miller

Building on strong foundations

Interim Report 2012

“The Miller Group is a UK property business specialising in house building, commercial property, construction and integrated asset management services.

The foundation of our success is, and always has been, down to the great people we employ.

We have made good progress in 2012 with a return to profitability and the capital structure strengthened with a significant equity injection.”

Keith M Miller CBE
Group Chief Executive

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Key Highlights
For the six months ended 30 June 2012

Group

Trading: Group profits and operating cashflow significantly ahead of 2011 levels.

Profit before interest
£12.6m

Operating cashflow
£31.7m

Balance sheet: Following the restructuring in February 2012, the balance sheet has been transformed with net assets of £229m, five year term banking facilities in place and a significant reduction in net debt.

Net assets
£228.7m

Prospects: With 15,000 strategic land plots in Homes and a Construction order book of £805m, we are well placed to deliver growth for shareholders.

Strategic land
15,000 plots

Order book
£805m

Homes

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

Construction

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

Developments

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

Mining

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

Chairman's Statement and Group Chief Executive's Business Review

A return to profit is a positive first step on our journey of delivering sustainable returns for our shareholders

Philip Bowman was appointed as Chairman on 23 April 2012.

He is the Chief Executive of global technology company, Smiths Group plc, and was formerly Chief Executive of Scottish Power plc. He is currently the senior independent Director of Burberry Group plc.

Before joining Scottish Power, Mr Bowman was Chief Executive of Allied Domecq plc between 1999 and 2005. Other past board appointments include British Sky Broadcasting Group plc, Scottish & Newcastle Group plc and Bass plc. Mr Bowman has also been Chairman of Liberty PLC and Coral Eurobet Limited.

Keith M Miller CBE, Group Chief Executive, said: "Philip has had a wealth of experience at the helm of major international public companies. He has amply demonstrated his ability to take a leading role in building businesses."

Introduction

The Board is now fully constituted. Tripp Smith, Mike Whitman and Mark Brown represent GSO, our major shareholder. Gordon Moore and Philip Bowman are Non-Executive directors and will chair the Audit and Remuneration Committees respectively. Executive representation is from Keith Miller, Group CEO and John Richards, Group FD. Sheelagh Duffield is Group Counsel and Company Secretary.

Although there have been changes at shareholder level, there is great stability in operational management.

Financial results

The Group has returned to profitability. On a recurring basis Group profit before interest of £9.4m is 9% ahead of the previous year (2011: £8.6m). The profit before tax and after exceptional items was £0.4m (2011: loss £52.9m).

Trading has been steady during the period. Our Housing, Developments and Mining businesses all increased profits compared with 2011. Although the Construction business made an operating loss, this mainly reflects the significant business development expenditure which has been incurred in targeting new markets. Encouragingly, the investment made has already resulted in a significantly increased order book which will support sales growth into 2013 and beyond. The successes achieved on our framework contracts will lead to improved financial performance in the second half of the year.

The interim financial statements for the six months to June 2012 include two months trading under the historic shareholder and lender structure and four months trading under the new strengthened capital structure. Consequently the results contain £2.5m of additional interest costs for the first two months that we do not expect to recur. The balance sheet clearly illustrates the strengthened capital structure with net assets of £228.7m at June 2012. Debt levels have been significantly reduced as part of the restructuring.

Cash inflow from operating activities has been very strong at £31.7m. Cash is tightly controlled and at June 2012 we had facility headroom of over £85m. There are seasonal movements in our cash flow, particularly around the spring and autumn, however we fully anticipate maintaining a healthy level of headroom.

Economy

The macro-economic environment remains uncertain and the consensus amongst economists is low growth over the medium term. The three main businesses are cyclical by nature and history has demonstrated that the prospects for these sectors are closely aligned to GDP.

Housing activity is steady and output levels are consistent with 2011. In Construction, the public sector is the driving force behind investment with expenditure under our framework agreements being maintained. Private sector expenditure is restricted with only specific markets such as high technology, energy and rail sectors experiencing growth. In commercial property, outwith London occupier demand remains limited with growth restricted to specific sectors (food retail, distribution and hotels) or locations (Aberdeen) – all markets in which we operate.

"I am delighted to join Miller at a very exciting point in its development. Our financial strength has been transformed by the recent capital injection and the outlook for the future is extremely positive."

Whilst our businesses are UK-focused, we are not immune from the direct or indirect impact that the Eurozone issues create. However, despite these issues, each of our businesses is well positioned to grow.

Housing

Total housing completions of 820 units (2011: 821 units) was as expected with completions in the core business of 711 units (2011: 791 units) at an increased average selling price of £170,000 (2011: £154,000), and in addition we sold 109 units under management contracts (2011: 30 units). Operating margins have increased to 3.5%. These will continue to improve as we see the benefit of higher margin sites purchased as part of the significant investment in new land which is currently underway.

