistance of shared equity, just under 75% of which were from government-backed schemes. The downward trend in shared equity usage should continue in 2013, helped in part by an increase in the number of 95% mortgages. NewBuy and MI New Home accounted for 9% of our reservations in the second half of 2012. The return of 95% mortgages in the new build sector is an important step for the industry and allows a large number of people to enter the property market who would otherwise be excluded.

Our gross margin increased to 16% (2011: 11%). This reflects an increased proportion of sales deriving from recently acquired land rather than legacy land. In addition, margins benefited from a small number of land sales where we exited sites which did not meet our new land acquisition criteria.

Overheads were slightly lower than 2011, as a result of a number of cost saving measures implemented during the year.

Landbank

At 31 December 2012, we had 5,203 plots (2011: 5,189 plots) in our owned landbank and a further 2,884 consented plots under option within our strategic land portfolio (2011: 2,871 plots). The quality of our owned and consented landbank has improved with an embedded margin at the end of 2012 of 18.1% (2011: 16.3%) as we work out the legacy land and replace this with higher margin new sites.

The return of 95% mortgages in the new build sector is an important step for the industry and allows a large number of people to enter the property market who would otherwise be excluded.

Pictured:

- The Leader showhome at Mearns Grove, Newton Mearns, Glasgow (top left)
- We are with you throughout the entire home-buying journey (bottom left)
- Archers Fields, Silsoe, Bedfordshire (main picture)

We continue to maintain a selective and disciplined approach to land purchasing with a particular emphasis on good quality, suburban developments with traditional layouts and a product mix which is appropriate for the given location. We strengthened our regional land teams during the year. They are supported by our strategic land team which operates across all our regional businesses.

During 2012, we made significant progress with our strategic landbank. We control 10,641 plots of strategic land which are allocated in local plans. These have a gross development value of £1.8bn. We anticipate receiving planning consent for this land over the next three years.

Corporate responsibility

Corporate responsibility is engrained in our business processes. The over-riding aims are to provide a safe environment for our employees, to ensure that we build the best quality product and in so doing enhance our customers' experience of Miller Homes, and to use sustainable materials and recycle where appropriate.

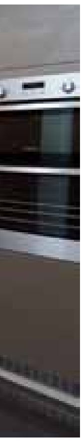
We remain focussed on improving our key safety, customer satisfaction and recycling metrics. We delivered our targets in 2012. In health and safety, our reportable accidents fell by 54%.

Our performance in customer care continues to be well above industry averages. 97% (2011: 97%) of customers surveyed stated that they would recommend Miller Homes to their best friend. In addition, we achieved a five star rating for customer satisfaction in the HBF New Home Customer Satisfaction survey.

Lastly, we retained our third position as one of the industry's most sustainable housebuilders as measured by the Next Generation benchmark. This assessment is the only one of its kind that ranks the performance and commitment of the UK's top 25 house builders in delivering sustainable homes and communities every year, as well as their general performance in relation to sustainability.

Outlook

The general economic position is clearly important for an industry whose well-being is underpinned by consumer confidence. We have seen some improvements in mortgage availability and it is to be hoped that this trend continues. The positive intervention of Government, in the form of NewBuy, MI New Home and FirstBuy mortgage support and new planning legislation, together with the under-supply issues that still prevail, provides us with confidence that we will continue to increase our output. We see the forthcoming year as being another challenging one, but remain confident that our growth plans can be delivered.



Construction.
Building a long and diverse order book to deliver profitable growth.

Key highlights:

£524m of work won in year

60% of work won from framework agreements and PPP

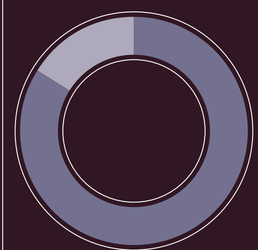
Record £844m order book

Additional further workload of £686m from existing framework agreements

Total order book £1.5bn, 77% of which is frameworks and PPP contracts

Order book by market

£844m

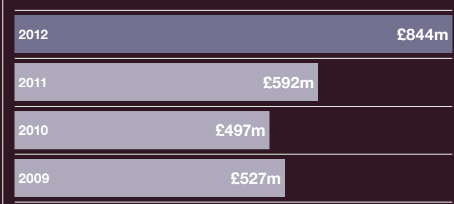


- Public Sector 84%
- Private Sector 16%

Order book

£844m

+43%



Pictured:

City of York Council headquarters.

Business Review: Construction continued

Market

The construction industry is facing challenging market conditions. Cuts in Government investment are depressing the flow of public sector projects, while the weak pace of economic growth is limiting the recovery of general private sector work. Competition in the general market place remains fierce.

However, our complete focus on understanding our customers' needs and providing a full 'end to end' property solution has produced record order books in 2012.

The UK Government published its PFI review in December and, looking ahead, we are hopeful that this will be the catalyst for a wave of new projects. The Priority Schools Building Programme in England and Wales is the first of those and we believe we have a strong offering for this market. The Ministry of Defence has recently recommenced procurement of its Next Generation contracts. We are actively targeting this opportuntity.

Performance

Construction produced an operating profit of £3.2m (2011: £6.8m) on turnover of £259.4m (2011: £238.6m). The result was impacted by expensing upfront significant business development costs. This will underpin the business's growth over the next two to three years.

2012 was an extremely successful year in terms of strengthening our order book, with over £500m of work won during the year, 50% higher than in 2011. This resulted in a year end order book of £844m. In addition, we have an estimated further workload of £686m from our existing framework agreements which is expected to convert into firm orders over the next five years.

The profit for the year included £6m on the disposal of three mature PFI investments, where we were able to take advantage of a competitive secondary market, offset by costs in closing out a number of historical contracts.

Strategy

We remain selective in choosing our markets. Preference is given to programmes of work for a limited number of key strategic clients where we provide 'end to end' estate solutions supporting the whole life development and management of assets. We operate in both the private and public sectors.

Our core markets are education, health, science and technology and communities. We have also made significant inroads into the rail, energy and defence markets. In the commercial and retail markets we focus on providing an excellent service to a number of key strategic customers.

We will continue to invest in our strategy to create a truly 'end to end' business by growing our product base to provide a niche consultancy offering under the brand Miller Asset 360, and a robust and extensive self-delivered facilities management service under the brand Miller Asset 24, as well as extending our expertise in design and build construction across our growth markets. It is envisaged that Miller Asset 360 and Miller Asset 24 will provide increasingly significant volumes of income over the next three years.

Our ability to provide project-funded solutions gives us a real competitive advantage. We will continue to target investment opportunities that align with our strategy, especially where they enable us to provide our full 'end to end' service.

2012 was an extremely successful year in terms of strengthening our order book, with over £500m of work won during the year, 50% higher than in 2011.

Pictured:

- University of Leeds Law Building (main picture)
- Yarm School, Stockton-on-Tees (top right)
- Offering 'end to end' business solutions for our clients (bottom right)

Having established a clear pipeline of work in each of our chosen markets, it is vital that both our on-site delivery and aftercare service are market leading. We will continue to invest in the improvement of our business platform and the development of our management team and supply chain to ensure we achieve a consistently high quality of delivery across all our operations.

Risk management

Management of risk is integral to all of our activities. We will not accept risk on a contract where this cannot be managed or priced. The key risks to the business are pricing, contract terms and the technical delivery of any contract. The business operates a register which sets out each of the key business risks together with the strategy to mitigate and manage each one. This is reviewed and debated by the Construction Board on a regular basis and updated together with planned activities to improve control.

The business has long term relationships with strategic sub-contractors and suppliers. We work together from pre-bid stage on every project to achieve best value for our clients. Risk is allocated throughout the supply chain to where it can be best managed. Given this relationship, the risk of insolvency of our supply chain is a key business threat. Before we first engage with a subcontractor the risk of insolvency is assessed and the potential impact is identified and mitigated by way of a management action plan.

Key management performance indicators are set out in the business plan. These are measured and reviewed at monthly meetings between business unit management and the executive.

Strengthening the order book

During the year we focussed significant resource to consolidate our position within our key framework agreements to generate the majority of our future turnover. We won five contracts representing £78m of work under the Procure 21+ framework and have started pre-contract consultancy work on all. Under the iESE Framework we have won nine projects totalling £73m and have commenced work on site on our first four contracts. We have also seen a substantial volume of opportunities through the Ministry of Justice Construction Northern Framework and have won three of the first four contracts awarded.

We achieved financial close on the first project in the North of Scotland HUB arrangement – a £27m contract for the construction and services of a new health centre in Aberdeen. The pipeline is strong with nine projects currently being advanced through the HUB vehicle.

Our PPP business had another busy and successful year achieving financial close on the £66m Avon and Somerset Police project and on a further tranche of two schools at Leicester BSF. We were also delighted to be appointed in December preferred bidder for construction and services valued at £50m for the new Inverness College. In addition to the two PFI schools, we signed DBFM contracts for four schools at Leicester BSF and a further nine are anticipated before the end of March 2013. This represents £167m of construction turnover.

Within the science and technology market we won and commenced work on two projects for Airbus valued at £35m, and have recently won and commenced work for Rolls Royce for their new Sunderland production facility valued at £35m.

In the rail market, following the award of our Principal Contractor's Licence, we have won four contracts for Network Rail with a number of further opportunities under review.

Health and safety

Safety remains our top priority. We recorded an improvement in our safety record during the period and our commitment to providing a safe working environment for our employees, our supply chain and our clients remains paramount. We target 'Zero Incidents Every Day' for all our sites and workplaces. This message and ethos is managed through a variety of training and site induction initiatives.

This year we initiated a programme to embed a 'Behaviour Approach to Safety' in our business. It is envisaged that we will continue to reduce accidents of all types by engaging everyone in this programme.

All construction sites are inspected by independent safety professionals on a fortnightly basis with the results benchmarked and improvement recommendations integrated into revised business processes.

Outlook

Despite challenging market conditions in the wider construction sector, our order book is strong and we are well placed to deliver growth on the back of a focussed strategy. 99% of budgeted turnover for 2013 is already secure. Encouragingly, 55% of this turnover is from framework arrangements and PPP contracts. Our services business is growing strongly, underpinning our order book with long term revenues.

Commercial Property.
Building a broad development pipeline from an efficient capital base.

Key highlights:

£5.4m operating profit

13 million sq ft development pipeline

300,000 sq ft of new lettings

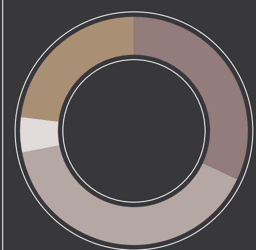
Pre-let developments under construction in Aberdeen and at Omega, Warrington

Significant land acquisition at Dyce, Aberdeen

Successful asset sales in Germany, Aberdeen and Fort William

Development pipeline

13m sq ft

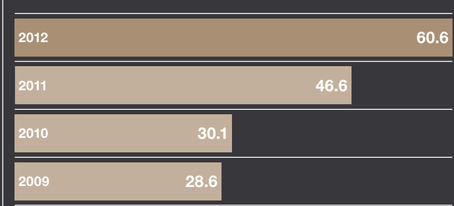


- Office 32%
- Industrial 40%
- Retail/other 5%
- Change of use/residential 23%

Turnover

£60.6m

+30%



Pictured:

New office premises for GDF SUEZ at North Esplanade West, Aberdeen.

Market

2012 continued with a two tier investment market split between prime property and secondary/tertiary property. Demand remains strong for quality prime property, with a particular focus on London. This is led by overseas investors and UK institutions.

The picture for secondary/tertiary property remains a challenge. There is a continuing absence of willing buyer/willing seller transactions and the lack of bank funding for this type of property continues to put downward pressure on values.

Whilst occupational markets generally remained subdued, pleasingly we achieved over 300,000 sq ft of new lettings during 2012. There are pockets of strong demand, principally split geographically (London and Aberdeen) or by market sector (residential, supermarkets, industrial), that continue to show strong occupier interest. These present opportunities for profitable development at attractive margins.

We have a very limited exposure to the UK retail sector which has seen another round of high profile administrations since the start of 2013.

