# miller homes

Annual Report 2017

Miller Homes is a respected national homebuilder with an established reputation for building outstanding quality family homes and excellent customer service. We believe that by building homes safely, in a way which is considerate to the environment and by delighting our customers with a product and experience that recognises buying a home is a significant lifetime purchase, we will deliver superior long term results for all our stakeholders.

Miller Homes – the place to be.



Pictures:
Cover left: Parklands, Wythall, Worcestershire.
Cover right: Ferrygate Meadow, North Berwick, East Lothian.
Cover bottom: Prospective buyers visiting a Miller Homes show home.

Top left: Dales View, Brailsford, Derbyshire.
Left: Eskbank Grange, Eskbank, Midlothian.

"2017 was an exceptional year for the Group with the delivery of another record trading performance. We look forward to 2018 with confidence and are delighted to be supported by Bridgepoint, our new shareholders, and John White, our new Chairman, who are fully committed to Miller Homes' ambitious growth strategy."

**Chris Endsor** | Chief Executive

Completions
**2,775**
+15%

Revenue
**£675m**
+19%

Average selling price (ASP)
**£239,000**
+4%

Operating profit
**£130m**
+26%

Profit before tax
**£120m**
+34%

Net assets
**£429m**
+34%

Consented landbank (plots)
**13,738**
+5%

Return on capital employed (ROCE)
**32.9%**
+9%

Picture:
Oak Grange, Mickleton, Gloucestershire.

# Focused on high quality family homes in regional markets

The Group's primary focus is on family homes, however, we also sell a wide range of residential homes, including townhouses, apartments, executive homes to private buyers and also affordable homes to housing associations.

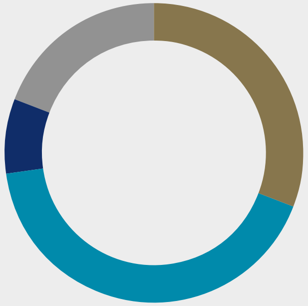
The Group has three divisions (Scotland, North and Midlands & South) with bases in seven regions – Scotland, North East, North West, Yorkshire, East Midlands, West Midlands and Central Southern England.

## Our homes

Completions

**2,775**
+15%

Our product offering ranges from one bedroom apartments to five bedroom family homes, with the average private home being a four bedroom home of approximately 1,200 sq ft.



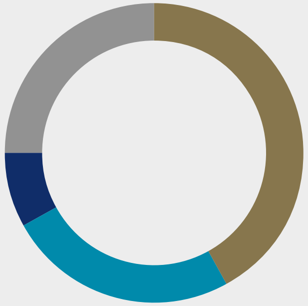
- 2-3 bed – 30%
- 4-5 bed – 42%
- Apartments & townhouses – 8%
- Affordable – 20%

## Our customers

Reservations

**3,175**
+9%

The Group can provide a range of ways to assist customers in purchasing a new home.



- 100% reservation[1] – 42%
- Help to Buy – 25%
- Part exchange – 8%
- Affordable – 25%

## Our markets

Developments

**66**
+3%

Developments are spread across key locations in each of the Group's divisions, with England representing 75% and Scotland 25%.

- Scotland – 25%
- North – 41%
- Midlands & South – 34%

Notes:
All figures are for core and joint venture developments.
1. Other than incidentals, such as stamp duty, carpets.

## Our regional focus

The Group continues to focus on its strong presence in its established regional markets, outside London and the South East, delivering predominantly family homes in quality suburban locations where levels of demand and affordability remain favourable.

### Scotland

**Consented plots**

**2,626**
+21%

| ASP (£000) | Completions |
|---|---|
| **253** | **687** |
| +0% | +12% |

The vast majority of developments are located in the central belt of Scotland, close to the two key cities of Glasgow and Edinburgh. Our regional offices are situated in Glasgow and Edinburgh to service these markets.

### North

**Consented plots**

**4,933**
+17%

| ASP (£000) | Completions |
|---|---|
| **208** | **1,054** |
| +5% | +11% |

The North division has offices based in North Shields, Haydock and Wakefield. These serve the main cities and conurbations in the North East, North West and Yorkshire regions respectively such as Newcastle, Sunderland, Manchester, Liverpool, Leeds and Sheffield.

### Midlands & South

**Consented plots**

**6,179**
-7%

| ASP (£000) | Completions |
|---|---|
| **263** | **957** |
| +4% | +17% |

A new office was established in the Midlands during the year, which is based in Worcester. This complements the existing Midlands office in Derby, establishing East and West Midlands regions and allowing us to fully focus across the whole of the Midlands region. Our office in Basingstoke covers Central Southern England and the key counties of Oxfordshire, Berkshire and Hampshire.

# Key performance indicators

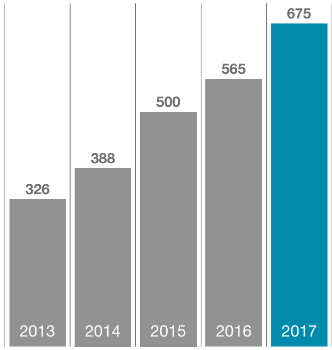
The successful execution of the Group's strategy has led to another year of improvement in our key financial metrics.

## Financial

### Revenue (£m)

**£675m**

**+19%**



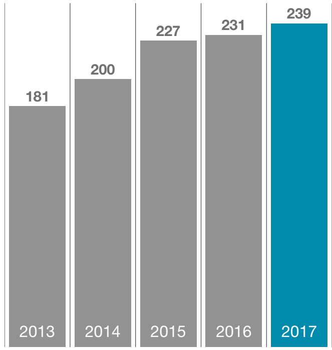

**Definition**
This represents statutory revenue which is predominantly generated through the sale of new homes and to a lesser extent from the sale of land, where it is capital efficient to part sell a portion of larger sites.

**Performance**
Revenue increased by 19% in 2017 principally due to a 17% rise in revenue from new homes sales. This reflected a 13% rise in core completions and a 4% increase in ASP. Revenue from other sales increased to £30.2m (2016: £16.0m) reflecting the sale of several larger sites in 2017.

### Average selling price (£000)

**£239,000**

**+4%**



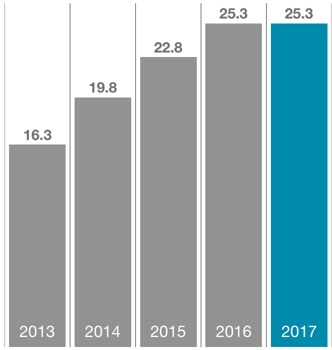

**Definition**
This represents all revenues from new home sales divided by the total number of core completions. In line with standard accounting practice, this excludes revenues from homes sold through joint venture, the profit on which is shown within Share of profit in joint ventures. It measures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

**Performance**
The Group has delivered a 4% increase in ASP. This reflected an 8% increase in private ASP offset by a 8% reduction in affordable ASP.

### Gross margin (%)

**25.3%**

**+0%**



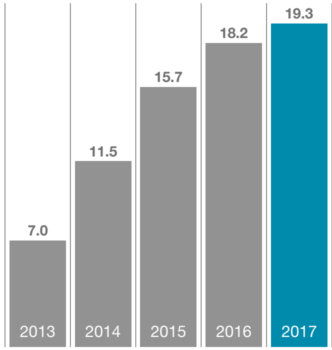

**Definition**
This represents statutory gross profit divided by statutory revenue. It measures the Group's underlying profitability before overheads.

**Performance**
Gross margin remained at a record 25.3% in 2017.

### Operating margin (%)

**19.3%**

**+6%**



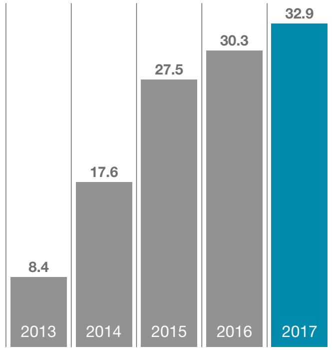

**Definition**
This represents statutory operating profit divided by statutory revenue. It measures the Group's underlying profitability after overheads.

**Performance**
2017 saw a 110 basis point increase in operating margin as a result of improved recovery of administrative expenses as completions and revenues grew.

### Return on capital employed (%)

**32.9%**

**+9%**



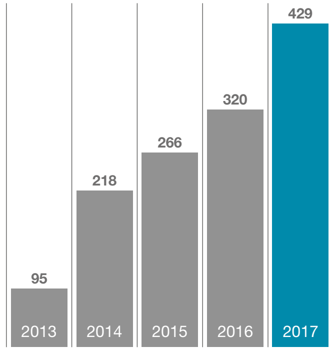

**Definition**
This represents statutory operating profit adjusted for any credit or charge to operating profit in respect of available for sale financial assets, expressed as a percentage of average underlying capital employed, which is the average of the opening and closing balances of underlying capital employed for each financial year. Underlying capital employed is the sum of net debt and net assets less deferred tax and available for sale financial assets. This measures returns from core operations to demonstrate efficient use of shareholders' capital.

**Performance**
Notwithstanding the significant investment in land and work in progress in the year, ROCE continues to increase, boosted by higher operating margins through continued improvements in operational leverage.

### Net asset value (£m)

**£429m**

**+34%**




**Definition**
This represents statutory net assets as disclosed in the Statement of financial position on page 39.

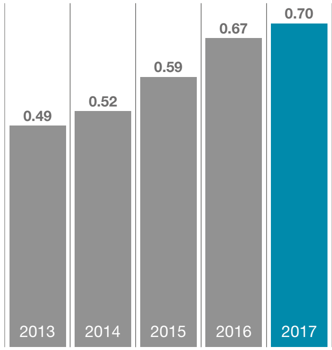
**Performance**
Net asset value has increased by 34% in 2017 with all profits retained by the Group.

## Financial continued

### Private sales rate (per site per week)

**0.70**

**+4%**



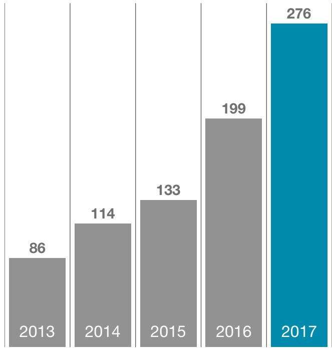

**Definition**
This represents the number of reservations (net of cancellations) for private homes (including those sold via joint venture) divided by the average number of sales outlets and further divided by the number or weeks in each financial year.

**Performance**
The private sales rate improved by 4% in 2017 reflecting favourable trading conditions and the benefit of new site launches.

### Forward sales (£m)

**£276m**

**+39%**




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

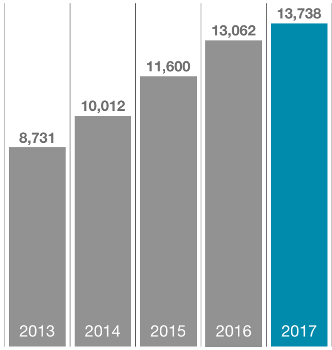
**Performance**
The 39% increase in 2018 forward sales principally reflects an increase of 34% in forward private sales. This reflects a combination of a 24% increase in forward volumes and a 9% increase in ASP.

## Non-financial

### Consented landbank (plots)

**13,738**

**+5%**



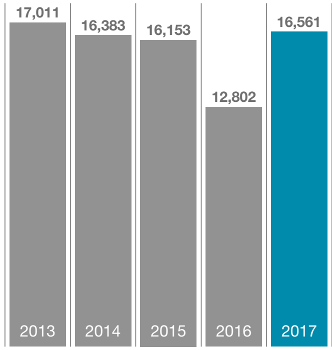

**Definition**
This represents land from the Group's owned and controlled landbanks. The owned landbank is land where title has been acquired or if the purchase is by way of a conditional contract, the conditions have been satisfied. The controlled landbank is land where an option has been secured to purchase the land, or in a few cases, where the conditions of a conditional contract have yet to be satisfied. All land in the consented landbank benefits from at least an outline planning consent or a resolution to grant planning consent.

**Performance**
The consented landbank increased by 5% in 2017 driven by a 6% increase in the owned landbank to 8,364 plots. The consented landbank represents 5.1 years' supply based on 2017 output.

### Strategic landbank (plots)

**16,561**

**+29%**



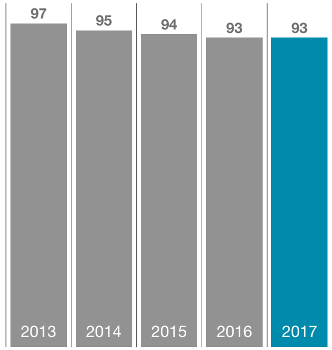

**Definition**
This represents land which the Group has secured via an option to purchase at a future date on receipt of an implementable planning consent. The land currently does not benefit from a planning consent although it may have been allocated for residential development in the relevant local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

**Performance**
The strategic landbank increased by 29% in 2017 to 16,561 plots. This reflected a net additional 4,577 plots from new options entered into during 2017 offset by the transfer of 818 plots to the consented landbank following their successful promotion through the planning system by the Group.

### Customer satisfaction (%)

**93%**

**+0%**



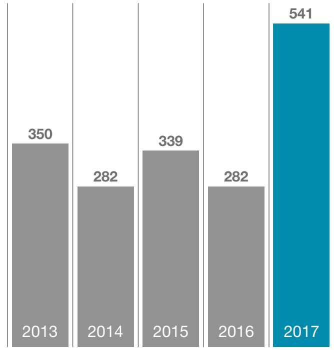

**Definition**
This represents an external assessment, performed by In House Research, of the overall satisfaction of our customers in respect of both the quality of their new home and the service provided.

**Performance**
The Group continues to operate with high levels of customer satisfaction both historically and in comparison to peers, culminating in the Home Builders Federation (HBF) 5 star rating for customer satisfaction being awarded in March 2018.

### Health and safety (accident incident rate per 100,000 employees)

**541**

**+92%**




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

**Performance**
Accident rates in 2016 were an historic low for the Group and thus the increase in 2017, whilst disappointing, should be considered in that context. Plans have been established to address the accident levels experienced in 2017.

## Our strategy

Our aim is to deliver profitable and sustainable growth focusing on three strategic measures.

Pictures:
Above: Millers Croft, Great Haywood, Staffordshire.
Right: Dales View, Brailsford, Derbyshire.

### 1. Sales growth

Grow output incrementally to 4,000 units by 2021.

**Objectives:**
Incremental growth in annual core completions to reach capacity in each of the existing divisional businesses.

Continue to deliver excellent levels of customer service.

**Measuring progress**
**Core completions**

**2,698**
**+13%**

| | |
|---|---|
| 2017 | 2,698 |
| 2016 | 2,380 |
| 2015 | 2,153 |
| 2014 | 1,896 |
| 2013 | 1,684 |

### 2. Regional focus

Maintain focus on existing regional markets which have the following advantages:

- Less competitive land market
- Reduced subcontractor cost pressures and availability issues
- More favourable planning environment
- Customers are home owners rather than investors

**Objectives:**
Growth to be delivered from existing regional markets in which the current divisional businesses have a strong presence.

Incremental growth in existing markets to limit both delivery risk and overhead increases.

**Measuring progress**
**Administrative expenses (% of revenue)**

**5.9%**
**-17%**

| | |
|---|---|
| 2017 | 5.9 |
| 2016 | 7.1 |
| 2015 | 7.2 |
| 2014 | 8.4 |
| 2013 | 9.4 |

### 3. Margin enhancement

Maintain disciplined and selective approach to land acquisitions, optimising margin and capital efficiency.

**Objectives:**
Increase operating margin to medium term target of 20%.

Maintain return in underlying capital employed in excess of 30%.