We are accelerating our investment in new land, much of which is being drawn from our strategic landbank which has been built up over a number of years. £10m was spent on land in the first half of the year and we have contractually committed a further £55m in the second half. The current landbank stands at 4,647 plots and we will grow this to support three years of sales. This contains 73% houses and 27% apartments.

For the first six months, private reservations per site were 15% ahead of 2011 despite a 3% reduction in visitor levels.

There have been some key initiatives affecting the wider industry during the period. On the supply side, the National Planning Policy Framework has been enacted in England and, provided that this is embraced at a local level, we are optimistic that this will provide a robust and timely mechanism for the successful determination of planning applications and in so doing be the catalyst to reduce the current shortfall in housing output.

On the demand side, the Government-backed New Buy scheme which provides 95% mortgages was launched and we are an active participant. We see the scheme becoming a means for people, particularly first-time buyers, to take their first steps on the property ladder.

The HBF are representing the industry on the issue of mortgage supply to first time buyers. Our industry has a vital role to play and is fully engaged with lenders and government.

Quality continues to improve – 97% of our customers would recommend us to their best friend and we have achieved HBF 5 star accreditation. 27 of our site managers received NHBC Pride in the Job Awards, a record for the company.

Our strategic landbank continues to mature. In total, we have around 15,000 plots – 3,500 have a planning consent, 3,000 have been submitted awaiting a planning decision and a further 6,700 are allocated in local plans. We will submit planning applications for those which are allocated later this year and the remainder in 2013.

Construction

Turnover of £113.1m is marginally down on 2011, mainly due to a reduced order intake in the second half of 2011.

By contrast, the business intake in the first half of 2012 has been very healthy. We have won £320m of work and our order book of secured and preferred bidder work currently stands at £805m, 34% ahead of the position at December 2011.

We are now actively working on all of our five existing framework agreements – NHS ProCure 21+, Royal Mail, Ministry of Justice, North HUB and IESE. At this stage our order book does not include the work we anticipate to draw down on these frameworks over the next five years.

The Construction business has been considerably broadened in the past two years to provide 'end to end' property solutions for clients. The results of this strategy will start to deliver in the second half of this year and beyond.

Developments

Operating profit increased from £4.3m to £6.0m (40%), mainly due to the planned sale of properties in Aberdeen and Fort William.

Progress continues to be made in maximising value from our existing major development sites. We have seen an increase in occupier demand at our Omega distribution site in the North West, Arena Central in Birmingham, and in Aberdeen, which remains a very strong market on the back of oil service activity.

We are making good progress on recent asset purchases in Glasgow and Altrincham.

Mining

Our joint venture with Argent at Ffos-y-fran is performing ahead of expectations. We are on target to deliver c. 900,000 tonnes this year to our principal customers – RWE, TATA and Lafarge – at prices hedged at levels ahead of last year.

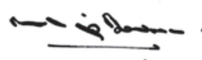
People

This has been a year of change for The Miller Group and the Board would like to take this opportunity to thank all our staff for their hard work and commitment.

Outlook

Our businesses are all in good shape. We have excellent teams across all of our operations, solid order books and high quality landbanks. Building on these strengths, together with supportive shareholders led by GSO, we are confident that we will continue to grow our turnover and profits.

Two key factors necessary to restore corporate and consumer confidence in the UK are a return to growth in GDP and a long term resolution of the Eurozone crisis. Resolving these issues should lead to greater business and consumer confidence which should provide us with enhanced opportunities for further growth.



Philip Bowman
Chairman

Keith M Miller CBE
Group Chief Executive

Group Profit and Loss Account
For the six months ended 30 June 2012

	Note	**6 months to 30 June 2012 £m**	6 months to 30 June 2011 £m	12 months to 31 December 2011 £m
Turnover: Group and share of joint ventures	2	**284.1**	272.0	587.6
Less: Share of joint ventures' turnover		**(21.6)**	(27.1)	(51.4)
Group turnover		**262.5**	244.9	536.2
Cost of sales				
– Recurring		**(235.1)**	(217.3)	(477.8)
– Exceptional	3	**–**	(34.6)	(53.6)
Gross profit/(loss)		**27.4**	(7.0)	4.8
Administrative expenses				
– Recurring		**(24.7)**	(25.0)	(52.4)
– Exceptional	3	**–**	(0.9)	(8.8)
Group operating profit/(loss)		**2.7**	(32.9)	(56.4)
Share of operating profit in joint ventures				
– Recurring		**5.3**	6.0	12.5
– Exceptional	3	**3.2**	–	–
Gain on sale of fixed assets		**1.4**	–	2.3
Profit/(loss) before interest				
– Recurring		**9.4**	8.6	20.8
– Exceptional	3	**3.2**	(35.5)	(62.4)
	2	**12.6**	(26.9)	(41.6)
Interest	4	**(12.2)**	(26.0)	(51.2)
Profit/(loss) on ordinary activities before taxation				
– Recurring		**(2.8)**	(17.4)	(30.4)
– Exceptional	3	**3.2**	(35.5)	(62.4)
	2	**0.4**	(52.9)	(92.8)
Taxation		**–**	1.0	17.1
Profit/(loss) after taxation for the financial period		**0.4**	(51.9)	(75.7)
Loan Waiver		**48.9**	–	–
Transfer to/(from) profit and loss reserve		**49.3**	(51.9)	(75.7)

