miller homes




Making the Difference

Annual Report 2020

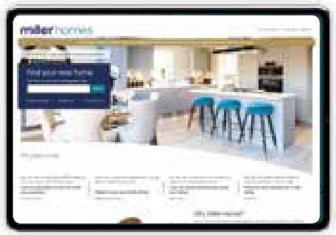
"The Miller Difference is our promise to customers that we will be there when they need us; it is a promise which underpins and defines the attitude of our people.

During 2020, this ethos came into its own, playing a vital role in our response to the COVID-19 pandemic and in how we maintained strong relationships with our stakeholders.

Our team rose to the challenge and continues to do so."

Chris Endsor
Chief Executive

Find out more at
www.millerhomes.co.uk/corporate



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Front cover (left to right):
Sandbrook Meadows, Sunderland, Teesside
Hackwood Park, Derby, East Midlands
Representative of customers in their new Miller home
Minerva Heights, Chichester, Southern

At a glance

Miller Homes is a respected national homebuilder with a focus on building high quality family homes in established regional markets.

We operate from three divisions – Scotland, North of England, Midlands & South. We have nine regional offices with a strong presence in sought after suburban locations which continue to benefit from strong demand and favourable affordability levels.

Scotland

Completions	ASP* (£000)	Consented landbank	Active sites
625	280	2,504	23
-26%	+5%	-1%	+10%

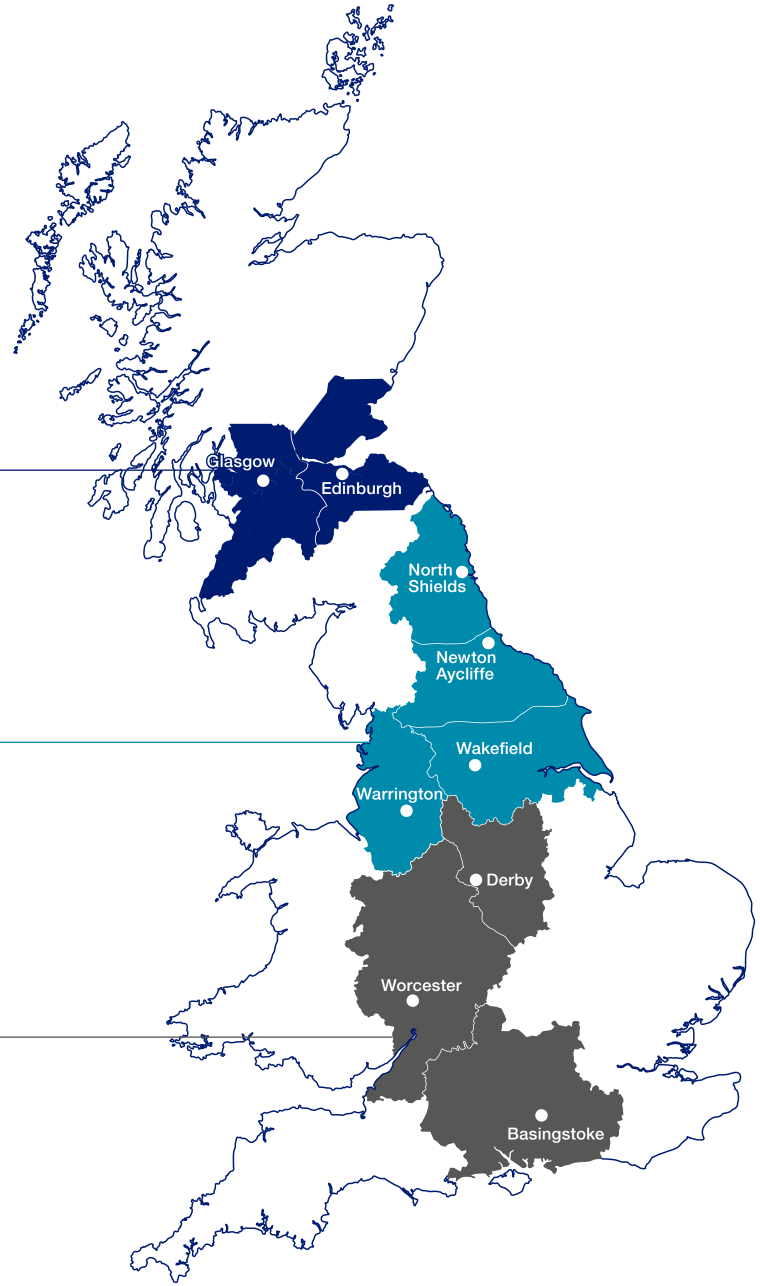
North

Completions	ASP* (£000)	Consented landbank	Active sites
1,021	238	5,856	31
-23%	+5%	+9%	-6%

Midlands & South

Completions	ASP* (£000)	Consented landbank	Active sites
974	273	6,307	27
-27%	+4%	+10%	-7%

*Average selling price



The year in numbers

2020 has been an unprecedented year. The effective shut down of the sector in the second quarter of the year, caused by the onset of the COVID-19 pandemic, had a significant impact on the Group's KPIs and operational performance but still represented the ninth consecutive year of profit for the Group. Health and safety remains our number one priority and we implemented new processes to manage the safety of our employees, customers and subcontractors to provide the best possible outcomes for all stakeholders.

Safeguarded business performance

Construction and sales activities were severely disrupted during the first national lockdown in the second quarter. Our team familiarised themselves with new ways of working and this enabled a safe and successful re-start. Their diligence and dedication has ensured a strong performance during the second half of the year and also means the Group enters 2021 with a strong forward sales position and pipeline of new land opportunities.

Retained high levels of customer satisfaction

We maintained our high levels of customer service and build quality. To supplement regular personal contact with our sales team, our long term investment in technology enabled our customers to interact with them from the comfort and safety of their own home. We were committed to fulfilling all of our obligations throughout the customer journey in a safe way, to ensure our customers experienced a home buying journey which satisfied their expectations.

Adjusted operating profit
£115m
-32%

Number of homes sold
2,620
-25%

Average selling price (ASP)
£261,000
+5%

Free cashflow
£92m
+10%

Net assets
£379m
+14%

Consented landbank
14,667
+8%

Strategic landbank
20,776
+4%

HBF customer satisfaction rating
5 stars
No change

Online reservations
1,085
+127%

Forward sales
£560m
+71%

Making the Difference

Responsive & Dynamic

Read more on page 5

Flexible & Relevant

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Open & Transparent

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Strong & Resilient

Read more on page 11

Responsive & Dynamic

2020 was a demanding year and we were extremely proud of our team's response and ability to adapt swiftly and responsibly to the challenges faced. With health and safety our key priority, we adopted a detailed, logical and methodical approach to the COVID-19 pandemic, facilitated by the resilience, commitment and tenacity of our people and the quality of our staff and existing systems. Throughout, we continued to care for our customers, staff, contractors and suppliers, maintaining the high standards for which we are known.

Chris Endsor
Chief Executive

Image: Space and flexibility to work from home

Making the Difference continued

Following the announcement of the first national lockdown in March, we responded quickly by safely closing our construction sites, sales centres and offices. During this period, we took the opportunity to prepare for a safe re-start whilst continuing to look after our customers and being a trusted partner to our suppliers and subcontractors.

A significant amount of time and resource was invested in introducing new and safe ways of working and these were implemented through detailed plans developed for each area of the business. This enabled construction, sales, customer service and office-based support staff to return safely to their respective workplaces with effective COVID-19 protocols in place, including the requisite social distancing and hygiene measures.

At the same time, the Group's long term investment in industry leading IT systems became an even more important aspect of our offering. This enabled us to move seamlessly to remote working for our staff who are normally office based.

On re-start of our sites we adopted the Charter for Safe Working Practice specifically introduced in response to COVID-19, as well as meeting Government guidance for safe working practices. We developed a COVID-19 app for our construction staff and subcontractors. Based on existing platforms and developed by the in-house IT team in just four weeks, the app removed the requirement for any physical contact between our site managers and subcontractors. Instead sign-in and re-induction of all subcontractors and staff was completed via the app and approved electronically by site managers.

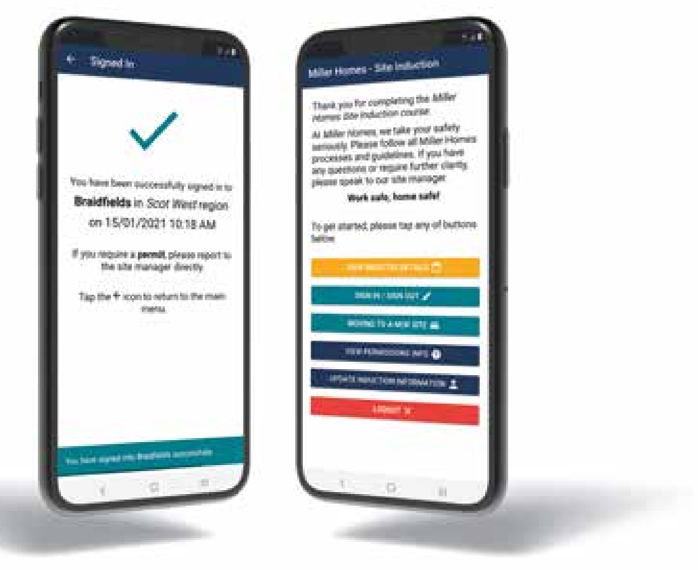


Image: Site induction app

17,587

number of people inducted digitally to our construction sites during 2020

Making the Difference continued

Flexible & Relevant

Our customers are at the heart of everything we do and our ability to meet their needs and expectations is critical to our success. As homebuyer priorities shifted during 2020, we responded by undertaking additional research which led to further refinement of our product to satisfy demand for more flexible living and home working space. The new product portfolio provides the opportunity for personalisation through an online options visualiser which is accessed through the My Miller Home dedicated customer portal on our website.

Stewart Lynes
Chief Operating Officer

Image: Regal View, Leicester, East Midlands

Making the Difference continued

Image: Online options visualiser

28%

increase in private sales rate in second half of the year

The product portfolio and customer offering is reviewed regularly by the Group's Product Development Committee to ensure it remains relevant and desirable to customers. The new product portfolio, featuring 46 different housetypes, carefully designed to provide flexibility for every buyer, was launched in early 2020. Layouts allow various options for home working, including dedicated studies, and the creation of office zones within living areas. Due to the increasing importance of outdoor space and gardens, our homes have become more relevant. The concept of flexible living is reflected in our show homes which have been designed to inspire customers by bringing these layouts and features to life.

Innovation has been a continued focus for the Group, so we were well placed to support existing customers and new buyers throughout 2020.

Our online reservations system, which launched in 2017, allows buyers to reserve their new home via our website, from the comfort and safety of their existing home. This is complemented with an online options visualiser tool which enables customers to choose optional extras via our online platform. Our research indicates that 81% of customers surveyed would rather personalise their own home than have additional specification items added on their behalf and included in the price.

We digitised key aspects of the customer journey by making relevant information, including drawings and documentation, available by enhancing the capabilities of personalised areas of the website and app. New features for buyers, such as the integration of Zoom video into the CRM system to facilitate digital meetings with our sales team and customers were used and well received.

Making the Difference continued

Open & Transparent

Effective and regular communication has been vital during this challenging period, as we sought to provide updates and reassurance to our staff as well as keeping in touch with our suppliers and subcontractors, many of whom are small businesses. With staff and stakeholders dispersed around the country, we utilised a wide range of communication tools to maintain engagement with timely updates and provide support with ready access to relevant information.

Julie Jackson
General Counsel and
Company Secretary

Image: Millrose, Blackburn, North West

Making the Difference continued

The impact of the COVID-19 pandemic has caused a great deal of uncertainty and anxiety for everyone. The impact on the economy and livelihoods has been difficult to measure and predict. As a business we have sought to support and reassure our staff and supply chain partners as the Group navigated its way through the challenges of 2020. Miller Homes' values – we care about people, performance, pride and prospering – which are embedded in The Miller Difference, have never been more important and strongly influenced our actions and desire to do the right thing.

All staff have been encouraged to keep in touch and support each other. Information on additional resources including the provision of professional health and wellbeing assistance was widely communicated. Regular updates were provided on the company intranet which prompted engagement and in September 2020 a business update was held for all staff using Zoom webinar. Hosted by Senior Directors, this provided a detailed update on performance and an opportunity for questions, which was very well attended and received by staff.

Regular communication was maintained with subcontractors and suppliers throughout the year to keep them informed of our plans and support them in adopting our new ways of working to ensure understanding and compliance with COVID-19 working practices.

Customers continued to benefit from all the tools and systems available on our website. Importantly, customers always had someone to talk to as our Development Sales Managers made regular, direct contact with each of them to provide reassurance and keep them updated on the progress of their home and journey with us.

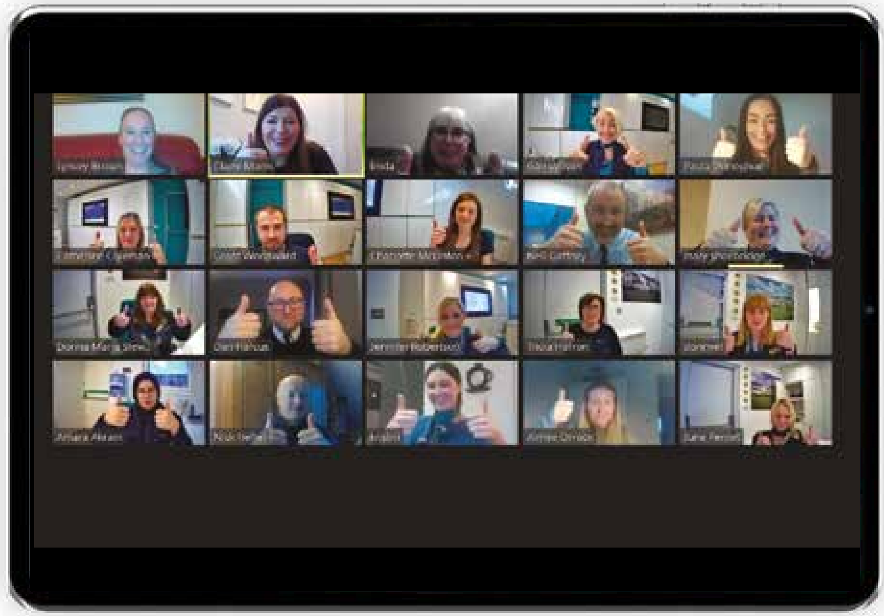


Image: Scotland East sales and marketing team meet via Zoom

15,583

number of Zoom meetings held internally during 2020

Strong & Resilient

2020 demonstrated the Group's balance sheet strength and flexibility of our business model. As we entered the first national lockdown, we quickly deployed our key operational levers to control both the level of land purchases and work in progress. Despite the challenges faced during the year, we reduced net external debt by £51m whilst continuing to ensure that supplier and subcontractor obligations were settled as normal. The financial strength of the business continues to be underpinned by a conservative capital structure and high quality consented and strategic landbanks, both of which increased during the year.

Ian Murdoch
Chief Financial Officer

Image: Blackfield Green, Warton, North West

Making the Difference continued

Following the first national lockdown in March, we acted quickly to impose a temporary moratorium on new land purchases and our subcontractor model ensured that construction based activities were halted immediately with limited cost implications for the Group. We value our supply chain partners and continued to settle our pre lockdown obligations to mitigate any financial issues for them and in turn ensure their return to our sites when restrictions were lifted.

Land buying activities recommenced in June and we ultimately acquired 2,273 plots during the year at a weighted embedded margin in excess of the reported margin in this year's income statement. The quality of sites in our owned landbank, together with their strong embedded margins, provides substantial asset underpinning to the Group's balance sheet.

The Group reports on two leverage metrics, net leverage and net loan to value (LTV). Net leverage represents EBITDA divided by net external debt. Despite the substantial fall in EBITDA in 2020, the reduction in net external debt has resulted in net leverage of 1.8x (2019: 1.6x) which is significantly below initial net leverage of 3.0x at the inception of the acquisition of the business by Bridgepoint in October 2017. Net LTV represents net external debt divided by the Group's investment in inventory (less outstanding land payables). This measure has consistently improved over the last three years following the Bridgepoint acquisition from an inception figure of 72% to 30% at the year end. These metrics combined with no covenants applying to long term debt, demonstrate the Group's conservative capital structure.

£2.8 billion

gross development value of owned landbank

Image: Work in progress on site

Our business model

Inputs

People
The business directly supports around 3,500 people daily through a combination of c. 1,000 directly employed staff and c. 2,500 subcontractors. To achieve our strategic objectives, it is fundamental that we have committed and dedicated staff supported by skilled and loyal subcontractors.

Land
The Group has clear targets with respect to the quantum of land which is owned, controlled and strategic. It is necessary to find the balance between security of supply on the one hand, and risk management and capital efficiency on the other. The Group's strategic landbank benefits from having above average margins due to the ability to acquire at a discount to market value. Strategic land also provides cash and risk management advantages due to purchases being only committed at the point of purchase.

Materials
To ensure high standards of build quality, economies of scale and brand consistency, 77% of materials for our new homes are procured by our centralised procurement team from c. 90 national suppliers.

Relationships
We interact with a number of stakeholders, including local communities, local authorities, land owners, suppliers, subcontractors, our staff and ultimately our customers. It is therefore important that we establish, maintain and nurture effective working relationships to ensure that planning consents are delivered, land is acquired and quality new homes are constructed.

Brand
As buying a home is likely to be the largest single purchase in our customers' lifetime, the Group's brand values and ultimately its reputation is based on outstanding levels of build quality and customer service. In addition, we promote how we empower our customers with the ability to personalise their engagement with us and their homes.

At every step of the journey we aim to add value for all stakeholders.

Land

What we do
We identify opportunities in popular locations suitable for family homes, where affordability levels allow ASP and sales rates to be maintained at or around current levels, and are at or above our gross margin and ROCE hurdle rates.

Planning, design & innovation

What we do
We work with local communities to design quality homes in sustainable developments resulting in successful planning outcomes. We use standard housetypes across the Group, with vernaculars tailored to suit the needs of a particular location. These housetypes are developed by our in-house design team and accounted for 86% of 2020 private completions.

Procurement

What we do
The vast majority of housebuild materials are sourced from national suppliers by our central procurement team, which ensures brand consistency and quality across the Group. Typically, 80% of our national supply agreements have a fixed price period of between 12 and 24 months. In addition, over 90% of agreements have protections in place to cover foreign currency related commodity cost increases.

Production

What we do
Our construction sites are managed by suitably qualified employees with construction activities typically outsourced to local contracting firms, many of whom have worked with the Group for a number of years. The use of standard housetypes not only provide cost certainty to the Group but importantly increases familiarity of build for our construction team.

Sales

What we do
Our in-house Development Sales Managers are based in our sales centres and are focused on securing reservations and exchanging contracts prior to homes being physically build complete. Increased use of digital marketing has allowed a more analytical and targeted approach to lead management and also enables customers to both reserve their home and select optional upgrades online.

Customer service

What we do
Our in-house regional customer service teams ensure continued contact with customers once they have moved into their new home. We provide quality new homes and excellent levels of customer service with all key build stages independently inspected by the NHBC, the Group's sole warranty provider. This helps build trust between our customers and teams.

Land

How we add value
Through innovative layouts and value engineering opportunities, we add value to land both pre and post purchase. Margins are further enhanced by the promotion of our strategic landbank, which enables land to be acquired at a discount to market value. Strategic land provides the Group with security of land supply and allows a more selective approach to be taken to the purchase of land on the open market.

Planning, design & innovation

How we add value
Our developments add value to those communities where we build. This includes direct and indirect job creation, the provision of affordable homes, improvements to local road networks and the creation of new education and community facilities. Our housetype portfolio provides flexible layouts which can be adapted to meet our customers' needs.

Procurement

How we add value
Centralising the purchase of key housebuild components ensures price optimisation from national suppliers and enables supplier performance, in respect of both quality and delivery times, to be more effectively managed.

Production

How we add value
The Group has a well defined Quality Assurance process which is further supported by reviews undertaken by the NHBC who inspect the key build stages of every home constructed. Our build quality is measured by both the HBF Customer Satisfaction Survey and NHBC Construction Quality Reviews.

Sales

How we add value
It is vital that we adapt our sales platforms to ensure that we continue to satisfy the demands of our customers. We were the first major homebuilder to enable customers to reserve online and in 2020, 41% of our customers reserved their home this way.

Customer service

How we add value
We believe that excellent levels of customer service enhance the brand value of the Group, which assists both sales rates and selling prices. Personalised customer experiences, digitally or in person, are award winning in our sector.