Performance

Developments produced an operating profit of £5.4m (2011: loss of £8.8m) on turnover of £60.6m (2011: £46.6m). 2011's result included a £19m exceptional charge relating to the carrying value of six SPVs where the economic interest was transferred to their existing lenders as part of the Group refinancing concluded in February 2012. As a consequence of this transfer, net rental income was £6.6m lower in 2012 although this was compensated for by a saving in interest costs.

Profits were generated from a broad cross-section of transactions – completion of a 105,000 sq ft Grade A office building in Nottingham, pre-let to E.ON and forward sold to a Midlands-based family trust; the sale of eight acres to Tesco for the construction of a 60,000 sq ft supermarket in Fort William; land sales at Linwood, Glasgow and the profitable disposal of the remaining retail portfolio in Germany.

Risk management

A strong risk management culture and strategy is firmly embedded in our approach to business. Prior to committing to any new development, we look to agree a significant proportion of pre-lets/pre-sales. Where the development contains an obligation to undertake significant construction works we will either forward fund or obtain bank finance. A significant amount of our business is undertaken in joint venture with established and trusted partners along with new partners that share similar values. We provide development management, project management and accounting services for the joint ventures.

We have a core team of experienced property professionals with broad experience and contacts across all sectors to enable the business to maximise the opportunities that exist within the current market. Our new opportunities are focussed solely on UK markets.

Development portfolio

Our strategy is to maintain a cross-sector commercial property business with a focus on pre-let development and the purchase of land with potential for planning enhancement – both high margin activities. We adopt a highly entrepreneurial approach to generate value across all sectors.

Our portfolio, including joint ventures, comprises 20 active projects capable of delivering over 13m sq ft of accommodation. We have a mixed portfolio comprising long term, major development projects and shorter term opportunities that allow us to trade within a two to three year timescale.

In relation to our legacy portfolio of completed properties, our focus remains on asset management to maximise the cash position of each asset and optimise the opportunity to exit successfully as and when the market allows.

On our long term development sites, attention has been focussed on extending and improving planning consents and conditions. In Birmingham, we extended the Arena Central development agreement with Birmingham City Council for a further five years and are working on further revisions to bring forward development.

At Omega, Warrington we concluded a revised development agreement with the Homes and Communities Agency (HCA), facilitating development of the initial distribution sites on Omega North. Infrastructure works to open up the whole of Omega North are now underway, alongside the construction of a new 200,000 sq ft logistics unit for Brakes – the first occupier to sign up at Omega – which has been pre-sold and is being funded by La Salle Investment Management. With significant activity on site, we are experiencing a growing pipeline of potential occupiers.

The current strength of the Aberdeen commercial property market, together with our historic involvement and previous successes, has made future development in this market a particular focus. We own sites in the North Dee business area as well as land in the Dyce area. Therefore, we are well placed to take advantage of a buoyant occupier market. During the year we signed a pre-let for a new 40,000 sq ft bespoke office building for GDF Suez which started on site early in 2013. This has been pre-sold and is being funded by Tritax.

At Linwood near Glasgow, following a revised and improved planning consent, we completed the first two land sales – one to a car dealership and one to a pub/restaurant operator. We have also contracted to sell, subject to completion of infrastructure works, the first phase of residential land to a national housebuilder.

Highlights elsewhere included receipt of planning permissions for a new 180 bed Premier Inn at Pacific Quay, Glasgow and for a leisure redevelopment at Orpington, Kent including a seven screen, 950 seat capacity cinema, four large retail units, three restaurant units and a new public square. Construction work will start on both sites during 2013.

We continue to reduce our exposure in Europe with the sale of all remaining properties in Germany. Whilst economic conditions have remained challenging across all markets, our European retail projects have continued to show progress with new lettings at our factory outlet schemes in Ringsted near Copenhagen and in Budapest. In Romania, we continue to work closely with our tenants in a difficult market, enabling us to maintain satisfactory occupancy levels.

Awards

Developments' operations in two regions were voted Regional Property Companies of the Year, for the second consecutive year in the Estates Gazette Regional Awards 2012. The company received the accolades for Scotland, and through its joint venture Miller Birch, for East Midlands. The Estates Gazette awards are held in high regard within the industry and to receive two awards reflects the quality of the projects we deliver and the expertise of the teams we have across the country.

Outlook

A more sustained and broad-based recovery in occupational markets is key to growth in both the values and the volume of transactions across the market. Whilst UK occupational markets outside London are only likely to recover slowly over the next couple of years, the quality and location of our development interests combined with a motivated and high calibre team, means we look to the future with confidence. This is supported, in particular, by a strong pipeline of development opportunities in Aberdeen and at Omega, Warrington.

A strong risk management culture and strategy is firmly embedded in our approach to business.

Pictured:

- The Walnuts Shopping Centre, Orpington, Kent (main picture)
- Brakes, the first major occupier at Omega North, Warrington (right)

Business Review: Mining

Market

Demand for coal from the UK power generation market remained strong throughout 2012, contributing approximately 43% of total UK electricity supplied. Market coal prices reduced by c. 25% over the year, driven down by excess global supply mainly due to the impact of cheap shale gas in the US, but in part by weak economic conditions. The medium term prospects for coal prices remain positive as the global economy recovers and the supply demand imbalance is corrected. Despite the significant contribution of coal to the UK's energy mix, government energy policy continues to favour renewables, gas and nuclear over coal. We remain of the view, however, that coal has an important role to play going forward in ensuring continuity of base load supply at affordable prices.

Our largest customer is RWE npower to whom we supply coal for use at Aberthaw Power Station. Aberthaw has been specifically designed to burn Welsh dry steam coal and, significantly, has been fitted with the latest flue gas desulphurisation technology, designed to reduce sulphur dioxide emissions by over 90%. Aberthaw supplies South Wales with over 42% of its electricity supply. The quality of our product is evidenced by RWE committing to take delivery of a further 580,000 tonnes in both 2013 and 2014.

The quality and reliability of our output has enabled us to agree a number of supplementary contracts with RWE and to strengthen further our customer base. During the year we supplied additional coals to Tata's Port Talbot steel works and also to Lafarge Cement and Drax Power Station. Encouragingly, our coal is well suited to these alternative markets, and they represent potential growth opportunities for the company going forward. Our product remains in strong demand and we have over 90% of our 2013 tonnage contracted already.

Performance

Mining had another excellent year with operating profit up 23% to £9.2m (2011: £7.5m) on turnover of £34.2m (2011: £31.8m). Coal dispatches from the Ffos-y-fran Land Reclamation Scheme were 888,000 tonnes (2011: 987,000 tonnes). The reduced tonnage was expected with 2011 benefiting from the catch-up of shipments planned in December 2010 but which had been delayed due to the exceptionally bad winter weather. We continued to benefit from high coal prices during 2012 having hedged the majority of our output when the market was high.

The project is experiencing an extremely cash generative phase, producing an operating cash inflow of nearly £30m during the year. This enabled us to repay our bank loan from Credit Suisse during the year, two and a half years ahead of schedule.

Operations

The 1,000 acre Ffos-y-fran scheme is reclaiming derelict and unstable land, whilst at the same time recovering over 11m tonnes of coal reserves using opencast methods. It is being carried out in joint venture with Argent Group. Amongst the major benefits provided by the scheme has been the removal and treatment of three potentially hazardous waste tips. This has relieved the local community in Merthyr Tydfil of a major liability. The scheme directly provides employment for over 200 people, the majority of whom reside locally. The joint venture continues to work closely with the local Council to maximise the economic and amenity benefits for the wider area – over £3.6m has been contributed by the company to a Community Fund since the project commenced coaling in 2007.

Overburden production in the year was 8.5m cubic metres, with coal extraction totalling 873,000 tonnes. To date, we have moved over 50m cubic metres, representing 42% of the

Mining.
Building a valuable energy resource with a low cost base.

Key highlights:

- £9.2m operating profit
- JV operating cashflow £30m
- Bank loan repaid 2 ½ years early
- £77m order book
- 7.3 million tonne remaining reserve
- Broadened customer base with record sales to non power generation markets

Longer term we expect coal prices to recover and anticipate continuing strong demand from our expanded customer base.

total excavation task and recovered over 3.6m tonnes of coal which represents around 33% of anticipated coal reserves. During 2012, we started progressive restoration by back-filling overburden into the worked out void rather than to overburden dumps above ground, with a consequent benefit to the cost of muck shift operations.

Safety on site is of paramount importance. Our safety record is good and compares favourably with the sector. This is the key priority and we devote considerable resource to prevention measures and ensuring a safe working environment for all our employees.

The management team was strengthened during the year with the appointment of Neil Brown as Managing Director – Neil is currently Chairman of CoalPro and brings a wealth of experience in the sector.

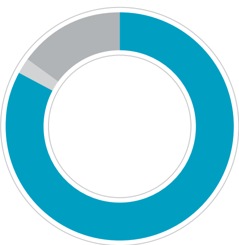
Outlook

Profits will be lower in 2013 and 2014 as we revert back to a historic fixed price contract on over half of our output. Cash generation will remain strong however. Longer term, we expect coal prices to recover and anticipate continuing strong demand from our expanded customer base.

Our confidence in the future will be demonstrated by the lodging of two planning applications in 2013. One is for a higher capacity coal washing plant to facilitate our expansion into the metallurgical market and the other is for the adjoining coal reserve at Nant Llesg. We are currently undertaking an extensive consultation process with interested parties and local communities. Nant Llesg has the potential to deliver direct employment opportunities for approximately 200 people over the next decade.

Coal sales by market

888,000 tonnes

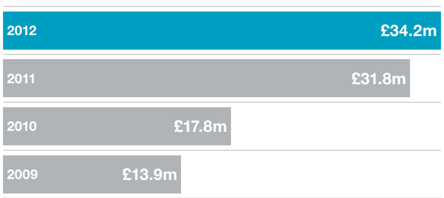


- Power generation 83%
- Domestic 2%
- Industrial 15%

Turnover

£34.2m

+7.5%



Strong progress

The refinancing of the Group's balance sheet and the return to profitable trading has transformed the Group's financial position.

Trading performance

The Group returned to profitability in 2012, delivering a profit before tax of £6.6m compared with a loss of £92.8m in 2011. All four businesses contributed to Group profit before interest of £29.2m, 40% ahead of the previous year.

Turnover of £620m was 5.5% ahead of 2011 levels, driven mainly by a £20m increase in Construction, where the significant investment in business development made over the last two years is showing real returns through both turnover and a significant increase in the order book to £844m. Turnover in Developments was also £14m higher reflecting increased activity levels in the year, whilst in Homes turnover was down by £5m due to lower land sales.

Profit before interest and exceptional items of £29.2m was £8.4m higher than in 2011. Housing was significantly ahead of prior year levels, with operating margin improving to 5.5% (2011: 0.3%) driven by an increased contribution from newly acquired land at current margin hurdle rates. Mining also performed strongly with operating profit 23% higher at £9.2m (2011: £7.5m), benefiting from higher coal sales prices locked in when the market was high. Whilst operating profit was down in Developments to £5.4m (2011: £10.2m) this was accounted for by lower net rental income following the disposal of a number of investment properties during the year – SPV interest costs were also reduced significantly as a result. Finally in Construction operating profits were lower at £3.2m (2011: £7.4m) reflecting significant business development expenditure and costs associated with closing out a number of historic contracts.

The result for the year included no net exceptional items. As explained in note 7 to the financial statements, there were £6.5m of offsetting credits and charges mainly relating to adjustments to prior year write-downs in the commercial property business. The 2011 result included £62m of exceptional charges representing adjustments to asset values in Homes and Developments and the expensing of certain costs associated with the refinancing of the Group.

The gain on disposal of fixed assets of £7.8m (2011: £2.3m) comprised the profits on disposal of three mature PPP investments and the sale of shares in a Developments joint venture company.

Finance costs

Group interest costs were considerably lower at £22.6m (2011: £51.2m) reflecting the significant debt reduction following the Group refinancing in February 2012. SPV interest costs accounted for £3m of the reduction.

Cash flow

The Group generated an operating cash flow of £40.1m (2011: £42.3m). This was achieved despite £42m of net land spend in Homes. The Group is focussed on achieving further debt reduction over the coming years whilst at the same time increasing its landbank investment. There was a major reduction in gearing to 46% (2011: 135%).