**Measuring progress**
**Return on capital employed (%)**

**32.9%**
**+9%**

| | |
|---|---|
| 2017 | 32.9 |
| 2016 | 30.3 |
| 2015 | 27.5 |
| 2014 | 17.6 |
| 2013 | 8.4 |

## Inputs

**Our people**
Committed and dedicated staff, combined with skilled and loyal subcontractors, are key to the successful execution of the Group's strategy. At the end of 2017, we directly employed 850 staff with around a further 2,500 subcontractors on our sites at any given time.

**Land**
Maintaining an adequate supply of owned, controlled and strategic land together with the timely receipt of planning consents is important to ensure that the Group's growth aspirations can be fulfilled. This includes the pull through of land from the strategic portfolio.

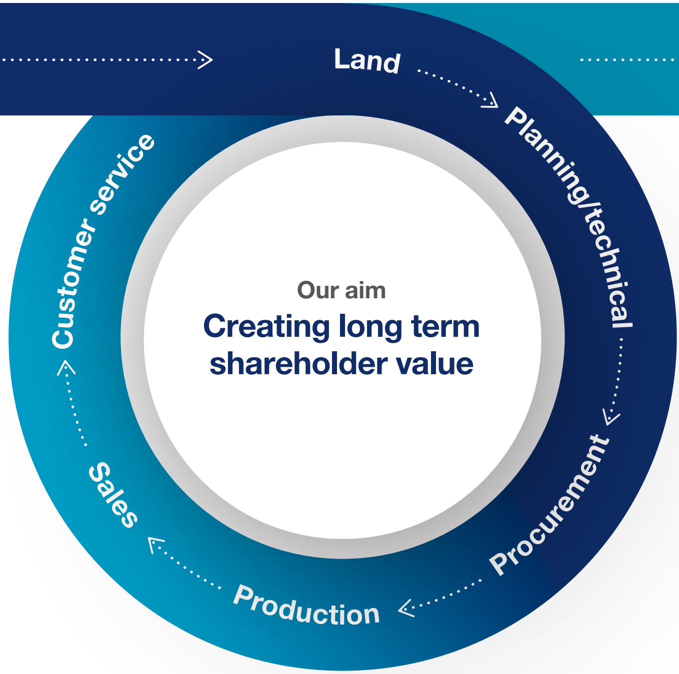
**Materials**
The procurement of housebuild materials on a national basis is important to ensure high standards of build quality, economies of scale and brand consistency.

**Relationships**
We recognise the importance of establishing, maintaining and nurturing effective working relationships with a variety of stakeholders, including local residents, local authorities, land owners, suppliers and subcontractors.

**Brand**
As buying a home is the largest single purchase in a customer's lifetime, the Group's brand values are based on outstanding build quality and customer service.

## Adding value

At every step of the journey Miller Homes aims to add value for all stakeholders.




### Land (1)

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

**How we add value**
The promotion of our strategic landbank enables land to be acquired at a discount to market value which is margin enhancing and allows a more selective approach to be taken in the purchase of land on the open market.

See pages 08 to 09

### Planning/technical (2)

**What we do**
We work with local communities to design quality homes in sustainable developments resulting in successful planning permissions.

**How we add value**
Our developments add value to those communities where we build through job creation, the provision of affordable homes, improvements to local infrastructure and contributions to education and community facilities.

See pages 10 to 11

### Procurement (3)

**What we do**
75% of housebuild materials are sourced from national suppliers by our central procurement team. Our site-based workforce is largely outsourced using a flexible sub-contract model, with the pace of construction determined by management to ensure it is aligned to sales activity.

**How we add value**
Centralising procurement spend ensures that we optimise pricing from national suppliers and manage supplier performance in respect of both quality and delivery times.

See pages 12 to 13

### Production (4)

**What we do**
Standard housetypes are developed by our in-house design team and represented over 85% of 2017 private completions.

**How we add value**
The use of standard housetypes ensures greater familiarity of build and maximises cost certainty and land efficiencies.

See pages 14 to 15

### Sales (5)

**What we do**
Our in-house sales advisers are focused on securing reservations and exchanging contracts prior to homes being physically build complete.

**How we add value**
Highly motivated sales teams combined with industry leading CRM systems drive sales volumes and pricing.

See pages 16 to 17

### Customer service (6)

**What we do**
We provide quality new homes and excellent levels of 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.

See pages 18 to 19

## Outputs

**Customers**

**93%**
customer recommend score

**5 star**
HBF 5 star rating for customer satisfaction

**Shareholders**

**34%**
increase in net assets in 2017

**6 years**
of organic profitable growth

**Society**

**2,775**
homes delivered in 2017 including joint ventures

**£76m**
planning gain contributions, including the value of 546 affordable homes delivered

**Our people**

**94%**
staff engagement

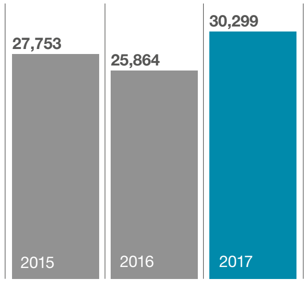
**IIP Gold**
Investors in People Gold accredited

1

# Strategically selecting land

The Group's land acquisition strategy is to identify sites in areas of high demand suitable primarily for family homes which satisfy consistently applied criteria meeting strict financial and operational targets.

**Combined consented and strategic landbanks**




In 2017, the Group invested £182m in new land, our largest investment in land in the last decade. All land acquired in 2017 exceeded the Group's minimum hurdle rates. The consented landbank, which includes owned and controlled sites with a planning permission, increased by 5% to 13,738 plots (2016: 13,062 plots).

The size of each development is an important consideration for the Group when acquiring land from both a capital management and risk management perspective. The average size of site in the consented landbank is 124 plots (2016: 129 plots) with the average site duration being around three years, based on current sales rates. The ASP in the consented landbank (based on estimated future selling prices and currently prevailing market conditions) is £246,000 (2016: £230,000). This compares to an ASP of £239,000 achieved on 2017 sales.

The Group acquired 1,060 plots from its strategic landbank in 2017, with plots pulled through from the strategic landbank representing 30% (2016: 32%) of the owned landbank. The Group has a large strategic landbank of 16,561 plots (2016: 12,802 plots). This represents options over land which currently does not have a planning consent but has good medium term prospects.

Pictures:
Right: Portland Wynd, Blyth, Northumberland.

Bottom left: Left to right, Andrew Finnigan, Commercial Director, Patrick Arkle, Regional Managing Director, and Mark Bayliss, Technical Director, in the North East region.

**32.9%**
**ROCE**

### Strategic importance

The Group requires an adequate supply of new land to meet its growth aspirations and on terms which both meet and exceed its margin and ROCE hurdle rates.

The acquisition of strategic land is important in providing a source of land which can be acquired on an exclusive basis following the receipt of planning permission at a discount to market value, typically 15%.

### Risk

The inability to secure sufficient land in appropriate locations and at hurdle rates to ensure the Group's strategic plan can be delivered.

### Objectives for 2018

To maintain discipline in the land market, focusing in areas of high demand within current regional markets.

To source land sufficient to ensure incremental volume growth in 2019 and 2020.

To maintain a consented landbank of c5 years' supply, of which 3-3.5 years is from the owned landbank.

**100%**
**of all owned sites with a detailed planning permission are being developed**

# Case study – Portland Wynd, Blyth, Northumberland

Portland Wynd is a larger strategic site of 349 units in Blyth, Northumberland, where the Group entered into an option agreement in May 2014. Detailed planning permission was subsequently obtained in December 2014. Due to its size, the site was acquired in two phases, timed to minimise cash lock-up. The first phase of the development comprised 124 units and was acquired in March 2015. Since its launch in April 2015, private sales have averaged 0.8 homes per week.

This is higher than the Group's average sales rate and reflects the pent-up demand for new homes in this highly desirable location. With phase one due to end in 2018, the option to acquire phase two was exercised in the first half of 2017. Phase two comprises 225 new homes and will provide continuity of supply as phase one ends. In addition, an option was secured in 2017 on an adjoining 67 acre site, which should provide a further 600 homes beyond the completion of phase two.

The exercising of strategic options on a phased basis, demonstrates how the Group can acquire larger strategic sites in a way which is capital efficient whilst still ensuring continuity of supply.

"It is extremely satisfying to secure strategic option sites such as Portland Wynd, promoting them successfully through the planning system and in turn acquiring them on a phased basis to match local demand."

John Jameson, Land Director, North East region


Picture:
Site plan of current and future phases at Portland Wynd, Blyth.

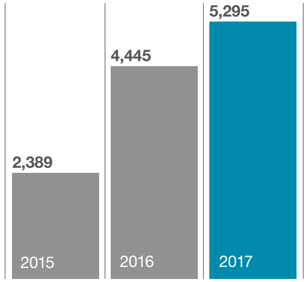
Pictures:
Right: 3D modelling in practice.
Bottom left: Suffolk Row, Newington, Edinburgh.

2

# Extensive planning and technical knowledge

The Group aims to work collaboratively with local authorities and surrounding communities to deliver new developments which are not only sustainable but enable the Group to meet its financial targets.

**Number of plots which achieved a detailed planning consent**




The Group has experienced planning and technical teams in each of its regional operating businesses. These teams work together to design and deliver schemes which will contribute towards identified local housing needs and enhance communities while supporting the Group's financial objectives.

Successful navigation of the planning process requires engagement with a variety of stakeholders, including local residents, community groups, parish councils and local authorities. Building strong, enduring relationships is invaluable in assisting in identifying ways to provide a positive lasting legacy and generating local support for development proposals.

The Group makes significant financial commitments to the communities in which it operates through planning gain contributions.

These contributions fund a broad range of local authority services and facilities such as affordable homes, education and infrastructure. In 2017, the Group made contributions of £76m (2016: £50m) to local authorities including the value of affordable homes delivered.

Although each housetype and development is designed to meet the needs of the Group's target demographic and the local vernacular, the Group strives to maximise the use of its standard product portfolio where permitted by local planning authorities.

**92%**
**of the owned landbank benefits from a detailed planning consent**

### Strategic importance

Securing planning permissions on sufficient land to meet the Group's volume growth targets.

Designing developments and housetypes that appeal to customers and, at the same time, are land and cost efficient, to ensure the Group remains competitive in the land market.

### Risk

A delay to the receipt of planning consents could impact the timing of new land purchases and/or site starts which may affect the Group's ability to achieve its prospective volume targets.

### Objectives for 2018

To deliver the volume of planning consents on both open market and strategic land to ensure the delivery of new land opportunities to meet the Group's volume targets for 2019 and 2020.

To increase investment in strategic land options, increasing the strategic landbank towards 20,000 plots.

# Case study – Suffolk Row, Newington, Edinburgh

The Group has retained landholdings in Newington, an affluent area of Edinburgh. Through discussions with the planning authorities, it became apparent that a successful planning application would only be possible if an existing listed building, a pavilion, was retained on site. The Grade C listed building dates back to 1895 and consequently was considered to have historical importance.

Planning consent was obtained for a development of prestigious homes which incorporated a proposal to relocate the pavilion from the site entrance to a new public space within the development. This enabled the proposed low density residential development to respect and complement the existing spatial characteristics of the surrounding Victorian properties and preserve the unique characteristics of the Conservation Area. The future of the pavilion has also been safeguarded by bringing it back into community use in an enhanced setting and condition.

Working with specialist third parties, extensive and complex remedial works were carried out to structurally repair the pavilion prior to its wholesale relocation to the south of its existing position.

This challenging project, which has taken over three years to plan and deliver, is the first of its kind ever undertaken by the Group and has unlocked an extremely valuable new development, with properties in excess of £1m being brought to the market in 2018.

**24**
**public consultations held**

Picture:
Pavilion relocation at Suffolk Row.

"This was a unique opportunity to work on a project which involved collaboration not only from various teams within Miller Homes but also from specialist third parties in order to secure delivery of this bespoke development."

Liz Cunningham, Land Buyer, Scotland region

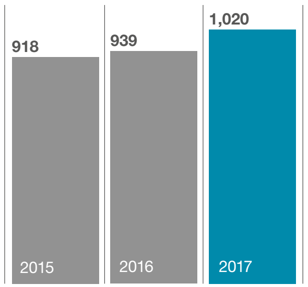
Pictures:
Right: Regency Gardens, Southwell, Nottinghamshire.
Bottom left: Lady Victoria Grange, Newtongrange, Midlothian.

3

# Procuring the best workforce and materials

Through its central procurement team, the Group uses key national suppliers to secure favourable pricing and availability on 75% of housebuild material components while also driving efficiencies through innovation.

**Number of subcontractors supported**




The central procurement team has rationalised the number of key national suppliers to 85. Commercial teams in the regional operating businesses are responsible for sourcing the majority of sub-contract labour, as these are typically provided by smaller regional companies, and some material requirements. These sub-contract arrangements enable the Group to operate a flexible outsourced model but still retain control of the pace of construction and hence control over work in progress.

Collaboration with a more focused pool of national partners is designed to establish longer term working relationships. Combined with the increasing use of standard housetypes, this provides both production and commercial benefits to the Group in the form of familiarity of product and more favourable pricing. Material availability issues can also be monitored and managed to ensure continuity of supply and mitigation of cost increases.

The Group has signed up to the Prompt Payment Code and is committed to supporting its key suppliers and subcontractors. In addition we operate a Code of Conduct for suppliers which sets out expectations in terms of performance standards and explains to suppliers how these standards are achieved. Through a process of continuous engagement and by providing partners with long term visibility of construction timelines for current developments and future pipeline developments, suppliers and subcontractors are able to more effectively manage their own businesses.

**85**
**number of key national suppliers**

### Strategic importance

To ensure consistency of specification, continuity of supply and maximise cost control, it is important that reputable suppliers are used for key housebuild components.

The Group uses a flexible outsourced labour model for its building activities and maintains strong and enduring relationships with local subcontractors to ensure the availability of labour.

### Risk

The inability to procure sufficient materials and labour to ensure homes are completed to a high standard, on time and within budgeted costs.

### Objectives for 2018

To review standard subcontractor agreements.

To continue to assist local subcontractors with the appointment of more apprentices.

**100%**
**proportion of sustainably sourced construction timber**

"We have a number of longstanding relationships with suppliers of key products. These relationships enable us to manage product quality and delivery lead times."

Tom Shearsby, Assistant Supply Chain Manager, central procurement team

# Case study – Working in partnership

With a 12% increase in the number of new homes built during the 2016/2017 financial year to 183,570 (Source: MHCLG), additional pressure has been placed on the availability of essential materials required for the construction of new homes across the sector.

The Group's central procurement team is responsible for managing 75% of all material purchases from national suppliers. Through established relationships the team has worked closely with key partners to mitigate availability and cost risk on certain materials. Timber products have been particularly susceptible to cost pressure as a result of changes in global demand and foreign exchange rates.

To minimise the risk to the Group, a joint strategic and technical review was undertaken in collaboration with The Staircraft Group during 2017, which focused on minimising potential issues during the construction phase by considering at the design stage a more integrated approach to structurally connected products, such as stairs, joists and chipboard flooring.

Introducing factory-cut flooring has reduced the number of boards which need to be purchased resulting in more efficient installation processes. Implementing changes to the design of timber joists has also positively impacted on material costs, speed of construction and safety as cutting on site has been significantly reduced.

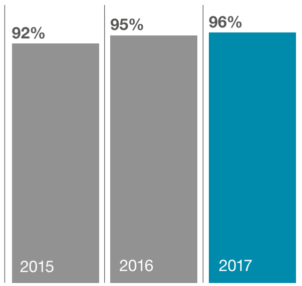

Picture:
Left to right: Aaron Campbell, Sales Director at The Staircraft Group, and Darren O'Reilly, Supply Chain Director at Miller Homes.