Outputs

Society
£2m
of furlough monies returned to HMRC

601
core and JV affordable homes delivered

£76m
contribution to Government finances

Customers
93%
customer satisfaction score

5 stars
HBF rating for customer satisfaction in nine of the last 10 years

41%
online reservations

Supply chain
2,500
subcontractor jobs directly supported

£392m
payments made to supply chain partners during 2020

c. 7,000
further indirect jobs supported*

People
100%
basic pay maintained throughout 2020

30%
staff with more than 5 years' service

37%
of workforce on structured training programmes

Shareholders
£47m
increase in net assets

£92m
of free cash generated

9
years of consecutive profits

* Based on industry ratio of 3 indirect jobs for every 1 direct job

Stakeholder engagement

Overview

The aim of Section 172 of the Companies Act is to promote the success of the company as a whole for the benefit of all stakeholders. Our key stakeholders are our shareholders, employees, customers, supply chain partners, communities and lastly, the Group's banks and funders. We strive to develop and maintain strong relationships with all our stakeholders to ensure we understand their needs and concerns. Engaging with stakeholders encourages positive relationships which impact policies, processes, procedures and ultimately the way we conduct our business. The COVID-19 pandemic has led to new and innovative ways of continuing engagement with stakeholders. We have found that in many instances communication has improved with increased dialogue leading to a better understanding of our stakeholder needs which provides a platform for continuous improvement.

Our stakeholders

- Shareholders
- Customers
- Local communities
- Employees
- Supply chain
- Banks and funders

Shareholders

- Executive directors continued to meet with shareholders at the usual formal Board meetings ten times during the year
- Additional calls were instigated during the first national lockdown to advise the shareholder directors and Chairman of our response to the COVID-19 pandemic and subsequent re-starting of operational activities
- Shareholder directors visit regional offices and are encouraged to make site visits. This was curtailed from March onwards due to COVID-19
- An annual strategy update was presented to the shareholder directors and Chairman
- The executive directors attend regular ad hoc meetings with shareholders

What this means

During the year, the executive directors were in regular contact with our Chairman and shareholder directors to provide timely updates on business issues arising from COVID-19, particularly during the first national lockdown. It was important that they understood the detailed arrangements designed to ensure the safety of our staff and any constraints on staff working from home. Regular and effective dialogue was maintained through virtual channels.

Employees

- Internal communication was increased to ensure employees were kept fully appraised of key business decisions, particularly in relation to COVID-19
- Employee roadshows, with presentations from executive and regional directors, took place in February and March
- Bi-monthly meetings with the senior management team, including regional managing directors, were introduced to ensure key messages were cascaded across the business
- An employee forum was established to look at flexible working post pandemic
- Webinar and regular video updates were given to staff to alleviate any concerns in relation to COVID-19

What this means

It was important to ensure our people were kept fully appraised of all aspects of the business during the year. Communication took many forms including intranet, email and virtual meetings. Line managers were also encouraged to regularly contact those members of staff who were working from home or on furlough. Staff were informed of the enhanced COVID-19 protection measures on health and safety. We also ensured that regular briefings were given to staff to reassure them of the Group's current trading and financial health. We held our first Group webinar with presentations made by the executive directors and employees were able to ask questions on a confidential basis. With over 550 employees participating, the webinar provided valuable feedback to the Board.

Customers

- Independent surveys of customer experience, including the HBF customer satisfaction survey
- Customers contacted at 7, 14 and 28 days after occupation to ensure they remain delighted
- Website surveys conducted with existing and potential customers to obtain their feedback and views
- Our My Miller Home portal on the website and the app, allows two-way communication with customers
- Established an online facility to allow customers to access technical information on their home
- Improved online process for customer choices and options

What this means

We developed new ways of engaging with our customers during the year, particularly in light of the restrictions imposed under the first national lockdown. This included virtual meetings and the creation of interactive “live chat” functionality on our website. Every customer was provided with contact details of a member of our sales team to address any questions and assist where possible. We revised customer journey meetings to allow them to take place remotely or virtually, without diminishing the experience we promise customers. We continued to listen to customers and what they want from the home buying process and the finished home, as well as postponing move-in dates when difficulties were encountered during the first national lockdown.

Supply chain

- Site induction app developed to minimise face to face contact on site
- Supply chain audit and re-tender exercise across all 53 nationally procured commodities
- “Working together” tender guide for suppliers
- Long term collaborative partnerships
- Supplier Code of Conduct
- Regular meetings with suppliers including reporting feedback from site management team in relation to quality and service

What this means

The impact of the lockdown and re-opening of our construction sites encouraged new dialogue with our suppliers and subcontractors. It was important our supply chain partners had full transparency of our re-start plans to provide them with the confidence to re-commence their operations and in turn support our production targets. More engagement meant that we had a better understanding of our suppliers’ and subcontractors’ concerns and practical issues they faced. We communicated regularly during the year to ensure they were fully aware of the latest COVID-19 guidelines in operation on our construction sites. To coincide with the re-start from lockdown, we rolled out a site induction app to re-induct everyone who attended our sites.

Local communities

- Engage through virtual public meetings
- Miller Respect, a dedicated phone line for neighbours and the community to report concerns about work on site
- Increased dialogue with planning officers and members of planning committees
- Support for local and national charities
- Volunteering is encouraged

What this means

As face to face engagement was difficult in 2020, it was important to find new ways of communicating with local communities. Dedicated websites were established to enable public consultation on large proposed developments, and where town hall meetings could not take place, we increased direct leafleting. We found that there was improved dialogue with planning officers and committee members who had more time to engage. Better communication improves the planning process, minimises concerns over developments and encourages direct communication with site teams.

Banks and funders

- Quarterly results, published on our website, provide all interested parties with access to regular financial information
- Quarterly result calls enabling dialogue with the Chief Executive Officer, Chief Financial Officer and bondholders
- Regular contact between the Chief Financial Officer and key relationship banks in the Revolving Credit Facility (RCF)
- Regular meetings with the main UK lending institutions
- Regular contact with the Group’s credit rating agencies

What this means

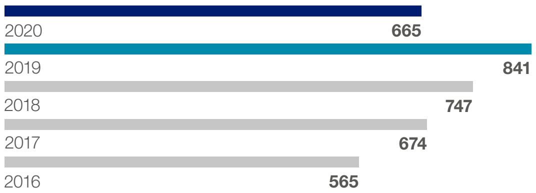
We provided regular and reassuring updates to our bondholders, rating agencies and RCF banks which reinforced the already strong relationship with our funders. During the year, key relationship banks agreed to increase our RCF facility by £21.5m to £151.5m and we concluded a private placement which resulted in £160m of fixed notes being issued and £110m of floating rate notes being simultaneously redeemed.

Key performance indicators

Revenue (£m)

£665m

-21%



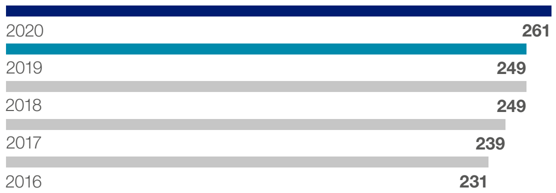
Definition
This represents revenue which is predominantly generated through the sale of both private and affordable new homes and to a lesser extent from the sale of land, where it is capital efficient to sell a portion of larger sites.

Performance
Revenue fell by 21% in 2020 as a direct consequence of the COVID-19 lockdown measures in the first half of the year which impacted our ability to build new homes. This adversely affected completion volumes throughout the year with the second quarter seeing the largest year on year reduction.

Average selling price (£000)

£261,000

+5%



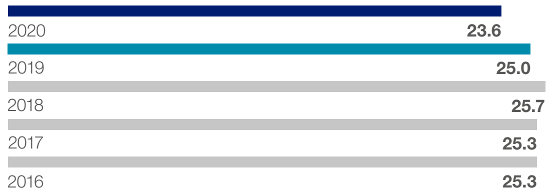
Definition
This represents revenue from new home sales divided by the total number of core completions. In line with standard accounting practice, this excludes revenue from homes sold through joint ventures, the profit on which is shown within “share of result in joint ventures”. It measures movements in revenue per unit caused by house price inflation, location or mix changes.

Performance
ASP increased by 5% to £261,000 (2019: £249,000). This reflected a 7% increase in the private ASP to £303,000 (2019: £284,000) and a 6% increase in the ASP of affordable homes to £121,000 (2019: £114,000). The improvement in ASP more than offset the impact of an increase in the proportion of affordable homes which rose to 23% (2019: 20%) of core completions.

Gross margin (%)

23.6%

-1.4%



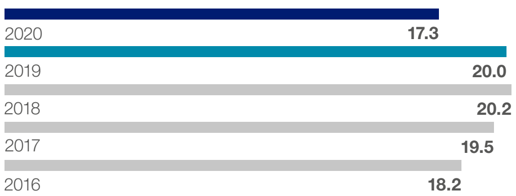
Definition
This represents gross profit excluding exceptional items divided by revenue. It measures the Group’s underlying profitability before administrative expenses.

Performance
The reduction in 2020 principally reflects a combination of cost inflation, a lower credit from shared equity receivables and lower absorption of selling and marketing expenses due to a decrease in completion volumes.

Operating margin (%)

17.3%

-2.7%



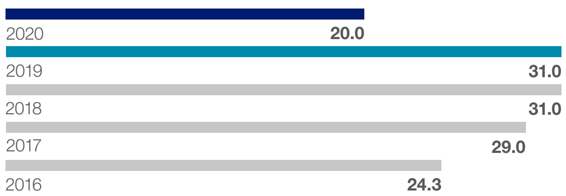
Definition
This represents operating profit excluding exceptional items divided by revenue. It measures the Group’s underlying profitability after administrative expenses.

Performance
The reduction in 2020 reflects lower gross margins with reduced completion volumes also impacting overhead recoveries.

Return on capital employed (%)

20.0%

-11.0%



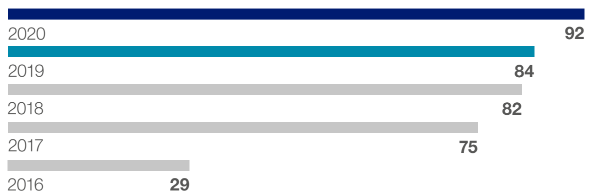
Definition
This represents operating profit excluding exceptional items expressed as a percentage of average capital employed, which is the average of the opening and closing balances of capital employed for each financial year.

Performance
The reduction in ROCE in the year reflects the decline in profitability following the COVID-19 lockdown measures.

Free cashflow (£m)

£92m

+10%



Definition
This represents cash generated in the year excluding cashflows from financing activities, investing activities (other than movement in loans to joint ventures), corporation tax paid, interest paid and transaction costs.

Performance
The impact of COVID-19 led to a £176m reduction in revenues. Despite this, tight control of work in progress and reduced land purchases has seen the Group increase the level of free cashflow generated to £92m.

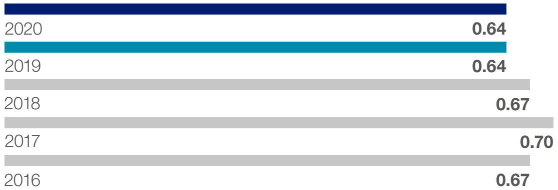
Key performance indicators continued

NF Denotes non-financial KPIs

Private sales rate (per site per week)

0.64

0%



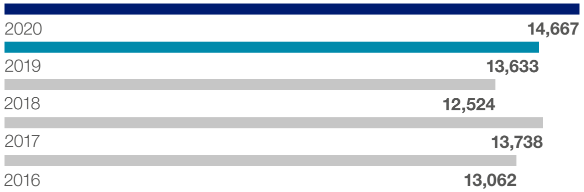
Definition
This represents the number of reservations (net of cancellations) for private homes (including those sold via joint ventures) divided by the average number of sales outlets and further divided by the number of weeks in each financial year.

Performance
The private sales rate was unchanged in 2020 despite a significant reduction in sales activity during the first national lockdown. Between March and May the sales rate fell to 0.16 for this nine week period. This was followed by a strong recovery thereafter, with sales rates in the second half of the year being 28% ahead of the prior year.

Consented landbank (plots) NF

14,667

+8%



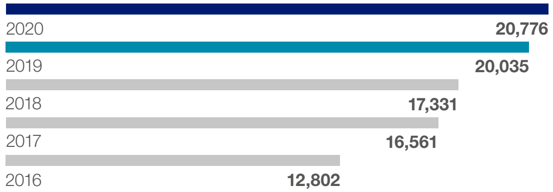
Definition
This represents land from the Group's owned and controlled landbanks. All land in the consented landbank benefits from at least an outline planning consent, or a resolution to grant planning consent.

Performance
The owned landbank fell by 2% to 10,494 plots (2019: 10,718 plots) following the temporary suspension of land buying during the second quarter of the year. The controlled landbank increased to 4,173 plots (2019: 2,915 plots) resulting in an 8% increase in the consented landbank. The consented landbank represents 5.8 years' supply based on 2020 output. This is higher than in previous years which is a function of lower completion volumes in 2020.

Strategic landbank (plots) NF

20,776

+4%



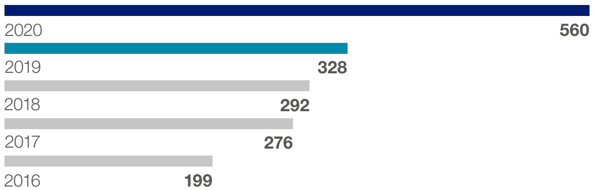
Definition
This represents land which the Group has secured via an option to purchase at a future date on receipt of an implementable planning consent. The land currently does not benefit from a planning consent although it may have been allocated for residential development in the relevant local plan.

Performance
The strategic landbank increased by 4% in 2020 to 20,776 plots (2019: 20,035 plots). The Group continued to invest in new opportunities with nine new options (1,831 plots) being added to the landbank during the year.

Forward sales (£m)

£560m

+71%



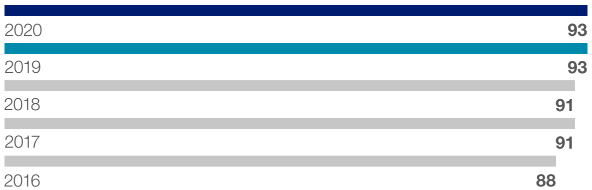
Definition
This represents the value of new home reservations and contracts exchanged at each financial year end which are anticipated to result in core and joint venture completions in the following 12 month period.

Performance
Forward sales increased by 71% to £560m (2019: £328m). This is a record for the Group which is a reflection of significant demand in the second half of the year combined with the impact of the first national lockdown constraining our ability to deliver increased output in 2020.

Customer satisfaction (%) NF

93%

+0%



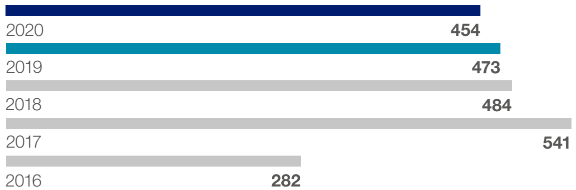
Definition
This represents an external assessment, performed by the National House Building Council (NHBC) on behalf of the Home Builders Federation (HBF), and measures overall satisfaction of our customers in respect of both the quality of their new home and the service provided.

Performance
The Group continued to operate with high levels of customer satisfaction and in March 2021 was awarded the HBF 5 star rating customer satisfaction for the ninth time in the last ten years. This was particularly satisfying given the additional COVID-19 related challenges faced by our customer facing team during the year.

Health and safety NF

454

-4%



Definition
This represents the total number of accidents reportable under RIDDOR as expressed by 100,000 employees and subcontractors.

Performance
Accident rates fell by 4% in 2020 which represents the third consecutive year of improved performance.

Profitable and sustainable growth

The Group focuses on the following key financial and non-financial objectives to deliver profitable sustainable growth.

Objectives

- High quality and customer focused business
- Upper quartile financial results
- Regional volume growth to 5,000 units per annum
- Investing in our people
- Cash generative and investing in land to fuel further growth

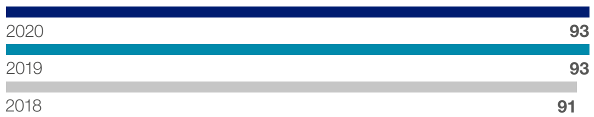
High quality and customer focused business

Objective

Maintain HBF 5 star customer satisfaction

Measuring progress

Customer satisfaction (%)

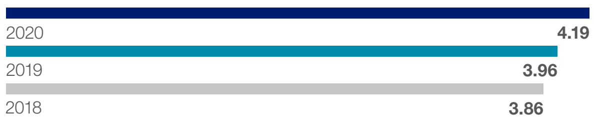


Objective

Strive to improve annual Construction Quality Review (CQR) build quality score

Measuring progress

CQR scores



Commentary on progress:
The customer satisfaction score of 93% ensured that we retained our HBF 5 star rating for the ninth time in the last ten years. We were pleased to have improved our CQR score to 4.19 which was 6% higher than last year and means that 77% of inspections are categorised in the Good to Outstanding categories.

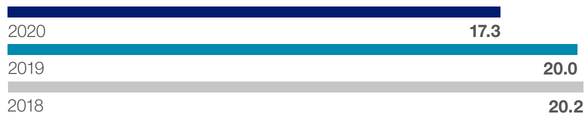
Upper quartile financial results

Objective

Deliver operating margin at or above 20%

Measuring progress

Operating margin (%)

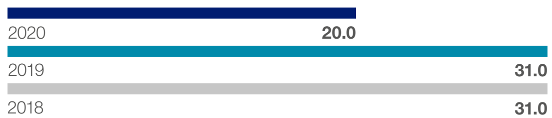


Objective

Deliver return on capital employed at or above 30%

Measuring progress

Return on capital employed (%)



Commentary on progress:
Our financial performance was impacted by COVID-19 most particularly by a 25% reduction in volumes. We do however believe that our 2020 metrics will continue to represent upper quartile performance when compared to our listed peers. We continue to believe with the support of a favourable market that the operating margin and ROCE targets of 20% and 30% respectively are achievable over the medium term.

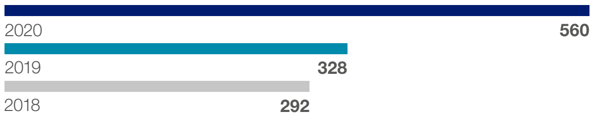
Regional volume growth to 5,000 units per annum

Objective

Deliver incremental growth in opening forward sales position

Measuring progress

Forward sales (£m)

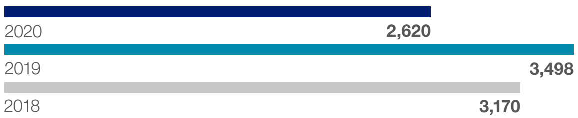


Objective

Deliver incremental growth in annual completions by reaching optimal output

Measuring progress

Core and JV completions (units)



Commentary on progress:
We have the regional footprint and capacity to deliver 5,000 units annually over the medium term. We continue to believe that this is a realistic medium term target for the Group, notwithstanding the short term impact on 2020 output caused by COVID-19.

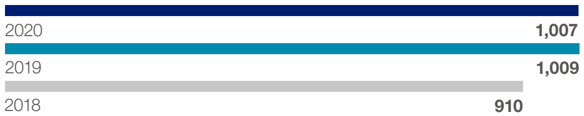
Investing in our people

Objective

Support profitable business growth by increasing employee resource

Measuring progress

Employee headcount

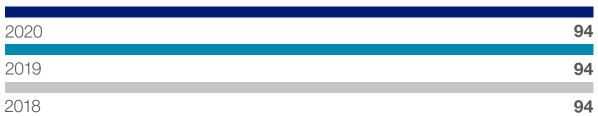


Objective

Maintain sector leading staff engagement scores

Measuring progress

Employee engagement



Survey undertaken every 3 years

Commentary on progress:
Despite the lower volumes in 2020, the Group's headcount was in line with the prior year which was a function of live outlets broadly remaining unchanged. We are likely to see an increase in headcount as the number of live outlets increase and believe that our employee engagement scores and overall offering make us an attractive employer when recruiting externally.