Balance sheet

In February 2012 the Group completed a restructuring of its existing banking facilities and secured significant new third party investment. The financial restructuring comprised:

- the conversion of £215.6m of the Group's existing debt to ordinary shares;
- the waiver of £48.9m of Group debt and transfer to distributable reserves;
- the injection of £160m by a consortium of investors led by GSO Capital Partners in exchange for new equity shares; and
- the control of certain development assets with a book value of £78m and equivalent debt being assumed by the Group's bankers resulting in the continuing risks and rewards of ownership of these assets no longer resting with the Group.

This refinancing and the return to profitable trading has transformed the Group's financial position. Net current assets have improved significantly to £427.4m (2011: £174.2m net current liabilities) and net assets at the year end were £236.5m (2011: £183.5m net liabilities).

Financing

The Group has £238.5m of committed senior debt facilities, maturing in February 2017. These facilities are provided by Lloyds Banking Group and Royal Bank of Scotland and are secured by fixed and floating charges across the Group's assets. These facilities are available to all four businesses but are used primarily to fund the working capital requirements in Homes.

In addition there are £58m of project-specific loans which fund a limited number of housebuilding and commercial property projects. These loans have no recourse to the wider Group and are being steadily amortised. The Group also has interests in a number of joint venture and PPP investments containing ring-fenced funding arrangements.

£120m of core borrowings are hedged at a weighted cost of funds of 2.1% through to summer 2014. All other Group borrowings are at floating rates. Hedging is also in place to cover our limited Euro investments in overseas subsidiaries and joint ventures through the use of Euro drawings under the core Group facility.

The Group has £67.5m of surety facilities used to provide performance bonds for the Construction business. These facilities are uncommitted and are supported by Group guarantees, as is normal for such business. Miller Homes uses NHBC to provide its bonding requirements.

Taxation

There are £92.5m of tax losses carried forward at 31 December 2012. These losses primarily relate to Homes.

The Group has considered carefully the extent to which future taxable profits will be available against which carried forward tax losses can be utilised. Forecasts show continued profitability going forward and consequently we have recognised a deferred tax asset of £60m in relation to an element of past losses. We have an unrecognised deferred tax asset at current rates of £36m.

Pensions

The Group's defined benefit pension scheme was closed to new entrants in 1997 and to future accrual for existing members in 2010. The last triennial valuation as at July 2010 showed a funding deficit of £20m. A deficit contribution payment plan of £2m per annum was agreed with the Trustees. The next triennial valuation is due in 2013. On a FRS 17 basis the deficit (net of tax) reduced in the year to £10.4m (2011: £11.3m).

Contributions to the Group's defined contribution pension plan totalled £3.6m (2011: £3.2m).

Accounting policies

Profit recognition

The Group continues to adopt a prudent approach to income and profit recognition. In Homes and Developments, turnover is recognised following both legal completion and receipt of cash. Cost and income appraisals are performed monthly with prudent assumptions made regarding both future costs and revenues. In Construction, similar prudent policies are followed, with profits recognised in line with the completion of the project to the extent the ultimate out-turn is foreseeable. Profit out-turns reflect conservative assumptions as regards future costs and only income which has been certified is recognised.

Investments and joint ventures

All joint ventures and limited partnerships are accounted for in accordance with the gross equity method of accounting in line with FRS 9. Profit recognition policies are consistent with our wholly owned subsidiaries. PFI/PPP special purpose companies are accounted for as investments. Our financial exposure to these investments is restricted to the capital initially invested. Bid costs for prospective projects are written off as incurred in accordance with UITF Abstract 34 and subsequent costs are only capitalised on the attainment of preferred bidder status.

John Richards
Group Finance Director

Managing risk

The Group Board is committed to identifying, evaluating and managing the principal risks and uncertainties facing the Group.

Introduction

The identification and management of risk is constantly evolving. During 2012, external consultants facilitated a re-evaluation of business risk across the Group and the implementation of an updated system for the recording of risks, key controls, mitigation and action plans. The Group and each division maintain a risk 'heatmap' and dashboard which is updated quarterly and reviewed three times per annum at Group Executive Board and Audit Committee levels. These identify the most significant risks affecting each division and evaluate existing control techniques for effectiveness.

Throughout all parts of the Group, strict adherence to the principle that we only accept risks that can be fully identified and priced is a fundamental aspect of the Miller approach to business.

An important characteristic of the Group-wide risk control procedure is the range of delegated authority levels set for land and contract procurement. Using a mix of criteria, these identify large and/or unusual projects which will require additional approvals at Group Executive or Group Board levels.

The following are the principal risks and uncertainties that impact on the Group.

Corporate risks

Economic and market risk

Risk

The UK economy is currently experiencing its worst period of recession for decades with future growth forecasts subject to repeated downgrades. Continued uncertainty in the Eurozone and US economies also has the potential to further disrupt the UK economy. Deficit reduction policies are leading to significantly reduced public sector capital procurement programmes and corporate investment levels remain weak. Unemployment levels remain high.

These general macro-economic conditions have a direct bearing on the levels of demand for homes and commercial property space, as well as on the spending patterns of public and private sector clients. House purchases are largely driven by sentiment and a backdrop of weaker consumer confidence and pessimism about employment prospects will inevitably impact on demand.

Mitigation

We monitor a variety of key economic performance indicators to determine our future output levels. We track housing sales rates, prices and incentives on a weekly basis to monitor current trading and trends. In Construction and Developments, we actively target markets and customers that are out-performing despite the wider economic difficulties.

The Group has been comprehensively refinanced and its robust financial position provides protection against continued market risk. Financial forecasts and business plans assume difficult market conditions are likely to remain for some time. Sensitivity analysis is performed regularly.

Funding

Risk

The Group requires access to adequate financial resources in order to deliver its investment objectives in both housebuilding and commercial property and to manage working capital requirements across the Group. We also require access to bonding facilities in both our Homes and Construction businesses.

Mitigation

Cash is managed by a combination of short and medium term forecasts. Business plans are updated regularly and sensitivity analysis performed on cash flows. We have a £238.5m committed five year senior debt facility through to February 2017 with two of the UK's major banks. The Group has significant headroom in its core facilities. Bonding lines are maintained with the surety market and NHBC.

People

Risk

Our employees are the Group's most important asset and it is therefore imperative that we attract and retain the best people. Effective performance management, talent management, recruitment and retention are key to success, with the overall risk that inadequate management of these elements may have an adverse impact on Group performance.

Mitigation

The Group has a fully integrated HR strategy that addresses all aspects of reward, retention and talent, as well as performance management. Progress is reviewed on a monthly basis against the HR objectives set annually by the Chief Executive through the direction of the Board.

Training opportunities and personal development plans are key areas of focus and are kept constantly under review to ensure our processes are in line with best practice. We have an established succession plan for middle and senior management which helps identify tomorrow's leaders.

Safety, Health and Environment (SHE)

Risk

This is the risk associated with breaches of SHE legislation resulting in work place injuries, environmental damage or physical damage to sites. This could result in financial penalties, reputational damage and suspension of site activities.

Mitigation

Health and safety is at the forefront of operations with proactive policies and procedures regularly tested to ensure compliance. The Board has an approved SHE strategy and progress against targets is reported regularly. Key performance indicators are in place and site operations are subject to regular audits and inspections. Initiatives such as 'Zero Incidents Every Day' and Behavioural Safety campaigns reinforce a zero tolerance approach to safety breaches.

Pensions

Risk

Although the Group's Defined Benefit Pension Scheme was closed to new entrants in 1997 and to future accrual for existing members in July 2010, there remain financial risks relating to the funding of the scheme. In particular, increased longevity assumptions or reduced bond yields could lead to a higher funding requirement.

Mitigation

The Board has agreed a de-risking plan to manage pension liabilities risk. A pro-active joint investment strategy has been agreed with the Trustees to the Pension Scheme to deliver real returns on a proportion of the assets within the Scheme. A joint investment committee comprising management and trustees monitors changes to market conditions and responds accordingly.

Housebuilding

Mortgage availability

Risk

The availability of mortgage finance alongside lending criteria and deposit requirements imposed by lenders are key influencers of demand for new homes and the price customers can afford to pay. This is particularly evident for first-time buyers. Affordability remains one of the biggest constraints to a broader recovery in the housing market.

Mitigation

Government intervention is important through initiatives including NewBuy, MI New Home and Funding for Lending. Shared equity products also help to bridge the affordability gap. We have a significant allocation of units under the FirstBuy 2 shared equity initiative run jointly with HCA and are working with a number of lenders to maximise participation under NewBuy/MI New Home.

Land acquisition

Risk

There is risk associated with our ability to acquire sufficient housing land in the right locations and at the requisite hurdle rates and hence achieve our strategic growth aspirations.

Mitigation

We have a clearly defined land strategy. A significant proportion of our new land requirements will be satisfied from our strategic land option portfolio.

All proposed land acquisitions are subject to a strict evaluation process including detailed technical and commercial investigations and market research into the local demographics, selling prices and affordability levels. Strict approval controls are in place, led by the divisional Chief Executive who visits and approves every land transaction. The Group Chief Executive also reviews all acquisitions.

Construction

Contract risk

Risk

Contract risk ranges from initial project and customer selection, through bid pricing, contractual risk and project delivery. Effective management of these risks is vital to the achievement of our strategic growth plan and delivery of profit and cash flow targets.

Mitigation

Our policy is to work only with clients who recognise the value which a partnering-led contractor can bring to projects. We assess projects after detailed consideration of technical and build risks, customer covenant strength and our own resource capability. Tiered authority levels are in place with a matrix of risks and parameters used to determine the required level of approval.

Delivery risks are controlled and monitored by our teams who rely heavily on our established management information systems. Tight discipline is maintained – all projects are reviewed each month with a focus on both current progress and forecast final position compared with the original programme and budget.

Supply chain

Risk

Significant reliance is placed on the supply chain including key sub-contractors in the delivery of our Construction projects. Insolvency of a key sub-contractor or inadequate management of supply chain partners is therefore an important risk which requires careful control.

Mitigation

Rigorous vendor assessments are performed on all supply chain partners, sub-contractors, design and technical consultants. These are formally reviewed and approved at director level before orders are placed. KPI scoring mechanisms are used to provide objective feedback on subcontractor performance.

All subcontractor orders are reviewed and approved by the finance team for risk of subcontractor insolvency before being placed. Package risk assessments (including contingency plans) are prepared and approved where the impact of potential sub-contractor insolvency is high.

Commercial property

Market and land values

Risk

Failure to achieve the expected valuations on disposal of commercial properties would impact on the profitability and cash flow of the business. This risk primarily relates to our reducing portfolio of assets acquired prior to the property market 'crash'.

Mitigation

Assets are held at the lower of cost and net realisable value and in normal market conditions will deliver margins in line with Group hurdle rates. We have re-evaluated the carrying values of our property portfolio based on current rents and yields and recorded an impairment in value where appropriate. Valuation risk on newly acquired assets is reduced significantly through pre-lets, back to back disposals and forward sales.

Property acquisition

Risk

There is risk associated with our ability to acquire sufficient commercial property opportunities reflecting the desired risk and return on equity criteria and hence achieve our strategic targets.

Mitigation

Property acquisition follows a rigorous process where divisional management, with the assistance of external property agents and technical experts, challenge and check all planning, revenue and cost assumptions. Tiered authority levels are in place with financial hurdles used to determine the required level of approval. Development risk is controlled by commencing the majority of projects only when there is a substantial pre-let or pre-sale agreement. Joint ventures are frequently entered into in order to share risk or to import expertise. Rigorous partner approval criteria are applied before we legally conclude any arrangements.

Mining

Legal and regulatory risk

Risk

Electricity generation in the UK is subject to on-going UK and European legislation on emissions. The impact is to require generators to invest substantially in abatement whilst at the same time increasing cost through higher taxation. This is likely to impact on generators' demand and price for coal.

Mitigation

We have broadened our customer base with an increase in supply to the metallurgical and cement markets, which are less impacted by emissions legislation.

Coal prices and fuel costs

Risk

The commodity price for coal (API 2) has reduced significantly over the last 18 months. The forward curve anticipates a recovery in prices over the medium term, however the outlook is uncertain. International coal prices are quoted in US$ and we are therefore also exposed to adverse movements with sterling.

