miller homes

Building better

Annual Report 2019

Strategic report

Directors' report

Financial statements

We are a respected national homebuilder with a regional focus on family homes

Scotland

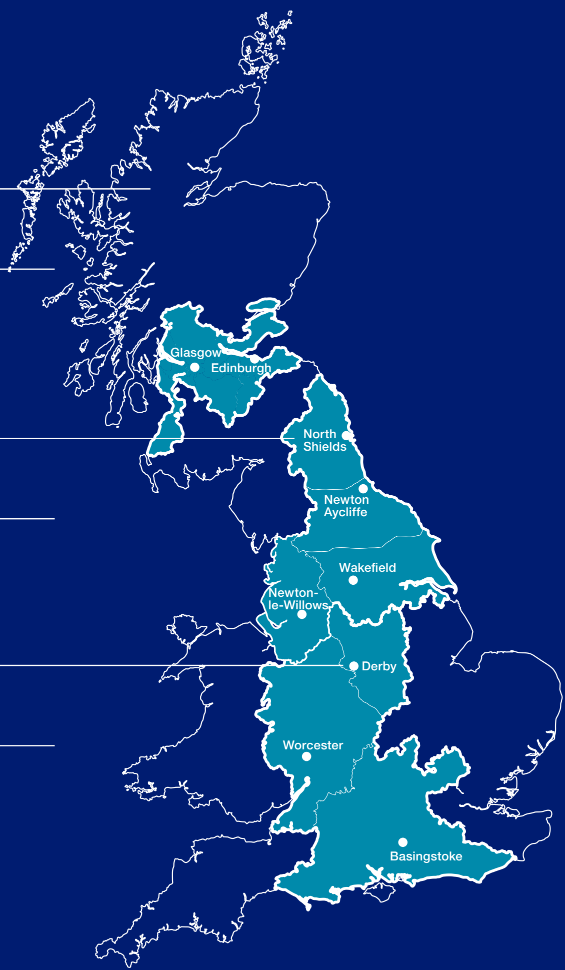
Completions	ASP (£000)	Consented landbank	Active sites
841	266	2,531	21
+14%	0%	-2%	+24%

North

Completions	ASP (£000)	Consented landbank	Active sites
1,328	227	5,368	33
+11%	-3%	+18%	+10%

Midlands & South

Completions	ASP (£000)	Consented landbank	Active sites
1,329	262	5,734	29
+8%	+3%	+6%	+16%



more information at **www.millerhomes.co.uk/corporate**

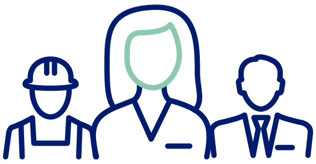
Front cover:
Main image: Mulberry Fields, Southwater, West Sussex
Bottom right: The new Miller Homes marketing suite
Left: Sovereign Park, Shrewsbury, Shropshire

Building better...

Teams

Number of staff

1,009
+11%



Investors in People

Gold

Employee engagement

94%

For more information see page 2

Homes

Average selling price (ASP)

£249,000
0%

Number of homes sold

3,498
+10%

Consented landbank

13,633
+9%

For more information see page 4

Experiences

HBF 5 star rating for customer satisfaction

5 stars

Number of online reservations

478
+129%

Web visitors

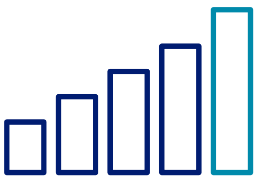
2.4m
+52%

For more information see page 6

Results

Operating profit

£168m
+11%



Operating margin

20.0%
-0.2%

Return on capital employed

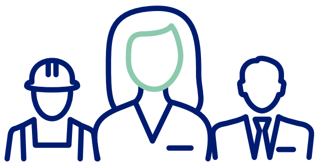
31.5%
-1.9%

For more information see page 8

Debbie Whittingham
Area Sales & Marketing Director, Yorkshire & Teesside

Building better teams

"I joined Miller Homes from within the industry just over a year ago. I was aware of the company's excellent reputation and being part of the Miller Homes team has more than met my expectations. I have been very impressed by the positive culture, collaborative approach and genuine pride in producing a quality product and providing the highest level of service to our customers, as well as the opportunities that exist for career development for staff at all levels."