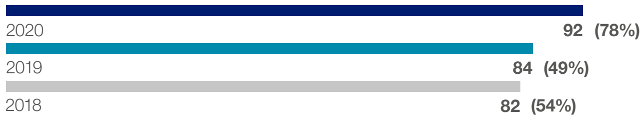
Cash generative and investing in land to fuel further growth

Objective

To generate free cash flow of 50% of EBITDA

Measuring progress

Free cash generation expressed in £m and as a percentage of EBITDA

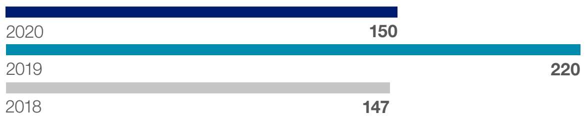


Objective

Acquire high quality land to fuel growth in sales outlets

Measuring progress

Land spend, net of land sales (£m)



Commentary on progress:
Despite lower volumes which led to a £176m reduction in revenue, the Group delivered record free cashflow of £92m through a combination of reduced land spend and careful management of work in progress. To deliver growth in sales outlets and assuming favourable market conditions, it is likely that the land spend in 2021 will return to and could exceed pre COVID-19 levels.

A resilient market


Image: Charters Gate, Castle Donington, East Midlands

Overview

Looking back, 2020 reveals a reservation pattern unlike any other year in the Group's recent history. At the start of the year, the market was buoyed by the conclusion of the Brexit transition agreement and new reservations and enquiries continued to be strong up until the COVID-19 pandemic took hold in the middle of March. Our sales centres closed at the start of the first national lockdown on 23 March and then re-opened during the months of May and June. On re-opening, sales demand was extremely strong and our private sales rate for the second half of the year was 28% up on the previous year. Consumer demand for housing is ordinarily supported by positive economic indicators and sentiment, both of which were in short supply in 2020. Instead, we witnessed new emotional drivers in the shape of a desire for more internal accommodation to facilitate home working as well as larger outdoor space. The behaviour of customers since the onset of the pandemic suggests that housing is of key importance.

A rollercoaster year

At the beginning of 2020, the rebound experienced in the market at the end of 2019 continued and the year started with increased activity and positive sales growth. Rightmove reported a record 150 million visits to its website. Our own sales rate reflected this pattern, up 29% in January compared to the same month in 2019. The RICS survey highlighted more surveyors reporting growth in house prices in January than at any time since June 2017. HMRC also reported January transaction levels up 5% on the previous year.

In the middle of March the country and the housebuilding industry suddenly went into lockdown and the market waited for its return with bated breath. NHBC reported private housing starts fell 94% year-on-year in April 2020 and remained low throughout the second quarter. However, we then experienced a strong and consistent bounce back in the second half of the year. The increased demand created from both the closure of the housing market and people reassessing their housing needs, could not be immediately satisfied by additional supply due to the constraints on construction caused by the lockdown.

Private sales rate in H2 2020

+28%

Average house price[1]

£253,400

Housing market review continued

Private and social renters account for around 35% of property tenure in the UK and a poll by IPSOS Mori found that 23% of those in rental properties were unhappy with their current home. A Nationwide survey also reported that 30% of those looking to move were doing so to gain access to a garden or outdoor space and 25% were looking to get away from the hustle and bustle of urban life.

As the market returned, traditionally influential negative factors, such as increasing unemployment and reduced availability of higher LTV mortgages, did not have the usual impact. Unemployment rates rose from an average of 3.8% in 2019 to 4.9% by the end of 2020. Due to the increase in unemployment being felt in the younger age groups, this did not have significant impact on our customers, given their profile. Lenders focused on reducing higher LTV mortgages beyond 85% as they struggled to adapt to work restrictions and pent up demand. Assistance to home buyers continued to be available in the form of Help to Buy which requires a 5% deposit. As importantly, the strength of the market in recent years has generated equity for those homeowners who wish to move to enable them to progress up the property ladder. Interest rates continued to remain at historically low levels and even with slight increases, mortgages should remain affordable for those wishing to move home.

Consumer confidence, usually another key driver of housing market activity, reflected the rollercoaster of emotions as the year progressed, dipping during lockdown and then the news of a vaccine inspired the biggest rise in consumer confidence in eight years in December 2020.

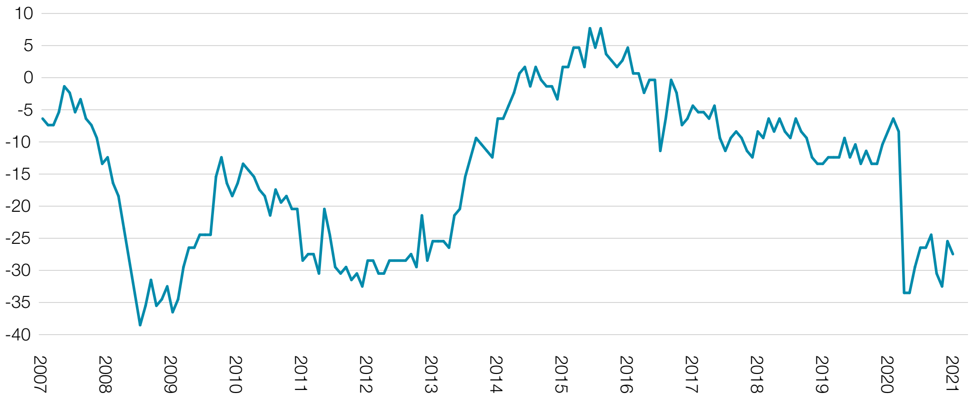
Government involvement

The UK Government acted quickly in July 2020 by introducing a time limited stamp duty holiday, reinforcing the importance of the housing market to the economy. In the 2021 Budget this support was enhanced with an extension of the original date for the holiday to finish from March to June 2021, allowing homes to have a start price of up to £500,000 before the tax was due and then tapered to £250,000 until September 2021. This meant that customers completing before June could save up to £15,000. In addition to this welcome support, further good news was the introduction of a Government backed Mortgage Guarantee Scheme. Starting in April, the Government will provide a guarantee to lenders who offer mortgages to people with a low deposit and a loan to value of between 91-95%, on homes with a value of up to £600,000. The scheme is expected to run until 2022 and is available for lenders to use on new and second hand homes.

This move is designed to increase the appetite of mortgage providers for high loan to value lending, which had been reduced in the last year. Market activity has been boosted since the budget announcements and reflected in strong sales on our developments.

Help to Buy changes came into effect at the end of 2020 with the closure of the existing scheme to new reservations. Homes completing prior to March 2021 were originally time constrained with practical completion required to be achieved by December 2020. Due to the impact of the lockdown on construction activity, the Government extended this longstop to the end of May to meet the completion deadlines. This provides customers with reassurance they will not lose out on Help to Buy funding and allows housebuilders the time to complete homes, given further restrictions of a second and third national lockdown.

Consumer confidence



Source: GfK consumer confidence index

In their Autumn 2020 Party Conference, the Conservatives again talked of the prospect of encouraging a market for long term, low deposit mortgages, originally part of their election manifesto. The Government's commitment to the housing market, acknowledging its critical role in the UK economy, provides confidence in their continued support if required.

We welcome positive intervention from the Government on areas such as Leasehold Reform and a New Build Ombudsman, shaping the Industry to drive the high standards we believe are already reflected in our business. Such positive steps will help to increase customer confidence in our sector. The leasehold changes will not affect our own business operations as we had already made the appropriate changes. An updated Consumer Code will be issued in 2021 and we will tailor our award winning customer journey experience to ensure full compliance.

Resilient and robust

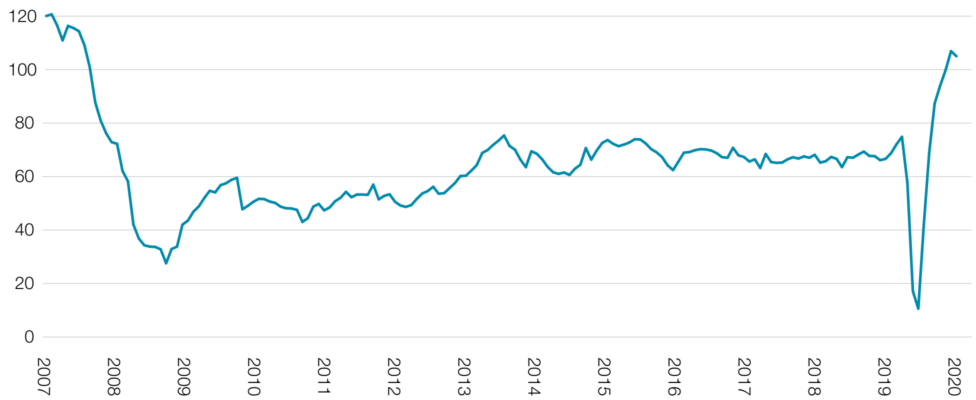
The robust performance of the market despite the challenges of the year saw annual house price inflation at 6% in 2020[1] with a rise in average price to £253,400. The Bank of England interest rate is expected to remain at low levels, although it is less clear on how quickly the current spike in unemployment levels will recede, as we navigate the end of furlough for many employees.

In the last quarter of 2020, we have seen many lenders returning to the higher LTV market and offering 90% LTV products again. By the end of the second week in January the number of low deposit mortgages was at a six month high, more than doubling during this period from 72 to 160[2]. Mortgage approvals rose in November 2020 to the highest level seen in 13 years[3] reflecting a current and future pipeline in which the industry can operate.

Previously a bureaucratic barrier to the industry, the planning system has improved since the National Planning Policy Framework was introduced in March 2012, and planning permissions granted in England and Wales have risen for the last nine years. However, the Government has recognised that there are still opportunities for further improvement of the planning system and the White Paper 'Planning for the Future' in 2020 set out the Government's aspirations for further change to deliver its target of 300,000 new homes per annum.

As we entered 2021 with another national lockdown, Government support to keep the housing market open was welcome. The Government recognises the significant contribution the sector makes to the economy and the steps taken to keep staff, subcontractors and customers as safe as possible.

Monthly mortgage approvals ('000s)



Source: Bank of England

1 Source: Halifax HPI January 2021
2 Source: Moneyfacts
3 Source: Bank of England

Making the right decisions and leveraging our core strengths

I am immensely proud of the entire Miller team for their resilience, fortitude and professionalism in dealing with the many COVID-19 related challenges which persisted for the majority of the year. We continued to deliver high levels of customer satisfaction and mitigated the financial impact on the Group despite unprecedented challenges. Our safety protocols were enhanced and adapted to comply with Government COVID-19 rules. We fully supported our own staff and our subcontractor workforce in this regard, to enable us to continue to operate safely and manage the impact of both the national lockdown in the first half of the year and the continued constraints throughout the remainder of the year. As a consequence of lower volumes, our adjusted operating profit reduced to £115m (2019: £168m). Careful cash management, proactive digital sales and marketing campaigns and our conservative capital structure ensured we ended the year with a cash balance of £243m (2019: £140m) and forward sales of £560m (2019: £328m) which positions us well for 2021 and beyond.

Chris Endsor
Chief Executive

Image: City Fields, Wakefield, Yorkshire

"The commitment of our team to support our customers, subcontractors and colleagues has been truly inspiring."

Our response to COVID-19

With the safety of our employees, customers and subcontractors at the forefront of our minds and following revised government guidelines on 23 March, our construction sites, sales centres and offices closed during that week. We used the April lockdown period to plan carefully for a re-start and to enable the Group's working practices to be re-designed. Detailed re-start plans were individually tailored for the different working environments of construction sites, sales centres, offices and customer service operations.

Construction activities were re-started on a phased basis on 11 May in England and Scottish sites followed on 15 June. Sales centres re-opened on 21 May in England and 29 June in Scotland. We incorporated social distancing measures in sales centres and show homes, with customers required to book an appointment in advance of visiting our sales centres. Our construction sites in England and Scotland operate in accordance with the charters agreed between the industry and the UK and Scottish Governments respectively, which provide guidance on social distancing and protective measures. A site induction app was developed in-house and launched in time to inform our returning subcontractors of the new COVID-19 compliant working practices. Day to day compliance is strictly monitored by a designated marshal on each construction site.

The vast majority of office based staff were able to continue to work effectively from home and perform their normal tasks, as well as focus on business improvement opportunities which enabled the Group to launch new initiatives post lockdown benefiting customers, suppliers and staff. Along with the site induction app, these included online "live chat" with customers, virtual customer meetings, an updated order call-off process for materials to construction sites and value engineering savings on recently acquired sites.

With 65% of employees furloughed during the second quarter, the Group initially participated in the Government's Coronavirus Job Retention Scheme (CJRS). However, in light of the positive trading environment in the second half of the year, a decision was made in December 2020 to return all £2.2m of funds originally received.

I would like to take this opportunity to thank all staff for their contribution in addressing the challenges arising from COVID-19. The commitment of our team to support customers, subcontractors and colleagues has been truly inspiring.

Strategy

The resilience of the business during 2020 provided tangible evidence of a flexible operating model which in turn is supported by a conservative capital structure. We have two key operational cash levers, namely, an outsourced subcontract model which enables construction activity to be aligned to sales demand and the ability to defer land spend. In relation to the latter, this is largely due to strategic land purchases being only committed at the point of purchase. These levers were deployed immediately following the onset of the pandemic and enabled cash outflows to be minimised during the first national lockdown. At the same time we ensured that both supply chain and land creditor obligations continued to be settled on time. We recognised the importance of paying subcontractors on time to ease their cashflow issues and facilitate their eventual return to our sites.

It will take time to understand what, if any, impact COVID-19 may have on the housing market. The initial signs are that people are re-evaluating their housing needs which include city centre versus suburban living, as well as a re-assessment of indoor and outdoor space. As a company who sells the vast majority of our homes in regional, edge of urban locations, we are well placed to take advantage of increased consumer demand.

We therefore remain committed to a regional business model. Regional markets continue to benefit from a less competitive land market, reduced subcontractor cost pressures and availability issues, a more favourable local planning environment and customers who are predominantly home owners rather than investors. In addition, the construction of family homes allows cash to be managed on an incremental basis in line with consumer demand in contrast to more speculative and cash intensive city centre apartment schemes.

Adjusted operating profit

£115m

(2019: £168m)

Customer satisfaction

93%

(2019: 93%)

Chief Executive's review continued

The Group's existing nine regional businesses provide operational capacity of c. 5,000 units per year. Supported by a strong balance sheet, our strategy is to grow in a sustainable way as demonstrated over the previous eight years, towards this target.

Government policy

Government involvement in the housing market in 2020 was concentrated on short term demand-side measures to mitigate the impact of COVID-19 and more medium term supply-side measures in response to its environmental and planning agendas. The Government provided significant COVID-19 support measures with the SDLT holiday in July 2020 being the most welcome and further enhanced in the 2021 Budget with an extension to June and tapered relief until September. This saw the temporary cessation of stamp duty on properties up to a value of £500,000 in England, resulting in a maximum saving of £15,000. With the Group's average selling price of private homes of £303,000, this relief was available to 97% of our homes. The SDLT holiday has clearly stimulated demand, although, its impact was constrained by production availability.

In August, the Government published its long-awaited response to its consultation on First Homes. Properties sold as a First Home must be marketed and sold at a discount of at least 30% below market value. The scheme will be subject to price caps, income caps and restricted to local residents. These homes will be provided as part of all on-site affordable housing provision secured through the planning process and the lower selling prices will ultimately be factored into land values. The Government's Energy White Paper was published in December and confirmed the introduction of a Future Homes Standard. Changes to Part L/F Building Regulations are likely to be introduced in 2021 and will result in a 31% reduction in emission rates for homes constructed after June 2022. The Government published its 'Planning for the Future Consultation' which proposes to streamline and modernise the planning process and improve the supply and delivery of new homes. We are supportive of any changes aimed at accelerating planning permissions and are eager to see further details on the proposed changes to the standard methodology for housing need determination at local authority level.

People

The Group measures employee engagement through a triennial external survey and participation in the Investors in People scheme. In relation to both, we have a 94% positive engagement score and IiP Gold status. The challenges created by COVID-19 provided tangible evidence of the commitment, loyalty and dedication of our people. Everyone has had to adapt to new working practices irrespective of whether they worked on construction sites, sales offices or regional offices. At the same time, they have coped with many personal challenges which they and their families were facing due to COVID-19, whilst looking after our customers, subcontractors and their colleagues. In summary, our employees were truly phenomenal during the last 12 months. I was also delighted that we were able to pay all employees, including those furloughed during the first national lockdown, 100% of base salary throughout the year.

We quickly recognised the importance of increased staff communication during 2020 in order to keep everyone informed of the rapidly changing events during the year as well as being mindful of the many staff who were working from home. We fully utilised our intranet, providing staff with regular updates

Image: Welfare officer on site at Edgelaw, Edinburgh, Scotland East of business performance as well as the many staff volunteering initiatives to assist with COVID-19. In September, we delivered our first ever Group webinar. Over 550 members of staff attended this live event with an opportunity to put questions to the Executive team. We developed a comprehensive Mental Health strategy in 2019 with around 100 people designated as Mental Health First Aiders. Their support to colleagues was invaluable during the year as many people faced the various challenges created by COVID-19. A more flexible working from home policy will be announced in 2021 to coincide with the eventual easing of COVID-19 restrictions.

Two appointments were made to the Executive Board during the year, with Danny O'Connor's promotion to Managing Director for the Midlands & South division and Warren Thompson joining the Group as Managing Director for the North of England division. Both Danny and Warren are highly experienced and their appointments demonstrate both the talent within the Group and our attractiveness to external candidates. I would like to thank Darren Jones for his seven years of service and contribution to the Group's achievements over this time and wish him every future success.

Culture, purpose and values

The culture of the Group was reviewed in 2019 and led to a new internal company purpose and set of core values. Our purpose is defined as 'we create great places where people prosper' with our core values being, we care about people, we care about performance, we care about pride and we care about prospering. Our purpose and values were very much to the fore in 2020 with the COVID-19 pandemic challenging us to act collectively with the best interests of each other in mind.

Image: Dunblane Cricket Club benefitted from a donation from Miller Homes

Image: Tim Hartwell, Group Head of Design, ran the virtual London Marathon to raise funds for Habitat for Humanity

Established human rights policies are in place to ensure compliance with areas such as diversity, whistleblowing and the requirements of the Modern Slavery Act. The Group is also committed to the highest standards of ethical conduct and integrity in its business activities. We have an established anti-bribery policy. We believe this will deliver reputational benefits and maintain our reputation with customers, suppliers and subcontractors.

Our Equality and Diversity policy ensures that all employees are treated equally and fairly with no discrimination in respect of age, gender, disability, religious belief, sexual orientation, race, colour, marital status, political belief and nationality. We understand that we need to establish the best working environment to enable and attract a diverse workforce and that means providing a flexible and positive approach which promotes our staff wellbeing.

The Group is committed to growing the business in a responsible and sustainable manner with a particular focus on the key areas of health and safety, environment, community and partners. The Group's approach in relation to corporate responsibility is explained in more detail on pages 42 to 46.

Charitable giving

Our involvement in charities took many forms during 2020 from financial donations, the gifting of all PPE stocks to local NHS hospitals at the start of the first national lockdown and the numerous volunteering activities of employees, which are positively encouraged by the Board. We continued to support Habitat for Humanity, the global housing charity, with £32,500 raised for their Beirut appeal following the explosion which resulted in 170,000 people being made homeless. The explosion had a devastating impact on many families in Beirut, many of whom have been displaced from their homes and experienced financial hardship. We hope our support will go a small way towards making a positive difference during extremely difficult times.

The number of volunteering activities undertaken by staff increased significantly during the year. Various members of the Miller team assisted local support groups in the delivery of medicines and food parcels to those people identified as extremely vulnerable who were shielding in the early stages of the pandemic. I would also like to mention the fundraising activities of Greig Anderson, our Production Director in our Scotland West region. Greig has helped to raise over £100,000 over five years for the British Red Cross which is a fantastic achievement. These voluntary acts of kindness epitomise the culture and values of the Group.

Customer service and quality

We achieved our HBF 5 Star customer satisfaction rating for the ninth time out of the last ten years, which is a huge credit to our customer facing team particularly given the added challenges to both customer service and site operations in 2020. Looking ahead, it is likely that the New Homes Ombudsman will be appointed in 2021 in parallel with the New Homes Quality Board issuing a new Code of Practice. I am supportive of these initiatives to enhance the industry's reputation and increase consumer protection to our customers. We are primed to make any required alterations to our existing procedures to ensure full compliance.

Chief Executive's review continued

Safety, health and environment (SHE)

At the start of each year, the Board sets out a comprehensive SHE strategy, focused on the key risk items. For 2020, the key improvement areas were; increased engagement from subcontractors; the implementation and adoption of Miller Standards; and increased visibility of Active SHE Leadership through Director and Senior Manager visits across the business. Following the outbreak of COVID-19, the risk profile of all our workplaces was re-assessed by the in-house SHE team, particularly around the demands caused by social distancing and enhanced hygiene measures.