4

# Producing homes safely and efficiently

A key priority for the Group is to consistently deliver high quality homes which have been built safely, considerately and responsibly to meet or exceed customers' expectations.

**Subcontractors with SMAS certification**




With around 3,000 members of staff and subcontractors working on our sites at any one time, rigorous control systems are in place to ensure performance and standards are consistently maintained. Risks to those involved in the process and the general public are also minimised.

Miller Homes is one of the few housebuilders whose management systems are accredited to ISO 14001 (environment) and OHSAS 18001 (health and safety) standards and as well as undertaking its own internal audits, the Group's accreditor, Lloyds, also carries out twice yearly reviews.

A dedicated helpline, Miller Respect, is available 24 hours a day, seven days a week for members of the community to raise any concerns they have about work on site, which are addressed promptly and appropriately.

Prior to handover to the customer, every home goes through multiple individual stage inspections before receiving final approval from a member of the senior management team of our regional operating businesses. Additionally, inspections are undertaken by the NHBC with feedback provided on all aspects of construction quality. In turn, trends are analysed to identify areas for improvement. The Group has also supported the NHBC in the development of its annual Construction Quality Reviews, which involves 38 build stage inspections undertaken by a NHBC Inspection Manager.

**97%**
**of employees and subcontractors with CSCS certification**

### Strategic importance

Delivering high quality homes on time and to a standard which meet customer expectations, keeping accidents to a minimum.

Maintaining close control of work in progress to minimise capital lock-up and in turn maximise available cash resources for new land opportunities to support the growth aspirations of the Group.

### Risk

Material supply pressures caused by increased sector growth and demand.

Breaches of SHE legislation can result in workplace injuries, financial penalty, environmental damage and reputational issues.

### Objectives for 2018

To review opportunities for the off-site manufacturing of components where appropriate.

Reduce the incidence of all accidents from those experienced in 2017.

Pictures:
Left: Croston Meadow, Farington Moss, Lancashire.
Top right: Site Manager, Calum Punton and Assistant Site Manager, Ross Beattie, on site at Regents Gate, Crossgates, Fife.

# Case study – Site manager app

It was recognised that time was being lost due to the number of processes involved in collecting and sharing information between site and office based staff. In 2017, a 'site manager app' was developed by the Group's IT team working alongside the Production teams to create a more streamlined process.

The app syncs directly with the Group's IT systems and enables the site manager to record information while on site. It has reduced the burden of paperwork and minimised the risk of inaccurate information being recorded. Site managers can use the app on their mobile or tablet device to instantly input all data relating to the construction process. This includes data in relation to the plot build status, build programme, snagging items and health and safety records. Housetype drawings, development plans and customer options can also be accessed.

Using data from the app, the Procurement team can also closely monitor construction progress and more efficiently manage the supply of materials from the Group's key national suppliers, providing greater certainty around the delivery and lead-in timescales within construction programmes.

**9**

**NHBC Pride in the Job Quality Awards**

Picture:
Miller Homes site manager app.

"We are continually seeking to identify ways in which we can operate more efficiently as a business and to ensure we maximise our time on site building high quality homes."

Graeme Stirling, Group IT Director

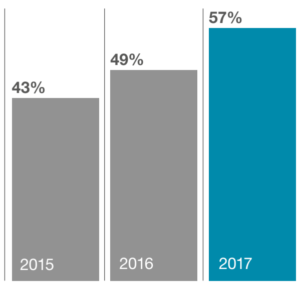
Pictures:
Right: Providing assistance to new homebuyers.
Bottom left: The marketing suite and show home at Ashludie Grange, Monifieth, Dundee.

5

# Driving sales performance through investment in people and IT

The Group has invested significantly in IT systems and the training and development of its sales teams, all designed to drive increased sales volumes and prices.

**Mobile visits to the website**




The Miller Homes Sales Pathway was established in 2015. It provides a structured national training and development programme for all sales staff within the Group, with a specific focus on sales advisers. All new sales advisers receive a three day training programme as part of the induction process. This covers expected standards of customer service, compliance with relevant legislation, familiarisation of the Group's CRM systems and Group selling techniques. This is supported and enforced by a mystery shopping programme which ensures high standards are maintained while highlighting any areas for development.

The Group continues to invest in its key sales and marketing systems, the website and CRM system.

Having an industry-leading CRM system, which uses Salesforce software, enables the Group to not only provide an efficient end-to-end system for recording the customer journey from initial contact at lead management to post-handover liaison but also to spearhead innovation within the sector. The system also enables responses to leads to be tracked and return on marketing spend to be critically reviewed.

There is an annual programme to develop and refine the website to ensure it reflects current consumer preferences and remains relevant.

Following the introduction of a number of tools on the website to assist customers in their homebuying journey, including personalised search and messaging, interactive stamp duty and mortgage calculators and virtual tours of new developments, the Group launched a new online reservation system in 2017.

### Strategic importance

To achieve sales rates which are at least in line with assumptions made at the land acquisition stage and annual financial forecasts.

Improving margins, restricting the use of incentives.

### Risk

Demand for new homes can be driven by economic factors such as employment prospects, disposable incomes and the availability and cost of mortgages, particularly at higher loans to value.

### Objectives for 2018

Continue to drive excellence and improvement in the sales teams.

Maintain the sales rate at 2017 levels.

Drive price betterment to maximise profitability.

**10%**
**increase in new leads to the CRM database**

# Case study – Online reservations

In 2017, the Group became the first UK homebuilder to provide customers with the option of reserving a new home online.

In response to changing consumer habits, homebuyers can reserve their new home online and pay a reservation fee on their chosen property via the Miller Homes website. The procedure is simple and is achieved in a few simple steps at a time and place convenient for the customer in comparison to the traditional way of visiting a marketing suite either at the weekend or during week-day office hours.

The system was developed by the Group's IT and Marketing teams following the success of 'Fast Track'. This is another industry first, which enables potential customers to provide information required at the initial stage of the homebuying process via the website, including anti-money laundering checks, rather than having to visit the marketing suite. This has the dual benefit of reducing unnecessary visits for customers to sales offices and also minimises the time spent by sales teams on administration, enabling sales led activities to be maximised.

Since its launch in September 2017, 117 reservations have been made online. The first online reservation was made by a couple based in Germany with the Armed Forces who purchased their first home at Broadoaks in Bedlington, Northumberland.


**57%**
**of 2018 sales secured as at 4 March 2018**

Picture:
Top right: New homebuyers, Jon and Emma Robson reserved their dream home at Park View, Gateshead using the online reservation system.

"We are with our customers along every step of their journey with us and it is so exciting and a real privilege to play a part in making their dreams of home ownership come true."

Irene Heath, Sales Adviser,
Yorkshire region

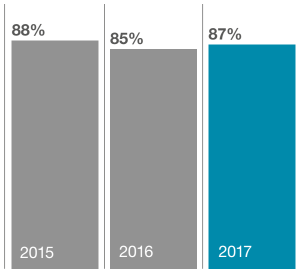
Pictures:
Right: Creating high quality family homes.
Bottom left: Customer accessing a demonstration video.

6

# Delivering excellent customer service

The customer is at the very heart of the business and the Group takes immense pride in delivering outstanding levels of service throughout the entire homebuying journey from the initial enquiry through to post occupation.

**Customers who would buy again from Miller Homes**




When customers reserve their new home, we make a promise which extends far beyond the buying process with the aim of ensuring they are delighted living in their new Miller home.

The culture of customer service is embedded across the entire business through our ethos, The Miller Difference, and is delivered by all staff and not just those in customer facing roles. Customer queries are managed by dedicated customer service teams in each operating region who liaise with colleagues in other areas of the business to respond directly to customers' needs.

Customer satisfaction is a key measure of Miller Homes' success and in order to understand customer sentiment and deliver continuous improvement, the Group began measuring its performance in customer service almost 20 years ago and became the first national housebuilder to publish its results in 2005.

Customer satisfaction is monitored on an ongoing basis using a variety of methods to assess performance, sentiment and identify areas for improvement and enhancement. Digitisation of the customer journey is a key priority with various processes being developed to support this objective. During 2017 a digital customer journey plot book, recording all contact at the different stages of the customer journey, was trialled in Scotland with a full roll out planned for 2018.

### Strategic importance

Maintaining an established reputation for providing first class customer service and high levels of customer satisfaction.

Supports sales by enhancing the reputation of the Group.

### Risk

The reputational risk and costs associated with not fully meeting customers' needs or expectations.

### Objectives for 2018

To improve the online customer experience, including the launch of a digital customer plot book in 2018.

To maintain the current high levels of customer satisfaction.

Retention of the HBF 5 star rating for customer satisfaction.

**15%**
**reduction in the time taken to close issues raised by customers**

Our business model in action

# Case study – Real time survey dashboard

The Group has achieved consistently high customer satisfaction scores, with 93% of customers stating they would recommend Miller Homes to a friend.

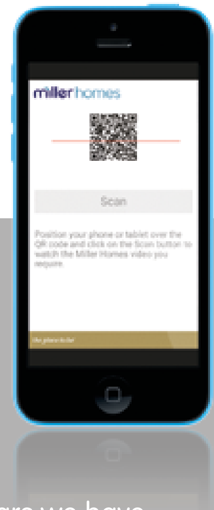
Surveys are carried out by an independent research company up to eight weeks after purchase to ensure customers can provide a considered perspective on their overall experience. The Group has recently adapted its approach to make the process more relevant to the experience and in order to become more agile in responding to customers' needs.

Prior to receiving the full detailed results for each customer survey, reports are now issued in real time via a dashboard designed exclusively for Miller Homes. Colour coded alerts on the dashboard highlight any concerns immediately allowing customer service teams to effectively engage early with customers to deal with potential issues. This proactive engagement has helped to improve the number of responses to the HBF National New Home Customer Satisfaction Survey, which are now at 64%, 17% ahead of the previous year.

This early intervention helps to prevent the escalation of issues and the data is also analysed to develop improvement strategies and minimise costs associated with rectifying any issues at a later stage.

**82%**
**customers satisfied with service after completion**

Picture:
The Prema family, Stretton Glen, Great Glen, Leicestershire.




"Over the years we have focused on improving the level of service we provide to our customers. The systems we have in place allow for a fully co-ordinated approach, enabling us to be even more responsive and satisfy our customers."

Sharon Butler, Customer Care Adviser, East Midlands region

# Housing market review

Government policy on housing is focused strongly on increasing supply and the market outperformed expectations despite economic, and political uncertainty.

### Key highlights

**55%**
increase in number of new build homes in England in the past four years
Source: HBF, November 2017

**£225,000**
average annual house price for 2017
Source: Halifax, January 2018

**15%**
increase in the annual housing supply in England in 2016/17
Source: MHCLG, November 2017

**217,000**
additions to the housing stock in England in 2016/2017
Source: MHCLG, November 2017

### A positive UK economy

In a year of a surprise election with a result which was not anticipated by most political commentators, the first interest rate rise in more than 10 years and continued debate on Brexit, the housing market remained reassuringly consistent and followed a broadly similar pattern to the year before. Sales rates remained strong and house prices performed in line with commentator projections with a 3% annual increase.

While there have been nearly two years of declining consumer confidence this has not been reflected in the new homes market.

Rising employment rates and wage growth, combined with historically low interest rates, sustained good economic conditions. The Government has committed to increasing housing supply with positive reforms on policy and assistance to both first time buyers and those struggling to save a deposit and this has provided further support.

### Demand for housing

The Halifax Price Index recorded an annual house price change of 2.7% for 2017 with an average house price of £225,000, 2.4% higher than the start of the year. A lack of available properties for sale continued to drive demand with the RICS reporting that new instructions to sell continue to decline and have now fallen for over 22 consecutive months, the longest period of decline for almost eight years. This contrasts with the number of new build completions in the UK which were up 4.0% year on year to December 2017.

As prices have risen there has been much commentary on the size of deposit required for a first time home. The Nationwide HPI analysed buyers based on regional income data which shows this is more of an issue in the London and South-East markets as opposed to the regions in which we operate.

Changes to stamp duty and income tax rules have adversely affected buy to let transactions, however only 2% of our sales are to investors so these changes have had little impact. Based on UK Finance figures, it would appear that Buy to Let nationally, as a percentage of all transactions, has settled to around 6% compared to 8% a couple of years ago.

### Affordable and available mortgages

Home ownership has been less expensive than at any point since the early 2000s and it is anticipated mortgages will remain affordable even with further small incremental increases in interest rates. The risk is also minimised due to the large percentage (90%) of home owners on fixed rate mortgages and continued lender prudence.

Changes to stamp duty in the Autumn budget provided additional support for first time buyers, with relief on properties up to the value of £300,000 and substantial discounts on properties up to £500,000 in England and Wales. The Scottish Government is consulting on plans to increase full relief up to £175,000. Generally, improved loan to value mortgages and a number of fixed rate mortgages provide options for the wider market.

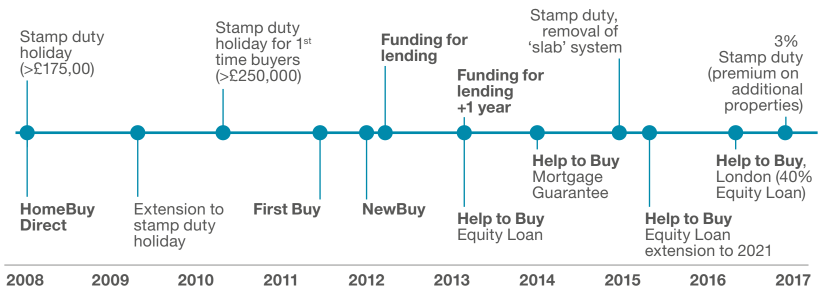
### Supportive Government policy

The launch of the Government's Housing White Paper in February 2017 reinforced the importance of housing to the wider economy. Significant progress has already been made in achieving the target of 300,000 per annum by the mid 2020s with figures released by the MHCLG showing that there were over 217,000 additions to the housing stock in England in 2016/17. This represents an increase of 74% over the past four years and is the third highest number of homes built since the 1970s. New build homes accounted for 184,000 of the overall total, a 55% increase in the past four years. Scotland has similar support and general outlook.

The White Paper also recognised the inefficiencies within the planning system, which can result in delays in building out granted planning permissions, and the need for further reform to the National Planning Policy Framework, anticipated in 2018, to effectively support the objectives for overall supply of new homes.

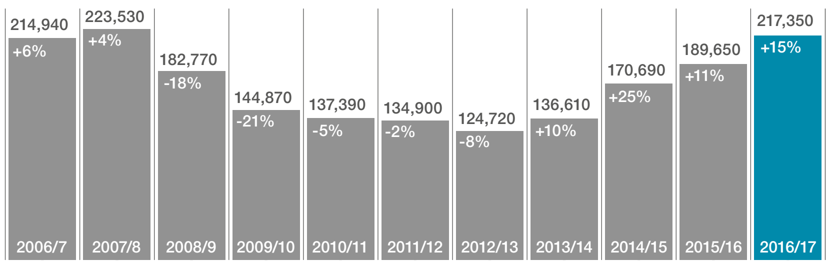
Help to Buy has continued to stimulate the market, particularly amongst first time buyers, many of whom only have a small deposit available. The Government's commitment to provide an additional £10bn for the scheme secures its availability until at least 2021 in England, offering short term certainty to both homebuilders and buyers.

### Government initiatives timeline




Source: MHCLG

### Annual housing supply net additional dwellings, England




Source: MHCLG

Picture:
Chene Hall, Harrogate, Yorkshire.