Tim Hartwell
Group Head
of Design

Building better homes

"We recently undertook a comprehensive review of our product portfolio to ensure our housetypes satisfy the lifestyles and requirements of today's homebuyers whilst also providing efficiencies and scope to adapt to any future changes in the market. We have placed emphasis on maximising living space and creating greater opportunities for personalisation, which has ultimately resulted in an enhanced product range that will appeal to a wide range of buyers."

Laura Martin
Assistant
Site Manager,
Scotland East

Building better experiences

"Our customers are at the heart of everything we do as we know that buying a home is probably the most significant purchase in their lifetime. Technology helps us to keep our customers up to date with every stage of their journey and we also understand the importance of the personal touch. We make sure they are directly involved in the more exciting aspects, one of which is meeting the site team and visiting their home for the first time during its construction."

Chris Endsor
Chief Executive
Officer

Building better results

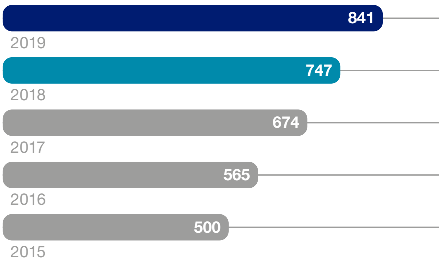
"2019 was another successful year, culminating in the eighth consecutive year of growth for the Group. We achieved a record operating profit of £168m and opened a new regional office in Teesside ahead of plan, enabling us to increase our operational capacity to 5,000 units per annum. It was extremely satisfying to achieve an excellent set of financial results while at the same time maintaining high levels of customer satisfaction and employee engagement."

Key performance indicators

Revenue (£m)

£841m

+13%



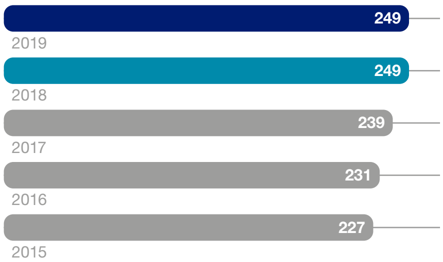
Definition
This represents revenue which is predominantly generated through the sale of both private and affordable new homes and to a lesser extent from the sale of land, where it is capital efficient to sell a portion of larger sites.

Performance
Revenue rose by 13% in 2019 due entirely to increased revenue from new home sales. This reflected a 13% increase in core completions with no change in ASP.

Average selling price (£000)

£249,000

0%



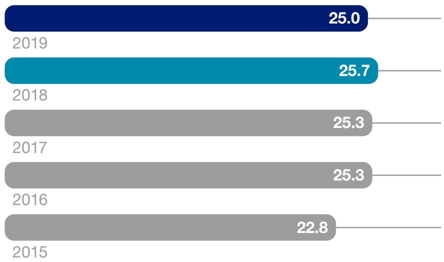
Definition
This represents revenue from new home sales divided by the total number of core completions. In line with standard accounting practice, this excludes revenue from homes sold through joint ventures, the profit on which is shown within "share of result in joint ventures". It measures movements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

Performance
ASP was in line with 2018 at £249,000. This reflected an increase in the private ASP to £284,000 (2018: £281,000) which was offset by an increase in the proportion of lower value affordable homes which rose to 20% (2018: 18%) of core completions.

Gross margin (%)

25.0%

-0.7%



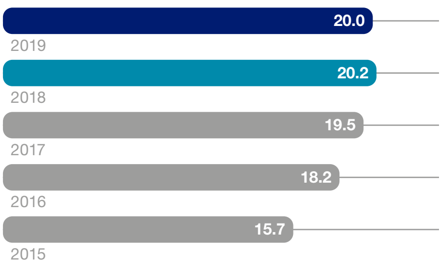
Definition
This represents gross profit divided by revenue. It measures the Group's underlying profitability before administrative expenses.