Our workplaces operated safely under COVID-19 working practices and protocols established in line with guidance from Government and the relevant public health authorities. Changes to signage, welfare facilities and walkways were made in all workplaces. Additional measures were put in place on our construction sites with respect to site compounds and screens were installed in our sales centres. Revised protocols were also developed to limit staff interaction with customers and subcontractors. To control the number of customers in sales centres, an appointment only system for customer meetings was introduced. Pre COVID-19, subcontractors were inducted onsite in the site manager's office. During lockdown, we quickly developed an in-house induction app for our subcontractors, allowing induction to occur offsite.

Outlook

Despite the challenging year, underlying demand for new homes remained strong and this has ensured that we enter 2021 with record forward sales and a robust balance sheet. There is clearly the potential for more uncertainty during 2021. However, the flexibility of our business model and the decision making of the Board provide assurance in our ability to react appropriately to changing market conditions. Lastly, I would once again like to put on record my sincere thanks to all my colleagues for their support and dedication in 2020 and wish them a safe and successful 2021.

Chris Endsor
Chief Executive
4 March 2021

Image: New signage was introduced in show homes to help keep everyone safe

Chief Operating Officer’s review

Our team excelled in adapting to new ways of working

The effective closure of construction and sales operations as part of the first national lockdown in March and their subsequent re-opening in May and June, involved unprecedented levels of change management. I was extremely pleased by the decisions we made at this time and in turn delighted by the way our team reacted and adapted to these new working practices. Their dedication and diligence laid the foundations for a highly creditable second half year financial performance which culminated in a record forward sales position for the Group and a strong pipeline of high quality land opportunities for 2021.

Stewart Lynes
Chief Operating Officer

Image: Hackwood Park, Derby, East Midlands

Chief Operating Officer's review continued

Sales performance

The private sales rate was identical to last year at 0.64 (2019: 0.64) net reservations per site per week. However, the pattern of reservations was unlike any other year in the Group's recent history. The first national lockdown had a significant impact on reservations for the ensuing two month period during which sales centres were closed and on re-opening, this was followed by consistently strong demand for the remainder of the year. House price inflation followed a similar trend with annual price inflation of 2% driven largely from reservations taken in the second half of the year. The forward selling strategy introduced in 2019, was expanded to secure sales in a strong market. In addition to increasing the pipeline of sales, this strategy minimises the use of incentives.

Prior to the onset of COVID-19, we achieved a private sales rate of 0.83 for the first 11 weeks of the year, 11% ahead of last year. Over the following nine weeks, the uncertainty caused by COVID-19 and the first national lockdown resulted in a significant reduction in reservations. This led to the sales rate over this period falling to 0.16, a 77% reduction on the prior year. On the re-opening of sales centres, there was a significant and consistent increase in customer demand. The sales rate for the remaining 32 week period was 0.71, an increase of 18% on the prior year. This was not distorted by bulk sales to investors which remained low at 2% (2019: 2%). In addition, this improvement in sales rate was achieved despite higher cancellations, which during the 32 week period since re-opening averaged 24%. This was higher than normal but it is worth noting that over 85% of these cancelled plots were subsequently re-reserved to new customers demonstrating strong underlying demand.

Completions by type

	2020	2019	% Change
Private	**1,955**	2,652	(26%)
Affordable	**589**	676	(13%)
Core	**2,544**	3,328	(24%)
Joint ventures	**76**	170	(55%)
Total	**2,620**	3,498	(25%)

The Group was the first major homebuilder to launch online reservations in 2017. It has become increasingly evident that customers enjoy the convenience of reserving at their leisure rather than during the opening hours of our sales centres which are restricted to office hours typically over five days per week. This flexibility increased in importance in 2020 due to the COVID-19 restrictions and online reservations increased significantly, accounting for 41% (2019: 17%) of all private reservations.

In 2020, 58% (2019: 48%) of all private reservations were made without recourse to either Help to Buy or part exchange. Help to Buy sales represented 36% (2019: 35%) of private reservations and 36% (2019: 32%) of private new home revenues. In April 2021, the Help to Buy scheme in England will change to an exclusively first time buyer product together with regional price caps. This means the existing £600,000 ceiling will only be available in London, with caps in our regions varying from £186,000 to £438,000. A reduced price cap of £200,000 has been in place for the Scottish scheme for a number of years and despite this, throughout this time sales rates similar to England have been achieved.

On entering the first national lockdown, we chose to restrict the use of part exchange as an incentive. This, together with improved sentiment in the housing market, resulted in use of part exchange falling to 6% (2019: 17%) of private reservations. Robust controls around part exchange both in relation to acquisition criteria and the onward sale of these properties, together with lower in-take volumes, led to our part exchange stocks falling to £6.2m (2019: £20.6m).

Overall completions fell by 25% to 2,620 (2019: 3,498). Our expectation was that we would report a ninth consecutive year of growth in 2020; however construction time lost during the second quarter resulted in lower volumes. This was offset by a higher forward sales position for 2021. Average sales outlets were slightly lower at 81 (2019: 83) and compared to a planned figure of 90. This reduction reflected delays to both the purchase of new sites and also owned sites which were not launched in line with planned timescales due to build delays. Core completions fell by 24% to 2,544 (2019: 3,328) and joint venture completions reduced by 55% to 76 (2019: 170), reflecting a lower number of active joint ventures.

Land

On entering the first national lockdown, we introduced a temporary moratorium on land buying activities as we sought to preserve liquidity and assess any changes to the sales market. We returned to the land market in the second half of the year and improved

Plots in the consented landbank

14,667

(2019: 13,633 plots)

Forward sales for 2021

£560m

(2019: £328m)

the terms on a number of deals which had been agreed prior to the onset of COVID-19. These subsequent re-negotiations resulted in a delay to the purchase date of a number of sites and combined with the temporary pause to land buying during the second quarter, led to a reduction in the number of sites being purchased. We still acquired 17 sites (2019: 30) and 2,273 plots (2019: 4,933 plots) during 2020.

The consented landbank comprises both owned and controlled plots which benefit from the minimum of an outline planning consent. It increased to 14,667 plots (2019: 13,633 plots) with the small reduction in the owned landbank being compensated by an increase in the controlled landbank. We target an overall consented landbank of 4-5 years. At 5.8 years, we are slightly over this target which reflects the impact of COVID-19 on 2020 completions rather than excessive land buying.

The owned landbank fell by 2% to 10,494 plots (2019: 10,718 plots) with plots acquired being outweighed by unit completions. The ASP of the owned landbank fell slightly to £265,000 (2019: £267,000) and combined with the 2% fall in the landbank has led to the Gross Development Value of the owned landbank falling to £2.8 billion (2019: £2.9 billion). Our preference is to acquire land with the benefit of a detailed planning permission and 93% (2019: 89%) of the owned landbank had such a consent. All owned land with a detailed planning permission is currently being developed as a result of our focus on capital efficiency. In fact, typically development will start on sites acquired with a detailed planning permission within one month of acquisition. Sites acquired from the strategic landbank comprise 27% (2019: 28%) of the owned landbank which goes some way to underpin the Group's medium-term target to deliver 30% of completions from strategic land.

Landbank

	2020		2019	
	Plots	**GDV £m**	Plots	GDV £m
Owned/unconditional	**10,494**	**2,781**	10,718	2,864
Controlled	**4,173**	**1,010**	2,915	722
Consented	**14,667**	**3,791**	13,633	3,586

The other element of the consented landbank is controlled land which increased to 4,173 plots (2019: 2,915 plots). This land has a minimum of an outline planning consent and is secured by either an option or conditional contract. All sites within the controlled landbank are planned to be purchased during 2021 with the majority having above average margins due to the embedded option discount which is applied to the land value.

The strategic landbank totals 20,776 plots (2019: 20,035 plots). We entered into nine new options (2019: 18) and added 1,831 plots (2019: 2,813 plots) to the landbank which was offset by four sites (926 plots) gaining a planning consent and in turn being transferred to the consented landbank. The average site size of our strategic landbank is just under 260 plots with an average discount of 13%. These sites provide the Group with both continuity of land supply and also enhanced margin opportunities. At the end of the year, eight planning applications (2,356 plots) had been submitted to planning authorities on strategic sites for which decisions are awaited.

Product and supply chain

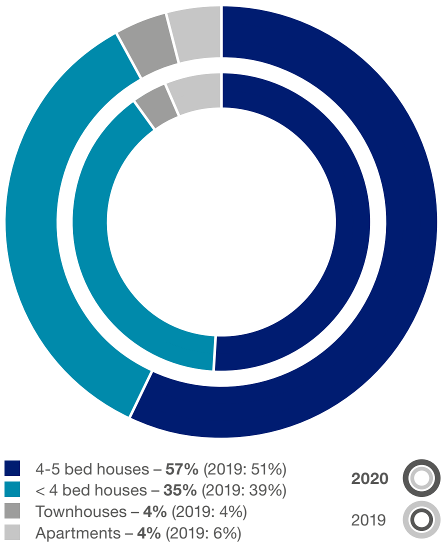
A full-scale review of our product range was undertaken in 2019 with roll out in 2020 on newer sites. The new product range meets customers' needs, maintains high standards of design and quality, is quicker to build as it is more suitable for modern methods of construction and reduces build costs and waste. To assist our customers, optional upgrades and choices are now available to select online through the My Miller Home area of our website. This both improves the customer experience and enhances revenue generation opportunities for the Group.

The Group's key national suppliers are managed by the central procurement team. During the year we re-engaged with suppliers following their return after the first national lockdown to ensure that all materials were delivered to our construction sites with minimal lead-times. An important part of this process was providing the supply chain with full transparency and visibility of production programmes to give them the confidence to re-start production at levels sufficient to fulfil our orders. In addition, we undertook an extensive re-tender exercise of all 46 major product groups procured centrally involving over 150 companies.

This was a holistic approach with supplier selection based on quality, service and cost. Site production teams were involved in this process using the data they provided from the supplier feedback app. We have changed eight suppliers as a result of this exercise which has reduced our cost base, maintained quality and will improve service levels.

Cost inflation during 2020 was around 2%. It is anticipated that inflation for 2021 will be slightly ahead of this figure mainly as a result of above inflationary increases in certain commodities, particularly timber and steel based products. This is being carefully managed and with around 80% of national supply agreements having fixed prices for the next 12 months, the Group has a high degree of cost certainty.

Private unit product mix



Business improvement initiatives

We have an in-house IT team who support all facets of our operations with digital software deployed throughout our construction, sales, customer service and back-office operations. It is fundamental that we embrace technology to improve processes for the benefit of staff, enhance the customer experience and simplify supply chain processes. During the year, we achieved 65 business improvement initiatives with the aim of either reducing costs, improving efficiency or enhancing our Customer Journey. We used the available time during the initial lockdown period to re-prioritise the project list, to recognise changes to working practices and adapt our engagement with customers and subcontractors. This change programme was completed from a position of strength with key cloud based technologies and modern platforms having been integrated in the business for some time which enabled our 400 office based staff to work effectively from home immediately following the first national lockdown.

To assist staff, all landline telephones were immediately directed to mobile phones, electronic payslips were introduced and video conferencing facilities were made available to everyone from any device. To enhance the customer experience, we launched, an online customer options visualiser, a "live chat" facility on the website, provided all customer documentation digitally via the My Miller Home portal and integrated video conferencing into the CRM system to facilitate virtual meetings. For our construction team and subcontractors, we launched a site induction app and dispensed with the paper based sign-in system. This also provides regional management with real-time site attendance and headcount information. In addition, site drawings are now available on the site managers' tablet device ensuring that they have the latest available information immediately to hand.

Our brand proposition was enhanced during the year. This involved an extensive customer insight project with research into our customers' needs and expectations and how they carried out the process of looking for a new home, in an increasingly digital world. We also asked for opinions of our brand and what it meant to them, as well as how we compared to other volume competitors. From the results of the research, it is clear that our existing service levels and quality of build improve confidence and trust. Our updated proposition builds on the core strengths of the business, namely quality, customer service and innovation and will be communicated through our new brand positioning: Miller Homes empowers you to personalise your experience and your home, for the way you live, with the confidence of the highest levels of quality, service and trust.

All of these initiatives had an immediate benefit to the business and demonstrated the very best of the Group, with the agility of the head office functions complementing the adaptability of the operational team.

Build quality and customer service

It was a challenging year for the customer facing team not least due to the first national lockdown between March to May which prevented customer service personnel visiting customers' homes. On re-start from lockdown, the necessary safety measures were put in place and our team worked tirelessly to reduce the backlog of customer service orders. It was therefore highly satisfying to achieve a customer satisfaction score of 93% and retain an HBF 5 star rating. This represents the ninth time in ten years that we have achieved a 5 star rating.

Image: Montgomery Grange, Hampton Magna, West Midlands

The Group measures its performance on build quality and customer service through external inspections and surveys undertaken by the NHBC. The Group uses NHBC as the provider of its 10 year warranty on all its developments and independent inspections are carried out at all key build stages. In addition, the NHBC undertakes an annual assessment of construction quality across a maximum of 38 build stages known as Construction Quality Reviews (CQR). Our CQR score stands at 4.2 which is 6% higher than last year and means that 77% of inspections are categorised in the Good to Outstanding categories.

Stewart Lynes
Chief Operating Officer
4 March 2021

The Group increased the level of free cash generated to £92m

We entered the first national lockdown in a strong financial position supported by both significant cash holdings and undrawn RCF. Since then we have continued to trade positively and despite a £176m reduction in revenue, we generated £115m of adjusted operating profit as well as increasing the level of free cash generated to £92m. The Group had significant levels of liquidity at all times during the year. Supported by a high quality landbank with strong embedded margins and record forward sales for the forthcoming year, the Group is well positioned to grow in a sustainable fashion whilst at the same time, managing any uncertainties.

Ian Murdoch
Chief Financial Officer

Image: Regency Fields, Solihull, West Midlands

Operating performance

The impact of COVID-19, arising from the first national lockdown, resulted in revenue falling by 21% to £664.8m (2019: £841.4m). This was largely due to a reduction in new home revenue to £663.5m (2019: £830.0m) with other revenue also lower at £1.3m (2019: £11.4m). The fall in revenue from new home sales reflected a 24% decrease in core completions to 2,544 (2019: 3,328) which was offset by a 5% increase in ASP. Of the 784 unit reduction in core completions, just under 80% of this occurred in the second quarter of the year when the lack of production activity prevented plots which had either been reserved or exchanged from being completed and in turn sold. Private completions fell by 26% to 1,955 (2019: 2,652) with affordable unit completions down by 13% to 589 (2019: 676).

ASP increased by 5% to £261,000 (2019: £249,000). This reflected a 7% increase in the ASP of private homes to £303,000 (2019: £284,000) and a 6% increase in the ASP of affordable homes to £121,000 (2019: £114,000) offset by an increase in the proportion of affordable homes sold in the year to 23% (2019: 20%). The 7% increase in private ASP reflected a combination of a 2% increase in unit size to 1,203 sq ft (2019: 1,177 sq ft) and a greater proportion of homes sold in our Midlands and South and Scotland divisions which have above average selling prices. The 6% increase in the ASP of affordable homes reflected a change in the mix of tenures sold to housing associations.

Gross profit adjusted for exceptional items fell to £156.7m (2019: £210.7m) which represented a gross margin of 23.6% (2019: 25.0%). This decline was mainly driven by lower site margins due to cost inflation, lower volumes leading to less efficient absorption of site selling costs and lower profit from shared equity receivables. There was an exceptional charge of £4.3m which comprised non-productive site labour costs incurred during the first national lockdown. These costs would normally have been capitalised in work in progress but due to our construction sites being closed and no production activity during this time, accounting standards dictate that these costs require to be expensed. These costs reflect full salary payments to staff throughout the year with no benefit received from the CJRS following the decision taken to return 100% of the grant income initially received.

Other operating income reflects management fee income earned on joint ventures and the net profit on the re-sale of part exchange properties. There was a slight fall in other operating income to £1.3m (2019: £1.4m) which was due to a reduction in management fee income as joint venture activity decreased. Administrative expenses were lower at £45.6m (2019: £47.9m) due to a reduction in staff incentive costs. As a percentage of revenue, administrative expenses increased to 6.9% (2019: 5.7%) due to the impact of lower volumes and in turn revenues. The Group's share of joint venture profit decreased to £2.4m (2019: £3.7m) as the number of completions from joint ventures fell to 76 (2019: 170).

Operating profit adjusted for exceptional items fell by 32% to £114.8m (2019: £167.9m) which represented an operating margin of 17.3% (2019: 20.0%).

Financial overview

	2020	2019
Total completions (no)	**2,620**	3,498
ASP (£000)	**261**	249
Revenue (£m)	**665**	841
Operating profit adjusted for exceptional items (£m)	**115**	168
Operating margin (%)	**17.3**	20.0
Net external debt (£m)	**201**	252
Net assets (£m)	**379**	332
ROCE (%)	**20.0**	31.0

Revenue

£665m

(2019: £841m)

Free cashflow

£92m

(2019: £84m)

Finance cost

The net finance cost increased by £4.6m to £50.4m (2019: £45.8m). This reflected:

- a £1.8m increased charge on the senior secured notes (inclusive of amortised deferred financing costs and non-utilisation fees) to £29.2m (2019: £27.4m) following the additional net £50m of debt raised in August.
- a £1.1m increase on interest due on intercompany loans to £13.1m (2019: £12.0m) as a result of interest charged on a compounded basis.
- a £1.5m increase in imputed interest on land payables to £8.3m (2019: £6.8m) which was driven by higher land payables on a weighted average basis during 2020.
- a £0.3m reduction in interest income to £0.8m (2019: £1.1m) due to lower shared equity receivables.

Taxation

The tax charge in the year was £12.5m (2019: £23.1m) which comprised £5.1m (2019: £10.6m) of corporation tax and £7.4m (2019: £12.5m) of deferred tax. The Group has a deferred tax liability at the year end of £2.3m (2019: asset of £4.8m) with the movement mainly due to the utilisation of historic tax losses. The main elements are represented by a £2.5m asset in respect of historic tax losses, £2.7m in respect of retirement benefit obligations and £2.8m of other temporary differences offset by a £10.3m liability in respect of the intangible brand asset.

The total contribution to the UK and Scottish Government's finances in 2020, directly through taxes borne by the Group itself, and indirectly by payroll and other taxes we collect on behalf of both Governments was £76.4m (2019: £78.8m). The total amount of tax is significantly greater than the tax charge shown in our accounts and is an indication of our wider financial contribution to the UK economy. In addition, as previously noted, the Group returned all furlough monies received under the CJRS scheme.

The Group is committed to maintaining its status with HMRC as a low-risk business. The Group's tax strategy can be found on its website and is based on an open, transparent and collaborative approach with HMRC, with a low tolerance towards tax risk and undertaking not to engage in artificial tax arrangements.

Cashflow and debt

The Group's cash generation ability was clearly demonstrated in 2020. Notwithstanding a substantial drop in revenue which was £176m lower than 2019, the Group continued to generate significant levels of cash. Free cashflow in the year was £91.6m (2019: £84.0m) which equated to a cash conversion from EBITDA ratio of 78% (2019: 49%).

The Group concluded a £160m private placement of Senior Fixed Rate Notes during the year, the purpose of which was to repay £110m of Senior Secured Floating Rate Notes and to take advantage of emerging land opportunities. The transaction also resulted in an extension in the maturity of our senior secured debt with the new Senior Secured Notes due in October 2024, one year later than the Senior Secured Floating Rate Notes which were redeemed. The Group also increased its RCF facilities during the year by £21m to £151m which remained undrawn at the year end.

Contribution to Government finances

	2020 £m	2019 £m
Tax paid by the Group		
UK corporation tax	**12.2**	8.4
Stamp duty	**5.7**	11.4
Employer's national insurance	**6.0**	6.3
Apprentice levy	**0.3**	0.3
Non-domestic rates and council tax	**0.9**	1.3
Section 75 and 106 agreements	**30.4**	27.6
	55.5	55.3
Tax collected and paid over by the Group		
PAYE and employees' national insurance	**16.1**	17.3
Construction industry scheme	**4.8**	6.2
Total	**76.4**	78.8

Chief Financial Officer's review continued

The Group is funded through a combination of the following facilities:

- £404.0m, 5.5% Senior Secured Notes due 2024 and £51.0m Senior Secured Floating Rate Notes due 2023.
- £151.5m committed RCF which was undrawn at the year end. Other than £21.5m which is committed to June 2022, this facility is committed through to April 2023.
- £144.5m, 10% unsecured intercompany loan.

