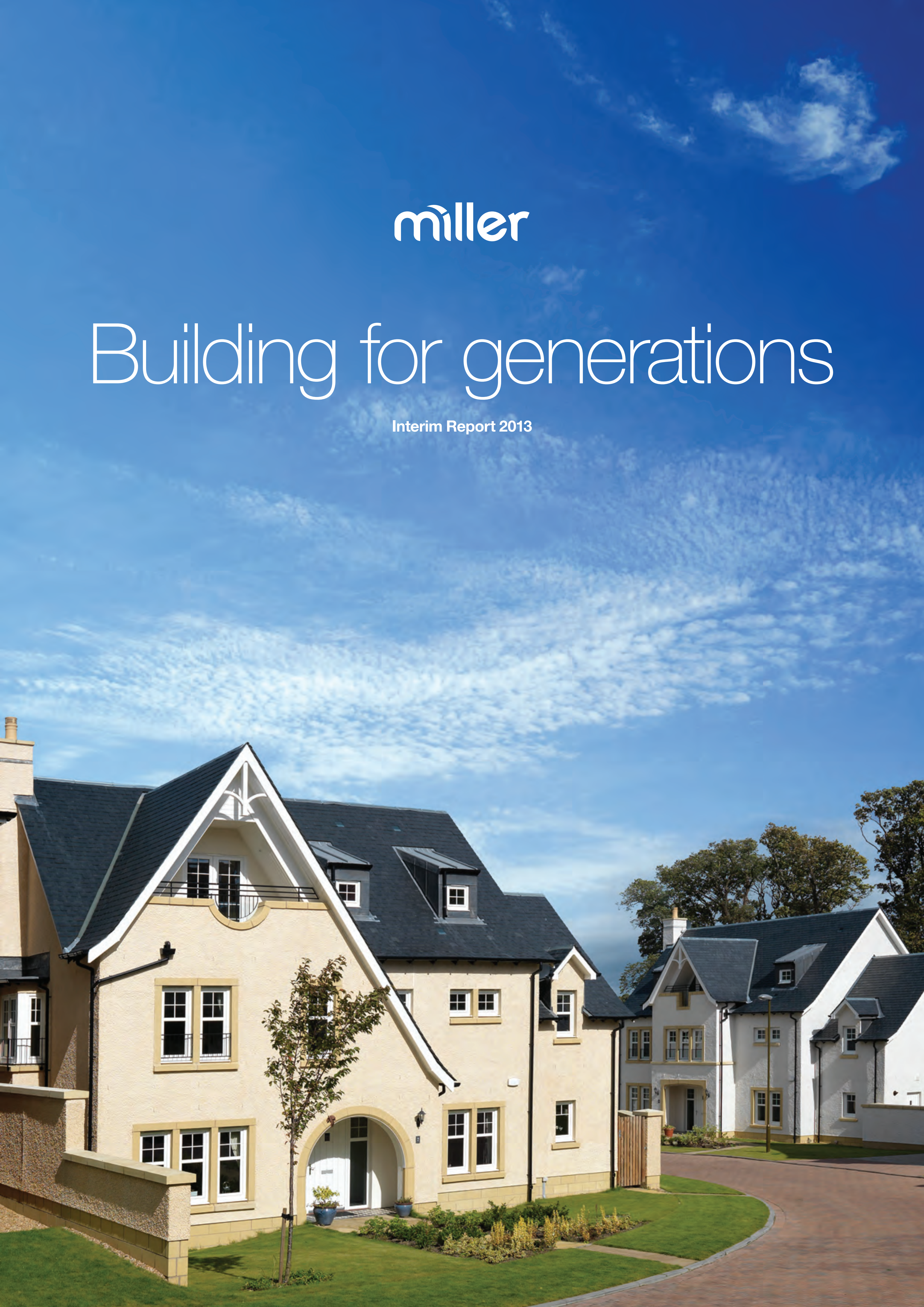
Building for generations

Interim Report 2013



miller

About Us

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

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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 business providing 'end-to-end' property solutions through long term relationships with public and private sector 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.