Performance
The gross margin in 2018 was a record for the Group and the 2019 performance should be viewed in that context. The reduction in 2019 principally reflects the impact of cost inflation with house price inflation being broadly neutral.

Operating margin (%)

20.0%

-0.2%



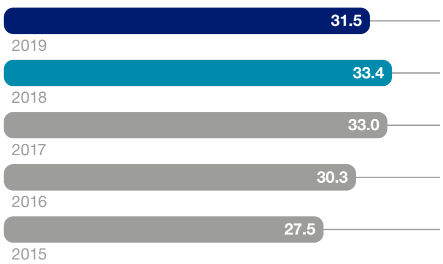
Definition
This represents operating profit divided by revenue. It measures the Group's underlying profitability after administrative expenses.

Performance
This is the second consecutive year that the Group has achieved an operating margin of 20%. The slight reduction in 2019 reflects lower gross margins, offset by improved overhead recoveries.

Return on capital employed (%)

31.5%

-1.9%



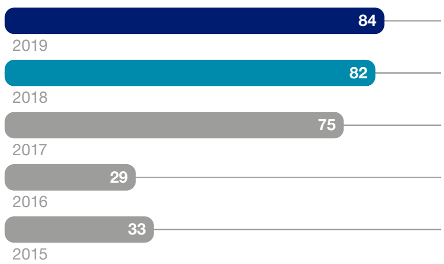
Definition
This represents operating profit adjusted for any credit or charge to operating profit in respect of shared equity loan receivables, expressed as a percentage of average underlying capital employed, which is the average of the opening and closing balances of underlying capital employed for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

Performance
The reduction in ROCE in the year reflects lower capital turn which is largely a function of the significant level of land investment made in the year.

Free cashflow (£m)

£84m

+3%



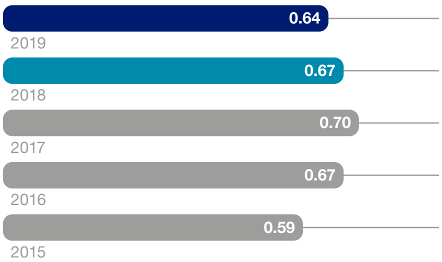
Definition
This represents cash generated in the year excluding cashflows from financing activities, investing activities (other than movement in loans to joint ventures), corporation tax paid, interest paid and transaction costs.

Performance
The cash generated in the year was slightly ahead of 2018 in spite of increased land spend.

NF Denotes non-financial KPIs

Private sales rate (per site per week)

0.64
-4%

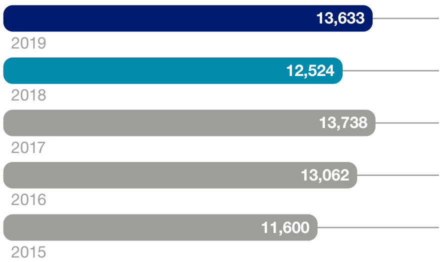


Definition
This represents the number of reservations (net of cancellations) for private homes (including those sold via joint ventures) divided by the average number of sales outlets and further divided by the number of weeks in each financial year.

Performance
The private sales rate decreased by 4% in 2019 which was caused by slightly weaker consumer sentiment in the face of unprecedented political and economic uncertainty.