On the basis of the above indebtedness, the cash balance of £242.8m and deferred financing costs of £11.3m, the Group had net debt of £345.4m (2019: £382.9m). Excluding intercompany loans, external debt has fallen to £200.9m (2019: £251.5m) as a result of a £103.0m increase in the cash balance offset by a net £50.0m increase in senior secured debt and £2.4m reduction in deferred financing costs. The increase in the intercompany loan to £144.5m (2019: £131.4m) reflects the 10% per annum interest cost which is settled on repayment of the loan.

There are no financial covenants in relation to either the senior secured notes or the RCF. The drawn balance on the RCF is limited to 47% of net inventory.

Balance sheet

The Group has a robust balance sheet which is substantially underpinned by a high quality landbank. Despite the challenging year, the Group's net assets still increased by 14% to £378.6m (2019: £332.1m). Capital employed increased by £9.0m to £577.8m (2019: £568.8m) which was a result of net inventory being £27.4m higher. Net inventory represents statutory inventory net of land payables and increased by 4% to £709.7m (2019: £682.3m). The increase in net inventory reflected a decrease in inventories to £808.6m (2019: £834.3m) offset by a significant reduction in land payables to £98.9m (2019: £152.0m). The downward movement in land payables is due to the settlement of prior year obligations which have not been fully replaced by new obligations created during the year as a result of lower investment in land following the moratorium on land buying for part of the year.

EBITDA to free cash flow reconciliation

	2020 £m	2019 £m
EBITDA	**113.2**	170.9
Net land investment (in excess of cost of sales)	**(33.1)**	(70.0)
Development spend (in excess of cost of sales)	**(13.2)**	(22.9)
Change in working capital	**–**	(2.6)
Cash flows from JVs (not included in EBITDA)	**5.3**	6.0
Shared equity loan receivables	**1.9**	4.8
Other	**17.5**	(2.2)
Free cash flow	**91.6**	84.0
Net land spend (included in cost of sales)	**117.0**	150.4
Net land spend (in excess of cost of sales)	**33.1**	70.0
Free cash flow pre net land spend	**241.7**	304.4

Investment in land fell by 5% to £490.6m (2019: £517.3m) which is due to a 2% decrease in the owned and unconditional landbank to 10,494 plots (2019: 10,718 plots) and a 3% decrease in the average plot cost to £46,900 (2019: £48,300). The decrease in plot cost is principally due to the purchase of two partnership sites, the cost of which was borne by our housing association partners. As a percentage of ASP, the plot cost is slightly lower than last year at 17.7% (2019: 18.1%). Work in progress has increased by 5% to £311.8m (2019: £296.4m) and reflects increased construction activity in the final quarter of the year. Part exchange inventories have fallen significantly to £6.2m (2019: £20.6m) which reflects a reduction in the intake of new properties, as a conscious decision was made to use this incentive on a more limited basis in the second half of the year.

Land payables represent creditors due in respect of land acquired on deferred terms and occasionally where contracts have been exchanged and the conditions have been satisfied. Land contracts which have been exchanged and where the conditions have yet to be satisfied, represent off-balance sheet contractual obligations to make certain payments if the conditions were satisfied. The estimated value of these contracts is £27.7m (2019: £21.0m).

Shared equity loan receivables represent the Group's investment in shared equity loans which were issued during the period 2008 to 2013. Redemptions in the year resulted in the investment in these assets falling to £7.0m (2019: £8.9m). The Group prudently carries its shared equity assets at fair value with a provision of £8.2m (2019: £9.5m) being held against the initial carrying value of £15.2m (2019: £18.4m).

Pensions

The defined benefit scheme was closed to new entrants in 1997 and to future accrual in 2010. The scheme deficit fell by £2.7m to £13.8m (2019: £16.5m). This was a result of contributions of £4.8m offset by an actuarial loss of £1.4m, a past service cost of £0.4m in relation to Guaranteed Minimum Pensions on historic transfers out of the scheme and an interest charge of £0.3m. The actuarial loss reflects a significant reduction of 70 basis points in discount rates during the year. This was largely mitigated by the Group's strategy to hedge 70% of interest rate risk through investing in gilts and investment returns on other assets.

Pension arrangements for the Group's employees are now provided through a defined contribution scheme with the annual cost reflected in the Income statement amounting to £3.4m (2019: £3.1m).

Risk management

The Board maintains a risk register to identify and manage key business risks. COVID-19 had an impact on the majority of the Group's key risks which is discussed in detail on pages 40 and 41. In addition, under IFRS 9, the Group is required to disclose the main risks associated with its financial instruments, namely, credit risk, liquidity risk, market risk and inflation risk. These are set out in note 22 of the financial statements. In addition to the adequacy of financial resources, the key financial risks are the valuation of inventory and retirement benefit obligations, as set out in note 26.

Ian Murdoch
Chief Financial Officer
4 March 2021

Image: Sandbrook Meadows, Sunderland, Teesside

Principal risks and uncertainties

The Board is committed to identifying, evaluating and managing the principal risks to enable the Group to deliver its strategic objectives.

Risk	Description	Controls and mitigation	2020 commentary
Economic conditions, mortgage supply and rates	Demand and selling prices for new homes are inextricably linked to consumer confidence which amongst other things is impacted by employment prospects, disposable incomes and the availability and cost of mortgages, particularly at higher loan to values.	Sales rates, cancellation levels, visitor levels, leads and prices are monitored on a weekly basis informing timely decision making. Our land acquisition diligence considers local employment, income levels and affordability which in turn is informed by current trading experience. Close relationships are maintained with mortgage lenders and government agencies to ensure that we utilise all available products and are involved in initiatives aimed at the new build sector.	This risk increased due to COVID-19 in light of the disruption caused to the UK economy and increasing levels of unemployment. Despite the significant challenges faced during the year, the housing market remained robust as evidenced by our sales rate which was unchanged on the prior year. Selling prices were also ahead of 2019, largely due to increases in the second half of the year. There was a reduction in the number of higher LTV mortgage products in the first half of the year which reversed as the year progressed albeit accompanied by an increase in mortgage rates.
Availability of materials and subcontractors	The ability to procure sufficient materials and skilled labour to ensure build quality standards are maintained, build programmes are delivered and homes are built cost effectively.	77% of housebuild materials are negotiated by the central procurement team. This ensures cost certainty over a fixed period and continuity of supply. Competencies are assessed to ensure both the appropriate quality and reliability of supply with feedback received from our construction team via a supplier assessment app developed by our in-house IT team. Subcontractors are managed at a regional level. Many of our subcontractor relationships are well established and long standing which mitigates the impact of labour and skill shortages as industry output increases. Our policy is to tender to maintain price competition, with higher value orders requiring the approval of Regional Managing Directors. The level of EU subcontract labour used by the Group is estimated at around 5-10%.	The COVID-19 pandemic led to increased lead-times on certain commodities however this was carefully managed by our regional construction teams and central procurement team. In addition, a combination of subcontractors not fully returning on the re-start of construction activities in May/June and adherence to new COVID-19 working practices, meant that it was not until September that construction levels returned to normal. To maintain strong relationships with all supply chain partners, we settled pre-lockdown obligations during April and May in line with our normal credit terms.
Land availability	The ability to secure the quantum of consented and strategic land in the appropriate locations and on terms which enable the Group's business plan to be delivered.	Established land acquisition hurdle rates for gross margin and ROCE exist which underpin our strategic plan. The Group has dedicated regionally based land teams for both current and strategic land. Regional land bid success rates are reviewed at Group level to critically review the level of bids, made together with the reasons for unsuccessful offers. The Chief Executive and Chief Operating Officer visit all sites prior to acquisition to ensure each site fits within the Group's land strategy. All land acquisitions and new strategic land options are approved by the Executive Board.	Land purchases were curtailed during the year following the temporary suspension of land buying in the second quarter as the impact of COVID-19 on trading conditions was assessed. The Group added 2,273 plots to the owned landbank which was slightly lower than the plots consumed. The Group's consented landbank of 14,667 plots has increased by 8% on last year and is sufficient to enable significant growth in 2021 if the sales market remains favourable.
Government regulation	The ability to ensure that the Group remains aware of emerging government legislation and is implemented within the necessary timescales.	The Group understands the importance of gaining an understanding of likely new legislation at as early a stage as possible. We strive to participate in industry working groups to both shape new legislation and also to understand the perspective of government. This is a multi-disciplinary approach with the key functions in recent years being legal, technical, production and customer service.	Other than the stamp duty holiday, there was limited new legislation impacting the new homes sector in 2020. However, 2021 is likely to see new building regulations aimed at reducing carbon emissions and the creation of a New Homes Ombudsman designed to improve build quality and customer service. There will be new regulations on leasehold properties and the Group has already taken steps to mitigate the impact of this legislation.

Principal risks and uncertainties continued

Risk	Description	Controls and mitigation	2020 commentary
Availability of finance	The Group requires access to adequate financial resources in order to meet its existing commitments and to deliver its strategic plan.	Cash is managed by a combination of weekly and quarterly forecasts. The strategic plan covers a five year period and is updated on an annual basis and supported by sensitivity analysis to provide a basis for longer-term investment decisions. The secured notes do not have any financial covenants. The only financial condition is that the drawn balance of the RCF is limited to 47% of net inventory.	The Group's cash balance at 31 December 2020 was £243m further supplemented by an undrawn £151m revolving credit facility. From an overall liquidity perspective, this is an increase of £124m on the prior year. Additional sensitivity scenarios were introduced to understand the impact of the COVID-19 restrictions on the Group's cashflows.
Attract and retain employees	It is important that the Group retains and attracts high calibre and diverse employees in order to deliver on all aspects of our strategy.	The Group's HR strategy is focused on all aspects of reward, retention, training and development, as well as performance management. The Group has committed to the Home Building Skills Pledge. This champions diversity and inclusion and promotes the industry as inclusive and progressive, attracting employees to a positive career in homebuilding. Staff roadshows, led by the Chief Executive, are undertaken annually. Staff engagement surveys and an independent review by Investors in People are undertaken on a triennial basis. Training academies exist for both the Sales and Production teams and a Management Development programme is in place for almost 160 managers across the business.	We continue to be able to attract qualified and experienced staff in addition to developing our own people. We significantly increased our communication during the year to ensure employees were re-assured by the health and safety measures implemented with regular business updates also provided. We also continued to pay 100% basic pay to all staff even during the first national lockdown.
Safety, health and environmental (SHE)	Breaches of SHE legislation can result in workplace injuries, environmental damage or physical damage to property. This could result in financial penalties, reputational damage and delays to site related activities.	The in-house SHE team consists of 12 qualified professionals. The team is managed independently from our operational businesses under the guidance of our SHE Director who in turn reports directly to the Chief Executive. The Group has an approved SHE strategy with progress monitored regularly during the year at Board level. Site operations are subject to monthly audits and SHE awareness tool-box talks are regularly communicated to both staff and subcontractors. Protection of the environment during construction is built into our operating methods as we see increasing focus on conservation and the enhancement of the natural environment.	Efforts were focused on re-designing our workplaces to ensure they were COVID-19 compliant. The Accident Incident Rate score fell by 4% in 2020 but is still higher than the Group's internal target.
IT	The key IT risks relate to data breaches and system outages (including our website) which could result in both financial and reputational damage. In addition, to maximise business performance it is important to have access to all critical systems regardless of their place of work.	Significant investment in cloud based technologies has been made in recent years. This ensures that the Group has the latest software for its critical systems and facilitates access to these systems for staff who are becoming increasingly mobile. Security reviews are performed by external consultants on a quarterly basis. In addition, the Group endeavours to use the latest software versions to reduce the risk of successful cyber attacks. Full back-up and system recovery is in place as part of the wider Disaster Recovery Plan, and again this is tested annually.	The IT risk remained high during 2020. This was a function of the need to respond quickly to ensure all employees were able to work effectively from home where required in light of the COVID-19 home working restrictions.
Pensions	The Group's defined benefit scheme was closed to new entrants in 1997 and to future accrual in 2010. The deficit could fluctuate due to changes in longevity assumptions, bond yields or asset values.	The triennial valuation for 30 June 2019 was finalised with annual contributions remaining unchanged. External advisors were appointed in 2019 to re-shape the scheme's investment strategy, the effect of which was to reduce the volatility in the scheme's asset portfolio. The Group seeks to hedge against the impact of interest rates on the scheme's liabilities and at the end of year, there was 70% liability hedging in place.	The £2.7m decrease in the deficit in the year is despite a significant reduction in bond yields during the year which has been largely mitigated by increased liability hedging put in place over the last couple of years and ongoing company contributions.

We create great places where people prosper

Sustainability is an important aspect of the Group's approach. In line with our corporate culture and values, we recognise the benefits to all of creating great communities in our developments, fulfilling our promise of The Miller Difference to our customers, and creating great places to work for our people and partners.

The Group strives to provide social value in the way it carries out its business, and during 2020 we considered some key areas where we can make a positive impact on our environment and create more great places.

Climate change

The Group makes a positive contribution to the communities in which we operate. We have worked for over 85 years to build a responsible and sustainable business and we recognise that the nature of what we do uses natural resources. Now more than ever before it is recognised that the impact on the environment due to climate change will have far reaching consequences for us all and we need to do more.

Carbon

We already monitor our waste production and energy use and have incorporated improvements in technology and best practice to ensure we use energy efficient products in the homes we build. In 2020, we concluded we needed to do more to reduce our greenhouse gas emissions from our business operations and travel. Before setting a policy and targets, we wanted to engage all of our staff on what is a significant challenge to our industry and to help us transition to a new model of sustainable performance. During the 2020 employee roadshows, we asked our staff to get involved by generating ideas on reducing carbon footprint and the level of waste in the business. We wanted staff to be invested in the plans by using the ideas generated in our carbon reduction strategy as well as driving cultural change, which is seen as necessary to deliver a sustainable and targeted reduction. We then had to work out what we needed to do to develop a credible strategy which is commercially focused and how to measure the impact of that strategy with relevant targets. We engaged external consultants to help us ensure our baseline measurements are robust over our Scope 1 and Scope 2 carbon emissions and to ensure we are developing our Scope 3 emissions appropriately. We understand that we need to use recognised methodologies to build on the work which we have already done. Our carbon reduction strategy will be rolled out in 2021 and this will form the basis of our commitment to reduce the impact of our operations on climate change and will be a key component of our sustainability performance in the future.

Total carbon emissions (Scope 1 and 2) were 5,455 tonnes last year which equates to a carbon intensity rate of 2.03 tonnes per 100 square metres of homes built. In 2020, our greenhouse gas footprint was slightly lower than in 2019, due to reduced operations arising from COVID-19.

We have reported our emissions in line with the Greenhouse Gas Protocol Corporate Standard, with these figures including Scope 1 and 2 emissions from our operations in line with the Streamlined Energy and Carbon Reporting Requirements (SECR).

Waste intensity (tonnes per 100 square metres of homes built)

7.12

Carbon intensity (tonnes per 100 square metres of homes built)

2.03

Waste

We have operated a waste segregation policy for a number of years which diverts waste from landfill to be recycled or re-used. In 2020, 19,746 tonnes (95.6%) of our construction waste was diverted from landfill. Whilst this is less in terms of tonnage compared to 2019 (27,074 tonnes), it is pleasing to report that the percentage of recycled waste has remained at around 95% for the last three years.

We also measure our waste intensity ratio which was 7.12 in 2020. This means that 7.12 tonnes of waste are produced for every 100 square metres of homes built. In 2020, we decided that we needed to change our thinking around waste being an inevitable consequence of construction activity and to reduce the amount of unnecessary materials coming to our sites in the first instance. This requires us to work with suppliers and other third parties and we need to do that in a way which will not have a negative impact on operations. We have engaged external consultants to find innovative ways to implement initiatives with our suppliers to improve delivery in a commercially sustainable manner. An improvement in the overall quantum of waste will also help reduce our carbon emissions.

Environment

There is growing concern that biodiversity across the world is in decline and as a homebuilder, we must play a part in ensuring that we leave a positive legacy on our development sites for wildlife and plant life. The planning system already identifies the importance of biodiversity in the National Planning Policy Framework (NPPF).

Corporate responsibility continued

Developments within 500m of public transport

94.0%

Homes with EV charging points

12.4%

We therefore seek to enhance the biodiversity on our sites through implementation of measures such as wetland drainage features, bat and bird boxes, tree planting, public open space and the provision of SANGS (Suitable Alternative Natural Greenspace). We welcome the Environment Bill which will introduce legally binding targets in respect of development and delivery of a net gain for biodiversity (10%), resource efficiency, water and air quality.

Sustainable development contributes to communities by protecting and enhancing our natural, built and historic environment, a great example of which is our Lambton Park development (refer to case study).

Before any land is acquired for development, flood risk and biodiversity impact assessments are carried out and appropriate mitigation measures are put in place. It will become increasingly important to meet new environmental standards, both during the construction phase of our homes as well as the use of homes by our customers. For the last seven years we have sourced all of our timber from sustainable sources and in 2020 12.4% of our new homes were fitted with electric vehicle (EV) charging points.

Case Study

Lambton Park

Miller Homes at Lambton Park is a unique development presenting the first ever opportunity to buy a new home within the iconic Lambton Estate, at Chester-le-Street, which is owned by the Earl of Durham.

The residential scheme, in the South Belt of Lambton Park, forms part of the wider redevelopment, which will help to maintain the Estate's rich historic legacy, whilst opening it up to the public for the first time.

Amongst the plans are new retail and community space, offices and conservation works which include the restoration of Lambton Castle, its stables, and Lamb Bridge. 11.5km of footpaths in the previously private park will also be opened up for permissive walks along marked routes with exclusive access available to the Lambton Park community at certain times of the day and seasons throughout the year.

The landscaping within the development, including wide planted verges and swathes of bulbs, trees and shrubs, has been carefully considered to provide visual interest and increase the biodiversity potential whilst complementing the architecture of the scheme, which is heavily influenced by the Victorian style in line with the heritage of the estate.

This development not only provides buyers with new homes boasting charming historical character, but also includes unrivalled access to large open spaces and woodland with an abundance of nature and wildlife on their doorstep.

S75/S106 contributions

£30.4m

Calls to Miller Respect responded to within 24 hours

90%

Community

We want to ensure that we build homes in a way which is positive for the local community and we engage through consultation events and carry out impact assessments to identify risks to health and wellbeing and the environment. We have strict protocols in place on our sites to manage construction traffic, noise and dust and we have a complaints system in place which is managed directly by our SHE team. We have a target to respond to complaints from the community of more than 80% of calls within 24 hours and in 2020 we responded to 90% of calls in line with our target.

Case Study

Cranleigh Grange

First time buyers, Simon and Charlotte Wakeford who are both in their early thirties, secured the first plot at Cranleigh Grange last year, swapping a one-bedroom flat in the centre of Guildford for village life and a spacious home. The couple moved themselves into the property during April, earlier than planned, to take advantage of the extra space for remote working.

Visual merchandiser, Charlotte, said: “This is our first owned property and we can’t wait to decorate and put our own stamp on it.”

“The private driveway, with an outside electrical socket, was a big pull – we now have an electric car to do our little bit for the environment.”

“We love the layout of the house with the kitchen-diner looking out over a south-facing garden and bay window in the lounge. It’s a house we can grow into over the years.”

Simon, a business development executive who works in London, said that Cranleigh Grange was in the ideal location for the couple:

“Moving to Cranleigh means we have more space but can still keep commuting to a minimum for us both – although at the moment the extra space is really helpful with working remotely and it will offer the perfect balance for flexible working going forward. The village has a real sense of community, so it is a good place to start a family and our new puppy Max loves exploring the local area.”

Corporate responsibility continued

People

We understand the importance of investing in people and we are proud that our most recent employee engagement score is 94% which is testament to the initiatives and policies put in place on training, wellbeing and flexible working. During 2020 staff had to adapt quickly to a new way of working and, in some cases, not working when sites were closed. The resilience and dedication of staff was demonstrated by their response and the increased communication and visible leadership, although virtual, was welcomed. We have learned from this experience that flexibility is not just possible but essential to modern working practice and this has led to the business proposing more flexible working arrangements on a longer-term basis.

We are pleased to report that during 2020 we saw an increase of 6% in female senior management in the business. We recognise that gender equality is an issue for our industry as a whole and we are committed to doing our part to improve our ratios.

Female senior management	Female employees
23%	**31%**

In spite of the pandemic, we still managed to deliver 8,855 hours of training and notably, continued the rollout of our management development programme via digital means.

Image: Burying a 2020 time capsule at Spring Wood Park, Bramhope, Yorkshire.

The mental health aspects of the pandemic have been widely reported and there was regular communication with staff to remind them of the importance of maintaining their physical and mental wellbeing during what, for many, has been a challenging time. We promoted our employee assistance programme which provides access to professional counselling and information across a broad range of issues 365 days a year, as well as the identity of mental health champions within the business. During 2020 we also offered online access to a GP to all staff.