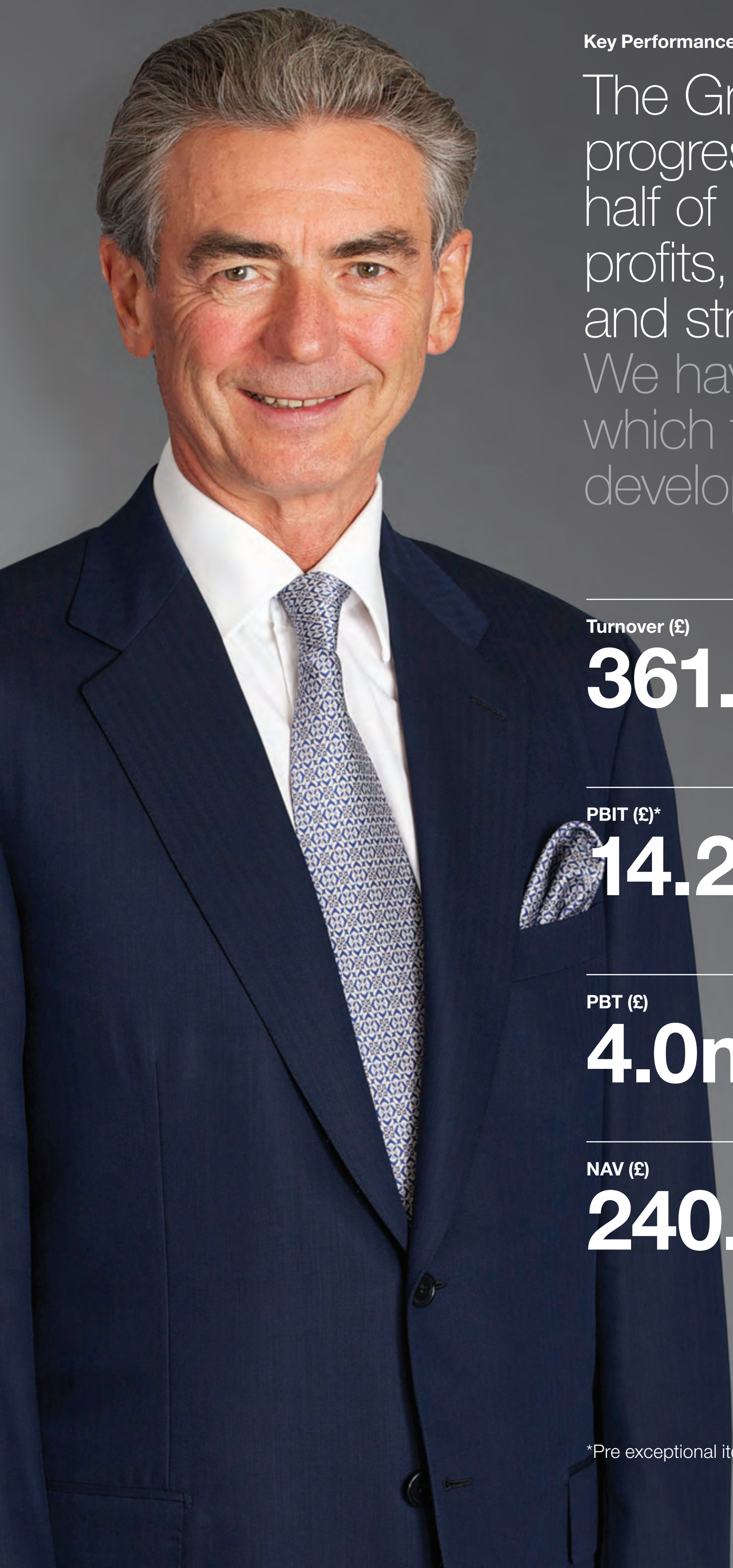
Mining

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

01 Key Highlights



Key Performance Indicators

The Group made good progress during the first half of 2013 with increased profits, a longer landbank and strengthened order book. We have a strong base from which to plan for the future development of the business.