Consented landbank (plots) NF

13,633
+9%

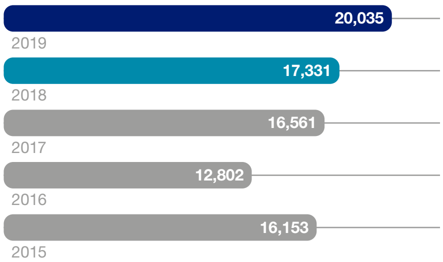


Definition
This represents land from the Group's owned and controlled landbanks. The owned landbank is land where title has been acquired or, if the purchase is by way of a conditional contract, the conditions have been satisfied. The controlled landbank is land where an option has been secured to purchase the land, or 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 owned landbank increased by 17% to 10,718 plots (2018: 9,174 plots) with land acquired in 2019 1.4 times greater than that consumed. The controlled landbank fell to 2,915 plots (2018: 3,350 plots) resulting in an overall 9% increase in the consented landbank. The consented landbank represents 4.1 years' supply based on 2019 output.

Strategic landbank (plots) NF

20,035
+16%

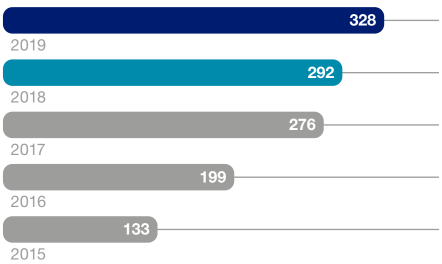


Definition
This represents land which the Group has secured via an option to purchase at a future date on receipt of an implementable planning consent. The land currently does not benefit from a planning consent although it may have been allocated for residential development in the relevant local plan.

Performance
The strategic landbank increased by 16% in 2019 to 20,035 plots (2018: 17,331 plots). This reflected 18 new options (5,074 plots) being added to the landbank during the year, the highest number in the previous five year period.

Forward sales (£m)

£328m
+12%

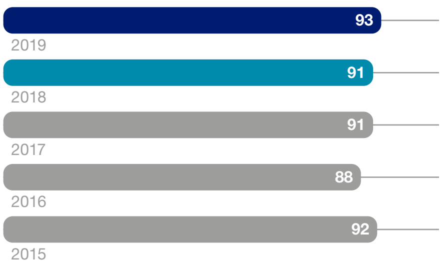


Definition
This represents the value of new home reservations and contracts exchanged at each financial year end which are anticipated to result in core and joint venture completions in the following 12 month period.

Performance
The 12% increase in forward sales to £328m (2018: £292m) is a record for the Group as we benefit from increased sales outlets.

Customer satisfaction (%) NF

93%
+2%

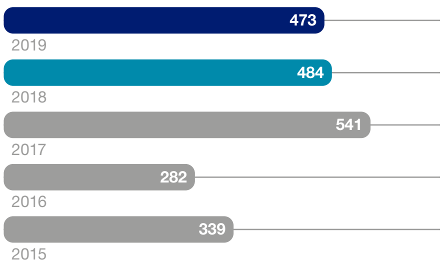


Definition
This represents an external assessment, performed by the National House Building Council (NHBC) on behalf of the Home Builders Federation (HBF), and measures overall satisfaction of our customers in respect of both the quality of their new home and the service provided.

Performance
The Group continues to operate with high levels of customer satisfaction both historically and in comparison to peers, culminating in the HBF 5 star rating for customer satisfaction being awarded in March 2020, for the eighth time in the last nine years.

Health and safety NF

473
-2%



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

Performance
Accident rates fell by 2% in 2019 and represents the second consecutive year of improved performance.

Inputs

People
The business directly supports over 4,000 people daily through a combination of c1,000 directly employed staff and c3,000 subcontractors. To achieve our strategic objectives, it is fundamental that we have committed and dedicated staff supported by skilled and loyal subcontractors.

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

Materials
To ensure high standards of build quality, economies of scale and brand consistency, 77% of materials for our new homes are procured by our centralised procurement team from c90 national suppliers.

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

Brand
As buying a home is likely to be the largest single purchase in our customers' lifetime, the Group's brand values are based on outstanding levels of build quality and customer service.

Building a better business

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

1 Land

What we do

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

How we add value

Through innovative designs and value engineering opportunities, we add value to land both pre and post purchase. In addition, 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 to the purchase of land on the open market.

4 Production

What we do

Standard housetypes developed by our in-house design team were used in 88% of 2019 private completions.