# Chief Executive's review

2017 was an historic year for the business with record profits being delivered and a high level of corporate activity resulting in a change in shareholders. The business was very well supported by its previous shareholders, led by GSO Capital Partners and I am equally confident that this will be the case with our new shareholders, Bridgepoint. Transactions of this nature are rare in our sector and it is testimony to the quality of the business and the favourable macro-economic climate for UK housebuilding. The acquisition by Bridgepoint and our new capital structure, provide the Group with a platform to continue growing in a measured and sustainable fashion. Notwithstanding the significant corporate activity during the year, we also delivered another record trading performance, increasing operating profit by 26% to £130.1m (2016: £103.0m) and land investment to £182m (2016: £178m). In addition, the Group delivered 2,775 completions in 2017, its highest level since 2008.

### Sales performance

The private sales rate in 2017 improved by 4% to 0.70 (2016: 0.67) net reservations per site per week, with the level of improvement being relatively consistent across the year. In what was another year of political uncertainty caused by the unexpected General Election, it was encouraging that there was no impact on sales performance, both in terms of sales rate and pricing, with pricing modestly ahead of 2016. Bank base rates were finally raised by 0.25% to 0.5% in November 2017 without any impact on reservations, pricing or visitor numbers. Whilst political uncertainty is not welcomed, the performance of our sector over the last 18 months, allied to the continued support by Government and the lending institutions, does provide tangible evidence of the increasing resilience of the UK new homes market.

Sales outlets averaged 66 (2016: 64) reflecting the opening and closure of 29 and 23 outlets respectively. Land acquired in 2017 means this figure will grow further in 2018. First time buyers accounted for 34% (2016: 38%) of our private reservations, with 70% of these customers using Help to Buy. This continues to be an important sales tool, particularly at lower price points to facilitate first time buyers taking their first step onto the housing ladder. The ASP of Help to Buy sales was £243,000 which is 15% lower than non-Help to Buy sales. The additional Help to Buy funding provided by the UK Government during the year is welcomed and plans for the extension of the scheme post 2021 in England are being actively encouraged by the industry to provide confidence on investment decisions which will endure beyond the current end date of the scheme. Help to Buy initiated reservations represented 34% of private reservations, a slight fall on the prior year of 35%.

Part exchange continues to be used on a selective basis on our developments and represented only 10% (2016: 13%) of private reservations in 2017. As a homebuilder whose primary focus is on family homes, sales to investors historically have been low. This continued to be the case in 2017, representing only 2% (2016: 3%) of private reservations. It was pleasing to have delivered an improvement in sales rates and generate modest house price inflation, whilst at the same time controlling the use of sales incentives.

Overall completions in 2017 were 2,775 (2016: 2,420), of which core completions were 2,698 (2016: 2,380). Private completions increased by 8% to 2,184 (2016: 2,032) due to a combination of an improvement in sales rates and increased sales outlets. Significantly, the increase in private completions was delivered whilst also growing 2018 forward sales, with private forward sales volumes being 24% ahead of the 2017 opening position. Affordable completions increased by 48% to 514 (2016: 348) reflecting a greater proportion of affordable units from more recently acquired sites. Consequently, affordable units represented 19% (2016: 15%) of core completions and are likely to stabilise at around 20% over the next few years. Joint venture units increased to 77 (2016: 40) and were delivered from two of the four current joint ventures with the Wates Group. At the end of 2017, all four joint ventures were active, and consequently this should lead to a significant increase in 2018 joint venture volumes.

2017 was another record year for the Group. More significantly, we attracted a new principal shareholder in Bridgepoint and John White as Chairman which positions the Group for its next phase of growth.

**Chris Endsor** | Chief Executive

### 2017 highlights

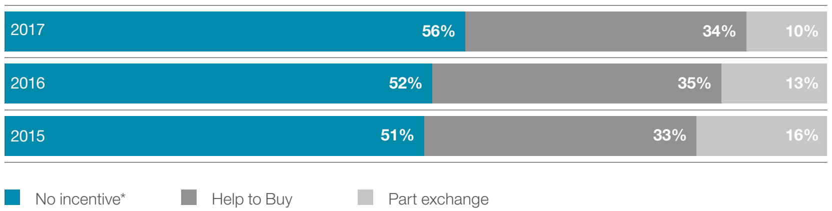
**26%**
increase in operating profit to £130.1m (2016: £103.0m)

**15%**
increase in core and joint venture completions to 2,775 (2016: 2,420)

**5%**
increase in the consented landbank to 13,738 plots (2016: 13,062 plots)

**39%**
increase in forward sales for 2018 to £276m (2016: £199m)

### Private reservations type (%)




* No incentive included or only incidentals such as stamp duty, carpets.

### Completions by type

| | 2017 | 2016 | % Change |
|---|---|---|---|
| Private | **2,184** | 2,032 | +8% |
| Affordable | **514** | 348 | +48% |
| Core | **2,698** | 2,380 | +13% |
| Joint ventures | **77** | 40 | +93% |
| Total | **2,775** | 2,420 | +15% |

# **Chief Executive's review** continued

## Strategy

The strategy pursued by the Board in recent years has been reviewed and endorsed by our new shareholders. The plan is to continue to grow volumes in an incremental and sustainable manner, taking account of prevailing market conditions, with landbank growth at a rate which enables significant cash generation over the medium term. The Board and shareholders remain supportive of the fundamentals in our regional housing markets, with a product and price-point at or around that currently being achieved. Progress continued to be made in 2017 towards our medium term objectives with the key achievements being the sixth consecutive year of double digit profit growth and the expansion in operating margin to 19%, with good visibility of the medium term target of 20%. A new West Midlands region was launched during the year, increasing overall capacity by 500 units to 4,000 units per annum.

## Government policy

The UK and Scottish governments continue to actively support the mainstream new homes market. The UK Government launched the Housing White Paper in February 2017 and further policy changes were announced as part of the November 2017 Budget. It is evident from the Budget changes to stamp duty for first time buyers and Government funding for infrastructure to assist larger developments that housing remains high on the political agenda. The Group has offered to participate in the Letwin Review being commissioned by the UK Government on landbanking practices and is confident that it can demonstrate that all owned sites with an implementable planning consent are being developed without any artificial delay.

The policy changes enacted in recent years to boost both demand and supply are continuing to have a positive impact on the delivery of new homes. In 2016/2017, overall net additions to housing stock were 217,000 in England, a 15% increase on the previous year. Annual housing targets range from 200,000 to 300,000 across the main political parties and it would appear that there is sufficient momentum underpinned by continued political support to strive to at least deliver at the bottom of this range. Net additions in Scotland increased by 2% in 2016/2017 to 17,129 against the Scottish government's target of 35,000.

## Land

Land is the key raw material for the Group and ensuring that correct land buying decisions are made is fundamental to maintain the Group's future financial success. Whilst the Group operates a devolved approach to land buying with land teams in each regional business, it is underpinned by a consistent land strategy with all land acquisitions being approved by the Executive Board. The increased land investment has fuelled the growth of the business in recent years, increasing both annual volumes and the absolute profit delivered on each unit. The Group's land strategy covers both financial and non-financial measures and results in land being acquired across the business which is similar in characteristics in terms of product size, customer demographics and distance to desirable locations with quality schooling, links to major transport hubs and areas of high employment. Financial measures include minimum hurdle rates for gross margin and ROCE which are regularly exceeded in practice.

The Group has two landbank categories, namely, consented land and strategic land. Consented land is land with a minimum of a resolution to grant planning consent which is either owned or controlled via a conditional contract or option agreement. Our preference is to acquire land conditional upon the receipt of a detailed planning consent. Over 90% of the 2017 owned landbank benefits from a detailed planning consent. Strategic land is controlled by an option contract which may be purchased when planning is achieved. This land currently does not benefit from a planning consent but has favourable prospects with 38% of the 2017 strategic landbank allocated in local plans or draft plans. Our in-house teams promote these strategic sites through the planning system and on receipt of a planning consent, we have the option to acquire the site, typically at a 15% discount to market value. Whilst larger than a typical open market site, over 60% of the strategic landbank can be acquired in tranches, typically in 10 to 15 acre parcels, thus assisting in the management of working capital.

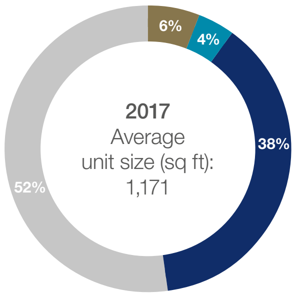
The consented landbank increased by 5% to 13,738 plots (2016: 13,062 plots) in 2017. This was driven by a 6% increase in the owned landbank to 8,364 plots (2016: 7,911 plots) and a 4% increase in the controlled landbank to 5,374 plots (2016: 5,151 plots). The consented landbank represents 5.1 years' supply based on 2017 completions. All owned land which has a detailed planning permission is being developed.

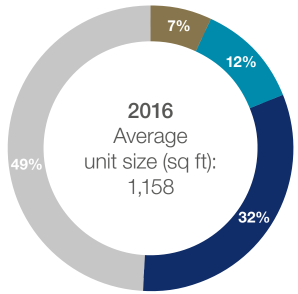
Land investment in 2017 totalled £182m, slightly ahead of 2016. The number of plots added to the landbank in 2017 was 3,786 and compared to 4,191 plots in the previous year. A significant number of acquisitions have favourable deferred terms with land creditors increasing to £107.3m (2016: £79.4m). The sites acquired in 2017 are forecast to generate ROCE in excess of 35%, significantly ahead of our minimum hurdle rate. Sites acquired from the strategic landbank comprises 30% of the 2017 owned landbank and 52% of the consented landbank, highlighting the Group's success in strategic land promotion in recent years. The medium term target is to deliver over 30% of completions from strategic land which compares to 27% in 2017. The strategic landbank totals 16,561 plots (2016: 12,802 plots). The process to determine which sites are optioned into the strategic landbank is rigorous and is

### Consented landbank

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Plots | GDV £m | Plots | GDV £m |
| Owned/unconditional | 8,364 | 2,095 | 7,911 | 1,868 |
| Controlled | 5,374 | 1,286 | 5,151 | 1,141 |
| Consented | 13,738 | 3,381 | 13,062 | 3,009 |

### Private unit product mix




4-5 bed houses | 2-3 bed houses | Townhouses | Apartments based upon site size, location, planning prospects and discount to open market value. Similar to the acquisition of short term land, strategic options are approved by the Executive Board. Smaller sites are targeted as these are considered to be more desirable in terms of planning promotion prospects and cash lock-up. The average site size is 267 plots with over 60% of sites located in the Midlands and South division. At the end of the year, nine planning applications (2,095 plots) had been submitted to planning authorities for which decisions are awaited.

### Supply chain and product

Housebuild materials are sourced from national suppliers by the Group's central procurement team. This ensures consistency of specification, availability of materials and best price, with 75% of materials purchased in this way. This is a structured approach which also helps to maximise cost certainty; 61% of 2018 material purchases from suppliers have either been renegotiated on the same terms as 2017 or are subject to a multi-year fixed price or capped deal. The central procurement team is also responsible for managing material availability and is the conduit between the regional operating businesses and key suppliers. Direct exposure to currency related cost risk was minimal in 2017 with over 90% of material purchases sourced from UK manufacturers. There is indirect currency exposure via suppliers' raw material imports but the impact on 2017 was not significant.

The regional commercial teams are responsible for sourcing the majority of sub-contract labour requirements, as these are typically smaller regional rather than national companies. We have longstanding relationships with many of our subcontractors who specialise in the construction of new homes and are committed to our core values of delivering quality products and service to our customers.

Our product offering ranges from one bedroom apartments to five bedroom family homes, with the average home being a four bedroom home of c1,200 sq ft. The review of our product range is a continually evolving process to ensure that the product meets the changing tastes of customers and requirements of planning authorities. Over 85% of 2017 private completions were from standard housetypes developed by the Group's in-house design team. This provides many advantages including familiarity of build for subcontractors, economies of scale when negotiating with national suppliers and maintaining build quality.

### People

At the very heart of the Group's culture is the objective to attract and retain the best people and ensure they are recognised and rewarded for their contribution and commitment. We are committed to engaging with staff across the business and undertake annual roadshows at each regional businesses. This is an open forum which provides an opportunity for staff to be more informed on business performance and medium term objectives. Importantly, it allows each department to understand their contribution to the business and sets expectations for the forthcoming year. We monitor staff engagement using external independent assessments which are undertaken on a triennial basis. The last survey was in 2016 which confirmed that 94% of employees are positively engaged in the business. In addition, we are accredited by Investors in People, achieving Gold status, placing the Group among the top 13% of all IIP accredited clients.

The average number of people employed has increased by 9% to 830 (2016: 761). In recognition of the well documented skills shortages in the industry, the focus in 2017 was on investing in the human capital of the Group. This has taken various forms, with the main areas being a 37% increase in structured training programmes and a 50% increase in the number of craft apprentices. The Group has also signed up to the Home Building Skills Pledge, an initiative developed by the HBF through its Home Building Skills Partnership to tackle the skills shortage within the industry and future proof the workforce through the development of existing talent.

Staff loyalty is important to the Group and 28% of employees have 10 years' service or more.

Established policies are in place to ensure compliance with areas such as anti-corruption, diversity, whistleblowing and the requirements of the Modern Slavery Act 2015.

### Corporate responsibility

The Group is committed to growing the business in a responsible manner with a particular focus on the key areas of product, processes, people and partners. This is explained in more detail on pages 30 to 31 and extends beyond delivering high quality homes to doing so in a manner which leaves a positive legacy.

In 2017, 24 public consultations were held (2016: 23) prior to the submission of planning applications. In addition, we attempt to minimise disruption to local communities from construction work on new developments. The Miller Respect scheme provides the local community with the opportunity to raise pressing concerns via a 24/7 helpline. In 2017, 86% of calls made to the helpline received responses within 24 hours (2016: 87%).

Pictures:
Left: Burleigh Woods, Crawley Down, West Sussex.
Right: Fairfield Gardens, Widnes, Cheshire.

## **Chief Executive's review** continued

The Group remains as a corporate partner with global housing charity, Habitat for Humanity, and also provided support within the local communities in which we operate.

### Customer service and quality

Customer service and build quality are core values of the Group. The business culture is such that delivery of this commitment rests not only with customer facing sales and production staff but extends beyond this to all employees of the Group. In turn, this is supported with best in class systems and processes, and by dedicated customer service teams in each operating business who respond promptly to customer queries.

Through the use of In House Research, we seek feedback from customers six to eight weeks after they have purchased their home. This provides an independent assessment of both build quality and service pre and post home purchase and is an important part of our continuous improvement plans. In 2017, 93% of customers independently surveyed confirmed that they would recommend us to a friend. In addition, we attained the HBF 5 star rating for customer satisfaction for the sixth time in the last seven years. A number of new initiatives are planned in 2018 to further improve the customer experience.

### Safety, health and environment

The focus of the Group SHE team is the safety of our employees, subcontractors and those living in the surrounding area of our developments. Additionally, the team is focused on establishing effective plans to manage safely the surrounding natural environment both during and after construction. The Group sets a comprehensive strategy annually, designed to focus on identified risk items. This is supported by a comprehensive SHE management system which is ISO 14001 and Lloyds accredited.

Through a combination of increased on site activity levels and additional workers on site, exposure to health and safety risks increased in the year. Our reportable incidents per 100,000 employees increased from a 10 year low in 2016 of 282 to 541 incidents in 2017. It is extremely disappointing to report an increase in the number of reportable incidents and the Group is determined to make significant reductions in 2018 with a particular focus on strengthening the induction process for new members of our production teams.