Turnover (£)
361.5m

Landbank – Owned and consented plots
9,059

PBIT (£)*
14.2m

Landbank – Strategic plots
9,466

PBT (£)
4.0m

Construction order book (£)
1.80bn

NAV (£)
240.9m

Development pipeline (sq ft)
12.6m

Mining reserves (tonnes)
7.2m

*Pre exceptional items

Delivering for our shareholders

The Group achieved a profit from operations of £14.2m before exceptionals. This was 51% ahead of last year, primarily due to strong performances from Housing and Developments.

For the first time in five years the macro-economic picture is beginning to look more positive and the Group is delivering good growth. The actions the management team has taken over the last twelve months coupled with the specific measures the Government has introduced in housing have enabled us to create a strong base from which to increase growth and value.

We are well ahead of last year in Housing and we have identified all the land to deliver similar volumes in 2014. Construction is in a similar position with 73% of next year's turnover already secured.

Housing
We are a national housebuilder operating in the North of England, the Midlands, the South of England and Scotland.

At the end of the period under review we had 9,059 units (2012: 7,408 units) owned or consented and under our control, equivalent to over four years' supply. We also have an additional strategic landbank of 9,466 land plots allocated in local plans, 58% of which are in the Midlands and the South of England.

Margins, overhead recovery and ROCE will improve as we grow turnover and work out legacy land and replace this with land bought at our current margin hurdle rates. Legacy land accounts for 29% of our landbank. This will reduce to less than 11% by the end of 2014. We plan to grow volumes over the next three years beyond 2,000 units per annum with an increasing weighting towards the Midlands and the South of England.

The housing market improved markedly in the first half of 2013. There were encouraging signs early in the year that consumer confidence was slowly returning and the Funding for Lending scheme was beginning to operate effectively with mortgage approvals rising steadily. The Chancellor's budget provided an additional stimulus with the introduction of Help to Buy.

Construction
Construction has been refocused in the past two years. The loss recorded in Construction was a consequence of an extremely competitive contracting market and the traditional contract approach used in a small number of projects. These projects encountered cost overruns as a result of operational issues, insolvency of subcontractors and difficulties in recovering the cost of client variations to project specifications. We no longer tender for projects on this traditional contract basis unless they are projects with clients with whom we have on-going long-term strategic relationships. The Group is seeking recovery of these costs. The Construction division's strategy is now concentrated on providing end-to-end property solutions for public and private sector clients who have programmes of work and who positively embrace the value engineering approach we provide.

The order book has increased by 18% to £1.8bn and is weighted towards frameworks and PPP projects where there are higher barriers to entry and more secure margins.

Property Development
Property Development encompasses offices, industrial, distribution and change of use. We are focused on a limited number of growth sectors in locations in which our skills can be effectively deployed to maximise returns.

Geographically, our main areas of concentration are Aberdeen, Glasgow, Manchester and Birmingham where we have long-term consented land holdings. We produced an excellent performance with major contributions from our land holdings in Aberdeen and Omega near Warrington where 400,000 sq ft was let and sold.

Mining
Our Mining activities comprise a single project joint venture with Argent Group plc at Ffos-y-fran in South Wales. We are a low cost producer supplying both the power generation and steel markets. We have seven million tonnes remaining of proven reserves and are close to lodging a planning application in respect of an estimated six million tonnes of reserves on an adjacent site at Nant Llesg.

In spite of a weak market the business is very cash generative and has a full order book for 2013 and 2014.

Financial Review
Group turnover for the half year to 30 June 2013 was 27% ahead of 2012 at £361m (2012: £284m). Construction turnover increased by 70% as a result of the framework contract wins of 2011/12 now making a positive contribution. Housing turnover was in line with last year at £125m, but the average selling price increased by 3% to £175,000 due to the increased focus on family houses.

Exceptional costs of £1.5m were the result of writing down a commercial property to its estimated realisable value.

Group profit before tax of £4.0m (2012: £0.4m) benefits from a full period with a substantially lower interest charge as a result of the Group restructure in February 2012.

We maintain tight control on cashflow. Despite investing in new land, total net debt at £198m was £4m lower than December 2012. Core banking facilities of £238m are in place to February 2017. We had £88m of facility headroom at June 2013 and we operate comfortably within covenants. In addition, we have over £50m of project-specific facilities.

"For the first time in five years the macro-economic picture is beginning to look more positive and the Group is delivering good growth. The Board is confident that performance will meet its expectations for 2013."