Charitable giving

Last year saw the launch of a new charity policy where there was continued support for the Group's chosen national charity, Habitat for Humanity GB, but also the establishment of a fund available to regional offices to match monies raised for good causes. The pandemic meant that raising money by way of the traditional activities mostly active or office-based, was difficult. That said, there are numerous examples of staff volunteering to help local charities or those in need and in raising funds by running virtual marathons, cycling imaginary hills, delivering medications and food to the vulnerable and even creating essential parts for hospital PPE.

The Board is responsible for our management, direction and performance

The Directors of Miller Homes Group Holdings plc are listed in the Directors' report. The governance of the Group is explained further below.

Key
- ● Holding Company Board
- ● Executive Board

John White
Chairman
●

John was appointed non-executive Chairman of the Group in December 2017. Prior to his appointment, John spent four years as non-executive Chairman at McCarthy & Stone. John has spent his entire career in the housebuilding industry, including 38 years with Persimmon plc. He was Group Chief Executive at Persimmon from 1993-2006 and Group Chairman from 2006-2011. John is also Chairman of Northampton Saints plc, a position he has held since 2017.

Chris Endsor
Chief Executive
●●

Chris joined the Group in 2000, following the acquisition of the Birch Group where he was a founder and Group Managing Director. He has held a number of senior positions within the Group and was appointed Chief Executive in 2011. Chris has over 38 years' industry experience, having initially trained and qualified as a quantity surveyor. He is a Fellow of the Chartered Institute of Building and has an in depth knowledge of the industry and in particular has taken a keen interest in land strategy throughout all his senior management positions.

Patrick Fox
Non-Executive Director
●

Patrick joined Bridgepoint in 2002. He currently sits on the Boards of EVAC, TuvTurk and Peyman. Prior to joining Bridgepoint he worked for JP Morgan and BNP Paribas.

Jamie Wyatt
Non-Executive Director
●

Jamie is a Partner at Bridgepoint, having joined the firm in 2000. Jamie has been involved in a wide range of private equity transactions including Oasis Dental, Fishawack, Care UK, Safestore and Tunstall. He is a qualified chartered accountant and prior to joining Bridgepoint worked at Ernst & Young.

Board of Directors continued

Ian Murdoch
Chief Financial Officer

Ian is a chartered accountant having trained with KPMG where he worked for nine years. He joined Miller Homes in 2005 having previously spent four years at The Miller Group as Group Financial Controller. Ian was appointed as Finance Director in 2011 and Chief Financial Officer in 2017. He has broad experience covering both financial and operational aspects of the Group. In addition to his mainstream finance role, Ian has responsibility for tax, treasury and the Group's defined benefit pension scheme.

Julie Jackson
General Counsel and Company Secretary

Julie is a qualified solicitor who joined the Group as Legal Director in 2009 after six years as the Legal Director of Miller Developments. Julie's background is property development and investments and she chairs the Land Directors' meetings on a national basis. Julie is Company Secretary of the Group and has responsibility for all legal, governance and compliance matters. She is a non-executive director of a housing association.

Stewart Lynes
Chief Operating Officer

Stewart joined the Group in 2008. He was promoted to the role of Managing Director for Scotland in 2013 before expanding his role in 2018 to also assume responsibility for the North of England division. In 2019, Stewart was promoted to the newly created role of Chief Operating Officer. Stewart is a qualified quantity surveyor with 19 years' experience in the sector and is a member of the Homes for Scotland Board.

Scott Chamberlin
Managing Director Strategic Land

Scott joined the Group in 2018 having previously worked for Gleeson Strategic Land. Scott is responsible for the expansion and development of the Group's strategic landbank and the successful promotion of sites through the planning system to ensure the Group's growth aspirations can be fulfilled. He has 30 years' experience in town planning and land development and is a Chartered Town Planner.

Warren Thompson
Divisional Managing Director North

Warren joined the Group in 2020. Prior to this, he held senior leadership posts within the industry including a similar position on the Executive Board of a large UK listed homebuilder where he also had executive responsibility for Health and Safety. Warren has gained extensive industry knowledge during his 26 year career, in which he initially specialised in quantity surveying. Warren chairs the Group's Commercial Directors' meetings on a national level.

Danny O'Connor
Divisional Managing Director Midlands & South

Danny joined the Group in 2014. He has over 30 years' experience in the homebuilding industry, having undertaken various senior production and management roles. Since joining the Group, Danny has held a number of senior roles within the business, including Operations Director and Area Managing Director, before being appointed Divisional Managing Director for the Midlands and South in 2020. Danny chairs the Group's Production Directors' meetings on a national basis.

Board of Directors
continued

The Board is responsible for the management, direction and performance of the business.

The Directors of Miller Homes Group Holdings plc are listed in the Directors' report. The governance of the Group is explained further below.

Executive Board

The Directors recognise the importance of good Corporate Governance and operate on a basis which reflects the size, risks and complexities of the business and in accordance with its values.

The Company operates by an Executive Board which is led by the Chief Executive and also comprises the Chief Operating Officer, Chief Financial Officer, General Counsel and its divisional Managing Directors. Biographies of each Director are set out on pages 47 and 48. The Group considers these individuals possess the necessary experience and detailed industry knowledge to discharge their duties as Directors.

The Directors consider they have appropriate and sufficient contact with employees. The Executive Board met formally six times during 2020 with functional heads of Sales and Marketing, Procurement, IT, SHE and HR presenting operational reports on a regular basis on performance of service functions. During 2020 the Executive Board held daily calls to ensure rapid decision making could take place through the emerging crisis with input from the relevant service functions. These calls reduced to twice weekly but continued throughout the year.

The Board is responsible to its shareholders for the implementation of strategy and promoting the long-term success of the Group. Its principal responsibilities include financial management, governance controls, risk management, compliance and cultural direction. The Board has a regular agenda which ensures its responsibilities are addressed and, if necessary, revised throughout the year. Papers are compiled and issued prior to meetings and written minutes are circulated by the Company Secretary.

The Group operates within a framework of policies which are available to all members of staff on its internal website. Its principal policies are: Anti-Bribery; Modern Slavery; Equality; Fraud Prevention; Data Protection and Safety, Health & Environment. The Company Secretary holds registers of compliance with the policies and training is provided to enhance employee awareness.

Additionally, the Executive Board is responsible for evaluating significant risks to the business. A rigorous evaluation process is carried out twice yearly. Over the last 12 months the view of the Directors is that the macro economic conditions remain the greatest risk to the business and this risk has increased due the impact of the COVID-19 pandemic. A detailed analysis of the risks is provided on pages 40 and 41.

Holding Company Board

In addition to the Executive Board, the Group has a Holding Company Board which met 10 times in 2020. The Holding Company Board comprises the Chief Executive, Chief Financial Officer, Chief Operating Officer and General Counsel, Patrick Fox and Jamie Wyatt who are non-executive shareholder Directors from Bridgepoint and an independent Non-Executive Chairman, John White, who has extensive experience of the homebuilding industry. The Holding Company Board is considered to have oversight of the Company and the wider Group. During the year, the normal practice of holding meetings in all of the regional offices of the business, enabling the shareholder directors and Chairman direct access to the Group's employees, was suspended due to the COVID-19 pandemic.

Board of Directors
continued

The Executive Board reports to the Holding Company Board on certain delegated matters as well as operational performance. The delegated matters include: setting the Group's strategic aims and objectives; structure and capital; financial reporting; dividend policy; approval of significant capital expenditure on land and decisions around key management.

As part of the overall structure, Board Committees are held at Holding Company Board level rather than Executive Board level. The Committees include:

Land Approval Committee

The Land Approval Committee has delegated authority to approve certain land acquisitions. The committee comprises the Chairman of the Holding Company, a Bridgepoint Director and the Chief Executive.

Remuneration Committee

The Remuneration Committee meets three times per annum. Recommendations are made to the Holding Company Board on all aspects of the remuneration, benefits and employment conditions. The committee comprises the Chairman of the Holding Company and a Bridgepoint Director.

Audit Committee

The Audit Committee considers and makes recommendations regarding the integrity of the financial statements of the Group; the effectiveness of internal controls and risk management and the internal and external audit process. The committee met twice during 2020 and is chaired by a Bridgepoint Director.

Ultimate Holding Company

The Group's ultimate holding company is Miller Homes Group Limited, which is controlled by Bridgepoint through BEV Nominees Limited.

Bridgepoint is an international fund management group focusing on private equity. Their aim is to deliver attractive returns to investors by investing responsibly in companies and building stronger, broader-based businesses with greatly enhanced long-term growth potential. A long-established, experienced and responsible private equity investor they help companies and management team by investing in expansion, operational transformation or via consolidating acquisitions. Bridgepoint funds invest in well-managed companies, typically taking controlling or large minority stakes. They are attracted by opportunities in sectors and niches with strong underlying growth and global competitive advantage or in cash generative businesses with high visibility of earnings.

Directors' report

The Directors of Miller Homes Group Holdings plc have pleasure in presenting their report and the audited financial statements for the year ended 31 December 2020.

Principal activities

The principal business conducted by the Group is residential housebuilding.

Business review

The operations of the Group and its principal risks and uncertainties and relevant key performance indicators are reviewed in detail in the Strategic report.

Results and dividends

The Group profit after taxation for the financial year amounted to £47.6 million (2019: £99.0 million). No dividend will be paid.

Going concern

The Group's business activities, together with factors likely to affect its future development and performance are set out in the Strategic report. The financial position of the Group, its cashflows and details of its borrowing facilities are described in the Chief Financial Officer's review on pages 35 to 39. The Directors have prepared cashflow forecasts, which take into account reasonable sensitivities, in order to assess the future funding requirements of the Group and its committed finance facilities.

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 who held office during the year and at the date of this report are as follows:

Chris Endsor
Danny O'Connor (appointed 1 February 2021)
Ian Murdoch
Julie Jackson
Scott Chamberlin
Stewart Lynes
Warren Thompson (appointed 1 February 2021)
Darren Jones (resigned 31 July 2020)

Employees

The Directors' report in relation to employees is shown on pages 26 and 27.

Supplier payment policy

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. We also subscribe to the Prompt Payment Code.

Guidelines for disclosure and transparency in private equity

The Directors consider that the Annual Report and financial statements have been prepared in accordance with the Guidelines for Disclosure and Transparency in Private Equity.

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 they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board

Julie Jackson
Company Secretary
4 March 2021

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and they have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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.

Independent Auditor's report to the members of Miller Homes Group Holdings plc

1. Our opinion is unmodified

We have audited the financial statements of Miller Homes Group Holdings Plc ("the Company") for the year ended 31 December 2020 which comprise Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, Company statement of changes in equity, Statements of financial position, Consolidated cash flow statement, and the related notes, including the accounting policies in Note 1.

In our opinion:

– the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
– the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
– the parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; and
– the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Independent Auditor's report to the members of Miller Homes Group Holdings plc continued

	The Risk	Our Response
Group Valuation of Land and work in progress and Site Margins Land and work in progress: £802.4m (2019: £813.7m) Gross margin: £152.4m (2019: £210.7m) Risk direction: increased	**Subjective Estimate** The gross profit recognised on current sites and the carrying value of land held for development and work in progress is reliant on the Group's forecasts of the future selling price and the build costs, both of which are uncertain and can vary with market conditions. The impact of Covid has increased these uncertainties which results in an increase in audit risk.	**Our procedures included:** – **Tests of control:** Assessing the design and implementation of the Group's processes upon which gross margin is based. – **Tests of detail:** For a sample of sites with unit sales during the year comparing the gross margin recognised to the latest site end outturn and checking whether differences in margin recognised are supported by changes in outturns. This includes corroborating explanations received from management in respect of valuations to underlying documentation where appropriate. – **Historical comparisons:** Comparing budgeted and latest site outturns to assess the Group's ability to accurately forecast. – **Benchmarking assumptions:** Challenging judgements made by management on site outturns based on our knowledge of the Group and the industry. – **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the degree of estimation involved in calculating the gross margin and carrying value of land and work in progress.
Group and company Going concern assessment and disclosures Risk direction: unchanged	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company. That judgement is based upon an evaluation of the Group and Company's business model and risks, including the impact of Covid, and how those risks might affect the Group and Company's financial resources over a period of at least a year from the date of approval of the financial statements. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may cast significant doubt about the ability to continue as a going concern. Had they been such, that that fact would have been required to have been disclosed.	**Our procedures included:** – **Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts, taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. – **Historical comparison:** We compared historical cash flow forecast to actual cash flows achieved in the year and previously in order to assess forecasting accuracy. – **Funding assessment:** We confirmed the committed level of financing by reference to supporting documentation. – **Our sector experience:** We assessed the financial forecasts with reference to our knowledge of the business. – **Assessing transparency:** We assessed the completeness and accuracy of the matters covered in the going concern disclosure.
Parent Company Valuation of Investment £537.4m (2019: £537.4m) Risk direction: unchanged	**Forecast-based valuation** There is a possibility that the carrying value of investments is not supported by either the net assets or forecast profitability of the underlying entities.	**Our audit approach included:** – **Historical comparisons:** Comparing budgeted and latest company information to assess the Group's ability to accurately forecast. – **Sensitivity analysis:** Performing sensitivity analysis on the assumptions utilised in forecasting information. – **Assessing Transparency:** We assessed the adequacy of the related disclosures in the financial statements.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £4.75m (2019: £5.50m), determined with reference to a benchmark of profit before tax from continuing operations. We have averaged the last 3 years profit before tax of which materiality represents 4.97%. In 2019 a benchmark of profit before tax from continuing operations was used of which materiality represented 4.5%.

Materiality for the parent company financial statements as a whole was set at £2.75m (2019: £4.675m), determined with reference to a benchmark of total assets, of which it represents 0.38% (2019: 0.67%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £237,500, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The audit of the Group was performed as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above.

4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model, including the impact of Covid-19, and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report.

Our conclusions based on this work:

– we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
– we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
– we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management, directors and sales staff.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as impairment and pension assumptions. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue is recognized when the ownership of the property is transferred, and cash is received. Lawyers are also involved in the process.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management control.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those debiting Work in Progress and crediting Cost of Sales.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards) and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery and employment law recognising the nature of the Group's activities Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent Auditor's report to the members of Miller Homes Group Holdings plc continued

7. We have nothing to report on the other matters on which we are required to report by exception

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

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 53, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

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.

Bruce Marks (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG
10 March 2021

Consolidated income statement

for the year ended 31 December 2020

	Note	Pre exceptional items 2020 £m	Exceptional items (note 2) 2020 £m	Total 2020 £m	2019 £m
Revenue	3	**664.8**	**–**	**664.8**	841.4
Cost of sales		**(508.1)**	**(4.3)**	**(512.4)**	(630.7)
Gross profit		**156.7**	**(4.3)**	**152.4**	210.7
Other operating income	3	**1.3**	**–**	**1.3**	1.4
Administrative expenses		**(45.6)**	**–**	**(45.6)**	(47.9)
Group operating profit		**112.4**	**(4.3)**	**108.1**	164.2
Share of result in joint ventures		**2.4**	**–**	**2.4**	3.7
Operating profit	2	**114.8**	**(4.3)**	**110.5**	167.9
Finance cost	6	**(51.2)**	**–**	**(51.2)**	(46.9)
Finance income	7	**0.8**	**–**	**0.8**	1.1
Net finance costs		**(50.4)**	**–**	**(50.4)**	(45.8)
Profit before taxation		**64.4**	**(4.3)**	**60.1**	122.1
Income taxes	8	**(13.3)**	**0.8**	**(12.5)**	(23.1)
Profit for the year		**51.1**	**(3.5)**	**47.6**	99.0

The notes on pages 64 to 93 form part of the financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2020

	2020 £m	2019 £m
Profit for the year	**47.6**	99.0
Items that will not be reclassified to profit and loss:		
Actuarial loss on retirement benefit obligations	**(1.4)**	(7.9)
Deferred tax on actuarial loss	**0.3**	1.4
Total comprehensive income for the year attributable to owners of the parent	**46.5**	92.5

Consolidated statement of changes in equity

for the year ended 31 December 2020

	Share capital £m	Retained earnings £m	Total £m
Balance at 31 December 2018	151.0	88.6	239.6
Profit for the year	–	99.0	99.0
Actuarial loss on retirement benefit obligations (net of deferred tax)	–	(6.5)	(6.5)
Balance at 31 December 2019	151.0	181.1	332.1
Profit for the year	–	47.6	47.6
Actuarial loss on retirement benefit obligations (net of deferred tax)		(1.1)	(1.1)
Balance at 31 December 2020	**151.0**	**227.6**	**378.6**

Company statement of changes in equity

for the year ended 31 December 2020

	Share capital £m	Retained earnings £m	Total £m
Balance at 31 December 2018	151.0	(51.3)	99.7
Profit for the year	–	66.6	66.6
Balance at 31 December 2019	151.0	15.3	166.3
Loss for the year	–	(39.2)	(39.2)
Balance at 31 December 2020	**151.0**	**(23.9)**	**127.1**

The notes on pages 64 to 93 form part of the financial statements.

Statements of financial position

as at 31 December 2020

	Note	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Non-current assets					
Intangible assets	10	**146.2**	146.2	**–**	–
Property, plant and equipment	11	**1.5**	1.4	**–**	–
Right-of-use assets	20	**6.6**	8.2	**–**	–
Investments	12	**10.3**	15.6	**537.4**	537.4
Shared equity loan receivables	13	**7.0**	8.9	**–**	–
Deferred tax	14	**–**	4.8	**–**	–
Trade and other receivables	16	**–**	–	**112.2**	150.7
		171.6	185.1	**649.6**	688.1
Current assets					
Inventories	15	**808.6**	834.3	**–**	–
Trade and other receivables	16	**22.2**	20.6	**6.0**	6.0
Cash and cash equivalents		**242.8**	139.8	**65.3**	0.1
		1,073.6	994.7	**71.3**	6.1
Total assets		**1,245.2**	1,179.8	**720.9**	694.2
Non-current liabilities					
Loans and borrowings	18	**(588.2)**	(522.7)	**(588.2)**	(522.7)
Trade and other payables	17	**(44.5)**	(44.6)	**–**	–
Lease liabilities	20	**(5.0)**	(6.4)	**–**	–
Deferred tax	14	**(2.3)**	–	**–**	–
Retirement benefit obligations	29	**(13.8)**	(16.5)	**–**	–
Provisions and deferred income	19	**(2.7)**	(2.6)	**–**	–
		(656.5)	(592.8)	**(588.2)**	(522.7)
Current liabilities					
Trade and other payables	17	**(208.4)**	(252.8)	**(5.6)**	(5.2)
Lease liabilities	20	**(1.7)**	(2.1)	**–**	–
		(210.1)	(254.9)	**(5.6)**	(5.2)
Total liabilities		**(866.6)**	(847.7)	**(593.8)**	(527.9)
Net assets		**378.6**	332.1	**127.1**	166.3
Equity					
Share capital	21	**151.0**	151.0	**151.0**	151.0
Retained earnings		**227.6**	181.1	**(23.9)**	15.3
Total equity attributable to owners of the parent		**378.6**	332.1	**127.1**	166.3

The notes on pages 64 to 93 form part of the financial statements. These financial statements were approved by the Board of Directors on 4 March 2021 and were signed on its behalf by:

Chris Endsor
Chief Executive

Ian Murdoch
Chief Financial Officer

Consolidated cash flow statement

for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Profit for the year		**47.6**	99.0
Depreciation		**2.7**	3.0
Finance income		**(0.8)**	(1.1)
Finance cost		**51.2**	46.9
Share of post tax result from joint ventures		**(2.4)**	(3.7)
Taxation		**12.5**	23.1
Operating profit before changes in working capital		**110.8**	167.2
Working capital movements:			
Movement in trade and other receivables		**0.3**	4.2
Movement in inventories		**21.3**	(97.8)
Movement in trade and other payables		**(48.5)**	0.7
Cash generated from operations		**83.9**	74.3
Interest paid		**(24.8)**	(23.4)
Corporation tax paid		**(12.2)**	(8.4)
Net cash inflow from operating activities		**46.9**	42.5
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(0.7)**	(0.7)
Movement in loans with and distributions from joint ventures		**7.7**	9.7
Net cash inflow from investing activities		**7.0**	9.0
Cash flows from financing activities			
Issue of senior secured notes (net of deferred financing costs)	24	**49.1**	–
Movement in other borrowings		**–**	(10.3)
Net cash inflow/(outflow) from financing activities		**49.1**	(10.3)
Movement in cash and cash equivalents	24	**103.0**	41.2
Cash and cash equivalents at beginning of year		**139.8**	98.6
Cash and cash equivalents at end of year	24	**242.8**	139.8

The notes on pages 64 to 93 form part of the financial statements.