### Outlook

The Group has entered 2018 with an improvement in its forward sales, which are 39% ahead of last year. This reflects the strength of our regional markets combined with the investment in land and work in progress in 2017 which has led to an increase in sales outlets, providing the platform for further growth in 2018. The sales performance in the first nine weeks of 2018 has continued to remain favourable and consequently we are currently 57% forward sold for the current year (2017: 55%).

The strategy continues to be one of sustainable and profitable growth against the backdrop of a favourable land market. UK economic growth remains positive albeit at a lower level than previously forecast, and the fundamental drivers of supply and demand are favourable with support from both the Government and mortgage lenders. The Board will continue to monitor diligently the extent of any impact on the business arising from the vote to leave the EU.

I said in the introduction that 2017 was an historic year for the business. To have delivered the sale of the business to a new financial sponsor in Bridgepoint, whilst continuing to deliver and improve upon our key financial and operational metrics including the attainment of the HBF 5 star rating, is testimony to the quality of our people, their loyalty and enthusiasm in working for Miller Homes.

I would like to thank everyone for their valued contribution in 2017 and look forward to further success in 2018.


Pictures:
Left: Office manager, Emma Bartle, during a global village trip to Zambia with Habitat for Humanity.
Far left: Children from New Delaval Primary School who took part in a Walk to School Week event, sponsored by Miller Homes which encouraged families to leave the car behind and get outdoors.

# Finance review

### 2017 highlights

**34%**
increase in profit before tax to £119.5m (2016: £89.3m)

**19%**
increase in revenue to £675.2m (2016: £565.3m)

**260**
basis point improvement in return on capital employed to 32.9% (2016: 30.3%)

**34%**
increase in net assets to £428.6m (£320.3m)

### Operating performance

Revenue increased by 19% to £675.2m (2016: £565.3m). This reflected an increase in new home revenues to £645.0m (2016: £549.3m) with other revenues higher at £30.2m (2016: £16.0m) due to the sale of surplus land. The 17% growth in revenues from new home sales reflected a 13% increase in core completions to 2,698 (2016: 2,380) and a 4% increase in ASP. Higher sales rates and sales outlets resulted in completions of private units rising to 2,184 (2016: 2,032). The increase in affordable unit completions to 514 (2016: 348) was due to more recently acquired sites having a higher allocation of affordable housing when compared to older sites.

All divisions experienced a double digit increase in completions. The increase in volume was greatest in the Midlands and South division which delivered an increase of 17% due to significant land investment in recent years. The increase in ASP was most marked in the North division with a 10% increase in private ASP driven by new site launches.

The 4% increase in ASP to £239,000 (2016: £231,000) was achieved despite both an increase in the proportion of affordable housing completions which represented 19% (2016: 15%) of core completions and a reduction in the ASP of affordable units to £106,000 (2016: £116,000). The reduction in affordable ASP reflected the mix of completions year on year, with 2016 containing a larger percentage of higher value units from our Southern region. Private ASP increased by 8% to £270,000 (2016: £251,000) which reflected the location of new sites and to a lesser extent house price inflation. The average unit size of private home completions was marginally ahead of 2016 at 1,171 sq ft (2016: 1,158 sq ft).

Gross profit increased by 20% to £170.8m (2016: £142.8m) with gross margin remaining at a record 25.3% (2016: 25.3%).

Administrative expenses fell marginally to £40.1m (2016: £40.2m). This reflected a reduction in staff costs due to a lower charge for staff incentive arrangements. As a percentage of revenue, administrative expenses have fallen to 5.9% (2016: 7.1%).

The significant increase in gross profit offset by a modest fall in administrative expenses has resulted in a 26% increase in operating profit to £130.1m (2016: £103.0m). Lower administrative expenses have resulted in the operating margin increasing to 19.3% (2016: 18.2%) and the Group has clear visibility towards its medium term target of 20%.

**Overview**

| | 2017 | 2016 |
|---|---|---|
| Completions (no.) | **2,698** | 2,380 |
| ASP (£000) | **239** | 231 |
| Revenue (£m) | **675** | 565 |
| Operating profit (£m) | **130** | 103 |
| Operating margin (%) | **19.3** | 18.2 |
| Net debt (£m) | **45** | 122 |
| Net assets (£m) | **429** | 320 |
| Underlying ROCE (%) | **32.9%** | 30.3% |

### Finance cost

The Group's net finance cost of £10.6m (2016: £13.7m) comprised bank interest and amounts payable on intercompany loans of £7.3m (2016: £10.7m); imputed interest on land creditors of £5.3m (2016: £4.4m); and a charge of £1.2m (2016: £1.1m) in relation to the defined benefit pension scheme. This was offset by interest receivable of £1.0m (2016: £1.6m) representing imputed interest on the unwind of the discount applied to available for sale assets, imputed interest receivable on land sale debtors of £0.9m (2016: £nil), interest receivable from joint ventures of £0.8m (2016: £0.5m) and other interest receivable of £0.5m (2016: £0.4m).

### Taxation

The tax charge in the year was £21.6m (2016: £17.9m). This reflected the utilisation of the Group's deferred tax asset, principally comprising brought forward tax losses. Changes introduced by the 2016 Finance Act have restricted the utilisation of brought forward losses by 50% on an annual basis and led to the Group recommencing corporation tax payments with payments of £5.0m (2016: £nil) made during the year. In arriving at the deferred tax asset of £35.0m, historic tax losses have been valued at the enacted corporation tax rate for the period in which the losses are anticipated to be utilised.

The approach to tax risk is led by the Chief Financial Officer and ultimately the Board. The Group is committed to maintaining its status with HMRC as a low-risk business. The Group's tax strategy is based on an open, transparent and collaborative approach with HMRC, with a low tolerance towards tax risk.

**Operating profit increased by 26% to £130.1m, a record for the Group.**

Ian Murdoch

**Ian Murdoch** | Chief Financial Officer

### The Group's tax contribution

The figures below show the total contribution to the UK and Scottish Governments finances, directly through taxes borne by the Group itself, and indirectly by payroll and other taxes we collect on behalf of both Governments. The total amount of tax is significantly greater than the tax charge shown in our accounts. We see this as one measure of our wider financial contributions to the UK economy.

### Cashflow and debt

The Group's net debt fell to £44.9m (2016: £121.6m) which reflected a £37.2m reduction in debt and a £39.5m increase in cash. Cash flow from operating activities increased to £76.1m (2016: £25.3m). This reflected increased revenues with land spend broadly similar to 2016. Net cash inflow from investing activities was £0.6m compared to an outflow of £6.7m in 2016. The inflow in 2017 reflected the receipt of external bank funding for one of the Group's joint ventures. Net cash outflow from financing activities was £37.2m (2016: inflow of £13.9m). This reflected the repayment of an intercompany balance due to the former parent company and repayment in full of the term loan and revolving credit facilities following the Group being acquired by Bridgepoint on 5 October 2017.

Following its acquisition by Bridgepoint, both Miller Homes Holdings Limited and Miller Homes Limited became parties to debt facilities entered into by the Group's new parent company, Miller Homes Group Holdings plc. At the same time, the Group repaid its previous bank facilities. The new facilities include £250,000,000 5.5% Senior Secured Notes due 2024 and £175,000,000 Senior Secured Floating Rate Notes due 2023, both of which were fully drawn in October 2017. In addition, the Group has a new £105m committed revolving credit facility which remains undrawn.

### Balance sheet

The Group's net assets have increased by 34% to £428.6m (2016: £320.3m) due to the strong financial performance in the year.

Return on underlying capital employed, which excludes non-operating shared equity and deferred tax interests, improved to 32.9% (2016: 30.3%). The 9% increase in the year reflected improvements in both operating margin and capital turn, which increased to 1.73 times (2016: 1.69 times). The improvement in capital turn has been achieved notwithstanding the increase in net inventory. Net inventory, which represents statutory inventory net of land creditors, increased by 11% to £516.1m (2016: £465.0m).

Investment in land rose by 11% to £374.8m (2016: £338.5m). The number of plots in the owned and unconditional landbank increased by 6% to 8,364 (2016: 7,911), with the plot cost increasing by 5% to £44,800 (2016: £42,800). Work in progress has increased to £227.9m (2016: £191.6m) and reflects increased activity levels on site whilst still minimising finished stock levels. The level of impairment provisions continues to fall in line with the reduction in legacy plots in the landbank. As at 31 December 2017, an impairment provision of £1.3m (2016: £1.8m) was held. Available for sale financial assets represent the Group's investment in shared equity loans which were issued during 2008 to 2013. The investment in these assets fell by £6.7m to £21.3m (2016: £28.0m), principally due to redemptions of £7.7m (2016: £7.8m) offset by an unwind in the fair value discount and provision movements of £1.0m (2016: £1.6m). The Group prudently carries its shared equity assets at fair value which represents a discount of 38% (2016: 35%) against its original value.

Land payables increased to £107.3m (2016: £79.4m) which was due to the timing of contracted payments and several larger site purchases. 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 at the year end was £51.6m (2016: £49.0m).

### Pensions

The defined benefit scheme was closed to new entrants in 1997 and to future accrual in 2010. The scheme deficit has decreased to £21.7m (2016: £46.4m) following contributions of £16.8m and an actuarial gain of £9.1m offset by an interest charge of £1.2m. The contributions reflect annual contributions of £4.8m agreed as part of the 2016 triennial valuation and a one-off £12m payment. The actuarial gain reflected improvements in scheme asset values.

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 £2.3m (2016: £2.2m).

| Contribution to Government finances | 2017 £m | 2016 £m |
|---|---|---|
| Tax paid by the Group | | |
| UK corporation tax | **5.0** | – |
| Stamp duty | **6.8** | 9.1 |
| Employer's national insurance | **4.9** | 4.4 |
| Non-domestic rates and council tax | **1.1** | 1.0 |
| Section 75 and 106 agreements | **16.6** | 12.2 |
| | **34.4** | 26.7 |
| Tax collected and paid over by the Group | | |
| PAYE and employees' national insurance | **14.1** | 11.5 |
| Construction industry scheme | **4.0** | 3.0 |
| Total | **52.5** | 41.2 |

| EBITDA to free cash flow reconciliation | 2017 £m | 2016 £m |
|---|---|---|
| EBITDA | **130.9** | 103.6 |
| Net land investment (in excess of cost of sales) | **(10.9)** | (63.9) |
| Development spend (in excess of cost of sales) | **(33.4)** | (18.6) |
| Change in working capital | **(2.3)** | 5.7 |
| Cash flows from JVs (not included in EBITDA) | **1.8** | (6.5) |
| Available for sale financial assets | **7.7** | 7.8 |
| Other | **(7.6)** | 0.5 |
| Free cash flow | **86.2** | 28.6 |
| Net land spend (included in cost of sales) | **104.8** | 90.9 |
| Net land spend (in excess of cost of sales) | **10.9** | 63.9 |
| Free cash flow pre net land spend | **201.9** | 183.4 |

## 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 | Risk description | Controls and mitigation | 2017 commentary |
|---|---|---|---|
| **Economic conditions, mortgage supply and rates** | Demand for new homes is 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. The UK's decision to leave the EU could also have an impact on the factors influencing this risk. | Sales rates and prices are monitored on a weekly basis informing decision making on a timely basis.<br>The land acquisition process considers local employment, incomes and affordability which in turn is informed by current trading experience.<br>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. | There was no change in this risk during 2017. The economy continued to grow albeit at lower levels than in recent years. Employment levels remain high although consumer confidence has fallen in the second half of 2017. Importantly, the new build sector continues to enjoy the support from both Government and mortgage lenders. |
| **Supply chain** | The ability to procure sufficient materials and skilled labour to ensure homes can be completed to a high standard, in line with build programmes and at costs which protect site margins. | 75% of housebuild materials are negotiated by the central procurement team. National deals are in place, ensuring cost certainty over a fixed period and continuity of supply. Competencies are assessed to ensure both the appropriate quality and reliability of supply.<br>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. | There was no significant change in this risk with the availability and cost of suitably skilled sub-contract labour continuing to be key areas of focus. |
| **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. | There are established land acquisition hurdle rates for gross margin and ROCE which also underpin the strategic plan.<br>The Chief Executive visits all sites prior to acquisition to ensure a consistent approach to land acquisition is taken across the business and each site fits within the overall land strategy.<br>The Group has a dedicated strategic land team which identifies new land options and promotes existing options to achieve an implementable planning consent.<br>All land acquisitions and new strategic land options are scrutinised and approved by the Executive Board. | Good quality land continued to be available in sufficient volume in 2017 with no overall change to this risk. The Group added plots to its owned landbank at a replacement rate of 1.4 times 2017 output and at rates in excess of both its gross margin and ROCE hurdles. In addition, just under 5,000 plots were added to the strategic landbank. |
| **Funding** | 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. Business plans are updated on an annual basis and supported by sensitivity analysis to provide a basis for longer term investment decisions.<br>Key to managing cash and liquidity is the timing of new land investment and development spend. In this regard, the uncommitted nature of strategic land purchases and subcontractor model provides the Group with significant flexibility to manage both land and development spend in the event of a downturn in sales activity.<br>Regular quarterly communication with bond investors. | There was no overall change to this risk. The Group is now a party to a £425m secured bond issued by its immediate parent company which provides funding through to 2024. Whilst increasing the level of indebtedness, the bond has no financial covenants. The cash balances of the Group and its parent company at the year end were over £100m. This combined with an undrawn £105m revolving credit facility mean that the Group is operating with increased levels of headroom than in previous years. |

| Risk | Risk description | Controls and mitigation | 2017 commentary |
|---|---|---|---|
| **Staff retention** | It is important that the Group retains and attracts high calibre employees in order to deliver on all aspects of the strategy. | The Group's HR strategy is focused on all aspects of reward, retention, training and development, as well as performance management.<br>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.<br>Employee turnover is reviewed with exit interviews held and feedback obtained.<br>Staff roadshows led by the Chief Executive are undertaken annually. Staff engagement surveys are undertaken on a triennial basis. | There was no change to this risk which remains a key focus area. The labour market remains competitive, particularly as the industry and the Group continue to increase volumes and accordingly employee numbers. |
| **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. | There is an in-house SHE team all of whom are professionally qualified. 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.<br>The Group has an approved SHE strategy with progress monitored regularly during the year at Board level.<br>Site operations are subject to monthly audits and SHE awareness tool-box talks are regularly communicated to both staff and subcontractors. | The increase in output in 2017 together with an increase in both new employees and subcontractors led to increase in this risk as evidenced by the increase in accident incidence rates. The Group is committed to minimising the level of accidents and there are specific plans designed to address this in its 2018 SHE strategy. |
| **IT** | A prolonged system outage of operational systems, including our website, which affects operational targets of the business and our reputation within a consumer environment. | Annual security reviews are performed by external consultants. In addition, the Group endeavours to use the latest software versions to reduce the risk of successful cyber attacks.<br>Full backup and system recovery is in place as part of the wider Disaster Recovery plan, and again this is tested annually.<br>System enhancements during business critical times are limited to emergency only changes to minimise any potential downtime in these periods. | The IT risk continues to be high as a result of the increased threat from cyber related fraud activities. |
| **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 increased longevity assumptions, reduced bond yields or changes in asset values. | The triennial valuation was undertaken as at 30 June 2016 and a deficit repair plan has been agreed.<br>Further changes to the investment strategy are also planned for 2018 with the aim to further reduce volatility. | The pension deficit continues to be actively managed by the Group and trustees. During 2017, an additional £12m contribution was made. This together, with regular contributions and actuarial gains, has significantly reduced both the deficit and this risk. |

# Corporate responsibility

Picture:
Creating sustainable family homes.

Performance has been maintained across the majority of indicators within the four key principles which form the basis of the Group's sustainability strategy.

## Product

To ensure continuous delivery of excellence in terms of the quality of the homes built, the features offered and the service provided, constant monitoring of the Customer Journey takes place.