Housebuilding	H1 2013	H1 2012
Turnover – volumes	**819**	820
Turnover – £m	**125**	125
PBIT – £m	**6.6**	4.4
Operating margin – %	**5.3**	3.5

Our volumes for the first half of the year were flat at 819 (2012: 820). This was mainly due to the weak carry forward sales position we had on entering 2013. Included in these figures are management contract sales of 152 (2012: 109).

The underlying picture is much stronger. During the six months to June 2013 we achieved a rate of sale of 0.52 unit sales per outlet per week (2012: 0.46). We opened 10 new outlets in the first half of the year with a further 12 planned in the second half. As of 9 September we have secured 92% of target sales for the year.

We have continued to strengthen our landbanks. We are currently operating from 68 sites. Our owned and consented landbank now stands at 9,059 units (2012: 7,408 units) and has an embedded margin of 19.2% (2012: 16.9%). In addition, we have 9,466 strategic land plots which are allocated in local plans.

Construction	H1 2013	H1 2012
Turnover – £m	**193**	113
PBIT – £m	**(2.4)**	(0.8)

Turnover for the six months to 30 June 2013 was 70% ahead of 2012 and resulted from the strong order book built up in 2011/12.

The loss recorded in Construction was a consequence of an extremely competitive contracting market and the traditional contract approach used in a small number of projects. These projects encountered cost overruns as a result of operational issues, insolvency of subcontractors and difficulties in recovering the cost of client variations to project specifications. We no longer tender for projects on this traditional contract basis unless they are projects with clients with whom we have on-going long-term strategic relationships. The Group is seeking recovery of these costs.

Property Development	H1 2013	H1 2012
Turnover – £m	**31**	31
PBIT – £m	**6.9**	6.0

The Property Development market is uneven, both by type and geography. There is good demand for offices in London and Aberdeen, and industrial and distribution is strong throughout the country. On the investment side, institutional product is in high demand. Conversely, the secondary market is thin due to a lack of appetite from the banks to lend.

Mining	H1 2013	H1 2012
Turnover – £m	**12.5**	14.8
PBIT – £m	**2.4**	4.2

Coal prices remain low mainly as a result of reduced US demand due to the healthy energy supply they now enjoy. We had a solid half year with tonnages of 429,000, 2% ahead of 2012. Sales price and turnover were 15% lower due to our main supply contract reverting to historic fixed prices.

Pensions
The trustees and their advisers are currently undertaking the triennial valuation. The Company will negotiate with the trustees and the results will be reflected in an updated FRS17 position reported in the full year accounts.

Board
During the period under review we welcomed Mike Carruthers to the Board. Mike has been with GSO, our principal shareholder, for seven years and replaces Mark Brown.

Outlook
We have seen a marked improvement in the housing market during the first six months assisted by the Funding for Lending scheme with further stimulus provided by the Help to Buy scheme, as well as an improvement in the UK mortgage market. 92% of target housing sales volumes for the year are already secured with a positive movement in the average selling price over last year. We are now placing a greater emphasis on building in the Midlands and the South and South East of England, where 58% of our future landbank is located.

Our Construction business has secured its targeted turnover for 2013 and 73% of that expected for 2014. Construction is now focused on PPP, framework contracts and customers with longer term requirements and is recording higher margins. There continues to be a strong and consistent demand for our Development sites and the Mining order book is full. The Board is confident that the Group's performance will meet its expectations for 2013.