Notes
(forming part of the financial statements)

1. Accounting policies

Basis of preparation

The Group financial statements have been prepared and approved by the Directors in accordance with international accounting standards. The accounting policies set out below have, unless otherwise stated, been applied consistently in the financial statements. The Parent Company financial statements have been prepared in accordance with FRS 101 Reduced Disclosure Framework. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:

- A cash flow statement and related notes;
- Comparative period reconciliations;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 26.

As permitted by Section 408 of the Companies Act 2006 the income statement of the Company is not presented.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary undertakings at the reporting date. The results of subsidiary undertakings acquired or disposed of during the year are included in the financial statements from or to the effective date of acquisition or disposal.

Measurement convention

The financial statements are prepared on the historical cost basis with the exception of shared equity loan receivables which are stated at their fair value.

Going concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of severe but reasonably possible downsides and the anticipated impact of COVID-19 on the operations and its financial resources, the Group and Company will have sufficient funds to meet its liabilities as they fall due for that period.

1. Accounting policies continued

Going concern continued

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

New accounting standards effective in 2020

There are no new standards and interpretations that are applicable for the first time that have had an impact on the Group's financial statements for the year ended 31 December 2020.

Revenue and profit recognition

Revenue principally represents the amounts (excluding value added tax) derived from the sale of new homes, affordable housing contracts and land. Revenue from new home sales represents the selling price for the unit, net of any cash incentives, and is recognised on legal completion and receipt of cash. Profit is recognised on a per completion basis, by reference to the remaining margin forecast across the development. Revenue from affordable housing contracts is recognised, either in line with the stage of completion, or on physical completion depending upon contract terms. Revenue from land sales is recognised on legal completion.

Jointly controlled entities (equity accounted investees)

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring the venturers' unanimous consent for strategic financial and operating decisions. Jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The consolidated financial information includes the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Investments in subsidiaries

Investments in subsidiaries are measured at cost less impairment.

Net finance costs

Finance costs comprise interest payable on senior secured notes, bank loans and amounts owed to Group undertakings and the unwinding of the discount from nominal to present day value of trade payables on extended terms (land payables), lease liabilities and retirement benefit obligations. Finance income comprises the unwinding of the discount from nominal to present day value of trade receivables on extended terms (land receivables), shared equity interest and interest on loans to joint ventures. Interest income and interest payable is recognised in the income statement on an accruals basis.

1. Accounting policies continued

Income taxes

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Leases

The Group applies IFRS 16 ‘Leases’ using the modified retrospective approach allowed under the standard.

For contracts entered into on or after 1 January 2019, the Group assesses at inception whether the contract is, or contains, a lease. A lease exists if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assessment includes whether:
- the contract involves the use of an identified asset;
- the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the contract period; and
- the Group has the right to direct the use of the asset.

At the commencement of a lease, the Group recognises a right-of-use asset along with a corresponding lease liability.

The lease liability is initially measured at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate or the interest rate inherent in the lease. The lease term comprises the non-cancellable period of the contract, together with periods covered by an option to extend the lease where the Group is reasonably certain to exercise that option based on operational needs and contractual terms. Subsequently, the lease liability is measured at amortised cost by increasing the carrying amount to reflect interest on the lease liability, and reducing it by the lease payments made. The lease liability is re-measured when the Group changes its assessment of whether it will exercise an extension or termination option.

Right-of-use assets are initially measured at cost, comprising the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, estimated asset retirement obligations, lease incentives received and initial direct costs. Subsequently, right-of-use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and are adjusted for certain re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the length of the lease.

The Group has elected to apply exemptions for short-term leases and leases for which the underlying asset is of low value. For these leases, payments are charged to the income statement on a straight-line basis over the term of the relevant lease.

1. Accounting policies continued

Leases continued

Right-of-use assets are presented within non-current assets on the face of the balance sheet, and lease liabilities are shown separately on the balance sheet in current liabilities and non-current liabilities depending on the length of the lease term.

The Group did not act as a lessor under any arrangement in the current or prior year.

Intangible assets

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Brand value: Indefinite life

The fair value on acquisition was calculated based on an external valuation of the brand.

Impairment excluding inventories and deferred tax assets

For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year.

The recoverable amount is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit” or “CGU”). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a CGU.

1. Accounting policies continued

Impairment excluding inventories and deferred tax assets continued

For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets concerned. The useful lives are as follows:

Plant and equipment: 3 to 10 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Shared equity loan receivables

Receivables on extended terms granted as part of a sales transaction are secured by way of a legal charge on the relevant property, categorised as shared equity loan receivables and are stated at fair value as described in note 13. Gains and losses arising from changes in fair value are recognised directly in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value in relation to land and work in progress is assessed by taking account of estimated selling price less all estimated costs of completion.

Land purchased on deferred payment terms is recorded at fair value. Any difference between fair value and the amount which will ultimately be paid is charged as a finance cost in the income statement over the deferral period.

The purchase and subsequent sale of part exchange properties is an activity undertaken in order to achieve the sale of a new home. As such, the activity is regarded as a mechanism for selling. Accordingly, impairments and gains and losses on the sale of part exchange properties are classified within other operating income, with the sales proceeds of part exchange properties not being included in revenue.

1. Accounting policies continued

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost less allowances for impairment and expected credit losses.

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances in hand and at bank.

Trade and other payables

Trade and other payables on normal terms are not interest bearing and are stated at their nominal value. Trade payables on extended terms, particularly in respect of land payables, are recorded at their fair value at the date of acquisition of the asset to which they relate. The discount to nominal value is amortised over the period of the credit term and charged to finance costs.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Retirement benefit obligations

The Group participates in The Miller Group Limited Group Personal Pension Plan, a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the income statement represents the contributions payable to the scheme in respect of the accounting period.

The Group operates a defined benefit pension scheme. 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 comprehensive income, actuarial gains and losses. The scheme was closed to future accrual in 2010.

Dividends on shares presented within total equity

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Notes continued
(forming part of the financial statements)

1. Accounting policies continued

Segmental reporting

The Directors regularly review the Group's performance and balance sheet position at both a consolidated and divisional level. Each division is an operating segment as defined by IFRS 8 in that the Directors assess performance and allocate resources at this level. All of the divisions have been aggregated in to one reporting segment on the basis that they share similar economic characteristics including:

– National supply agreements are in place for key inputs including materials;
– Debt is raised centrally and the cost of capital is the same at each division; and
– Sales demand at each division is subject to the same macro-economic factors, such as mortgage availability and government policy.

As there continues to be only one reportable segment whose revenue, profits, expenses, assets, liabilities and cash flows are measured and reported on a basis consistent with the Group financial statements, no additional numeric disclosures are necessary.

Additional information on average selling prices and unit sales split between divisions and customer type has been included in the Strategic report. The Directors do not, however, consider these categories to be separate reportable segments as they review the entire operations at a consolidated and divisional level when assessing performance and making decisions about the allocation of resources.

Impact of standards and interpretations in issue but not yet effective

There are no new IFRS or interpretations that have been issued but have not been applied to these financial statements that are expected to have a material effect on the financial statements.

2. Operating profit

Operating profit is stated after charging the following:

	2020 £m	2019 £m
Depreciation:		
Owned assets	**0.6**	0.6
Right–of–use assets	**2.1**	2.4
	2.7	3.0

Exceptional items:		
Non-productive costs	**4.3**	–

Exceptional items represent non-productive site labour costs incurred during the first national lockdown. These costs would normally have been capitalised in work in progress but due to construction sites being closed and no production activity during this time these costs have been expensed. These costs reflect full salary payments to staff with no benefit received from the CJRS following the decision taken to return the grant income initially received.

	2020 £m	2019 £m
Auditor's remuneration:		
Audit of the Group's financial statements	**31**	31
Audit of financial statements of subsidiaries and joint ventures pursuant to legislation	**125**	121
Other services relating to taxation	**15**	12
All other services	**29**	84

3. Revenue and other operating income

Revenue

The Group generates revenue primarily from the sale of new homes. Other sources of revenue are land sales and freehold ground rents.

Major product lines

	2020 £m	2019 £m
Sale of new homes	**663.5**	830.0
Land sales	**1.3**	11.0
Other revenue	**–**	0.4
	664.8	841.4

3. Revenue and other operating income continued

Timing of revenue recognition

	2020 £m	2019 £m
Products and services transferred at a point in time	**602.3**	775.0
Products and services transferred over time	**62.5**	66.4
	664.8	841.4

Contract balances

The following table provides information about balances arising from contracts with customers:

	2020 £m	2019 £m
Amounts included in trade receivables	**2.4**	1.8
Amounts included in amounts recoverable on contracts	**1.3**	1.3
Amounts included within other payables	**(17.6)**	(7.9)

Amounts included in trade receivables relate to work billed but not paid on Housing Association contracts. Amounts recoverable on contracts represent amounts receivable but not yet billed at the year end. Amounts included within payables represent advance consideration received from customers on Housing Association contracts and customer deposits.

The amount of £7.9m that was included in other payables at last year end was included in revenue in the year. The amount of £17.6m included in other payables at the year end represents cash received not recognised as revenue in the year.

The following table shows revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date:

	2022 £m	2023 £m	2024 £m	2025 onwards £m
	51.2	16.8	10.8	7.1

No information is provided about remaining performance obligations at 31 December 2020 that have an expected duration of one year or less, as allowed by IFRS 15.

Other operating income

Other operating income includes the profit or loss on sale of part exchange properties and management fees on joint ventures. During the year, part exchange houses costing £36.0m (2019: £73.1m) were acquired and part exchange houses with a value of £52.2m (2019: £68.4m) were sold.

4. Staff numbers and costs

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

	2020 Number	2019 Number
Production	**425**	435
Sales	**139**	136
Administration	**443**	438
	1,007	1,009

The aggregate payroll costs of these persons were as follows:

	2020 £m	2019 £m
Wages and salaries	**53.7**	55.5
Social security costs	**5.7**	6.0
Pension costs	**3.8**	3.1
	63.2	64.6

5. Remuneration of key management

Key management comprises the eight directors (2019: six directors) listed on page 51 as they are considered to have the authority and responsibility for planning, directing and controlling the activities of the Group. Retirement benefits accrued to eight (2019: six) members of key management under money purchase schemes. Key management remuneration, including Directors, comprised:

	2020 £m	2019 £m
Salary and other benefits	**2.6**	2.0
Annual bonus	**–**	0.7
Other pension costs	**0.1**	0.1
	2.7	2.8

In respect of the Directors who held office during the year, remuneration comprised:

	2020 £m	2019 £m
Salary and other benefits	**2.1**	2.0
Annual bonus	**–**	0.7
Other pension costs	**0.1**	0.1
	2.2	2.8

Retirement benefits are accruing to six (2019: six) Directors under money purchase schemes. The aggregate emoluments of the highest paid Director was £534,000 (2019: £718,000) and contributions were paid by the Group to his money purchase pension scheme of £5,000 (2019: £10,000).

6. Finance cost

	2020 £m	2019 £m
Interest payable on senior secured notes, bank loans and overdrafts	**29.2**	27.4
Interest payable on amounts owed to immediate Parent Company	**13.1**	12.0
Imputed interest on land payables on deferred terms	**8.3**	6.8
Finance costs related to retirement benefit obligations	**0.3**	0.3
Imputed interest on lease liabilities	**0.3**	0.4
	51.2	46.9

7. Finance income

	2020 £m	2019 £m
Imputed interest on land sales on deferred terms	**0.1**	–
Interest on loans to joint ventures	**0.3**	0.5
Other	**0.4**	0.6
	0.8	1.1

8. Income taxes

	2020 £m	2019 £m
Current tax charge:		
Current year	**(4.6)**	(10.6)
Prior years	**(0.5)**	–
Total current tax	**(5.1)**	(10.6)
Deferred tax charge:		
Current year	**(7.9)**	(12.5)
Prior years	**0.5**	–
Total deferred tax (note 14)	**(7.4)**	(12.5)
Tax charge for the year	**(12.5)**	(23.1)

8. Income taxes continued

Reconciliation of effective tax rate

	2020 £m	2019 £m
Profit before tax	**60.1**	122.1
Tax using the UK corporate tax rate (see below)	**(11.4)**	(23.2)
Effects of:		
Permanent differences	**(1.3)**	(0.6)
Change of rate	**(0.2)**	–
Adjustment in respect of joint ventures	**0.4**	0.7
Total charge for the year	**(12.5)**	(23.1)

Current tax has been charged at 19% (2019: 19%) in the reconciliation above.

A corporate tax rate of 19% (2019: 19%) is applied to deferred tax. The future tax charge will be impacted to the extent that tax relief is not available in full for future finance costs.

9. Dividends

There were no dividends to equity shareholders in the year ended 31 December 2020 (2019: £nil).

10. Intangible assets

Group	Goodwill £m	Brand value £m	Total £m
Cost			
At beginning and end of year	**92.2**	**54.0**	**146.2**
Net book value			
At beginning and end of year	**92.2**	**54.0**	**146.2**

Amortisation and impairment

Intangible assets are deemed to have an indefinite economic life and are therefore not amortised. Their carrying values are tested for impairment at least annually. The latest impairment review was performed at December 2020. The recoverable amount is determined using a 'value in use' calculation with key assumptions being discount rate, growth rate and projected gross margin. A post tax discount rate of 7% is used reflecting the Group's risk adjusted WACC. Other assumptions are based upon expectations of future performance. The values used are consistent with the Group's forecasts for future years. The Directors believe these assumptions are appropriate and sensitivity analysis indicates that changes in the key assumptions would maintain a reasonable amount of headroom over the carrying value.

11. Property, plant and equipment

Group	Plant and equipment £m
Cost	
At 31 December 2018	2.9
Additions	0.7
At 31 December 2019	3.6
Additions	0.7
At 31 December 2020	**4.3**
Accumulated depreciation	£m
At 31 December 2018	1.6
Charge for the year	0.6
At 31 December 2019	2.2
Charge for the year	0.6
At 31 December 2020	**2.8**
Net book value	
At 31 December 2019	1.4
At 31 December 2020	**1.5**

12. Investments

	Group		Company	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Investment in joint ventures	**10.3**	15.6	**–**	–
Investment in subsidiaries	**–**	–	**537.4**	537.4
	10.3	15.6	**537.4**	537.4

	Group	
Investment in joint ventures	**2020 £m**	2019 £m
At beginning of year	**15.6**	21.6
Share of profits	**2.4**	3.7
Distributions	**(3.6)**	–
Movement in shareholder loans	**(4.1)**	(9.7)
At end of year	**10.3**	15.6

The total of the Group's profit before taxation from interests in joint ventures and associates is £2.9m (2019: £4.7m).

The Group has an interest in four active joint ventures, Miller Wates (Southwater) Limited, Miller Wates (Wallingford) Limited, Miller Wates (Chalgrove) Limited and Miller Wates (Bracklesham) Limited. It holds 50% of the ordinary share capital of each and all are incorporated in the UK and engage in the principal activity of residential housebuilding.

The Group's share of assets and liabilities of joint ventures is shown below:

	Group	
	2020 £m	2019 £m
Current assets	**17.7**	23.6
Current liabilities	**(11.7)**	(16.4)
Loans provided to joint ventures	**4.3**	8.4
	10.3	15.6

The Group's pre tax share of joint venture income and expenses is shown below:

	Group	
	2020 £m	2019 £m
Income	**15.3**	25.3
Expenses	**(12.4)**	(20.6)
	2.9	4.7

12. Investments continued

Investment in subsidiaries	Company 2020 £m	Company 2019 £m
At beginning and end of year	**537.4**	537.4

The subsidiary undertakings that are significant to the Group and traded during the year are set out below:

Subsidiary undertakings	Nature of business
Miller Homes Holdings Limited	Residential housebuilding
Miller Homes Limited	Residential housebuilding
Miller (Telford South) Limited	Residential housebuilding
Miller Framwellgate Limited	Residential housebuilding

Each subsidiary undertaking listed above is incorporated in the United Kingdom and is 100% owned.

Details of all Group companies are given in note 30.

13. Shared equity loan receivables

	Group 2020 £m	Group 2019 £m
At start of year	**8.9**	13.7
Redemptions (net of fair value movements)	**(1.9)**	(4.8)
At end of year	**7.0**	8.9

Shared equity loan receivables comprise loans which were granted as part of sales transactions under the Group's MiWay scheme and the government HomeBuy Direct and FirstBuy shared equity schemes. They are secured by way of a second ranking legal charge over the related property. The assets are recorded at fair value, being the estimated future amount receivable by the Group, discounted to present day values. The fair value of anticipated cash receipts takes into account the Directors' view of future house price movements, the expected timing of receipts, and the likelihood that a purchaser defaults on repayment. The Directors review the future anticipated receipts from the assets at the end of each financial year. Credit risk, which the Directors currently consider to be mitigated through holding a second legal charge over the assets, is accounted for in determining fair values and appropriate discount factors are applied. The Directors review the financial assets for impairment at each balance sheet date. The Directors expect an average maturity profile of between 5 and 10 years from the balance sheet date.

14. Deferred tax

	Group					
	Trading losses £m	Retirement benefit obligations £m	Capital allowances £m	Other temporary differences £m	Other intangibles £m	Total £m
At 31 December 2018	19.9	2.3	0.2	2.7	(9.2)	15.9
Other comprehensive income credit	–	1.4	–	–	–	1.4
Income statement charge	(12.0)	(0.7)	–	0.2	–	(12.5)
At 31 December 2019	7.9	3.0	0.2	2.9	(9.2)	4.8
Other comprehensive income credit	–	0.3	–	–	–	0.3
Income statement charge	(5.4)	(0.6)	(0.1)	(0.2)	(1.1)	(7.4)
At 31 December 2020	**2.5**	**2.7**	**0.1**	**2.7**	**(10.3)**	**(2.3)**

15. Inventories

	Group	
	2020 £m	2019 £m
Land	**490.6**	517.3
Work in progress	**311.8**	296.4
Part exchange properties	**6.2**	20.6
	808.6	834.3

Land and work in progress recognised as cost of sales in the year to 31 December 2020 amounted to £509.7m (2019: £634.9m). The write-down of stocks to net realisable value in the year amounted to £1.4m (2019: £0.2m). The write-down is included in cost of sales.

16. Trade and other receivables

Current	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Trade receivables	**7.4**	6.1	**–**	–
Amounts recoverable on contracts	**1.3**	1.3	**–**	–
Amounts owed by ultimate Parent Company	**6.0**	6.0	**6.0**	6.0
Other receivables	**6.0**	5.7	**–**	–
Prepayments and accrued income	**1.5**	1.5	**–**	–
	22.2	20.6	**6.0**	6.0

Non-current	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Amounts owed by subsidiary undertakings	**–**	–	**112.2**	150.7

17. Trade and other payables

Current	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Trade payables	**90.9**	85.0	**–**	–
Other payables	**26.0**	15.9	**–**	–
Land payables (see below)	**54.4**	107.4	**–**	–
Accruals and deferred income	**36.8**	37.0	**5.6**	5.2
Corporation tax	**0.3**	7.5	**–**	–
	208.4	252.8	**5.6**	5.2

Non-current	Group 2020 £m	Group 2019 £m
Land payables (see below)	**44.5**	44.6

Land payables

The Group undertakes land purchases on deferred terms. The deferred creditor is recorded at fair value being the price paid for the land discounted to the present day value. The difference between the nominal value and the initial fair value is amortised over the deferred period and charged to finance costs, increasing the land payable to its full cash settlement value on the payment date.

17. Trade and other payables continued

Land payables continued

The interest rate used for each deferred payment is an equivalent loan rate available on the date of land purchase, as applicable to a loan lasting for a comparable period of time to that deferment.

The maturity profile of the total contracted cash payments in respect of land payables at the balance sheet date is as follows:

	Balance £m	Total contracted cash payments £m	Due less than 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m
As at 31 December 2019	152.0	161.6	107.4	25.5	28.7
As at 31 December 2020	**98.9**	**104.8**	**54.4**	**33.6**	**16.8**

18. Loans and other borrowings

	Group and Company	
Non-current	**2020 £m**	2019 £m
Senior secured notes (net of deferred financing costs)	**443.7**	391.3
Amounts owed to immediate parent undertaking	**144.5**	131.4
	588.2	522.7

Senior secured notes

The contractual, undiscounted maturity profile of the Group's senior secured notes are as follows:

	Group and Company	
	2020 £m	2019 £m
Floating (at Libor plus 5.25%) due 2023	**51.0**	161.0
Fixed (at 5.5%) due 2024	**404.0**	244.0
Deferred financing costs (net of premium on issue)	**(11.3)**	(13.7)
	443.7	391.3

The senior secured notes are secured by a debenture and floating charge over the assets of the Group and a pledge over the shares of certain of its principal subsidiaries. During the year £160m of fixed rate notes were issued with the proceeds partially used to repay £110m of floating rate notes.