Gas oil represents a significant proportion of mine production costs. Increasing global fuel costs would significantly add to the cost base of the mine.

Mitigation

We sell forward a significant proportion of our output on fixed price sterling contracts, or use coal price hedging to mitigate risk on floating rate contracts. Sales are also increasing to metallurgical markets which are less sensitive to API 2 fluctuations. We have hedged a material proportion of our fuel costs through to the end of 2014.

The company you want us to be

To us, being a responsible business is being a business that listens to and understands our stakeholders, and uses their morals, ethics and concerns to shape our own approach. As our stakeholders' expectations change, we change. Being aligned in this way means our customers get the products and service they desire, our employees are happy, our neighbours value us and our shared physical environment is preserved. Of course the more our stakeholders benefit, the more we benefit, making our business a sustainable business in the long term.

Our commitment to being a responsible business comes from the top and has done for years. It is reflected in our policies, our procedures, our training and the everyday activities of our employees.

Delivering quality

Understanding and delivering our clients' requirements is vital for satisfied customers and it is something we pride ourselves on. Our BSI ISO 9001 certified quality management systems provide a robust framework for doing this.

In 2012, 32 site managers were externally recognised for the quality of their work, with 27 receiving NHBC Pride in the Job Awards and 5 being shortlisted finalists for the CIOB Construction Manager of the Year.

Our achievements in this area reflect not only the high calibre of our employees but also the quality of our relationships with our supply chain, with whom we work collaboratively, openly and honestly, to deliver innovative and quality solutions.

Valuing our people

We understand that our people are the foundation of our success, and that it is our duty to provide a working environment that is safe, healthy, inclusive and provides development opportunities.

Safe: Every single employee receives health and safety training with additional training as required for the role. During 2012, two Homes sites were recognised as highly commended in the NHBC Best Site Health and Safety awards and the division also received the Best Occupational Health Initiative accolade.

Healthy: A healthy lifestyle is fostered through our comprehensive employee programmes. These include the provision of flexible working arrangements, job-share schemes, child care vouchers, volunteering opportunities, pension scheme, life assurance and professional advice services.

Inclusive: We treat all employees equally and do not tolerate discrimination. All employees receive training on our approach and we implement targeted initiatives to increase diversity and inclusion. Eight female professionals in the business have completed a year-long Women in Leadership course and as a business with the Two Ticks accreditation, we are committed to employing disabled people.

Development opportunities: Equipping our employees with the skills that they need both for today and for their career in the future is extremely important to us. All employees receive robust and extensive induction training and thereafter we analyse skill needs at the individual and business level at least annually. Addressing these needs is tailored to the individual and may take the form of training, further education, professional qualifications, participation in our dedicated management training scheme, The Talent Development Initiative, or even a charity placement.
In response to business needs identified in 2012, we expanded our graduate scheme to offer two distinct career paths and increased the number of graduate placements from 5 in 2011 to 18 in 2012.

Our commitment to being a responsible business comes from the top and has done for years. It is reflected in our policies, our procedures, our training and the everyday activities of our employees.

These are just some of the reasons we attract and retain the high calibre of employees that we do.

Being a good neighbour

Our businesses do not exist in isolation and we understand that when we work in a location we have an opportunity or, as we see it, an obligation to be a good neighbour. We do this by both minimising our impact and by providing new opportunities for the local region. This could be the two minibuses we and our JV partner provide for local use in Merthyr Tydfil, the 30 employees and supply chain colleagues who conducted mock interviews for secondary school children or the apprentices we support on our sites. Wherever the site, whatever the project, we support the community.

At a national level, we form strategic partnerships with charities, giving not only financial support but sharing our time, knowledge and expertise to the benefit of both organisations. In 2012, we worked with our three company-nominated charities, Help for Heroes, Place2Be and St Columba's Hospice, and also set up new relationships with the Washwood Heath Technology College and The Freeston Academy, Normanton as part of the BITC Business Class scheme.

Protecting the environment

Protecting the environment is a fundamental necessity to ensure that future generations can live as we can. We are not only legally compliant in our approach, but our systematic management has been certified to BSI ISO 14001 across the whole Group. In 2012, we recycled over 88% of our construction waste across the Group.

Our efforts go beyond managing and measuring our own environmental impact and seek to minimise the environmental impacts of our buildings over their whole life. All our homes come with smart meters and A-rated appliances as standard and in 2012 we developed a new range of homes compliant with the Code for Sustainable Homes level 6 (zero carbon).

Leaders in our approach

We know that our approach is being delivered across the Group by measuring and monitoring our performance and setting stringent targets to drive improvements. Nevertheless, we only judge the success of our approach from feedback from our stakeholders, which we think speaks for itself: 97% of people who buy a Miller Home would recommend us to a friend and the Home Builders Federation customer survey awarded Miller Homes 5 star status, their highest accolade, for customer satisfaction; over 82% of our surveyed employees are satisfied and 89% are proud to work for Miller.

Other companies measure our success too, and although these don't drive our business, they reinforce our leadership in this area. All divisions have achieved silver accreditation from Investors in People. For the fifth year in a row Homes was ranked in third place out of the 25 largest housebuilders in the Next Generation Sustainability Benchmark. Construction was awarded bronze in the BITC CR Index for their first submission to the benchmark and also achieved an average Considerate Constructors Scheme score of 35.7, significantly above the scheme average of 33.2.

We're proud of our achievements to date, but we recognise that we can do even better.

Raising the bar

To be recognised as the best in everything we do, we need to continually push ourselves to improve. Being just one of the leaders is no longer enough. Due to the diversity of our four businesses however, we understand that the 'best' may not be the same to each of our stakeholders. Our aim is to balance these views by having a consistent Group approach to common areas of concern, and to complement this with tailored divisional approaches which address the additional needs of their specific stakeholders. We will use stretching targets to ensure the delivery of our approach at both levels.

Our Group objectives and targets for 2020 are as follows:

Deliver quality

- To meet our customers' quality expectations in all circumstances; and
- To use suppliers who share our corporate responsibility standards and work with our suppliers to achieve these.

Be an employer of choice

- To have an embedded culture of safety with a zero tolerance approach to all accidents and unsafe practices;
- To have fully flexible working arrangements that cater for both employee and business needs;
- To have a workforce and Board that reflect the demographic nature of the areas in which we work;
- To have a workforce that is fully equipped with both the personal and technical skills they need now and the support to develop the skills that they will need in the future; and
- To link responsible behaviours to financial rewards at all levels of the business.

Part of our communities

- To communicate with and contribute to every community in which we work;
- To work collaboratively with charitable organisations in order to achieve clearly defined and mutually beneficial objectives; and
- To give every employee the opportunity and right to paid time off to volunteer.

Protecting the environment at every stage of our product lifecycle

- To minimise the direct environmental impact of our operations, including causing no environmental incidents, sending zero waste to landfill, sourcing all timber from sustainable sources and significantly reducing our carbon and water consumption;
- To consider and actively reduce the whole-life environmental impact of our operations, from the raw material source to the end of the life of the product; and
- To give information, advice or practical help to all our customers to help them reduce their environmental impact.

Behaving responsibly is not an option; it is a business necessity. By setting ourselves these stretching targets we will make ourselves better and more competitive. We will become leaders in responsible business activity where we all benefit.

Pictured:

- Winners of Miller Construction's art competition at Queen Elizabeth Hospital, Gateshead (above)
- Miller Homes Yorkshire provides sponsorship to Pontefract Sports & Social under 16's (right)

1. Philip Bowman
Non-Executive Chairman (60)
Chief Executive of Smiths Group plc since 2007, Philip has wide experience of leadership at major international public companies. He was previously Chief Executive of Scottish Power plc and Allied Domecq plc and served on the boards of British Sky Broadcasting Group plc, Scottish and Newcastle Group plc and Coles Myer Limited. Philip has also been Chairman of Liberty plc and Coral Eurobet Limited. His earlier career included ten years at Bass plc where he held a variety of roles including Chief Financial Officer and Chief Executive of Bass Taverns. He is the Senior Independent Director of Burberry Group and a Director of Better Capital Limited and Berry Bros. & Rudd Limited.

Philip has an MA in Natural Sciences from Cambridge University.

2. Keith Miller CBE
Group Chief Executive (63)
Keith joined The Miller Group in 1975 and has been the Group Chief Executive since 1994.

He has a BSc (Hons) in Building from Heriot-Watt University, a Postgraduate Diploma in Management Studies (DMS) from Glasgow University and an Honorary Doctorate of Engineering (DEng) from Napier University. He is also a Fellow of the Chartered Institute of Building (FCIOB) and a Fellow of the Royal Institution of Chartered Surveyors (FRICS).

Keith received a CBE for services to the Construction Industry in Scotland and to Charity in January 2005.

3. John Richards
Group Finance Director (55)
John joined the Group in 1987 and was appointed to the Board in 1994 as Group Finance Director. Prior to this appointment he was a Director of Miller Homes and Miller Developments.

John has a BA (Hons) in Accountancy and Finance and is a qualified Chartered Accountant.

John is a Non-Executive Director of Aberforth Geared Income Trust.

4. Michael Whitman
Non-Executive Director (41)
Michael is a Senior Managing Director of The Blackstone Group and Head of the European Business of GSO Capital Partners. He focuses on private and public investment opportunities and is a member of GSO's Investment Committee. Before joining GSO Capital Partners in 2006, Michael was a Managing Director with Citigroup Private Equity. Prior to joining Citigroup Private Equity, he worked in Salomon Smith Barney's High Yield Capital Markets business from 1996 to 2000. From 1994 to 1996, he was a Corporate Finance Analyst at Salomon Brothers.

Michael received a BA in History from the University of Notre Dame, USA.

Michael serves as a Director of Alcontrol Holdings, Almatis and Giant Cement Holdings, LLC.

5. Mark Brown
Non-Executive Director (36)
Mark is a Managing Director with GSO Capital Partners and is based in London. Before joining GSO Capital Partners in 2007, Mark was a Research Analyst for Deutsche Bank's Distressed Products Group where he focussed on stressed and distressed debt situations across Europe.

Mark received a Postgraduate Honours degree in Finance and Accounting at the University of Stellenbosch in South Africa. He has received the Chartered Financial Analyst designation.

Mark is a Member of the Board of Directors of Alcontrol Holdings and Giant Cement Holdings, LLC.

6. Tripp Smith
Non-Executive Director (47)
Tripp is a Co-Founder of GSO Capital Partners and a Senior Managing Director of The Blackstone Group. Prior to GSO Capital Partners, Tripp was Global Head of the Capital Markets Group within the Alternative Capital Division of CSFB. He also performed the role of Managing Director and Global Co-Head of CSFB's Leveraged Finance Group and was a member of various governance committees for the organisation. Tripp joined CSFB in November 2000 when it acquired DLJ, where he was Global Head of High Yield Capital Markets. He had been a member of DLJ's high yield team since he joined the firm in 1993. Prior to that, he worked for Smith Barney and Drexel Burnham Lambert.

Tripp received a BBA in Accounting from the University of Notre Dame, USA.

7. Gordon Moore
Non-Executive Director (46)
Gordon serves on the boards of a number of privately owned companies and is on the Advisory Committee of Kings Park Capital. He was previously a Partner of Cinven, having been part of their investment team for over 11 years. He has held Directorships with a number of Cinven's investee companies including Fitness First Holdings Limited, Odeon Cinemas, NCP, Sweden DIA (Sweden) AB and, most recently, the publicly listed Smurfit Kappa Group. Gordon has significant experience working with companies in a wide range of industrial sectors.

Gordon is a Member of the Institute of Chartered Accountants of Scotland and also a Director of Worth School.

Executive Management

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1. Keith Miller CBE
Group Chief Executive
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He has a BSc (Hons) in Building from Heriot-Watt University, a Postgraduate Diploma in Management Studies (DMS) from Glasgow University and an Honorary Doctorate of Engineering (DEng) from Napier University. He is also a Fellow of the Chartered Institute of Building (FCIOB) and a Fellow of the Royal Institution of Chartered Surveyors (FRICS).

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Group Finance Director
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John has a BA (Hons) in Accountancy and Finance and is a qualified Chartered Accountant.