How we add value

A comprehensive review of our standard housetype portfolio was undertaken in 2019 with these new housetypes being rolled out during the course of 2020. This will ensure that our housetypes meet both our customers' aspirations as well as the Government's drive to encourage home ownership.

5 Sales

What we do

Our in-house development sales managers are focused on securing reservations and exchanging contracts prior to homes being physically build complete. Increased use of digital marketing allows us to be more analytical and targeted in our approach to lead management.

How we add value

Highly motivated sales teams combined with industry leading CRM systems drive sales volumes and pricing. We were the first major homebuilder to enable customers to reserve online and in 2019, 17% of our customers reserved their home this way.

2 Planning, design & innovation

What we do

We work with local communities to design quality homes in sustainable developments resulting in successful planning outcomes.

How we add value

Our developments add value to those communities where we build. This includes job creation, the provision of affordable homes, improvements to local road networks and creating new education and community facilities.

3 Procurement

What we do

The vast majority of housebuild materials are sourced from national suppliers by our central procurement team. Our site-based workforce is largely outsourced using a flexible subcontract model, with the pace of construction determined by management to ensure it is aligned to sales activity and so manage work in progress levels.

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. It also ensures that we are able to better manage any supply chain issues in the event that an EU trade deal is not in place by 31 December 2020.

6 Customer service

What we do

We provide quality new homes and excellent levels of customer service with all key build stages independently inspected by the NHBC, the Group's sole warranty provider. This helps build trust between us, our customers and site teams.

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.

Outputs

Customers

93%
customer recommend score

5 stars
HBF 5 star rating for customer satisfaction

Shareholders

£93m
increase in net assets in 2019

8 years
of organic profitable growth

Society

3,498
homes the country needs, creating jobs and supporting the UK economy

£117m
planning gain contributions, including the value of affordable homes delivered

People

94%
staff engagement

IIP Gold
Investors in People Gold accredited

1. Land

Regionally focused and a consistent approach

Land is sourced through our regional land teams who have the expert knowledge of their local markets. This is underpinned by a consistent Group-wide land strategy with all land acquisitions and strategic land options being approved by the Executive Board. The Group's approval process for land acquisitions covers both financial and non-financial measures. This results in land being acquired across the business with similar characteristics in terms of product size, customer demographics and distance to desirable locations with quality schools, links to major transport hubs and areas of high employment.

On average, our developments are within one mile of the nearest primary school and trunk road and within two miles of the nearest secondary school. These non-financial measures are important in helping to determine the desirability of our new developments and also underscore their sustainability credentials. Financial measures include minimum hurdle rates for gross margin and ROCE of 22% and 25% respectively, which are regularly exceeded in practice.

In 2019, we invested a record £227m in new land opportunities, acquiring 30 new sites.

Strategic landbank underpinning volume growth

The Group has a strategic landbank of 1,442 acres which based on average plotting density criteria equates to 20,035 plots. This landbank currently does not have a planning status albeit has strong prospects. On average, it takes seven years from option inception to eventual site acquisition and we have a high success rate in promoting sites through the planning system.

Within the owned landbank, 28% has originated from the strategic landbank. This provides the Group with a consistent source of new land and at margins which exceed those purchased on the open market due to the discount built into the option agreement. During the year, we acquired eight sites from our strategic portfolio, the most notable being a 375 unit site in Chichester, West Sussex and a 319 unit site in Bramhope, Leeds. Both sites are in highly desirable locations and whilst larger than our average sites, lend themselves to having two points of sale which in turn increases annual output and improves returns.

Landbank plots

	Consented landbank	Strategic landbank	Total landbank
Scotland	2,531	2,970	**5,501**
North	5,368	5,461	**10,829**
Midlands & South	5,734	11,604	**17,338**
	13,633	**20,035**	**33,668**

location
location
location

Images (left to right): Kings Meadow, Bidford-Upon-Avon, Warwickshire and the launch of Hackwood Primary School in Derby

"Our clients were delighted with the way Miller Homes promoted their land under a long-standing option agreement which resulted in a good outcome for all parties. The Miller Homes team was knowledgeable, proactive and communicative from start to finish. Their expertise in dealing with the local authority was essential in delivering a complex site."