**93%**
**percentage of customers who would recommend Miller Homes (2016: 93%)**

**★★★★★**
5 star rating in the HBF National New Home Customer Satisfaction Survey (2016: 4 star)

**84%**
sites with sustainable drainage (2016: 76%)

**100%**
plots sold with smart meters (2016: 100%)

**1:7**
sites with Pride in the Job Quality Award winning site managers (2016: 1:5)

**23%**
of sites using off-site fabrication methods (2016: 24%)

**49%**
net promoter score (2016: 60%)

### 2017

Against a backdrop of increased build activity, the Group maintained high levels of customer satisfaction whilst also continuing to build quality, sustainable homes.

## Processes

During the process of building homes, there is awareness of consumption of natural resources and the requirements to minimise environmental impact wherever possible.

**94%**
**average SHE audit score (2016: 95%)**

**2.0 $tCO_2$**
GHG scope 1 and 2 carbon emissions per EBU (2016: 1.9 $tCO_2$)

**9.4**
tonnes of construction waste per equivalent build unit (2016: 8.2 tonnes)

**103g km**
average vehicle $CO_2$ emissions from fleet list (2016: 106g km)

**95%**
of new sites using ecology specialists (2016: 97%)

**97%**
of construction waste diverted from landfill (2016: 94%)

**20,781**
timber pallets recycled and reused (2016: 20,806)

### 2017

The Group maintained its focus on sustainable performance, achieving improved results for many of its environmental impacts. Issues in relation to ecology are identified at the land due diligence stage.

## People

The success of the Group is largely attributed to the highly skilled and dedicated team. The importance of investing in their long term development is recognised.

**88%**
**employees with a performance development review (2016: 97%)**

**3.8**
average number of training days per employee (2016: 3.2)

**23%**
annual employee turnover (2016: 18%)

**541**
reportable incidents per 100,000 employees (2016: 282)

**94%**
positive staff engagement (2016: 94%)

**31%**
proportion of female employees (2016: 32%) being 264 employees (2016: 244)

**14%**
females as a proportion of managers and directors (2016: 14%) being 39 managers (2016: 38)

### 2017

During 2017, plans were established by the Group to further invest in staff development, through an enhanced induction process, greater provision of structured training programmes and a 50% increase in the number of craft apprentices.

## Partners

In order to drive innovation and best practice as well as securing access to essential trades and materials, close partnerships are maintained with key suppliers and subcontractors.

**£76m**
**local contributions (2016: £50m)**

**77**
national suppliers assessed under our Code of Conduct (2016: 74)

**100%**
proportion of responsibly sourced construction timber (2016: 100%)

**96%**
of subcontractors with SMAS certification (2016: 95%)

**1,020**
subcontractor companies supported (2016: 939)

**97%**
employees and subcontractors with CSCS certification (2016: 96%)

**24**
public consultations held (2016: 23)

### 2017

Support for supply chain partners remained a priority for the Group and the scope of the Supplier Code of Conduct was extended to drive continuous improvement. Investment was also made to local communities through contributions and employment opportunities.

The Strategic report was approved by the Board of Directors and signed on its behalf by:

**Chris Endsor**
Chief Executive
8 March 2018

# Board of Directors

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

### Executive Board

Led by the Chief Executive, the Board comprises the Chief Financial Officer, Legal Director and Divisional Managing Directors. The Board has broad commercial experience but also detailed industry knowledge, with individuals having diverse backgrounds but possessing complementary skills. The Board meets six times per annum and is accountable to its shareholders for the proper conduct of the Group with the overarching responsibility to discharge the statutory duties of directors. Functional department heads regularly present to the Board.
In 2017 the new shareholders established a holding company board which will meet 11 times per annum. Certain decisions are referred to the holding company board on key financial or strategic matters in accordance with a set of agreed parameters. As directors of the company's ultimate holding company, Miller Homes Group Limited, Patrick Fox and Jamie Wyatt of Bridgepoint and John White, non-executive Chairman, are considered to have oversight of the company.

The principal responsibilities of the Board include financial management and controls, strategic planning, risk management and setting cultural tone. There are Group wide policies and procedures which set the standards of operation and decision making. Setting policy and ensuring compliance is regularly monitored by the Board. In addition, the Board is responsible for identifying and evaluating significant risks to the business. A rigorous evaluation process is undertaken annually and reviewed at each Board meeting. Over the last 12 months, the Board's view is that risks have remained relatively static although, acknowledging the potential wider impact on the economy following the Brexit result and attendant risks to the housebuilding industry. The Group's corporate governance framework is supplemented by the following additional board committees held as part of the holding company board structures.

### Land Approval Committee

The Land Approval Committee has delegated authority to approve certain land acquisitions, contracts, investments and capital expenditure over defined limits. 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.

### 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 meets three times per annum.

# Board of Directors
continued

**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 35 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. Chris adopts an inclusive leadership style designed to deliver excellence through teamwork and constructive challenge.

**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 to his current position in 2011. 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, the Group's defined benefit pension scheme and IT. He has played a key role in the successful development and implementation of the Group's strategic plan.

**Julie Jackson**
**Legal Director 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 insurance matters. She is a non-executive director of a housing association.

**Darren Jones**
**Divisional Managing Director, Midlands and South**
Darren joined the Group in 2013. He has over 30 years' experience in the industry and has held various roles during this time including Area Managing Director and Regional Chairman positions for a large listed housebuilder. Darren has extensive knowledge of the industry with a particular interest in production and cost control. He chairs the Production Directors' meetings on a national basis.

**Steve Birch**
**Divisional Managing Director, North**
Steve joined the Group following the acquisition of Fairclough Homes in 2005. With a background in finance, he has 33 years' sector experience, 18 of which as a Managing Director. Steve has an in depth knowledge of the industry with a particular focus on finance and land. He is an Associate Member of the Chartered Institute of Management Accountants.

**Stewart Lynes**
**Divisional Managing Director, Scotland**
Stewart joined the Group in 2008. He was promoted to Operations Director in 2011 and to his current role of Managing Director in 2013. Stewart is a qualified quantity surveyor and chairs the Commercial Directors' meetings on a national basis. Having previously worked for several large listed housebuilders, Stewart has 17 years' experience in the sector and is a member of the Homes for Scotland Board. In addition to his surveying skills, Stewart's strengths are in land buying and sales.

# Directors' report

The directors of Miller Homes Holdings Limited have pleasure in presenting their report and the audited financial statements for the year ended 31 December 2017.

## Principal activities
The principal business conducted by the Group was 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 £97.9 million (2016: £71.4 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 Finance review on pages 26 to 27. 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
- Ian Murdoch
- Julie Jackson
- Steve Birch
- Stewart Lynes
- Darren Jones

## Employees
The Directors' report in relation to employees is shown on page 31.

## 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.

## Contributions
The Group made £24,000 of charitable donations during the year and did not incur any political expenditure.

## 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
8 March 2018

Registered Number: SC255430

# Statement of Directors' responsibilities in respect of the Annual Report, Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Annual Report, Strategic report, the Directors' 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 they have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and 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 their 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, reliable and prudent;
– for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
– for the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
– 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.

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 Holdings Limited

## Opinion

We have audited the financial statements of Miller Homes Holdings Limited ("the company") for the year ended 31 December 2017 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, Company statement of changes in equity, Statements of financial position and Consolidated cash flow statement and 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 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; 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. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

## Strategic report and Directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and the Directors' report 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 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.

## 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.

## Directors' responsibilities

As explained more fully in their statement set out on page 35, the directors are responsible for: the preparation of the financial statements and for 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.

## 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.

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

Chartered Accountants
KPMG LLP
Saltire Court, 20 Castle Terrace
Edinburgh EH1 2EG
United Kingdom

8 March 2018

Registered Number: SC255430

# Consolidated income statement
for the year ended 31 December 2017

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| **Revenue** | 1 | **675.2** | 565.3 |
| Cost of sales | | **(504.4)** | (422.5) |
| **Gross profit** | | **170.8** | 142.8 |
| Administrative expenses | | **(40.1)** | (40.2) |
| **Group operating profit** | | **130.7** | 102.6 |
| Share of result in joint ventures | | **(0.6)** | 0.4 |
| **Operating profit** | 2 | **130.1** | 103.0 |
| Finance cost | 5 | **(13.8)** | (16.2) |
| Finance income | 6 | **3.2** | 2.5 |
| **Net finance costs** | | **(10.6)** | (13.7) |
| **Profit before taxation** | | **119.5** | 89.3 |
| Income taxes | 7 | **(21.6)** | (17.9) |
| **Profit for the year** | | **97.9** | 71.4 |

The notes on pages 41 to 61 form part of the financial statements.

Registered Number: SC255430

## Consolidated statement of comprehensive income
for the year ended 31 December 2017

| | 2017 £m | 2016 £m |
|---|---|---|
| **Profit for the year** | **97.9** | 71.4 |
| Items that will not be reclassified to profit and loss: | | |
| Change in fair value of financial instruments | **0.4** | (0.8) |
| Actuarial gain/(loss) on retirement benefit obligations | **9.1** | (20.6) |
| Deferred tax on actuarial (gain)/loss | **(1.9)** | 3.9 |
| **Total comprehensive income for the year attributable to owners of the parent** | **105.5** | 53.9 |

## Consolidated statement of changes in equity
for the year ended 31 December 2017

| | Share capital £m | Retained earnings £m | Total £m |
|---|---|---|---|
| **Balance at 31 December 2015** | 125.0 | 141.4 | 266.4 |
| Profit for the year | – | 71.4 | 71.4 |
| Change in fair value of financial instruments | – | (0.8) | (0.8) |
| Actuarial loss on retirement benefit obligations (net of deferred tax) | – | (16.7) | (16.7) |
| **Balance at 31 December 2016** | 125.0 | 195.3 | 320.3 |
| Profit for the year | – | 97.9 | 97.9 |
| Change in fair value of financial instruments | – | 0.4 | 0.4 |
| Actuarial gain on retirement benefit obligations (net of deferred tax) | – | 7.2 | 7.2 |
| Share based payments | – | 2.8 | 2.8 |
| **Balance at 31 December 2017** | **125.0** | **303.6** | **428.6** |

## Company statement of changes in equity
for the year ended 31 December 2017

| | Share capital £m | Retained earnings £m | Total £m |
|---|---|---|---|
| **Balance at 31 December 2015** | 125.0 | 26.1 | 151.1 |
| Loss for the year | – | (6.0) | (6.0) |
| **Balance at 31 December 2016** | 125.0 | 20.1 | 145.1 |
| Loss for the year | – | (6.8) | (6.8) |
| Share based payments | – | 2.8 | 2.8 |
| **Balance at 31 December 2017** | **125.0** | **16.1** | **141.1** |

The notes on pages 41 to 61 form part of the financial statements.

Registered Number: SC255430

## Statements of financial position
as at 31 December 2017

| | Note | Group 2017 £m | Group 2016 £m | Company 2017 £m | Company 2016 £m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 9 | **0.7** | 0.3 | **–** | – |
| Investments | 10 | **19.4** | 21.2 | **367.0** | 369.6 |
| Available for sale financial assets | 11 | **21.3** | 28.0 | **–** | – |
| Deferred tax | 12 | **35.0** | 51.0 | **–** | – |
| | | **76.4** | 100.5 | **367.0** | 369.6 |
| **Current assets** | | | | | |
| Inventories | 13 | **623.4** | 544.4 | **–** | – |
| Trade and other receivables | 14 | **22.8** | 31.0 | **–** | – |
| Cash and cash equivalents | | **80.6** | 41.1 | **–** | – |
| | | **726.8** | 616.5 | **–** | – |
| **Total assets** | | **803.2** | 717.0 | **367.0** | 369.6 |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Loans and borrowings | 16 | **(10.3)** | (157.7) | **–** | – |
| Trade and other payables | 15 | **(42.2)** | (33.4) | **–** | – |
| Retirement benefit obligations | 27 | **(21.7)** | (46.4) | **–** | – |
| Provisions and deferred income | 17 | **(3.2)** | (6.5) | **–** | (2.9) |
| | | **(77.4)** | (244.0) | **–** | (2.9) |
| **Current liabilities** | | | | | |
| Loans and borrowings | 16 | **(115.2)** | (5.0) | **–** | – |
| Trade and other payables | 15 | **(182.0)** | (147.7) | **(225.9)** | (221.6) |
| | | **(297.2)** | (152.7) | **(225.9)** | (221.6) |
| **Total liabilities** | | **(374.6)** | (396.7) | **(225.9)** | (224.5) |
| **Net assets** | | **428.6** | 320.3 | **141.1** | 145.1 |
| **Equity** | | | | | |
| Share capital | 18 | **125.0** | 125.0 | **125.0** | 125.0 |
| Retained earnings | | **303.6** | 195.3 | **16.1** | 20.1 |
| **Total equity attributable to owners of the parent** | | **428.6** | 320.3 | **141.1** | 145.1 |

The notes on pages 41 to 61 form part of the financial statements. These financial statements were approved by the Board of Directors on 8 March 2018 and were signed on its behalf by:

**Chris Endsor**
Chief Executive

**Ian Murdoch**
Chief Financial Officer

Registered Number: SC255430

# Consolidated cash flow statement
for the year ended
31 December 2017

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | **97.9** | 71.4 |
| Depreciation | | **0.2** | 0.1 |
| Amortisation of land option costs | | **0.6** | 0.5 |
| Finance income | | **(3.2)** | (2.5) |
| Finance cost | | **13.8** | 16.2 |
| Share of post tax result from joint ventures | | **0.6** | (0.4) |
| Taxation | | **21.6** | 17.9 |
| Operating profit before changes in working capital | | **131.5** | 103.2 |
| Working capital movements: | | | |
| Movement in trade and other receivables | | **14.2** | 4.5 |
| Movement in inventories | | **(84.7)** | (109.2) |
| Movement in trade and other payables | | **24.0** | 36.7 |
| Cash generated from operations | | **85.0** | 35.2 |
| Interest paid | | **(3.9)** | (9.9) |
| Corporation tax paid | | **(5.0)** | – |
| **Net cash inflow from operating activities** | | **76.1** | 25.3 |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | | **(0.6)** | (0.2) |
| Distributions from joint ventures | | **–** | 1.2 |
| Movement in loans with joint ventures | | **1.2** | (7.7) |
| **Net cash inflow/(outflow) from investing activities** | | **0.6** | (6.7) |
| **Cash flows from financing activities** | | | |
| (Decrease)/increase in bank borrowings | 21 | **(127.7)** | 10.7 |
| Increase in other borrowings | 21 | **90.5** | 3.2 |
| **Net cash (outflow)/inflow from financing activities** | | **(37.2)** | 13.9 |
| Net increase in cash and cash equivalents | 21 | **39.5** | 32.5 |
| Cash and cash equivalents at beginning of year | | **41.1** | 8.6 |
| **Cash and cash equivalents at end of year** | 21 | **80.6** | 41.1 |

The notes on pages 41 to 61 form part of the financial statements.

Registered Number: SC255430

# 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 IFRSs as adopted by the EU ("Adopted IFRSs"). 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 Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with 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 24.

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

### Basis of consolidation

The consolidated financial statements include the financial statements of the Parent 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 available for sale financial assets which are stated at their fair value.

### Going concern

As explained in the Directors' report, after making appropriate enquiries, the directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly the directors continue to adopt the going concern basis in preparing the Annual Report and financial statements.

### New accounting standards effective in 2017

The standards and interpretations that are applicable for the first time in the Group's financial statements for the year ended 31 December 2017 have no effect on these financial statements.