Group Balance Sheet
As at 30 June 2012

	Note	**30 June 2012 £m**	30 June 2011 £m	31 December 2011 £m
Fixed assets				
Tangible assets		**12.4**	12.0	12.0
Investments in joint ventures:				
– Share of gross assets		**126.8**	130.0	129.0
– Share of gross liabilities		**(134.7)**	(151.8)	(145.0)
– Loans to joint ventures		**62.6**	60.0	63.9
		54.7	38.2	47.9
Other investments		**10.7**	9.8	7.8
		77.8	60.0	67.7
Current assets				
Stocks and work in progress	5	**363.5**	536.3	460.2
Debtors:				
– Due within one year		**59.5**	65.1	65.9
– Due outwith one year	6	**118.2**	95.6	117.2
Cash at bank and in hand		**59.8**	7.7	6.3
		601.0	704.7	649.6
Creditors: amounts falling due within one year		**(175.8)**	(842.8)	(823.8)
Net current assets/(liabilities)		**425.2**	(138.1)	(174.2)
Total assets less current liabilities		**503.0**	(78.1)	(106.5)
Creditors: amounts falling due after more than one year		**(263.0)**	(72.5)	(65.7)
Pension liability		**(11.3)**	–	(11.3)
Net assets/(liabilities)		**228.7**	(150.6)	(183.5)
Capital and reserves				
Called up share capital		**2.8**	2.0	2.0
Share premium account		**368.3**	3.5	3.5
Capital redemption reserve		**0.5**	0.5	0.5
Profit and loss account		**(142.9)**	(156.6)	(189.5)
Shareholders' funds	8	**228.7**	(150.6)	(183.5)

Group Cash Flow Statement
For the six months ended 30 June 2012

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

	6 months to 30 June 2012 £m	6 months to 30 June 2011 £m	12 months to 31 December 2011 £m
Operating profit/(loss)	**2.7**	(32.9)	(56.4)
Depreciation	**–**	–	0.2
Decrease in stocks and work in progress	**30.8**	59.8	136.2
Decrease/(increase) in debtors	**5.4**	(4.7)	(12.0)
Decrease in creditors and provisions	**(7.2)**	(28.5)	(25.7)
Net cash inflow/(outflow) from operating activities	**31.7**	(6.3)	42.3

Consolidated cash flow statement

	6 months to 30 June 2012 £m	6 months to 30 June 2011 £m	12 months to 31 December 2011 £m
Net cash inflow/(outflow) from operating activities	**31.7**	(6.3)	42.3
Dividends received from joint ventures and associated undertakings	**–**	–	2.3
Returns on investments and servicing of finance	**(18.9)**	(20.2)	(41.8)
Corporation tax received	**–**	1.0	1.5
Capital expenditure and financial investment	**(3.3)**	(0.7)	3.4
Acquisitions and disposals	**(0.3)**	7.5	(1.1)
Net cash inflow/(outflow) before financing	**9.2**	(18.7)	6.6
Financing			
– Issue of shares	**160.0**	–	–
– (Decrease)/increase in debt	**(115.7)**	29.7	(6.3)
	44.3	29.7	(6.3)
Increase in cash	**53.5**	11.0	0.3

Reconciliation of net cash flow to movement in net debt

	6 months to 30 June 2012 £m	6 months to 30 June 2011 £m	12 months to 31 December 2011 £m
Increase in cash	**53.5**	11.0	0.3
Cash flow from decrease/(increase) in debt	**115.7**	(29.7)	6.3
Debt in subsidiaries at date of disposal	**65.9**	–	–
Debt conversion and waiver	**254.5**	–	–
Movement in debt in period	**489.6**	(18.7)	6.6
Net debt at beginning of period	**(706.6)**	(713.2)	(713.2)
Net debt at end of period	**(217.0)**	(731.9)	(706.6)

Notes to the Interim Report

1. Group restructuring

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

- the conversion of £215.6m of the Group's existing debt to ordinary shares;
- the waiver of £48.9m of Group debt and transfer to distributable reserves;
- new Group lending facilities being made available for the period through to February 2017;
- the injection of £160m by a consortium of investors led by GSO Capital Partners in exchange for new equity shares; and
- the control of certain development assets with a book value of £78m and equivalent debt being assumed by the Group's bankers resulting in the continuing risks and rewards of ownership of these assets no longer resting with the Group.