Keith M. Miller

Keith M Miller CBE
Group Chief Executive

Philip Bowman
Chairman

Group Profit and Loss Account
for the six months ended 30 June 2013

	Notes	**6 months to 30 June 2013 £m**	6 months to 30 June 2012 £m	12 months to 31 December 2012 £m
Turnover: Group and share of joint ventures	1	**361.5**	284.1	619.9
Less: Share of joint ventures' turnover		**(27.4)**	(21.6)	(45.8)
Group turnover		**334.1**	262.5	574.1
Cost of sales				
– Recurring		**(299.8)**	(235.1)	(513.6)
– Exceptional	2	**(1.5)**	–	–
Gross profit		**32.8**	27.4	60.5
Administrative expenses		**(25.9)**	(24.7)	(49.1)
Group operating profit		**6.9**	2.7	11.4
Share of operating profit in joint ventures				
– Recurring		**5.5**	5.3	10.0
– Exceptional	2	**–**	3.2	–
Gain on sale of fixed assets		**0.3**	1.4	7.8
Profit before interest	1			
– Recurring		**14.2**	9.4	29.2
– Exceptional	2	**(1.5)**	3.2	–
		12.7	12.6	29.2
Net interest	3	**(8.7)**	(12.2)	(22.6)
Profit on ordinary activities before taxation	1	**4.0**	0.4	6.6
Taxation		**–**	–	(0.6)
Profit after taxation for the financial period		**4.0**	**0.4**	**6.0**

Group Balance Sheet
at 30 June 2013

	Notes	**30 June 2013 £m**	30 June 2012 £m	31 December 2012 £m
Fixed assets				
Tangible assets		**12.4**	12.4	12.5
Investments in joint ventures:				
– Share of gross assets		**112.2**	126.8	110.1
– Share of gross liabilities		**(112.5)**	(134.7)	(114.8)
– Loans to joint ventures		**55.0**	62.6	56.9
		54.7	54.7	52.2
Other investments		**10.4**	10.7	8.1
		77.5	77.8	72.8
Current assets				
Stocks and work in progress	4	**391.9**	363.5	362.5
Debtors:				
– Due within one year		**83.3**	59.5	77.1
– Due outwith one year		**118.6**	118.2	119.1
Cash at bank and in hand		**50.8**	59.8	49.1
		644.6	601.0	607.8
Creditors: amounts falling due within one year		**(217.9)**	(175.8)	(180.4)
Net current assets		**426.7**	425.2	427.4
Total assets less current liabilities		**504.2**	503.0	500.2
Creditors: amounts falling due after more than one year		**(252.9)**	(263.0)	(253.3)
Pension liability		**(10.4)**	(11.3)	(10.4)
Net assets		**240.9**	**228.7**	**236.5**
Capital and reserves				
Called up share capital		**2.8**	2.8	2.8
Share premium account		**368.3**	368.3	368.3
Capital redemption reserve		**0.5**	0.5	0.5
Profit and loss account		**(130.7)**	(142.9)	(135.1)
Shareholders' funds	6	**240.9**	**228.7**	**236.5**

Group Cash Flow Statement
for the six months ended 30 June 2013

Reconciliation of operating profit to net cash inflow from operating activities

	Notes	**6 months to 30 June 2013 £m**	6 months to 30 June 2012 £m	12 months to 31 December 2012 £m
Operating profit		**6.9**	2.7	11.4
Depreciation		**0.1**	–	0.4
(Increase)/decrease in stocks and work in progress		**(16.8)**	30.8	41.7
(Increase)/decrease in debtors		**(5.7)**	5.4	(13.4)
Increase/(decrease) in creditors and provisions		**26.6**	(7.2)	–
Net cash inflow from operating activities		**11.1**	**31.7**	**40.1**

Consolidated cash flow statement

	£m	£m	£m
Net cash inflow from operating activities	**11.1**	31.7	40.1
Dividends received from joint ventures and associated undertakings	**1.3**	–	1.4
Returns on investments and servicing of finance	**(5.8)**	(18.9)	(26.9)
Corporation tax received	**–**	–	3.3
Capital expenditure and financial investment	**(2.0)**	(3.3)	7.1
Acquisitions and disposals	**(0.8)**	(0.3)	(1.9)
Net cash inflow before financing	**3.8**	9.2	23.1
Financing			
– Issue of shares	**–**	160.0	160.0
– Decrease in debt	**(2.1)**	(115.7)	(140.3)
Increase in cash	**1.7**	**53.5**	**42.8**

Reconciliation of net cash flow to movement in net debt

	Notes	**£m**	£m	£m
Increase in cash		**1.7**	53.5	42.8
Cash flow from decrease in debt		**2.1**	115.7	140.3
Debt in subsidiaries at date of disposal		**–**	65.9	67.0
Debt conversion and waiver		**–**	254.5	254.5
Movement in debt in period		**3.8**	489.6	504.6
Net debt at beginning of period		**(202.0)**	(706.6)	(706.6)
Net debt at end of period	5	**(198.2)**	**(217.0)**	**(202.0)**