### 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.

## 1. Accounting policies (continued)

**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 bank loans and amounts owed to Group undertakings, the unwinding of the discount from nominal to present day value of trade payables on extended terms (land payables) and interest on retirement benefit obligations. Finance income comprises the unwinding of the discount to present day value of available for sale financial assets, the unwinding of the discount from nominal to present day value of trade receivables on extended terms (land debtors) and interest on loans to joint ventures. Interest income and interest payable is recognised in the income statement on an accruals basis.

**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.

**Operating leases**

Expenditure on operating leases is charged to the income statement on a straight-line basis over the lease period.

**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.

**Available for sale financial assets**

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 an available for sale financial asset and are stated at fair value as described in note 11. Gains and losses arising from changes in fair value are recognised in other comprehensive income, with the exception of impairment losses, the impact of changes in future cash flows and interest calculated using the effective interest rate method, which are recognised directly in the income statement. Where the investment is disposed of, or is determined to be impaired, the cumulative gain or loss previously recognised in equity is included in the income statement for the year.

**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.

## 1. Accounting policies (continued)

**Inventories** (continued)

The purchase and subsequent sale of part exchange properties is an activity undertaken in order to achieve the sale of a new property. 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 as a cost of sale, with the sales proceeds of part exchange properties not being included in revenue.

**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.

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.

**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.

**Share-based payments**

The treatment as cash or equity settled share based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group’s equity instruments is dependant upon the estimated value of those equity instruments at the year end. Should the estimated value exceed a certain pre-determined amount, the payments will be treated as equity settled. In the prior year they were accounted for as cash-settled and the fair value of the amount payable to employees recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees became unconditionally entitled to payment. The liability is re-measured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss. During the current year it became likely that they would be equity settled and the existing expense and liability were replaced with a corresponding equity settled expense that was credited to reserves. They were ultimately equity settled during the year.

**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
(forming part of the financial statements) continued

### 1. Accounting policies (continued)

**Segmental reporting**

The Board regularly reviews 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 Executive Board assess performance and allocates 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 Board does 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**

The following adopted IFRSs have been issued but have not been applied to these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 Financial Instruments (effective date 1 January 2018)
  IFRS 9 will impact the classification, measurement, impairment and de-recognition of financial instruments as well as introducing a new hedge accounting model. The Group continues to assess the impact and application of the standard on the Group's results and financial position. We do not currently expect the standard to have a material impact on our reported results.

- IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018)
  The standard sets out requirements for revenue recognition from contracts with customers. The standard uses a five-step model to apportion revenue to the individual promises, or performance obligations within a contract on the basis of standalone selling prices. The standard is expected to result in presentational changes to our Income Statement to gross up part exchange income and expenses within operating profit. This income and cost is currently recognised on a net basis within cost of sales.

- IFRS 16 Leases (effective date 1 January 2019)
  The standard requires the recognition of a right of use asset and a corresponding lease liability on the Balance Sheet. In the Income Statement, the existing operating lease charge, which is currently recognised within operating profit, will be replaced by a depreciation charge in respect of the right of use asset. In addition there will be an interest cost in relation to the lease liability which will be recognised within finance costs. The Group is continuing its assessment of the impact of the standard on the Group's results and financial position but we do not currently expect the standard to have a material impact on our reported results. The majority of the Group's lease commitments will be brought onto the Statement of financial position together with corresponding right of use assets. This is likely to impact the timing of the recognition of lease costs within the Income Statement although it will not affect the Group's cash flows. A detailed impact assessment of the standard will be made closer to transition, as the composition of the Group's lease commitments are likely to change over time and the discount rates applied are required to be updated to reflect the prevailing economic environment.

## 2. Operating profit

Operating profit is stated after charging the following:

| | 2017 £m | 2016 £m |
|---|---|---|
| Depreciation | **0.2** | 0.1 |
| Operating lease rentals | | |
| – land and buildings | **1.2** | 1.2 |
| – other | **1.2** | 1.3 |

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Auditor's remuneration: | | |
| Audit of the Group's financial statements | **7** | 5 |
| Audit of financial statements of subsidiaries pursuant to legislation | **98** | 97 |
| Other services relating to taxation | **43** | 40 |
| All other services | **43** | 45 |

## 3. Staff numbers and costs

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

| | 2017 Number | 2016 Number |
|---|---|---|
| Production | **354** | 306 |
| Sales | **105** | 102 |
| Administration | **371** | 353 |
| | **830** | 761 |

The aggregate payroll costs of these persons were as follows:

| | 2017 £m | 2016 £m |
|---|---|---|
| Wages and salaries | **44.0** | 40.0 |
| Social security costs | **4.9** | 4.5 |
| Pension costs | **2.3** | 2.2 |
| | **51.2** | 46.7 |

### 4. Remuneration of key management

Key management comprises the six members of the Board listed on page 33 as they are considered to have the authority and responsibility for planning, directing and controlling the activities of the Group. Retirement benefits accrued to five (2016: six) members of key management under money purchase schemes. Key management remuneration, including directors, comprised:

| | 2017 £m | 2016 £m |
|---|---|---|
| Salary and other benefits | **1.8** | 1.8 |
| Annual bonus | **1.5** | 1.4 |
| Other pension costs | **0.1** | 0.1 |
| | **3.4** | 3.3 |

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

| | 2017 £m | 2016 £m |
|---|---|---|
| Salary and other benefits | **1.8** | 1.7 |
| Annual bonus | **1.5** | 1.4 |
| Other pension costs | **0.1** | 0.1 |
| | **3.4** | 3.2 |

Retirement benefits are accruing to five (2016: six) directors under money purchase schemes.

The aggregate of emoluments, bonus and amounts receivable under long-term incentive schemes of the highest paid director was £925,000 (2016: £994,000) and contributions were paid by the Group to his money purchase pension scheme of £10,000 (2016: £7,500).

The Group operated a long term incentive scheme which rewarded directors for performance over a period of greater than one year. Performance conditions were aligned to the growth in value of the Group. In the prior year the scheme was accounted for as a share based payment and treated as cash settled, however prospective changes in the value of the Group resulted in the requirement to adopt equity settled accounting. At last year end the estimated value of the expected entitlement was £2.2m. The scheme was equity settled during the year, with the fair value of the equity settled award totalling £2.1m resulting in no charge in the period. The number of directors in respect of whom qualifying services were received under long term incentive schemes was six. Directors also participate in an annual bonus scheme. Amounts payable in respect of the annual bonus scheme are shown within directors emoluments.

### 5. Finance costs

| | 2017 £m | 2016 £m |
|---|---|---|
| Interest payable on bank loans and overdrafts | **6.7** | 7.5 |
| Interest payable on amounts owed to fellow subsidiary companies | **0.6** | 3.2 |
| Imputed interest on land payable on deferred terms | **5.3** | 4.4 |
| Finance costs related to employee benefit obligations | **1.2** | 1.1 |
| | **13.8** | 16.2 |

## 6. Finance income

| | 2017 £m | 2016 £m |
|---|---|---|
| Imputed interest on available for sale financial assets | **1.0** | 1.6 |
| Imputed interest on land sales on deferred terms | **0.9** | – |
| Interest on loans to joint ventures | **0.8** | 0.5 |
| Other | **0.5** | 0.4 |
| | **3.2** | 2.5 |

## 7. Income taxes

| | 2017 £m | 2016 £m |
|---|---|---|
| Current tax charge | | |
| Total current tax | **(7.5)** | – |
| | | |
| Deferred tax charge: | | |
| Origination and reversal of temporary differences | **(14.1)** | (17.9) |
| Total deferred tax (note 12) | **(14.1)** | (17.9) |
| **Tax charge for the year** | **(21.6)** | (17.9) |

Reconciliation of effective tax rate:

| | 2017 £m | 2016 £m |
|---|---|---|
| Profit before tax | **119.5** | 89.3 |
| Tax using the UK corporate tax rate (see below) | **(23.0)** | (17.9) |
| Effects of: | | |
| Permanent differences | **0.2** | (0.4) |
| Adjustment in respect of prior years | **1.1** | 0.3 |
| Adjustment in respect of joint ventures | **0.1** | 0.1 |
| **Total charge for the year** | **(21.6)** | (17.9) |

Current tax has been charged at 19.25% (2016: 20%) in the reconciliation above. The corporate tax rate reduced to 19% from 1 April 2017. It will reduce to 17% from 1 April 2020.

A corporate tax rate of 19% (2016: 19%) is applied to deferred tax, except for temporary differences expected to reverse after the 17% rate becomes effective.

## 8. Dividends

There were no distributions to equity shareholders in the year ended 31 December 2017 (2016: £nil).

### 9. Property, plant and equipment

| Cost | Plant and equipment £m |
|---|---|
| At 31 December 2015 | 1.5 |
| Additions | 0.2 |
| Disposals | (0.1) |
| At 31 December 2016 | 1.6 |
| Additions | 0.6 |
| Disposals | (0.3) |
| At 31 December 2017 | **1.9** |

| Accumulated depreciation | £m |
|---|---|
| At 31 December 2015 | 1.3 |
| Charge for the year | 0.1 |
| Disposals | (0.1) |
| At 31 December 2016 | 1.3 |
| Charge for the year | 0.2 |
| Disposals | (0.3) |
| At 31 December 2017 | **1.2** |

| Net book value | |
|---|---|
| At 31 December 2016 | 0.3 |
| **At 31 December 2017** | **0.7** |

### 10. Investments

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m |
| Investment in joint ventures | **19.4** | 21.2 | **16.9** | 19.5 |
| Investment in subsidiaries | **–** | – | **350.1** | 350.1 |
| | **19.4** | 21.2 | **367.0** | 369.6 |

| | 2017 £m | 2016 £m | 2017 £m | 2016 £m |
|---|---|---|---|---|
| Joint ventures: | | | | |
| At beginning of year | **21.2** | 14.3 | **19.5** | 13.1 |
| Share of (losses)/profits | **(0.6)** | 0.4 | **–** | – |
| Distribution | **–** | (1.2) | **–** | (1.2) |
| Movement in shareholder loans | **(1.2)** | 7.7 | **(2.6)** | 7.6 |
| **At end of year** | **19.4** | 21.2 | **16.9** | 19.5 |

## 10. Investments (continued)

| Subsidiaries | Company 2017 £m | Company 2016 £m |
|---|---|---|
| At beginning and end of year | **350.1** | 350.1 |

The total of the Group's loss before taxation from interests in joint ventures and associates is £0.2m (2016: profit of £0.4m).

The Group has an interest in four active joint ventures, Miller Wates (Didcot) Limited, Miller Wates (Southwater) Limited, Miller Wates (Wallingford) 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 2017 £m | Group 2016 £m |
|---|---|---|
| Current assets | **27.1** | 26.6 |
| Current liabilities | **(28.7)** | (27.8) |
| Loans provided to joint ventures | **21.0** | 22.4 |
| | **19.4** | 21.2 |

The Group's share of the joint venture's income and expenses during the year is shown below:

| | 2017 £m | 2016 £m |
|---|---|---|
| Income | **11.1** | 5.9 |
| Expenses | **(11.3)** | (5.5) |
| | **(0.2)** | 0.4 |

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

| | Nature of business |
|---|---|
| Subsidiary undertakings: | |
| Miller Homes Limited | Residential housebuilding |
| Miller (Telford South) Limited | Residential housebuilding |
| Miller Framwellgate Limited | Residential housebuilding |
| Miller Homes St Neots 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 29.

### 11. Available for sale financial assets

| | Group 2017 £m | Group 2016 £m |
|---|---|---|
| At start of year | **28.0** | 34.2 |
| Redemptions | **(7.7)** | (7.8) |
| Imputed interest | **1.0** | 1.6 |
| **At end of year** | **21.3** | 28.0 |

Available for sale financial assets comprise loans which were granted as part of sales transactions under the Group's Miway scheme and the HCA HomeBuy Direct and FirstBuy shared equity schemes. They are secured by way of a second ranking legal charge on 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. The difference between the anticipated future receipt and the initial fair value is credited over the estimated deferred term to finance income (see note 6), with the financial asset increasing to its full expected cash settlement value on the receipt date. 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. There were no indicators of impairment at 31 December 2017 (2016: nil). None of the financial assets are past their due dates (2016: nil) and the directors expect an average maturity profile of between 5 and 10 years from the balance sheet date.

### 12. Deferred tax

| | Group | | | | |
|---|---|---|---|---|---|
| | Trading losses £m | Retirement benefit obligations £m | Capital allowances £m | Other temporary differences £m | Total £m |
| At 31 December 2015 | 58.5 | 5.7 | 0.4 | 0.4 | 65.0 |
| Other comprehensive income credit | – | 3.9 | – | – | 3.9 |
| Income statement charge | (16.4) | (0.8) | (0.1) | (0.6) | (17.9) |
| At 31 December 2016 | 42.1 | 8.8 | 0.3 | (0.2) | 51.0 |
| Other comprehensive income charge | – | (1.9) | – | – | (1.9) |
| Income statement (charge)/credit | (14.3) | (3.0) | – | 3.2 | (14.1) |
| **At 31 December 2017** | **27.8** | **3.9** | **0.3** | **3.0** | **35.0** |

A deferred tax asset has been recognised in respect of the tax amount of trading losses, retirement benefit obligations, capital allowances and other temporary differences. The directors consider that based on future profit projections, it is probable that the deferred tax asset will be utilised.

## 13. Inventories

| | Group 2017 £m | Group 2016 £m |
|---|---|---|
| Land | **374.8** | 338.5 |
| Work in progress | **227.9** | 191.6 |
| Part exchange properties | **13.0** | 10.1 |
| Land option costs | **7.7** | 4.2 |
| | **623.4** | 544.4 |

Land and work in progress recognised as cost of sales in the year to 31 December 2017 amounted to £498.2m (2016: £419.6m). The write-down of stocks to net realisable value in the year amounted to £0.5m (2016: £0.3m). The reversal of write-downs in the year amounted to £0.2m (2016: £0.8m). The write-down and reversal are included in cost of sales.

## 14. Trade and other receivables

| | Group 2017 £m | Group 2016 £m |
|---|---|---|
| Trade receivables | **15.7** | 10.5 |
| Amounts recoverable on contracts | **3.2** | 4.1 |
| Amounts owed by fellow subsidiary companies | **–** | 4.4 |
| Other receivables | **2.4** | 10.1 |
| Prepayments and accrued income | **1.5** | 1.9 |
| | **22.8** | 31.0 |

## 15. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| **Current** | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m |
| Trade payables | **72.2** | 62.3 | **–** | – |
| Amounts owed to fellow subsidiary companies | **–** | – | **225.9** | 221.6 |
| Other payables | **13.8** | 11.7 | **–** | – |
| Land payables (see below) | **65.1** | 46.0 | **–** | – |
| Accruals and deferred income | **28.4** | 27.7 | **–** | – |
| Corporation tax | **2.5** | – | **–** | – |
| | **182.0** | 147.7 | **225.9** | 221.6 |

| | Group | |
|---|---|---|
| **Non-current** | **2017 £m** | 2016 £m |
| Land payables (see below) | **42.2** | 33.4 |

## 15. Trade and other payables (continued)

### Land payables

The Group undertakes land purchases on deferred terms. In accordance with IAS 39 'Financial Instruments: Recognition and Measurement', the deferred creditor is recorded at fair value being the price paid for the land discounted to the present day. The difference between the nominal value and the initial fair value is amortised over the deferred period to finance costs, increasing the land payable to its full cash settlement value on the payment date.