John is a Non-Executive Director of Aberforth Geared Income Trust.

3. Chris Endsor
Chief Executive, Miller Homes
Chris joined the Group in 2000 following the acquisition of Birch Homes where he was Group Managing Director. He was appointed Chief Executive of Miller Homes in 2011.

Chris has a BSc in Quantity Surveying from Nottingham Trent University and is a Fellow of the Chartered Institute of Building (FCIOB).

4. Chris Webster
Chief Executive, Miller Construction
Chris joined the Group in September 2010. He was formerly Chief Operating Officer and Main Board Director at Amey plc, where he spent almost 20 years.

Chris is a Chartered Engineer (CEng), a member of the Institution of Civil Engineers, a Fellow of the Chartered Institution of Highways and Transportation and a member of The Worshipful Company of Paviors.

Chris is also Non-Executive Director for the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) as a lead for the property and construction sector.

5. Phil Miller
Chief Executive, Miller Developments
Phil joined Miller Developments in 1989 and was appointed Managing Director in 1994. He was appointed a Director of the main Board in 1997 and has been Chief Executive of Miller Developments since 2004.

Phil has a degree in Land Economics and is a Member of the Royal Institution of Chartered Surveyors (MRICS).

He has served on the Capital Committee of the Scottish Arts Council, is a member of the Edinburgh Business Forum and he is a former Chairman of the Scottish Property Federation.

6. Sheelagh Duffield
Group General Counsel and Company Secretary
Sheelagh joined the Group in March 2012. Sheelagh held similar senior executive roles at Scottish Power plc and Scottish Television plc. She also has strategic experience particularly in the delivery of large, complex, cross border mergers, acquisitions and disposals. Before joining the Group, Sheelagh was a founding director of Savendie, a consultancy business offering strategic and corporate governance advice to a wide range of clients including those in the public sector and financial services market.

Sheelagh is a law graduate from University of Aberdeen and is a director of Capability Scotland.

7. Stephen Dunn
Group Human Resources Director
Stephen joined the Group in 2008 from Scottish Power where latterly he was Corporate Services Director, having previously held the role of Group Human Resources Director.

Stephen is a Chartered Member of the Institute of Personnel and Development (CIPD) and a Trustee of the Sick Kids Friends Foundation.

Accounts

Corporate Governance Report

The Miller Group Limited is committed to achieving corporate governance standards that meet the highest possible levels of integrity and compliance for a privately owned enterprise. We evaluate the effectiveness of our decision-making, accountability and audit processes against similarly sized publicly listed corporations. We believe this is the best way of ensuring the sustainable long-term growth and success of the Group.

The Group's businesses operate within a corporate governance framework with clear delegated authority from the Group Board.

The Group Board

The Group Board comprises a non-executive Chairman, the Group Chief Executive, one other executive director, four non-executive directors and three Board observers representing principal shareholders. The directors' details are set out on pages 42 and 43.

Amongst the matters reserved for decision by the Group Board are: strategy; annual budgets; approval of statutory accounts and announcements; certain contracts, investments and capital expenditure projects over defined limits; and material matters requiring the consent of principal shareholders.

Board meetings

At its regular meetings throughout the year the Group Board receives reports covering current trading, treasury and health and safety. At particular points of the year the Group Board reviews budgets, financial statements and principal risks and uncertainties facing the business as identified on pages 38 and 39. At least annually the Group Board receives a detailed presentation on the performance of Homes, Construction, Developments and Mining and reviews health, safety and environment practices and strategy. In addition it considers Corporate Responsibility initiatives and strategy across the Group.

The Group Board generally meets at its head office in Edinburgh or in London but it also holds meetings to coincide with Senior Executive Forum meetings in other regions, providing the directors the opportunity to review operations and meet local management.

Development and support

All new directors have access to a full, formal and tailored induction on joining the Group Board, including meetings with senior management and advisers and visits to the Group's operational locations. The Group Board calendar is designed to ensure that directors are briefed on a wide range of topics throughout the year with the opportunity to discuss aspects of the business with employees. Directors receive appropriate updates on areas of law and regulation to assist with awareness of corporate governance and their directors' duties.

Directors have access to independent professional advice at the company's expense where they judge this to be necessary to discharge their responsibilities as directors and they all have access to the advice and services of the Company Secretary, who is responsible to the Group Board for ensuring that Board procedures are complied with.

A key function of The Miller Group Limited's corporate governance framework is the identification, management and mitigation of operational and financial risks. At every governance level we ensure the necessary committee processes are functioning correctly, in line with developments in company laws, corporate governance and best practice.

Board committees

The Group Board has delegated certain authority to the Group Corporate Approval Committee to make decisions on behalf of the Group Board. The Group Board is also supported in its decision making by recommendations from the Audit Committee, the Remuneration Committee and the Group Executive Board.

Each Committee reports to, and has its terms of reference approved by, the Group Board and the minutes of the Committee meetings, with the exception of the Group Executive Board meetings, are circulated to and reviewed by the Group Board.

Group Corporate Approval Committee

The Group Corporate Approval Committee has delegated authority from the Group Board to approve certain contracts, land purchases, investments and capital expenditure projects over defined limits but below the levels specifically reserved for the Group Board. All Group guarantees, new joint venture partners and unduly onerous contract terms require consideration by the Group Corporate Approval Committee.

This Committee comprises of the Group Chief Executive, the Group Finance Director and the relevant Divisional Chief Executive depending on the business of the meeting.

Group Executive Board
The Group Executive Board members are as shown on page 44. This Committee reviews all matters being considered by the Group Board and is responsible to the Group Board for the management of the subsidiary businesses and the role includes oversight responsibility for the formulation and development of the Group's strategy, the allocation of financial and human capital resources to deliver it, the integrity of financial information and internal controls and risk management.

Each business has a board that meets regularly and has delegated authority for the day-to-day management of business operations, ensuring the alignment of business plans with strategic targets and that operational performance is in line or ahead of approved budget plans and managing risk appropriately.

Remuneration Committee
The Remuneration Committee is chaired by Philip Bowman. Gordon Moore and Mike Whitman are members of the Committee which makes recommendations to the Group Board on all aspects of the remuneration, benefits and employment conditions of the executive directors, Group Executive Board members and senior executives of the Group. The Company's Articles of Association outline procedures for the appointment of directors and it is therefore considered unnecessary to have a separate Nominations Committee. Therefore the Remuneration Committee considers senior management succession. The Committee met twice during the year.

Audit Committee
The Audit Committee is chaired by Gordon Moore who is joined by Philip Bowman and Mark Brown to consider and make recommendations to the Group Board regarding the integrity of the financial statements of the Group; the effectiveness of internal controls and risk management and the internal and external audit processes. The Committee met three times during the year.

The Group Board considers that all three members of the Audit Committee have recent and relevant financial experience. The Group has a whistle-blowing procedure in place which is publicised in the staff handbook and as part of the new employee induction programme. Investigations of matters raised under the procedure or otherwise brought to the attention of the Audit Committee are conducted by the Group General Counsel and Group HR Director with appropriate follow-up action.

During the year the Audit Committee reviewed the effectiveness of the internal audit function which is provided by an external adviser that reports regularly to the Committee. The internal auditor has assisted management in implementing a new process for managing risk during 2012.

The external and internal audit work programmes; reports from external and internal auditors on the system of internal control; and any material control weaknesses are considered by the Audit Committee each financial year. It also receives responses from management regarding the actions taken on issues identified in audit reports.

The Audit Committee reviews and monitors the external auditor's independence and objectivity. During the year the external auditor provided tax compliance, tax advisory and other services to the Group. In the view of the Committee this did not compromise the auditor's independence as, where appropriate, teams from offices separate from the audit team were used. The external auditors operate their own procedures to safeguard against their independence being compromised.

Internal control
The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board's monitoring framework covers a wide range of controls, including financial, operational and compliance controls together with risk management. It is based principally on reviewing reports from management and considering whether significant risks are identified, evaluated, managed and controlled and ensuring that any significant weakness thus identified is promptly remedied. The Board continues to enhance and strengthen the procedures for identifying and monitoring key areas of risk.

Performance reporting and information

Management is responsible for the identification and evaluation of significant risks applicable to the businesses together with the design and operation of suitable internal controls. These risks are assessed on a continuous basis and may be associated with a variety of internal or external sources including market changes, control breakdowns, disruptions of information systems, competition and regulatory requirements.

Management provides updates of significant risks affecting the businesses to the Board together with details of key internal controls and risk management initiatives. This process is facilitated by internal audit who also provide assurance as to the operation and validity of the system of internal control and review corrective action plans. Management reports regularly on its review of risks and how they are managed to the Audit Committee who reviews, on behalf of the Board, the key risks inherent in the business and the system of control necessary to manage such risks, and presents the findings to the Board. Internal audit independently review the risk identification procedures and control processes implemented by management, and report to the Audit Committee on a half yearly basis. The Audit Committee reviews the assurance procedures, ensuring that an appropriate mix of techniques is used to obtain the level of assurance required by the Board.

The Group Chief Executive also reports to the Board on behalf of the Executive Team on major changes in the business and the external environment which affect significant risks. The Group Finance Director provides the Board with monthly financial information which includes key performance and risk indicators. Where areas for improvement in the system are identified, the Board considers the recommendations made by the Executive Team and the Audit Committee.

Review of effectiveness of internal control

The Board has undertaken an assessment of internal control for the purpose of this Annual Report. This assessment considered all significant aspects of internal control during the year ended 31 December 2012. Accordingly, the Board is satisfied that the Group has an effective system of internal control.

Going concern

The directors have reviewed the latest annual budget and strategic plan.

As explained in the Directors' Report, they believe the Group has adequate funding resources to continue in operational existence in the foreseeable future. For this reason the accounts have been prepared on a going concern basis.

Remuneration Committee
The remuneration of the executive directors is determined by the Remuneration Committee within a framework set by the Board on its behalf. Its role is to make recommendations to the Board on all aspects of the remuneration, benefits and employment conditions of the executive directors and other senior management. It has access to independent advice where it considers it appropriate. During the year the Group Human Resources Director provided the Committee with benchmarking information obtained from external sources.

The remuneration of the non-executive directors is determined by the Board, with the non-executive directors concerned not participating in the decision.

Remuneration policy
The Remuneration policy is intended to attract, retain and motivate executive directors and to align the interests of directors and shareholders. The key elements of the executive directors' remuneration package are basic salary, annual bonus, company car, private health insurance and membership of the Group pension schemes and Long-Term Incentive Plans (LTIPs). In deciding on appropriate levels of remuneration the Committee has regard to rates of pay for similar positions in comparable companies as well as internal factors including performance.

Bonus is geared towards the achievement of short term annual budget targets and, if the targets are achieved, it is paid annually.

Philip Bowman and Gordon Moore receive an annual non-executive director fee. The non-executive directors do not participate in the annual bonus scheme or any of the Company's LTIPs or pension schemes. Philip Bowman participates in a separate long term incentive arrangement with performance conditions, aligned to growth in the value of the Group. No amount was payable under this arrangement at 31 December 2012.

Basic salary
The Committee reviews the basic salaries of executive directors annually and whenever an individual changes position or responsibility. Basic salaries were last reviewed in June 2012 and there were no consequent changes.

Bonus and incentive arrangements
The Group operates a non-pensionable annual performance-related bonus scheme for executive directors. In setting the bonus parameters, the Committee takes into account the internal budgets and strategic growth and performance objectives for the Group. The annual bonus is principally related to Group Profit before Tax as recorded in the management accounts. This 'performance condition' is considered appropriate as it is the key driver of enhanced shareholder value. The 2012 scheme provides for a maximum of 100% of salary for performance above budget. Of the bonus earned 30% is mandatorily deferred for a period of three years.

For the year ended 31 December 2012 bonuses of £550,000 (2011: £nil) are payable under the 2012 scheme and £560,000 (2011: £nil) under the 2010 scheme.

LTIPs have a number of performance conditions relating to the strategic direction of the Group. No payments under LTIPs were made during the year.

Other benefits
The executive directors receive certain benefits in kind, principally a car or an allowance in lieu, life assurance and private medical insurance. These benefits are not pensionable.