Amounts owed to immediate parent undertaking

Amounts are repayable in 2027. Interest accrues at 10% per annum.

19. Provisions and deferred income

	Group		
	Property £m	Other £m	Total £m
At 1 January 2020	1.2	1.4	2.6
Created in year	0.1	–	0.1
At 31 December 2020	**1.3**	**1.4**	**2.7**

The property provision covers the estimated costs to make good dilapidations on occupied properties.

Other provisions represent legal and constructive obligations. The remaining provisions are expected to be utilised over the next three years.

20. Leases

The Group adopted IFRS 16 with an initial application date of 1 January 2019.

The Group's leases consist primarily of office premises and equipment. Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

£m	Office premises	Equipment	Total
At 1 January 2019	6.3	2.6	8.9
Additions	0.5	1.2	1.7
Depreciation	(1.0)	(1.4)	(2.4)
At 31 December 2019	5.8	2.4	8.2
Additions	0.5	0.3	0.8
Disposals	(0.3)	–	(0.3)
Depreciation	(1.0)	(1.1)	(2.1)
At 31 December 2020	**5.0**	**1.6**	**6.6**

20. Leases continued

Lease liabilities

£m	Office premises	Equipment	Total
At 1 January 2019	6.6	2.6	9.2
Additions	0.5	1.2	1.7
Lease payments	(1.3)	(1.5)	(2.8)
Imputed interest	0.2	0.2	0.4
At 31 December 2019	6.0	2.5	8.5
Additions	0.5	0.3	0.8
Disposals	(0.4)	–	(0.4)
Lease payments	(1.2)	(1.3)	(2.5)
Imputed interest	0.2	0.1	0.3
At 31 December 2020	**5.1**	**1.6**	**6.7**

Maturity:	**2020 £m**	2019 £m
Non-current	**5.0**	6.4
Current	**1.7**	2.1

The total cash outflow for leases during the year was £2.5m (2019: £2.8m), including £0.3m (2019: £0.4m) of interest.

21. Share capital

	2020 £m	2019 £m
Allotted, called up and fully paid 151,000,000 ordinary shares of £1 each	**151.0**	151.0

22. Financial instruments

The Group's financial instruments comprise senior secured notes, leases, cash, loans, trade and other receivables, other financial assets and trade and other payables. The main purpose of these financial instruments is to finance the Group's operations.

Measurement of fair values

The fair value of the Group's financial assets and liabilities is set out in the table below. There is no difference between the fair value and carrying value of any financial assets and financial liabilities.

	2020 £m	2019 £m
Financial assets measured at fair value		
Shared equity loan receivables	**7.0**	8.9
Financial assets not measured at fair value		
Trade and other receivables	**22.2**	20.6
Cash and cash equivalents	**242.8**	139.8
Financial liabilities not measured at fair value		
Trade and other payables (excluding land payables)	**154.0**	145.4
Land payables	**98.9**	152.0
Interest bearing loans and borrowings	**588.2**	522.7
Lease liabilities	**6.7**	8.5

The following table provides an analysis of financial assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets to identical assets;
Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset/liability that are not based on observable market data (unobservable inputs).

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Shared equity loan receivables				
As at 31 December 2019	–	–	8.9	8.9
As at 31 December 2020	**–**	**–**	**7.0**	**7.0**

22. Financial instruments continued

Valuation technique for shared equity loan receivables

The fair value is determined by considering the expected payment profile using the discounted present value of expected future cash flows. The major unobservable inputs include the expected timing of redemption payments, management's estimates of the market value of the properties and of the appropriate risk adjusted discount rate to determine present value of the cash flows. A discount rate of 8.3% (2019: 8.3%) has been applied. The estimated fair value would increase if the risk adjusted discount rate was reduced, and the fair value would also be impacted by any change in the estimate of the timing of redemption receipts. There are a number of uncertainties inherent in such estimates, which would impact on the carrying value of shared equity loan receivables.

Financial risk

The main risks associated with the Group's financial instruments are credit risk, liquidity risk, market risk and interest rate risk. The Directors are responsible for managing these risks and the policies adopted are set out below.

(i) Credit risk

The Group's exposure to credit risk is limited by the fact that the Group generally receives cash at the point of legal completion of its sales. There are certain categories of revenue where this is not the case; for instance housing association revenues or land sales where management considers that the ratings of these various receivables are good and therefore credit risk is low.

The Group has £7.0m (2019: £8.9m) of shared equity loan receivables which exposes it to credit risk although this asset is spread over a large number of properties. As such, the Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The maximum exposure to credit risk at 31 December 2020 is represented by the carrying amount of each financial asset.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The day to day working capital requirements of the Group are provided through cash on balance sheet and a revolving credit facility which is largely committed until 2023. The Group manages its funding requirements by monitoring cash flows against forecast requirements on a weekly basis.

(iii) Market risk

The Group is affected by movements in UK house prices. These in turn are affected by factors such as credit availability, employment levels, interest rates, consumer confidence and supply of land with planning.

Whilst it is not possible for the Group to fully mitigate market risk on a national macroeconomic basis, the Group does continually monitor its geographical spread within the UK, seeking to balance investment in areas offering the best immediate returns with a long-term spread of its operations throughout the UK to minimise the effect of local microeconomic fluctuations.

22. Financial instruments continued

(iv) Interest rate risk

Interest rate risk reflects the Group's exposure to interest rates in the market. An element of the senior secured notes is subject to floating interest rates based on LIBOR. The Group has reduced its exposure to interest rate movements through the issue of fixed rate notes.

For the 12 months ended 31 December 2021, it is estimated that an increase of 1% in interest rates would increase the Group's net finance costs by £0.5m (2020: £1.6m).

The maturity of the financial liabilities has been disclosed in note 18.

Capital management

The Directors' policy is to maintain a strong balance sheet so as to promote shareholder, customer and creditor confidence and to sustain the future development of the business. The Group is currently financed by a combination of equity share capital, shareholder loans and senior secured notes all of which are long term in nature.

Management of cash and cash equivalents and net debt

The management of cash and net debt remains a principal focus of the Directors, together with the ability to service and repay debt. The Directors have considered the forecasts of future profitability and cash generation and consider that these forecasts support the going concern assertion.

23. Reconciliation of net cash flow to net debt

	2020 £m	2019 £m
Movement in cash and cash equivalents	**103.0**	41.2
Movement in other loans	**–**	10.3
Movement in senior secured notes	**(52.4)**	(3.1)
Movement in long term borrowings	**(13.1)**	(12.0)
Movement in net debt in year	**37.5**	36.4
Net debt at beginning of year	**(382.9)**	(419.3)
Net debt at end of year	**(345.4)**	(382.9)

24. Analysis of net debt

	31 December 2019 £m	Cash flow £m	Non cash movement £m	**31 December 2020 £m**
Cash and cash equivalents	139.8	103.0	–	**242.8**
Senior secured notes	(391.3)	(49.1)	(3.3)	**(443.7)**
Net external debt	(251.5)	53.9	(3.3)	**(200.9)**
Amounts owed to immediate parent undertaking	(131.4)	–	(13.1)	**(144.5)**
Net debt	**(382.9)**	**53.9**	**(16.4)**	**(345.4)**

25. Contingent liabilities

Certain subsidiaries 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.

26. Accounting estimates and judgements

Carrying value of inventories

Inventories of land and development work in progress are stated at the lower of cost and net realisable value. Due to the nature of development activity and in particular, the length of the development cycle, the Group has to allocate site wide development costs such as infrastructure between units being built and/or completed in the current year and those for future years. These estimates are reflected in the margin recognised on developments where unsold plots remain, and in the carrying value of land and work in progress. There is a degree of uncertainty in making such estimates.

The Group has established internal controls that are designed to ensure an effective assessment is made of inventory carrying values and the costs to complete developments. The Group reviews the carrying value of its inventories on a quarterly basis with these reviews performed on a site by site basis using forecast sales prices and anticipated costs to complete based on a combination of the specific trading conditions of each site in addition to future anticipated general market conditions. Net realisable value represents the estimated selling price of units less all estimated costs of completion, including an appropriate allocation of overheads.

Retirement benefit obligations

The value of the defined benefit plan liabilities is determined by using various long term actuarial assumptions, including future rates of inflation, growth, yields, returns on investments and mortality rates. As actual changes in inflation, growth, yields and investment returns may differ from those assumed, this is a key source of estimation uncertainty within the financial statements. Changes in these assumptions over time and differences to the actual outcome will be reflected in the statement of comprehensive income. Note 29 details the main assumptions in accounting for the Group's defined benefit pension scheme along with sensitivities of the liabilities to changes in these assumptions.

27. Related party transactions

Disclosures related to the remuneration of key personnel as defined in IAS 24 'Related Party Disclosures' are given in note 5.

	2020 £m	2019 £m
Amounts owed by joint ventures in respect of outstanding loans and other outstanding payables	**4.3**	8.4
Amounts owed by ultimate parent company	**6.0**	6.0
Amounts owed to Miller Midco 2 Limited	**(144.5)**	(131.4)
Interest payable to Miller Midco 2 Limited	**(13.1)**	(12.0)
Interest receivable on loans to joint ventures	**0.3**	0.5
Monitoring fee payable to Bridgepoint	**0.3**	0.3

A loan of £79,000 made to a Director in the prior year remains outstanding at the year end.

28. Ultimate parent company

At 31 December 2020, the Company was a subsidiary undertaking of Miller Midco 2 Limited. The ultimate parent company incorporated in the United Kingdom is Miller Homes Group Limited.

The largest group in which the results of this Company are consolidated is that headed by Miller Homes Group Limited. The consolidated financial statements of this Group are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3VZ. The address of the company and of its ultimate and intermediate parent companies is 2 Centro Place, Derby, DE24 8RF.

At the date of approval of these financial statements, the Company was ultimately controlled by Bridgepoint, through BEV Nominees Limited as nominee for funds managed by Bridgepoint Advisers Limited, whose address is 95 Wigmore Street, London, W1U 1FB.

29. Retirement benefit obligations

The Group operates defined contribution and defined benefit pension schemes.

Defined contribution schemes

Contributions during the year	2020 £m	2019 £m
Group defined contribution schemes consolidated income statement charge	**3.4**	3.1

29. Retirement benefit obligations continued

Defined benefit scheme

Miller Homes Limited is the principal employer of The Miller Group Limited pension scheme. This is a defined benefit scheme which is closed to future accrual.

The assets of the scheme have been calculated at fair (bid) value. The liabilities of the scheme have been calculated at the balance sheet date using the following assumptions:

Principal actuarial assumptions	2020	2019
Weighted average assumptions to determine benefit obligations		
Discount rate	**1.30%**	2.00%
Rate of price inflation (RPI)	**2.90%**	2.95%
Weighted average assumptions to determine net cost		
Discount rate	**2.00%**	2.85%
Rate of pension increases	**2.90%**	3.05%
Rate of price inflation (RPI)	**2.95%**	3.15%

Members are assumed to exchange 25% of their pension for cash on retirement. The assumptions have been chosen by the Group following advice from the Group's actuarial advisers.

The following table illustrates the life expectancy for an average member on reaching age 65, according to the mortality assumptions used to calculate the scheme liabilities:

Life expectancy	
Retired member aged 65 (male life expectancy at age 65)	21.7 years
Non–retired member aged 45 (male life expectancy at age 65)	23.0 years

The base mortality assumptions are based upon the S3PA mortality tables. Allowance for future increases in life expectancy is made with an annual rate of improvement in mortality of 1.25% assumed. However to reflect the impact of the COVID-19 pandemic no increases in life expectancy are now assumed until 2024. The impact of this adjustment is to reduce life expectancy by 0.2 years and to reduce the retirement benefit obligation by £2.2m.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Sensitivities	Change in assumption	Movement in scheme liabilities
Discount rate	Decrease by 0.1% Increase by 0.1%	£3.1m (1.8%) increase £2.9m (1.6%) decrease
Rate of inflation	Increase by 0.1% Decrease by 0.1%	£1.3m (0.7%) increase £1.3m (0.7%) decrease
Life expectancy – future improvements	Increase by 0.1% Decrease by 0.1%	£0.6m (0.3%) increase £0.6m (0.3%) decrease

29. Retirement benefit obligations continued

Defined benefit scheme continued

The amounts recognised in the consolidated income statement were as follows:

	2020 £m	2019 £m
Interest cost	**3.2**	4.2
Interest income	**(2.9)**	(3.9)
Total pension cost recognised in finance costs in the consolidated income statement	**0.3**	0.3
Total pension cost recognised in administrative expenses	**0.4**	–
Total pension cost recognised in the consolidated income statement	**0.7**	0.3

The amounts recognised in the consolidated statement of comprehensive income were as follows:

	2020 £m	2019 £m
Return on scheme assets excluding interest income	**(15.9)**	(9.9)
Actuarial loss arising from changes in the assumptions underlying the present value of benefit obligations	**18.5**	18.7
Experience gain	**–**	(1.1)
Demographic assumptions	**(1.2)**	0.2
Total pension cost recognised in the consolidated statement of comprehensive income	**1.4**	7.9

The amount included in the consolidated statement of financial position arising from obligations in respect of the scheme is as follows:

	2020 £m	2019 £m
Present value of defined benefit obligations	**176.1**	165.8
Fair value of scheme assets	**(162.3)**	(149.3)
Recognised liability for defined benefit obligations	**13.8**	16.5

	2020 £m	2019 £m
Liability for defined benefit obligations at start of year	**16.5**	13.0
Contributions	**(4.8)**	(4.7)
Expense recognised in the consolidated income statement	**0.7**	0.3
Amounts recognised in the Group statement of comprehensive income	**1.4**	7.9
Liability for defined benefit obligations at end of year	**13.8**	16.5

A deferred tax asset of £2.7m (2019: £3.0m) has been recognised in relation to the retirement benefit obligations (note 14).

29. Retirement benefit obligations continued

Defined benefit scheme continued

Movements in the present value of defined benefit obligations were as follows:

	2020 £m	2019 £m
Present value of defined benefit obligations at start of year	**165.8**	152.3
Past service cost	**0.4**	–
Interest cost	**3.2**	4.2
Actuarial loss on scheme liabilities	**18.5**	18.7
Experience gain	**–**	(1.1)
Demographic assumptions	**(1.2)**	0.2
Benefits paid from scheme	**(10.6)**	(8.5)
Present value of defined benefit obligations at end of year	**176.1**	165.8

Movements in the fair value of scheme assets were as follows:

	2020 £m	2019 £m
Fair value of scheme assets at start of year	**149.3**	139.3
Contributions	**4.8**	4.7
Interest income	**2.9**	3.9
Actuarial gain on scheme assets	**15.9**	9.9
Benefits paid from scheme	**(10.6)**	(8.5)
Fair value of scheme assets at end of year	**162.3**	149.3

A split of scheme assets by percentage is as follows:

	2020	2019
Equity type investments	**33.9%**	31.6%
Debt type securities	**61.0%**	67.8%
Other	**5.1%**	0.6%
Total	**100.0%**	100.0%

Notes continued
(forming part of the financial statements)

29. Retirement benefit obligations continued

Funding

The scheme is subject to the funding legislation outlined in the Pensions Act 2004. This, together with the documents issued by the Pensions Regulator and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension plans in the UK. The funding of the scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions used in the financial statements. The latest full actuarial valuation, carried out at 30 June 2019, by a qualified independent actuary, showed a deficit of £20.5m.

In line with the requirements noted above the actuarial valuation is agreed between the Group and the trustees and is calculated using prudent, as opposed to best estimate, actuarial assumptions. Following the completion of the triennial actuarial valuation, a revised schedule of contributions was put in place. Under this revised schedule, the Group will pay deficit contributions of £14m over the recovery period of 3 years. The expected employer contribution to the scheme in the year ending 31 December 2021 is £4.8m.

30. Group companies

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries, associates and joint ventures and the effective percentage of equity owned as at 31 December 2020 are disclosed below. All companies are incorporated in the United Kingdom, engaged in housebuilding and associated activities and are owned directly by Miller Homes Holdings Limited unless indicated below:

Fully owned subsidiaries

Dormant

Birch Limited – B
Birch Commercial Limited(i) – B
Birch Homes Limited(i) – B
Arwinrise Limited – C
Cussins Homes (Yorks) Limited – B
Highfields Developments Limited – B
FHL Nominees (No1) Ltd – B
James Miller & Partners Limited – A
Lemmington Estates Limited – B
Miller (Barrow) Limited – A
Miller (Cobblers Hall) Limited – B
Miller (Telford North) Limited – A
Miller Airdrie Limited – B
Miller East Kilbride Limited – A
Miller Fullwood Limited – B
Miller Gadsby (Burton Albion) Limited – B
Miller Homes (Yorkshire) Limited – A
Miller Homes Cambridge Limited – B
Miller Homes Cambuslang Limited – A
Miller Homes City Quay Limited – B
Miller Homes Special Projects Portfolio Limited – A
Miller (Eccles) Limited(ii) – B
Miller Homes Two Limited – A
Miller Maidenhead Limited – B
Miller Residential (Northern) Limited – B
Fairclough Homes Limited – B
Viewton Properties Limited – B
MF Development Company UK Limited – B
MF Development Funding Company UK Limited(iii) – B
Miller Fairclough UK Limited(iv) – B
CDC2020 Limited(v) – B
Fairclough Homes Group Limited(v) – B
MF Strategic Land Limited(v) – B
Lowland Plaid Limited – D
Miller Fairclough Management Services Limited(v) – B
Alderview Homes (Carrickstone) Limited – A
Miller Belmont Limited – A
Land & City Properties (Bollington) Limited – A
L Williams & Co Limited – B
Emerald Shared Equity Limited – B

Trading

Miller Homes Holdings Limited(viii) – A
Miller Framwellgate Limited – B
Miller Homes Limited – A
Miller (Telford South) Limited(ii) – A
Miller Homes St Neots Limited – A
Miller Residential Development Services Limited – A

Notes continued
(forming part of the financial statements)

30. Group companies continued

Joint ventures (all 50%)

Dormant

College Street Residential Developments Limited[vi] – A
Mount Park Developments Limited[vi] – A
Perth Land and Estates Limited[vi] – A
Canniesburn Limited – F
Lancefield Quay Limited – A
Miller Applecross (Edinburgh Quay) Limited – A
Miller Gadsby (Castle Marina) Limited – B
Miller Wates (Didcot) Limited – B
Scotmid-Miller (Great Junction Street) Limited – A
St Andrews Brae Developments Limited – E
Iliad Miller (No 2) Limited[vi] – A
Iliad Miller Limited[vi] – A

Trading

Miller Wates (Southwater) Limited – B
Miller Wates (Wallingford) Limited – B
Miller Wates (Bracklesham) Limited – B
Miller Wates (Chalgrove) Limited – B

Associates (45%)

New Laurieston (Glasgow) Limited – G (Trading)

(i) Held via Birch Limited
(ii) Held via Miller Homes Special Projects Portfolio Limited
(iii) Held via MF Development Company UK Limited
(iv) Held via MF Development Funding Company UK Limited
(v) Held via Miller Fairclough UK Limited
(vi) Held via Miller Residential Development Services Limited
(vii) Held via Miller Homes Limited
(viii) Held via Miller Homes Group Holdings plc

The letter shown following the name of each company identifies the address of its registered office as follows:

A – 2 Lochside View, Edinburgh
B – 2 Centro Place, Derby
C – Redburn Court, North Shields
D – 18 Bothwell Street, Glasgow
E – 14-17 Market Street, London
F – 52-54 Rose Street, Aberdeen
G – 3 Cockburn Street, Edinburgh

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Head office

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DE24 8RF

Company registration number
10854458

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G69 6GA

Scotland East
2 Lochside View
Edinburgh Park
Edinburgh
EH12 9DH

North East of England
Redburn Court
Earl Grey Way
North Shields
NE29 6AR

Teesside
26 Carlbury Road,
Aycliffe Business Park, Newton Aycliffe
DL5 6BH

North West of England
103 Dalton Avenue
Birchwood Park
Warrington
WA3 6YF

Yorkshire
Peel Avenue
Calder Park
Wakefield
WF2 7UA

East Midlands
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West Midlands
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Worcester
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RG24 8QB