1. Segmental analysis

	6 months to 30 June 2013 £m	6 months to 30 June 2012 £m	12 months to 31 December 2012 £m
Turnover			
Housing	**125.3**	124.8	265.7
Property	**30.6**	31.4	60.6
Construction	**193.1**	113.1	259.4
Mining	**12.5**	14.8	34.2
	361.5	**284.1**	**619.9**
Profit/(loss) before taxation			
Housing	**6.6**	4.4	14.5
Property	**6.9**	6.0	5.4
Construction	**(2.4)**	(0.8)	3.2
Mining	**2.4**	4.2	9.2
Group	**(0.8)**	(1.2)	(3.1)
Profit before interest	**12.7**	12.6	29.2
Net interest	**(8.7)**	(12.2)	(22.6)
Profit before taxation	**4.0**	**0.4**	**6.6**

2. Exceptional items

	6 months to 30 June 2013 £m	6 months to 30 June 2012 £m	12 months to 31 December 2012 £m
Land and Property write-downs	**(1.5)**	–	(3.1)
Property write-backs	**–**	–	3.1
Joint venture asset write-backs	**–**	3.2	3.4
Joint venture asset write-downs	**–**	–	(3.4)
	(1.5)	**3.2**	**–**

3. Interest

	6 months to 30 June 2013 £m	6 months to 30 June 2012 £m	12 months to 31 December 2012 £m
Interest payable on bank loans and overdrafts	**(7.0)**	(8.6)	(16.4)
Amortisation of arrangement fees	**(0.7)**	(2.7)	(3.4)
Bank and other interest receivable	**1.2**	0.5	0.9
	(6.5)	(10.8)	(18.9)
Associates and joint ventures:			
– Loans and overdrafts	**(1.8)**	(1.0)	(2.1)
– Other interest	**(0.4)**	(0.4)	(0.9)
	(2.2)	(1.4)	(3.0)
Other finance expense	**–**	–	(0.7)
Net interest	**(8.7)**	**(12.2)**	**(22.6)**

4. Stocks and work in progress

	30 June 2013 £m	30 June 2012 £m	31 December 2012 £m
Land and development work in progress:			
– Residential developments	**362.3**	323.4	334.2
– Commercial developments	**29.6**	40.1	28.3
	391.9	**363.5**	**362.5**

5. Analysis of debt

	30 June 2013 £m	30 June 2012 £m	31 December 2012 £m
SPV debt secured against specific assets repayable			
– In one year or less	**1.3**	12.5	1.6
– Between one and two years	**26.0**	28.2	10.5
– Between two and five years	**14.7**	33.8	39.9
– Greater than five years	**11.8**	4.3	4.2
– Unamortised finance costs	**(0.2)**	–	(0.3)
	53.6	**78.8**	**55.9**
Core debt repayable			
– Between two and five years	**195.2**	198.0	194.9
– Unamortised finance costs	**(4.8)**	(6.1)	(5.4)
	190.4	**191.9**	**189.5**
Total debt	**244.0**	270.7	245.4
Finance costs	**5.0**	6.1	5.7
Cash	**(50.8)**	(59.8)	(49.1)
Net debt	**198.2**	**217.0**	**202.0**

6. Reconciliation of movement in shareholders' funds

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss £m	Total £m
Opening shareholders' funds	2.8	368.3	0.5	(135.1)	236.5
Profit for the period	–	–	–	4.0	4.0
Exchange gain	–	–	–	0.4	0.4
Closing shareholders' funds	**2.8**	**368.3**	**0.5**	**(130.7)**	**240.9**

7. Basis of preparation

The interim report has been prepared on the basis of the accounting policies set out in the financial statements for the year ended 31 December 2012. The interim results do not constitute statutory accounts within the meaning of s434 of the Companies Act 2006. The financial information contained in this report for the six months to 30 June 2013 has not been audited or reviewed by the auditors. The financial information for the year to 31 December 2012 has been abridged from the Group's full accounts for that period which received an unqualified auditors' report.

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