Statement of Directors' Responsibilities

The directors are responsible for preparing the report of the directors and accounts in accordance with applicable law and regulations. Company law requires the directors to prepare accounts for each financial year. Under that law they have elected to prepare the Group and Parent Company accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). Under Company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the parent company and Group and of their profit or loss for that period. In preparing each of the Group and parent company accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its accounts comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Report

The directors have pleasure in presenting their report and the audited accounts for the year ended 31 December 2012.

Principal activities
The business conducted by the Group consists of Housing, Property Development, Construction and Mining.

Business review
The operations of the Group and its principal risks and uncertainties and relevant key performance indicators are reviewed in detail in the Business Review.

Results and dividends
The Group profit after taxation for the financial year amounted to £6m (2011: loss of £75.7m). No dividend will be paid.

Going concern
As noted in the Group Chief Executive's Business Review, in February 2012 the Group secured £160m of new equity investment and restructured its existing banking facilities with new Group lending facilities of £238.5m being made available through to February 2017. The directors have prepared detailed cash flow forecasts for the Group and Company for the period through to December 2017. The Group's banking facilities are subject to compliance with certain covenants relating to interest cover, asset coverage and net asset value. These covenants and conditions are sensitive to changes in the key assumptions. In preparing their sensitivity analyses, the directors have taken account of the circumstances prevailing in the property market at the current time and recognise that the current difficult economic climate creates uncertainty over the timing and amount of ultimate realisation of the Group's cash flows. Whilst the directors cannot envisage all possible circumstances that may impact the Group in the future, the directors believe that, taking account of reasonably possible adverse movements in housing volumes and selling prices; rental yields and the quantum and timing of commercial property transactions; and construction volumes and price, the Group has sufficient resources available to it to ensure continued compliance with relevant covenants and conditions.

Accordingly, 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 financial statements.

Directors
The directors at the date of this report are shown on pages 42 and 43.

Employees
The directors' report in relation to employees is shown on pages 40 and 41.

Supplier payment policy
Each business is responsible for agreeing the terms and conditions, including terms of payment, relating to transactions with its suppliers. It is Group policy to abide by the agreed terms of payment with suppliers where the goods and services have been supplied in accordance with the relevant terms and conditions of contract. While payment terms within the Group vary, the Company's average supplier payment period at 31 December 2012 was 24 days (2011: 18 days).

Contributions
The total of charitable donations made by the Group was £84,000 (2011: £90,000).

Disclosure of information to auditor
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor
A resolution for the reappointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
S J Duffield
Secretary
12 March 2013

Independent Auditor's Report to the Members of The Miller Group Limited

We have audited the financial statements of The Miller Group Limited for the year ended 31 December 2012 set out on pages 53 to 72. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 50, 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 our opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Hugh Harvie (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
United Kingdom
12 March 2013

Group Profit and Loss Account
for the year ended 31 December 2012

	Note	2012	2011		
		Total £m	Before exceptional items £m	Exceptional items (note 7) £m	Total £m
Turnover: Group and share of joint ventures	2	**619.9**	587.6	–	587.6
Less share of joint ventures		**(45.8)**	(51.4)	–	(51.4)
Group turnover		**574.1**	536.2	–	536.2
Cost of sales		**(513.6)**	(477.8)	(53.6)	(531.4)
Gross profit		**60.5**	58.4	(53.6)	4.8
Administrative expenses		**(49.1)**	(52.4)	(8.8)	(61.2)
Group operating profit/(loss)		**11.4**	6.0	(62.4)	(56.4)
Share of operating profit in joint ventures and associates		**10.0**	12.5	–	12.5
Gain on disposal of fixed asset investments		**7.8**	2.3	–	2.3
Profit/(loss) before interest		**29.2**	20.8	(62.4)	(41.6)
Net interest expense	3	**(22.6)**	(51.2)	–	(51.2)
Profit/(loss) on ordinary activities before tax	6	**6.6**	(30.4)	(62.4)	(92.8)
Tax	9	**(0.6)**			17.1
Profit/(loss) after tax for the financial year		**6.0**			(75.7)
Loan waiver		**48.9**			–
Transfer to/(from) Profit and Loss reserve		**54.9**			(75.7)

Statement of Total Recognised Gains and Losses
for the year ended 31 December 2012

	2012 £m	2011 £m
Profit/(loss) after tax for the financial year		
Group	**1.7**	(83.2)
Joint ventures and associates	**4.3**	7.5
	6.0	(75.7)
Loan waiver	**48.9**	–
Actuarial gain/(loss) on pension scheme	**0.1**	(11.3)
Exchange (loss)/gain	**(0.6)**	0.4
Total gains and losses recognised relating to the financial year	**54.4**	(86.6)

Balance Sheet
at 31 December 2012

		Group		Company	
	Note	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Fixed assets					
Tangible assets	10	**12.5**	12.0	**–**	–
Investments in joint ventures:				**0.1**	3.9
Share of gross assets		**110.1**	133.2	**–**	–
Share of gross liabilities		**(114.8)**	(145.0)	**–**	–
Loans to joint ventures		**56.9**	59.7	**–**	–
	11	**52.2**	47.9	**0.1**	3.9
Other investments	11	**8.1**	7.8	**40.0**	40.0
		72.8	67.7	**40.1**	43.9
Current assets					
Stocks and work in progress	12	**362.5**	460.2	–	–
Debtors:					
Due within one year	13	**77.1**	65.9	**342.4**	0.6
Due after more than one year	13	**119.1**	117.2	**0.4**	649.1
Cash at bank and in hand		**49.1**	6.3	**4.5**	–
		607.8	649.6	**347.3**	649.7
Creditors: amounts falling due within one year	14	**(180.4)**	(823.8)	**(150.0)**	(647.3)
Net current assets/(liabilities)		**427.4**	(174.2)	**197.3**	2.4
Total assets less current liabilities		**500.2**	(106.5)	**237.4**	46.3
Creditors: amounts falling due after more than one year	15	**(253.3)**	(65.7)	**(176.4)**	–
Net pension deficit	5	**(10.4)**	(11.3)	**–**	–
Net assets/(liabilities)		**236.5**	(183.5)	**61.0**	46.3
Capital and reserves					
Called up share capital	16	**2.8**	2.0	**2.8**	2.0
Share premium account	17	**368.3**	3.5	**368.3**	3.5
Capital redemption reserve	17	**0.5**	0.5	**0.5**	0.5
Profit and loss account	17	**(135.1)**	(189.5)	**(310.6)**	40.3
Shareholders' funds/(deficit)		**236.5**	(183.5)	**61.0**	46.3

These financial statements were approved by the Board of Directors on 12 March 2013 and were signed on its behalf by:

Keith Miller Group Chief Executive
John Richards Group Finance Director

Group Cash Flow Statement
for the year ended 31 December 2012

Reconciliation of operating profit/(loss) to net cash flow from operating activities

	2012 £m	2011 £m
Operating profit/(loss)	**11.4**	(56.4)
Depreciation	**0.4**	0.2
Decrease in stocks and work in progress	**41.7**	136.2
Increase in debtors	**(13.4)**	(12.0)
Decrease in creditors and provisions	**–**	(25.7)
Net cash inflow from operating activities	**40.1**	42.3

Consolidated cash flow statement

	Note	2012 £m	2011 £m
Net cash inflow from operating activities		**40.1**	42.3
Dividends received from joint ventures and associated undertakings		**1.4**	2.3
Returns on investments and servicing of finance	22	**(26.9)**	(41.8)
Corporation tax received		**3.3**	1.5
Capital expenditure and financial investment	22	**7.1**	3.4
Acquisitions and disposals	22	**(1.9)**	(1.1)
Net cash inflow before financing		**23.1**	6.6
Financing			
Issue of shares	22	**160.0**	–
Decrease in debt	22	**(140.3)**	(6.3)
Increase in cash		**42.8**	0.3

Reconciliation of net cash flow to movement in net debt

	Note	2012 £m	2011 £m
Increase in cash		**42.8**	0.3
Cash flow from decrease in debt		**140.3**	6.3
Debt in subsidiaries at date of disposal		**67.0**	–
Debt conversion and waiver		**254.5**	–
Movement in debt in year		**504.6**	6.6
Net debt at beginning of year		**(706.6)**	(713.2)
Net debt at end of year	23	**(202.0)**	(706.6)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of accounting

The accounts are prepared under the historical cost basis of accounting and in accordance with applicable accounting standards.

Basis of preparation

The consolidated accounts include the accounts of the parent company and all its subsidiary undertakings made up to 31 December each year. The results of subsidiary undertakings acquired or disposed of during the year are included in the accounts from or to the effective dates of acquisition or disposal. As permitted by Section 408 of the Companies Act 2006 the profit and loss account of the parent company is not presented.

As explained in the Directors' Report, after making appropriate enquiries, the directors have a reasonable expectation that the company and 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 financial statements.

Joint ventures and associates

An associate is an undertaking in which the Group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the Group has a long term interest and over which it exercises joint control. The Group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in the consolidated balance sheet. Where a Group company is party to a joint arrangement which is not an entity, that company accounts directly for its part of the income and expenditure, assets, liabilities and cash flows of the joint arrangement. Such arrangements are reported in the consolidated accounts on the same basis.

Turnover

Turnover comprises invoiced sales of homes, land and property developments, rentals receivable, coal despatched and management fees and, in the case of long term contracts, the value of work done during the year. Within the Homes division incentives are offered to customers which affect the recognition of turnover. Where cash incentives are given, the full cash amount is deducted from turnover. Where properties are sold under a shared equity scheme, up to 25% of the value of the property is offered to the customer by way of a loan. This loan is repayable either on the subsequent sale of the property or on a specified anniversary of the initial sale of the property or on such earlier date as the purchaser may choose to prepay the loan. In recognising the initial sale of the properties sold under shared equity schemes, the Group includes the relevant value in turnover and in debtors.

Profit recognition

Profits in respect of sales of properties, including land, are included in the accounts where legal completion has taken place by the end of the financial year. Profits in respect of long term contracts are included where the contract outcome can be foreseen with reasonable certainty and are determined by reference to the valuation of work done less related costs of production. Provision is made for all foreseeable contract losses. Claims are recognised as income when certified or agreed in writing.

Depreciation

Depreciation is provided to write off the cost less estimated residual value of tangible fixed assets using the straight-line method over the estimated useful lives of the assets concerned. The main annual rates in use are as follows:

Freehold properties	2 per cent
Vehicles	25 per cent
Computer hardware	33-100 per cent
Office equipment, furniture and fittings	10-20 per cent
Freehold land is not depreciated	

Share-based payments

The company's share option programmes allow eligible employees to acquire shares. The fair value of awards granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to them. The fair value of the awards granted is measured using an option pricing model, taking into account the terms and conditions upon which the shares were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards that vest.

1 Accounting policies (continued)

Stocks and work in progress
Stocks and work in progress are stated at the lower of cost and net realisable value. Net realisable value in relation to housing stocks is assessed by taking account of estimated selling price less all estimated costs of completion and appropriate attributable overheads.

Contract work in progress is shown within debtors as amounts recoverable on contracts and is stated at cost incurred plus attributable profit, less amounts transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover. Where payments on account exceed the value of work certified at the balance sheet date this is shown as payments on account within creditors.

Taxation
The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences (including past trading losses) which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. In relation to the deferred tax asset, the directors have considered carefully the extent to which they believe it is more likely than not that suitable taxable profits will be available in the future against which carried forward tax losses can be utilised.

Foreign currencies
The net assets of overseas subsidiary and associated undertakings are translated into sterling at the rates of exchange ruling at the end of the financial year. Profit and loss accounts of those undertakings are translated into sterling at average rates ruling during the financial year. The resulting exchange differences are dealt with through reserves.

Leased assets
Expenditure on operating leases is charged to the profit and loss account as incurred.

Deferred income
Deferred income represents grant income received by the Group from the Housing and Communities Agency ('HCA') under the Government's Kickstart Initiative. This will be credited to the Profit and Loss account as the developments to which the relevant grants relate are completed and as conditions relating to the grants are fulfilled.