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 payment £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 2016 | 79.4 | 84.3 | 46.0 | 26.3 | 12.0 |
| **As at 31 December 2017** | **107.3** | **112.1** | **65.1** | **34.0** | **13.0** |

## 16. Loans and other borrowings

| Current | Group 2017 £m | Group 2016 £m |
|---|---|---|
| Bank loans (secured) | **–** | 5.0 |
| Intercompany loans | **115.2** | – |
| | **115.2** | 5.0 |

The intercompany loan is payable to Miller Homes Group Holdings plc on demand.

| Non-current | Group 2017 £m | Group 2016 £m |
|---|---|---|
| Bank loans (secured) | **–** | 122.7 |
| Long term borrowings | **10.3** | 35.0 |
| | **10.3** | 157.7 |

### Bank loans

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

| | 2017 £m | 2016 £m |
|---|---|---|
| Analysis of debt: | | |
| Bank loans due within 1 year | **–** | 5.0 |
| Bank loans due 1-2 years | **–** | 10.0 |
| Bank loans due 2-5 years | **–** | 112.7 |
| | **–** | 127.7 |

## 16. Loans and other borrowings (continued)

**Long term borrowings**

Long term borrowings relate to the Group's interest in Telford NHT (2011) LLP, an entity established to provide residential property for rental purposes. Last year included loan notes of £24.7m ultimately provided by certain shareholders of The Miller Homes Group (UK) Limited which were repaid in the current year.

## 17. Provisions and deferred income

| | Group | | | Company |
|---|---|---|---|---|
| | Property £m | Other £m | Total £m | Other £m |
| At start of year | 2.1 | 4.4 | 6.5 | 2.9 |
| Utilised during the year | (0.4) | – | (0.4) | – |
| Released in year | – | (3.0) | (3.0) | (2.9) |
| Created in year | 0.1 | – | 0.1 | – |
| **At end of year** | **1.8** | **1.4** | **3.2** | **–** |

The property provision covers the shortfall on commercial leases, rates and related service charges to the end of the onerous lease and the estimated costs to make good dilapidations on occupied properties.

Other provisions represent legal and constructive obligations. The Group's long term incentive plan which had been accounted for as a cash provision was equity settled during the year. The remaining provisions are expected to be utilised over the next three years.

## 18. Share capital

| | **2017 £m** | 2016 £m |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 125,000,000 (2016: 125,000,000) 'A' ordinary shares of £1 each | **125.0** | 125.0 |
| 10,000 (2016: 10,000) 'B' ordinary shares of 1p each | **–** | – |

## 19. Financial instruments

The Group's financial instruments comprise cash, bank loans and overdrafts, 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.

| | 2017 £m | 2016 £m |
|---|---|---|
| **Financial assets measured at fair value:** | | |
| Available for sale financial assets | **21.3** | 28.0 |
| **Financial assets not measured at fair value:** | | |
| Trade and other receivables | **22.8** | 31.0 |
| Cash and cash equivalents | **80.6** | 41.1 |
| **Financial liabilities not measured at fair value:** | | |
| Trade and other payables (excluding land payables) | **116.9** | 101.7 |
| Land payables | **107.3** | 79.4 |
| Bank and other loans | **125.5** | 162.7 |

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:** | | | | |
| Available for sale financial assets | | | | |
| As at 31 December 2016 | – | – | 28.0 | 28.0 |
| **As at 31 December 2017** | **–** | **–** | **21.3** | **21.3** |

### Valuation technique for available for sale financial assets

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. 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 the available for sale financial assets.

## 19. Financial instruments (continued)

### Financial risk

The main risks associated with the Group's financial instruments are credit risk, liquidity risk, market risk and interest rate risk. The Board is 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 debtors are good and therefore credit risk is low.

The Group has £21.3m (2016: £28.0m) of available for sale financial assets 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 2017 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 intercompany loans. 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.

#### (iv) Interest rate risk

Interest rate risk reflects the Group's exposure to interest rates in the market. The Group repaid its core secured bank loans during the year but prior to this they were subject to floating interest rates based on LIBOR. The Group reduced its exposure to interest rate movements through the use of interest rate swaps. In total £75m of debt was hedged at a cost of funds of 4.2%. These hedges were cancelled during the year as following the repayment of bank debt the Group is no longer subject to significant interest rate risk.

For the 12 months ended 31 December 2017 it is estimated that an increase of 1% in interest rates would increase the Group's net finance costs by £0.4m (2016: £0.7m).

The maturity of the financial liabilities has been disclosed in note 16.

### Capital management

The Board's 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 and bank borrowings.

### 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.

## 20. Reconciliation of net cash flow to net debt

| | 2017 £m | 2016 £m |
|---|---|---|
| Increase in cash and cash equivalents | **39.5** | 32.5 |
| Decrease/(increase) in bank loans | **127.7** | (10.7) |
| Increase in other borrowings | **(90.5)** | (3.2) |
| Movement in net debt in year | **76.7** | 18.6 |
| Net debt at beginning of year | **(121.6)** | (140.2) |
| **Net debt at end of year** | **(44.9)** | (121.6) |

## 21. Analysis of net debt

| | 31 December 2016 £m | Cash flow £m | 31 December 2017 £m |
|---|---|---|---|
| Cash and cash equivalents | 41.1 | 39.5 | **80.6** |
| Bank loans | (127.7) | 127.7 | **–** |
| Intercompany loans | – | (115.2) | **(115.2)** |
| Long term borrowings | (35.0) | 24.7 | **(10.3)** |
| **Net debt** | (121.6) | 76.7 | **(44.9)** |

## 22. Commitments

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

| | 31 December 2017 | | 31 December 2016 | |
|---|---|---|---|---|
| | Land & Buildings £m | Other £m | Land & Buildings £m | Other £m |
| Lease expiring: | | | | |
| Within one year | **1.1** | **1.6** | 1.1 | 1.5 |
| Between two and five years | **3.4** | **2.3** | 3.1 | 2.5 |
| Greater than five years | **2.0** | **–** | 1.6 | – |

## 23. Contingent liabilities

The Company and 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.

The Group is a guarantor of the senior secured notes and revolving credit facility entered into by its immediate parent undertaking. These facilities are secured by a debenture including a floating charge over the assets of the Group and a pledge over the shares of its principal subsidiaries.

## 24. 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.

### Recognition of deferred tax asset

As at 31 December 2017, the Group has recognised a deferred tax asset of £35.0m, of which £27.8m relates to trading losses that are available to offset trading profits in future years. The judgement to recognise the deferred tax asset is dependent upon an assessment made by the directors in relation to the future profitability of the Group and hence recovery of the asset. The future profitability of the Group is dependent upon a variety of factors, some of which are influenced by macroeconomic conditions.

### Carrying value of available for sale financial assets

The Group holds available for sale financial assets representing loans provided to customers under the Group's MiWay or governmental HomeBuy Direct and FirstBuy shared equity schemes. The repayment profile of these loans varies from a term of 10 years in the case of the Group's MiWay shared equity scheme to 25 years in the case of governmental shared equity schemes HomeBuy Direct and FirstBuy. The loans are held at the present value of the expected future cashflows taking into account a number of factors, namely the expected market value of the property at the time of loan repayment, the likely date of repayment and default rates. Accordingly, there are a number of uncertainties which would impact the carrying value of this asset class.

## 25. Related party transactions

Disclosures related to the remuneration of key personnel as defined in IAS 24 'Related Party Disclosures' are given in note 4.

| | 2017 £m | 2016 £m |
|---|---|---|
| Amounts owed to Miller Homes Group Holdings plc in respect of outstanding loans | **(115.2)** | – |
| Amounts owed by joint ventures in respect of outstanding loans and other outstanding payables | **21.0** | 22.4 |
| Amounts owed by associates in respect of loans and other outstanding payables | **–** | 0.3 |
| Amounts owed to TMGL Holdings Limited in respect of outstanding loans | **–** | (24.7) |
| Amounts owed by TMGL Holdings Limited in respect of outstanding loans | **–** | 4.5 |
| Amounts owed to TMGL Holdings Limited in respect of outstanding payables | **–** | (0.1) |
| Transactions between the Group and TMGL Holdings Limited in respect of interest charges on loans | **(0.6)** | (3.2) |
| Transactions between the Group and its immediate parent undertaking in respect of management services received | **(1.0)** | – |

## 26. Ultimate parent company

At 31 December 2017, the Company was a subsidiary undertaking of Miller Homes Group Holdings plc. The ultimate Parent Company incorporated in the United Kingdom is Miller Homes Group Limited. The address of the company is 2 Lochside View, Edinburgh, EH12 9DH.

The largest group in which the results of this Company are consolidated is that headed by Miller Homes Group Holdings plc. 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 ultimate and intermediate parent company 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.

## 27. Retirement benefit obligations

The Group operates defined contribution and defined benefit pension schemes.

### Defined contribution schemes

| | 2017 £m | 2016 £m |
|---|---|---|
| **Contributions during the year** | | |
| Group defined contribution schemes consolidated income statement charge | **2.3** | 2.2 |

### 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 | 2017 | 2016 |
|---|---|---|
| **Weighted average assumptions to determine benefit obligations** | | |
| Discount rate | **2.6%** | 2.8% |
| Rate of price inflation (RPI) | **3.1%** | 3.3% |
| **Weighted average assumptions to determine net cost** | | |
| Discount rate | **2.8%** | 3.9% |
| Rate of pension increases | **3.2%** | 3.0% |
| Rate of price inflation (RPI) | **3.3%** | 3.1% |

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:

| Assumptions | |
|---|---|
| Retired member aged 65 (male life expectancy at age 65) | 21.9 years |
| Non-retired member aged 45 (male life expectancy at age 65) | 23.0 years |

The base mortality assumptions are based upon the S2PA mortality tables. Allowance for future increases in life expectancy is made with an annual rate of improvement in mortality of 1.0% assumed.

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

| Assumptions | Change in assumption | Movement in scheme liabilities |
|---|---|---|
| Discount rate | Decrease by 0.1%<br>Increase by 0.1% | £2.8m (1.7%) increase<br>£2.7m (1.7%) decrease |
| Rate of inflation | Increase by 0.1%<br>Decrease by 0.1% | £1.7m (1.1%) increase<br>£1.6m (1.0%) decrease |
| Life expectancy – future improvements | Increase by 0.1%<br>Decrease by 0.1% | £0.6m (0.4%) increase<br>£0.6m (0.4%) decrease |

## 27. Retirement benefit obligations (continued)

**Defined benefit scheme** (continued)

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

| | 2017 £m | 2016 £m |
|---|---|---|
| Interest cost | 4.6 | 5.5 |
| Interest income | (3.4) | (4.4) |
| **Total pension cost recognised in finance costs in the consolidated income statement** | 1.2 | 1.1 |
| **Total pension cost recognised in the consolidated income statement** | 1.2 | 1.1 |

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

| | 2017 £m | 2016 £m |
|---|---|---|
| Return on scheme assets excluding interest income | (8.9) | (8.6) |
| Actuarial (gain)/loss arising from changes in the assumptions underlying the present value of benefit obligations | (0.2) | 29.2 |
| **Total pension (credit)/cost recognised in the consolidated statement of comprehensive income** | (9.1) | 20.6 |

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

| | 2017 £m | 2016 £m |
|---|---|---|
| Present value of funded obligations | 160.2 | 171.1 |
| Fair value of scheme assets | (138.5) | (124.7) |
| **Recognised liability for defined benefit obligations** | 21.7 | 46.4 |

| | 2017 £m | 2016 £m |
|---|---|---|
| Liability for defined benefit obligations at start of year | 46.4 | 29.7 |
| Contributions | (16.8) | (5.0) |
| Expense recognised in the consolidated income statement | 1.2 | 1.1 |
| Amounts recognised in the Group statement of comprehensive income | (9.1) | 20.6 |
| **Liability for defined benefit obligations at end of year** | 21.7 | 46.4 |

A deferred tax asset of £3.9m (2016: £8.8m) has been recognised in relation to the pension liability (note 12).

## 27. Retirement benefit obligations (continued)

**Defined benefit scheme** (continued)

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

| | 2017 £m | 2016 £m |
|---|---|---|
| Present value of defined benefit obligations at start of year | **171.1** | 143.3 |
| Interest cost | **4.6** | 5.5 |
| Actuarial (gain)/loss | **(0.2)** | 29.2 |
| Benefits paid from scheme | **(15.3)** | (6.9) |
| **Present value of defined benefit obligations at end of year** | **160.2** | 171.1 |

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

| | 2017 £m | 2016 £m |
|---|---|---|
| Fair value of scheme assets at start of year | **124.7** | 113.6 |
| Contributions | **16.8** | 5.0 |
| Interest income | **3.4** | 4.4 |
| Actuarial gain on scheme assets | **8.9** | 8.6 |
| Benefits paid from scheme | **(15.3)** | (6.9) |
| **Fair value of scheme assets at end of year** | **138.5** | 124.7 |

The analysis of scheme assets at the balance sheet date were as follows:

| | Percentage of scheme assets |
|---|---|
| Equity type investments | 46.1% |
| Debt securities | 53.3% |
| Other | 0.6% |
| **Total** | 100.0% |

### 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 2016, by a qualified independent actuary, showed a deficit of £47.6m. The valuation has been rolled forward to 31 December 2017 and shows a deficit of £19.6m.

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 £45m over the recovery period of 10 years. The expected employer contribution to the scheme in the year ending 31 December 2018 is £4.8m.

## 28. Share based payments

The Group operated a long term incentive plan under which certain employees, including directors, were rewarded. The terms of the plan were such that, dependent upon the value of the Group, the payment would be received either in the form of cash, shares in the company or a mixture of both. As a result of the sale of the Group in the year the scheme awarded 10,000 shares which were subsequently sold at £1,540 per share as part of the wider sale transaction. There were no shares or share options outstanding at the end of the year.

## 29. 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 2017 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
Miller Shared Equity Limited – A
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

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

Miller Fairclough Management Services Limited (v) – B
Alderview Homes (Carrickstone) Limited – A
Miller Belmont Limited – A
Land & City Properties (Bollington) Limited – A
Lowland Plaid Limited – D
L Williams & Co Limited – B
Miller Homes U.K plc – B
Emerald Shared Equity Limited – B

#### Trading

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

### Joint ventures (all 50%)

#### Dormant

College Street Residential Developments Limited (vi) – A
Croftport Homes Limited (vi) – A
Iliad Miller (No 2) Limited (vi) – A
Iliad Miller 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
Scotmid-Miller (Great Junction Street) Limited – A
St Andrews Brae Developments Limited – E

#### Trading

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

### Associates (45%)

New Laurieston (Glasgow) Limited – G (Trading)

### Limited liability partnerships (33.33%) (Trading)

Telford NHT 2011 LLP (vii) – A

(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

## Reader’s notes


Picture:
Eyre View, Newbold, Chesterfield.

Paper. It's a small thing, we know, but enough small things make a big difference. Please recycle this report and help make that difference.

This report was printed in the UK at a facility certified to ISO 14001, using 100% vegetable oil-based inks on a Forest Stewardship Council (FSC) accredited paper produced from 100% Elemental Chlorine Free (EFC) pulp that is fully recyclable and is produced by a mill which supports well-managed forestry schemes.

CarbonNeutral® certification of the paper can only be achieved by following the requirements and guidelines of The CarbonNeutral Protocol, first launched in 2002 and updated annually to reflect best business practice.

The paper has a CarbonNeutral® certification. This means we have purchased carbon credits to offset the footprint of the paper, reducing it to net zero and providing support and finance to projects that play a vital role in the reduction of carbon emissions into the atmosphere.

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C008886

CERTIFIED CARBON NEUTRAL® paper
CarbonNeutral.com

Miller Homes Holdings Limited
Miller House
First Floor
2 Lochside View
Edinburgh Park
Edinburgh
EH12 9DH

Company Registration Number
SC255430

www.millerhomes.co.uk

miller homes