2. Segmental analysis

	6 months to 30 June 2012 £m	6 months to 30 June 2011 £m	12 months to 31 December 2011 £m
Turnover			
Housing	**124.8**	124.3	270.6
Property	**31.4**	16.9	46.6
Construction	**113.1**	115.6	238.6
Mining	**14.8**	15.2	31.8
	284.1	272.0	587.6
Profit/(loss) before taxation			
Housing	**4.4**	(35.2)	(35.1)
Property	**6.0**	4.3	(8.8)
Construction	**(0.8)**	1.4	6.8
Mining	**4.2**	3.6	7.5
Group	**(1.2)**	(1.0)	(12.0)
Profit/(loss) before interest	**12.6**	(26.9)	(41.6)
Net interest	**(12.2)**	(26.0)	(51.2)
Profit/(loss) before taxation	**0.4**	(52.9)	(92.8)

Notes to the Interim Report
continued

3. Exceptional items

	6 months to 30 June 2012 £m	6 months to 30 June 2011 £m	12 months to 31 December 2011 £m
Land and development WIP writedowns	**–**	(34.6)	(53.6)
Restructuring costs	**–**	(0.9)	(8.8)
Joint venture exceptional credits	**3.2**	–	–
	3.2	(35.5)	(62.4)

4. Interest

	6 months to 30 June 2012 £m	6 months to 30 June 2011 £m	12 months to 31 December 2011 £m
Interest payable on bank loans and overdrafts	**(8.6)**	(20.6)	(40.5)
Amortisation of arrangement fees	**(2.7)**	(4.2)	(8.5)
Bank and other interest receivable	**0.5**	0.4	1.4
	(10.8)	(24.4)	(47.6)
Associates and joint ventures:			
– Loans and overdrafts	**(1.0)**	(1.2)	(2.8)
– Other interest	**(0.4)**	(0.4)	(0.8)
	(1.4)	(1.6)	(3.6)
Interest	**(12.2)**	(26.0)	(51.2)

5. Stocks and work in progress

	30 June 2012 £m	30 June 2011 £m	31 December 2011 £m
Land and development work in progress:			
– Residential developments	**323.4**	388.0	343.0
– Commercial developments	**40.1**	148.3	117.2
	363.5	536.3	460.2

6. Debtors

	30 June 2012 £m	30 June 2011 £m	31 December 2011 £m
Due after more than one year			
– Trade debtors	**58.2**	52.6	57.2
– Deferred tax	**60.0**	43.0	60.0
	118.2	95.6	117.2

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

Notes to the Interim Report
continued

7. Analysis of debt

	30 June 2012 £m	30 June 2011 £m	31 December 2011 £m
SPV debt secured against specific assets repayable			
– In one year or less	**12.5**	121.2	114.6
– Between one and two years	**28.2**	13.8	17.0
– Between two and five years	**33.8**	58.7	39.5
– Greater than five years	**4.3**	–	–
	78.8	193.7	171.1
Core debt repayable			
– In one year or less	**–**	545.9	541.8
– Between one and two years	**–**	–	–
– Between two and five years	**198.0**	–	–
– Unamortised finance costs	**(6.1)**	(6.5)	(2.3)
	191.9	539.4	539.5
Total debt	**270.7**	733.1	710.6
Finance costs	**6.1**	6.5	2.3
Cash	**(59.8)**	(7.7)	(6.3)
Net debt	**217.0**	731.9	706.6

8. Reconciliation of movement in shareholders' funds

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss £m	Total £m
Opening shareholders' funds	2.0	3.5	0.5	(189.5)	(183.5)
Issue of share capital	0.8	374.8	–	–	375.6
Expenses of issue	–	(10.0)	–	–	(10.0)
Profit for the period	–	–	–	0.4	0.4
Loan waiver	–	–	–	48.9	48.9
Actuarial loss	–	–	–	(2.0)	(2.0)
Exchange loss	–	–	–	(0.7)	(0.7)
Closing shareholders' funds	2.8	368.3	0.5	(142.9)	228.7

9. Basis of preparation

The interim report has been prepared on the basis of the accounting policies set out in the financial statements for the year ended 31 December 2011. The interim results do not constitute statutory accounts within the meaning of s434 of the Companies Act 2006. The financial information contained in this report for the six months to 30 June 2012 has not been audited or reviewed by the auditors. The financial information for the year to 31 December 2011 has been abridged from the Group's full accounts for that period which received an unqualified auditors' report.

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