Pensions
The Group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The parent is a member of the scheme but as its share of the underlying assets and liabilities of the scheme are not separately identifiable on a consistent and reasonable basis it accounts for the scheme, as required by FRS 17, as if it were a defined contribution scheme. As a result the amount charged to the parent's profit and loss account represents the contributions payable to the scheme in respect of the accounting period. The scheme is closed to future accrual. The Group also operates defined contribution schemes. The assets of such schemes are held separately from those of the Group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting period.

Investments in subsidiary companies
Investments in subsidiary companies are carried at cost, less provision for permanent impairment.

2 Segmental analysis

Turnover	**2012 £m**	2011 £m
Housing	**265.7**	270.6
Property	**60.6**	46.6
Construction	**259.4**	238.6
Mining	**34.2**	31.8
	619.9	587.6

2 Segmental analysis (continued)

Profit/(loss) before interest	2012 Total £m	Before exceptional items £m	Exceptional items £m	2011 Total £m
Housing	**14.5**	0.9	(36.0)	(35.1)
Property	**5.4**	10.2	(19.0)	(8.8)
Construction	**3.2**	7.4	(0.6)	6.8
Mining	**9.2**	7.5	–	7.5
Group	**(3.1)**	(5.2)	(6.8)	(12.0)
	29.2	20.8	(62.4)	(41.6)
Net interest payable	**(22.6)**			(51.2)
Profit/(loss) before tax	**6.6**			(92.8)

Share of turnover and operating profit/(loss) of joint ventures and associates included in the above:

	Turnover		Operating profit/(loss)	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Housing	**0.5**	–	**1.0**	(1.0)
Property	**13.7**	19.7	**1.9**	5.7
Mining	**31.6**	31.7	**7.0**	7.8
Construction	**–**	–	**0.1**	–
	45.8	51.4	**10.0**	12.5

Turnover above is external. Inter-segmental turnover amounted to £1.0m (2011: £1.0m) in Property and £0.5m (2011: £4.1m) in Construction, a total of £1.5m (2011: £5.1m).

	2012 £m	2011 £m
Net assets/(liabilities)		
Housing	**399.1**	416.5
Property	**52.3**	139.4
Construction	**(27.6)**	(24.8)
Mining	**25.7**	23.1
Group	**(11.0)**	(31.1)
	438.5	523.1
Net debt	**(202.0)**	(706.6)
	236.5	(183.5)

Share of net assets of joint ventures and associates included in the above:

Housing	**4.8**	3.2
Property	**20.3**	20.2
Construction	**0.5**	0.6
Mining	**26.4**	23.9
	52.0	47.9

3 Net interest expense

	2012 £m	2011 £m
Interest payable on bank loans and overdrafts	**(16.4)**	(40.5)
Amortisation of arrangement fees	**(3.4)**	(8.5)
Bank and other interest receivable	**0.9**	1.4
	(18.9)	(47.6)
Associates and joint ventures:		
Bank loan and overdraft interest	**(2.1)**	(2.8)
Other interest	**(0.9)**	(0.8)
	(3.0)	(3.6)
Other finance expense (note 5)	**(0.7)**	–
Net interest expense	**(22.6)**	(51.2)

4 Staff numbers and costs

The average number of persons employed by the Group, including directors, during the year was as follows:

	2012 Number	2011 Number
Housing	**625**	630
Property	**44**	42
Construction	**565**	524
Other	**83**	68
	1,317	1,264

The aggregate payroll costs of these persons were as follows:

	2012 £m	2011 £m
Wages and salaries	**62.3**	56.9
Social security costs	**6.2**	5.4
Other pension costs	**4.2**	3.7
	72.7	66.0

5 Pensions

The Group operates a defined benefit pension scheme which is now closed to future accrual. A full actuarial valuation was carried out at 1 July 2010 and updated, for FRS 17 purposes, to 31 December 2012 by a qualified independent actuary. Membership data is set out below:

	2012 £m	2011 £m
Number of active members	**–**	–
Annual pensionable payroll of active members (£m)	**–**	–
Number of deferred members	**810**	810
Number of pensioner members (including dependents)	**420**	420
Annual pension payroll (£m)	**3.6**	3.0

5 Pensions (continued)

The major assumptions used by the actuary were:

	2012	2011
Rate of increase in salaries	**n/a**	n/a
Rate of increase in pensions in payment*	**2.6%**	2.7%
Rate of increase in deferred pensions	**1.8%**	1.9%
Discount rate	**4.6%**	5.0%
Inflation assumption	**2.7%**	2.9%

* On the excess over the Guaranteed Minimum Pension, pensions which are guaranteed to increase at a rate of 3% per annum have been assumed to increase at 3%.

The assets in the scheme and the expected rates of return were:

	Value at 31 December 2012 £m	Long term rate of return expected at 31 December 2012	Value at 31 December 2011 £m	Long term rate of return expected at 31 December 2011
Equities	**54.1**	**6.0%**	36.5	6.0%
Bonds	**51.5**	**4.6%**	60.3	4.9%
Other	**0.4**	**0.5%**	0.1	0.5%
	106.0	**5.1%**	96.9	5.1%

The assumed average expectation of life for a member currently aged 65 is 21.6 years (2011: 21.5 years).

The following amounts were measured in accordance with the requirements of FRS 17:

	2012 £m	2011 £m
Total market value of assets	**106.0**	96.9
Present value of scheme liabilities	**(119.5)**	(112.0)
Deficit in the scheme	**(13.5)**	(15.1)
Related deferred tax asset	**3.1**	3.8
Net pension liability	**(10.4)**	(11.3)

The movement in the pension scheme balance (before deferred tax) is explained below:

	2012 £m	2011 £m
Opening pension scheme balance	**(15.1)**	–
Pension cost	**(0.6)**	–
Employer contributions	**2.0**	–
Total loss recognised in reserves	**0.2**	(15.1)
Closing pension scheme balance	**(13.5)**	(15.1)

5 Pensions (continued)

The amounts charged to the profit and loss account are as follows:

	2012 £m	2011 £m
Expected return on pension scheme assets	**(4.8)**	(6.1)
Interest on pension scheme liabilities	**5.5**	5.2
Effect of asset limit	**–**	0.9
Charge to financing	**0.7**	–

A reconciliation of actual to expected return on assets is given below:

	2012 £m	2011 £m
Expected return on scheme assets	**4.8**	6.1
Gain/(loss) on scheme assets	**7.5**	(4.8)
Actual return on scheme assets	**12.3**	1.3

The movement of scheme liabilities is set out below:

	2012 £m	2011 £m
Opening scheme liabilities	**112.0**	95.0
Interest cost	**5.5**	5.2
Loss on scheme liabilities	**7.2**	16.7
Actual benefit payments	**(5.2)**	(4.9)
Closing scheme liabilities	**119.5**	112.0

The movement of scheme assets is set out below:

	2012 £m	2011 £m
Opening scheme assets	**96.9**	100.6
Expected return on assets	**4.8**	6.1
Gain/(loss) on assets	**7.5**	(4.8)
Employer contributions	**2.0**	–
Actual benefit payments	**(5.2)**	(5.0)
Closing scheme assets	**106.0**	96.9

5 Pensions (continued)

An analysis of the amounts recognised in the statement of total recognised gains and losses is as follows:

	2012 £m	2011 £m
Gain/(loss) on pension scheme assets	**7.5**	(4.8)
Loss on the present value of scheme liabilities	**(7.3)**	(16.7)
Effect of non-recoverable surplus	**–**	6.4
Total actuarial gain/(loss) recognised	**0.2**	(15.1)
Cumulative gains and (losses) recognised	**(36.4)**	(36.6)

Historic information regarding the scheme is set out below:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Scheme liabilities	**(119.5)**	(112.0)	(95.0)	(94.2)	(97.2)
Assets	**106.0**	96.9	100.6	94.4	89.4
(Deficit)/surplus (before deferred tax and asset limit reduction)	**(13.5)**	(15.1)	5.6	0.2	(7.8)
Experience gains and (losses) on scheme assets	**7.5**	(4.8)	2.9	8.7	(24.6)
Experience gains and (losses) on scheme liabilities	**(0.1)**	(6.9)	0.5	1.9	(0.6)

6 Profit/(loss) on ordinary activities before taxation

	2012 £m	2011 £m
This is stated after charging the following:		
Depreciation	**0.4**	0.2
Operating lease rentals	**6.2**	5.9
	£000	£000
Auditor remuneration:		
Audit of these accounts	**38**	39
Other services:		
Audit of subsidiaries accounts	**170**	180
Other services relating to taxation	**143**	127
Services relating to corporate finance transactions	**–**	198
All other services	**141**	–
Audit of joint ventures and accounts of other investments	**43**	42
	535	586

7 Exceptional items

	2012 £m	2011 £m
Land and Property write-downs	**(3.1)**	(53.6)
Property write-backs	**3.1**	–
Restructuring costs	**–**	(8.8)
Joint venture asset write-downs	**(3.4)**	–
Joint venture asset write-backs	**3.4**	–
	–	(62.4)

8 Remuneration of directors

	2012 £m	2011 £m
Directors' emoluments:		
Salary and other benefits	**1.3**	2.7
Annual bonus	**1.1**	–
	2.4	2.7

The aggregate emoluments of the highest paid director were £1,164,000 (2011: £624,000). Retirement benefits accrued to two directors (2011: three directors) under defined contribution schemes. Contributions to defined contribution pension schemes amounted to £16,000 (2011: £87,000).

9 Taxation

	2012 £m	2011 £m
Corporation tax:		
Current year	**1.9**	–
Prior years	**0.8**	1.4
Share of joint ventures tax	**(2.7)**	(1.3)
	–	0.1
Deferred tax	**(0.6)**	17.0
	(0.6)	17.1

The corporation tax credit for the year of £nil (2011: £0.1m) is less than the standard rate of corporation tax of 24½% (2011: 26½%). The differences are explained below:

	2012 £m	2011 £m
Current year tax reconciliation		
Profit/(loss) on ordinary activities before tax	**6.6**	(92.8)
Current tax at 24½% (2011: 26½%)	**(1.6)**	24.6
Effects of:		
Timing differences in respect of which deferred tax is not provided	**(0.2)**	(25.8)
Permanent differences	**1.0**	(0.1)
Adjustments to prior year corporation tax provision	**0.8**	1.4
Total corporation tax credit	**–**	0.1

A reduction in the UK corporation tax rate to 23% was substantively enacted on 3 July 2012 and will be effective from 1 April 2013. A further rate reduction of 2% has been announced with effect from 1 April 2014 which once enacted will reduce the Group's future current tax charge and deferred tax asset accordingly.

10 Tangible assets

Group

	Freehold land and buildings £m	Plant, equipment and vehicles £m	Total £m
Cost			
At beginning of year	14.7	3.6	18.3
Additions	–	0.9	0.9
Disposals	–	(1.5)	(1.5)
At end of year	**14.7**	**3.0**	**17.7**
Depreciation			
At beginning of year	3.1	3.2	6.3
Charge for year	0.1	0.3	0.4
Disposals	–	(1.5)	(1.5)
At end of year	**3.2**	**2.0**	**5.2**
Net book value			
At 31 December 2012	**11.5**	**1.0**	**12.5**
At 31 December 2011	11.6	0.4	12.0

11 Investments

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Investment in joint ventures	**52.2**	47.9	**0.1**	3.9
Other investments:				
Investments in subsidiaries	**–**	–	**40.0**	40.0
Investments in associates	**(0.2)**	–	**–**	–
Loans	**8.3**	7.8	**–**	–
	8.1	7.8	**40.0**	40.0
Total investments	**60.3**	55.7	**40.1**	43.9

11 Investments (continued)

Joint ventures

	Group £m	Company £m
At beginning of year	47.9	3.9
Share of profits less losses	4.3	–
Dividends received	(1.4)	–
Loans	1.2	(3.8)
Exchange movements	0.2	–
At end of year	**52.2**	**0.1**

The total of the Group's profit before taxation from interests in associates and joint ventures is £7.0m (2011: £8.9m).

The amounts included in net assets in respect of joint ventures comprise the following:

	2012 £m	2011 £m
Share of assets:		
Share of fixed assets	**50.1**	59.4
Share of current assets	**60.0**	73.8
	110.1	133.2
Share of liabilities:		
Due within one year	**(80.6)**	(104.0)
Due after one year	**(34.2)**	(41.0)
	(114.8)	(145.0)
Loans provided to joint ventures	**56.9**	59.7
Share of net assets	**52.2**	47.9

Other investments

Group

	Associates £m	Loans £m
At beginning of year	–	7.8
Share of losses	(0.2)	–
New loans	–	5.0
Repayments	–	(4.5)
At end of year	**(0.2)**	**8.3**

Company

	Subsidiaries £m
At beginning and end of year	**40.0**

12 Stocks and work in progress

Group

	2012 £m	2011 £m
Land and development work in progress:		
Residential developments	**334.2**	343.0
Commercial developments	**28.3**	117.2
	362.5	460.2

13 Debtors

Due within one year

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Trade debtors	**2.7**	2.8	**–**	–
Amounts recoverable on contracts	**47.4**	34.3	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**339.6**	–
Amounts owed by associates and joint ventures	**4.1**	6.8	**–**	–
Other debtors	**13.1**	15.8	**0.7**	0.4
Prepayments and accrued income	**9.8**	6.0	**2.1**	–
Corporation tax recoverable	**–**	0.2	**–**	0.2
	77.1	65.9	**342.4**	0.6

Due after more than one year

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Trade debtors	**59.1**	57.2	**–**	–
Deferred tax (see below)	**60.0**	60.0	**0.4**	0.4
Amounts owed by subsidiary undertakings	**–**	–	**–**	648.7
	119.1	117.2	**0.4**	649.1

Trade debtors relates to loans provided under the Group's 'MiWay' and the HCA's HomeBuy Direct and FirstBuy shared equity schemes. These loans are secured by a second charge over the property to which they relate and are likely to be recoverable after more than one year.

Deferred tax

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
At beginning of year	**60.0**	43.0	**0.4**	0.4
Credit to profit and loss account	**–**	17.0	**–**	–
At end of year	**60.0**	60.0	**0.4**	0.4

13 Debtors (continued)

The elements of the deferred tax balance calculated at 23% (2011: 25%) are as follows:

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Difference between accumulated depreciation and capital allowances	**1.0**	0.6	**0.1**	0.1
Tax losses	**92.5**	100.6	**–**	–
Other timing differences	**2.3**	5.4	**0.7**	0.3
	95.8	106.6	**0.8**	0.4
Less amount recognised	**(60.0)**	(60.0)	**(0.4)**	(0.4)
Unrecognised deferred tax	**35.8**	46.6	**0.4**	–

The directors believe the Group will in due course be able to utilise the majority of the tax losses accumulated at 31 December 2012. However, they have adopted a prudent approach and only partially recognised all available deferred tax assets.

14 Creditors: amounts falling due within one year

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Bank loans (secured)	**1.6**	114.6	**–**	–
Working capital facility (unsecured)	**–**	–	**–**	10.6
Bank loans (unsecured)	**–**	539.5	**–**	541.5
Payments received on account	**12.8**	8.2	**–**	–
Trade creditors	**107.4**	98.3	**0.2**	0.6
Land creditors	**11.9**	4.5	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**134.0**	73.2
Other taxes and social security	**2.3**	2.1	**2.4**	2.1
Other creditors	**7.1**	12.7	**0.6**	6.3
Corporation tax	**0.4**	–	**0.4**	–
Accruals and deferred income	**36.9**	43.9	**12.4**	13.0
	180.4	823.8	**150.0**	647.3

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Bank loans (secured)	**243.8**	56.5	**–**	–
Accruals and deferred income	**1.5**	4.8	**–**	–
Land creditors	**8.0**	4.4	**–**	–
Amounts owed to subsidy undertakings	**–**	–	**176.4**	–
	253.3	65.7	**176.4**	–
Analysis of debt:				
SPV Debt:				
In one year or less	**1.6**	114.6	**–**	–
Between one and two years	**10.5**	17.0	**–**	–
Between two and five years	**39.9**	39.5	**–**	–
Greater than five years	**4.2**	–	**–**	–
Unamortised finance costs	**(0.3)**	–	**–**	–
	55.9	171.1	**–**	–
Core debt:				
In one year or less	**–**	541.8	**–**	554.4
Between two and five years	**194.9**	–	**–**	–
Unamortised finance costs	**(5.4)**	(2.3)	**–**	(2.3)
	189.5	539.5	**–**	552.1
Total debt	**245.4**	710.6	**–**	552.1

16 Share capital

	2012 £m	2011 £m
Authorised, allotted, called up and fully paid		
449,143,960 ‘A’ Ordinary shares of 0.1p each	**0.4**	–
182,782,211 ‘B’ Ordinary shares of 0.1p each	**0.2**	–
54,953,829 ‘C’ Ordinary shares of 0.1p each	**0.1**	–
32,400,000 ‘D’ Ordinary shares of 0.1p each	**–**	–
20,250,000 ‘E’ Ordinary shares of 10p each	**2.0**	2.0
70,470,000 ‘F’ Ordinary shares of 0.1p each	**0.1**	–
100,000 ‘G’ Ordinary shares of 0.01p each	**–**	–
	2.8	2.0

17 Reserves

Group

	Share premium £m	Capital redemption reserve £m	Profit and loss account £m
At beginning of year	3.5	0.5	(189.5)
Share issue	364.8	–	–
Profit for year	–	–	6.0
Debt waiver	–	–	48.9
Actuarial gain on pension scheme	–	–	0.1
Exchange loss	–	–	(0.6)
At end of year	**368.3**	**0.5**	**(135.1)**

Company

	Share premium £m	Capital redemption reserve £m	Profit and loss account £m
At beginning of year	3.5	0.5	40.3
Share issue	364.8	–	–
Loss for year	–	–	(399.8)
Debt waiver	–	–	48.9
At end of year	**368.3**	**0.5**	**(310.6)**

The Company's Employee Benefit Trust holds 2,560,000 (2011: 2,560,000) 'E' ordinary shares. These shares were acquired in order to satisfy obligations under the Group's share award schemes. In addition it holds the 'D' and 'G' ordinary shares of the company in trust on behalf of senior management. All costs of administering the Trust have been charged to the profit and loss account as they arise.

During the year the company issued 789,750,000 0.1 pence ordinary shares and 100,000 0.01 pence ordinary shares which were settled by cash and the conversion of debt.

18 Reconciliation of movement in shareholders' funds

	Group £m	Company £m
Profit/(loss) after taxation for the financial year	6.0	(399.8)
Actuarial gain on pension scheme	0.1	–
Exchange loss	(0.6)	–
Debt waiver	48.9	48.9
Share issue	365.6	365.6
Net increase in shareholders' funds	420.0	14.7
Opening shareholders' (deficit)/funds	(183.5)	46.3
Closing shareholders' funds	**236.5**	**61.0**

19 Contingent liabilities

The Group and company have contingent liabilities in relation to indemnities provided for performance bonds and guarantees of performance obligations. These relate to contracting or development agreements entered in the ordinary course of business by Group and joint venture companies. A small number of interest shortfall guarantees have been given by the Group in relation to bank finance provided to joint ventures and subsidiaries. No guarantees have been called during the year (2011: none).

20 Commitments

The Group has commitments under non-cancellable operating leases to make payments in the next 12 months as follows:

	2012 Land and buildings £m	**2012 Other £m**	2011 Land and buildings £m	2011 Other £m
Leases expiring:				
Within one year	**–**	**0.1**	0.2	0.1
Between two and five years	**1.3**	**2.3**	1.2	1.8
Outwith five years	**1.3**	**–**	1.4	–
	2.6	**2.4**	2.8	1.9

21 Share-based payments

Details of provisional awards outstanding at the year end under the Group's savings related share schemes are given below:

	Number '000	Exercise price	Weighted average remaining contractual life	Maximum term
Savings related share option schemes	110	£1.60–£14	21 months	5 years

The number and weighted average exercise price of share options are as follows:

	Weighted average Number (000)		Exercise price	
	2012	2011	**2012**	2011
At beginning of year	**206**	294	**£3.65**	£3.68
Forfeited	**–**	(46)	**–**	£7.17
Lapsed	**(95)**	(42)	**£3.90**	£nil
Exercised	**(1)**	–	**£2.10**	–
At end of year	**110**	206	**£3.45**	£3.65
Exercisable at end of year	**28**	–		

The total charge recognised in respect of share-based payment transactions was £nil (2011: £nil).

22 Notes to the cash flow statement

	2012 £m	2011 £m
Returns on investments and servicing of finance		
Interest received	**0.9**	1.4
Interest paid and similar charges	**(27.8)**	(43.2)
Net cash outflow from returns on investments and servicing of finance	**(26.9)**	(41.8)
Capital expenditure and financial investment		
Purchase of fixed assets	**(5.9)**	(0.2)
Sale of fixed asset investments	**13.0**	3.6
Net cash inflow from capital expenditure and financial investment	**7.1**	3.4
Acquisitions and disposals		
Net investment in joint ventures and associates	**(1.9)**	(1.1)
Net cash outflow from acquisitions and disposals	**(1.9)**	(1.1)
Financing		
Share issue	**160.0**	–
Repayment of loans and overdrafts	**(328.8)**	(66.3)
New loans received	**188.5**	60.0
Net cash inflow/(outflow) from financing	**19.7**	(6.3)

23 Analysis of changes in net debt

	At beginning of year £m	Cash flows £m	Non-cash movements £m	At end of year £m
Cash at bank and in hand	6.3	42.8	–	**49.1**
Debt due within one year	(656.4)	140.3	514.5	**(1.6)**
Debt due after one year	(56.5)	–	(193.0)	**(249.5)**
	(706.6)	**183.1**	**321.5**	**(202.0)**

24 Related party transactions

	2012 £m	2011 £m
Sales and management fees to joint ventures and associated undertakings on normal trading terms	**11.6**	2.8
Amounts paid to majority shareholder	**2.5**	–

Details of balances outstanding with joint ventures and associates at the year end are given in note 13. No balances are outstanding with the majority shareholder at the year end.

25 Investments

The principal undertakings in which the Group's interests at the year end are more than 20% are as follows:

	Principal Activities	Country of Registration	Share capital %
Subsidiary undertakings:			
TMGL Holdings Limited	Holding Company	Scotland	100
Miller Homes Holdings Limited	Residential Development	Scotland	100
Miller Homes Limited	Residential Development	Scotland	100
Miller Developments Holdings Limited	Property Development	England	100
Miller Holdings International Limited	Property Development	Scotland	100
Miller Developments Limited	Property Development	Scotland	100
Miller Corporate Holdings Limited	Construction	Scotland	100
Miller Construction (UK) Limited	Construction	Scotland	100
Joint ventures:			
Omega Warrington Limited	Property Development	England	50
Miller Cromdale Ltd	Property Development	Scotland	50
Miller Birch partnership	Property Development	England	50
Arena Central Developments LLP	Property Development	England	50
Ringsted Outlet Centre P/S	Property Development	Denmark	50
Miller Argent Holdings Ltd	Mining	England	50
Investments:			
Leicester BSF Holdings Company Ltd	Education Services Provider	England	40
Bluelight Partnership (ASP) Holdings	Bluelight Services Provider	England	30
Hub North Scotland Limited	Education and Health Provider	Scotland	30

Banks and Advisers

Principal Bankers
Lloyds Banking Group plc
Head Office
The Mound
Edinburgh
EH1 1YZ

Royal Bank of Scotland plc
Head Office
36 St Andrew Square
Edinburgh
EH2 2YB

Auditors
KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Insurance Brokers
JLT Risk Solutions Limited
6 Crutched Friars
London
EC3N 2PH

Principal Bonders
HCC International Insurance
Company Plc
The Grange
Rearsby
Leicestershire
LE7 4FY

Euler Hermes UK
1 Canada Square
London
E14 5DX

Liberty Mutual Insurance
Europe Ltd
2 Minster Court
Mincing Lane
London
EC3R 7YE

Actuaries
Mercer
Hobart House
80 Hanover Street
Edinburgh
EH2 1EL

Notes

Designed and produced by Emperor
www.emperordesign.co.uk +44 (0)131 220 7990

www.miller.co.uk

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www.millerconstruction.co.uk
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Head Office
The Miller Group Limited
Miller House
2 Lochside View
Edinburgh Park
Edinburgh
EH12 9DH

Company Registration Number
SCO18135

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