Chris Addison-Scott MRICS, Partner, Galbraith Group

2. Planning, design & innovation

Local engagement

Once new land has been identified, our experienced regional teams design and deliver schemes which will effectively meet local housing need and enhance communities whilst supporting the Group's financial objectives and meeting required standards. To successfully navigate the planning process, we proactively engage with a variety of stakeholders and in 2019 we held 18 public exhibitions to facilitate engagement with local residents, community groups, parish councils and local authorities. Our local teams have established strong, enduring relationships and combined with their understanding of the local area and our reputation for quality design and build, this is invaluable in both identifying ways to provide a positive lasting legacy and generating community support for development proposals.

In 2019, the Group contributed £117m to local authorities to support infrastructure, community amenities, education, transport and affordable housing. In the Midlands, two state of the art primary schools, Hackwood Primary School and Streethay Primary School opened to pupils in September 2019. Both schools are located close to our developments at Hackwood Park in Derby and Roman Heights and Cathedral View in Streethay and were built and funded by the Group.

Design & innovation

The Group has an established Product Development Committee (PDC) which comprises a number of senior directors and managers from various departments across the business. The product portfolio and customer offering is under constant review and the PDC meet three times a year and consider opportunities for further development and to ensure it is fit for purpose.

Our housetype range has been designed to meet our customers' affordability and lifestyle requirements, support placemaking and also ensure compliance with regulatory requirements. Our portfolio comprises one bedroom apartments to five bedroom family homes, with the average home being a four bedroom home of c1,200 sq ft. During 2019, 88% of the Group's private completions came from standard housetypes developed by our in-house team. Business information modelling (BIM) is utilised by our team to ensure our approach to design is efficient and adaptable.

Images (top and bottom): Oakwood Grange, Hazelrigg, Newcastle Upon Tyne and Scottish Contractor of the Year, Ground Developments Limited

3. Procurement

Centralised approach

The Group has a central team of five procurement professionals who are responsible for purchasing 77% of housebuild materials from around 90 national suppliers. This ensures that we maintain our consistent quality standards throughout the business whilst at the same time maximising our buying power. In addition, working with a focused pool of suppliers has enabled us to develop long-term working relationships providing advantages to both parties. One of the benefits of those relationships is that we have visibility on product lead-in times and in return we provide our supply chain with transparency on material call-offs and prospective developments. Typically, 80% of our national supply agreements have a fixed price period of between 12 and 24 months. In addition, over 90% of agreements have protections in place to cover foreign currency related commodity cost increases.

Brexit planning

We only purchase three housebuild products which are manufactured in the EU. However, a significant amount of work has been undertaken in the last 18 months to understand, in some detail, our supply chain's reliance on raw material components sourced from the EU. This has led us to conclude that those products considered to be most at risk are timber-based such as roof trusses, chipboard flooring, joists and internal doors. Following detailed discussions with our suppliers, we were satisfied with their contingency plans including their levels of timber-based raw materials to ensure the continuation of manufacturing in the event that congestion at customs checkpoints resulted in six week delays to the importation of new materials. We will remain in close contact with our supply chain as we approach the end of the transition period on 31 December 2020 and react accordingly.

making first impressions that last

> **"We have worked collaboratively with Miller Homes on some large and challenging developments. Being awarded Contractor of the Year recognises the contribution of our site teams in value engineering, site delivery and health and safety."**
>
> **Kevin MacKenzie, Managing Director at Ground Developments Limited**

4. Production

Standardised portfolio

Our housetypes and developments are designed to meet the needs of each local community and our standard product portfolio is sufficiently flexible to allow the adaptation of external elevations to ensure street-scenes are consistent with surrounding properties. As the vast majority of our private completions were from standard housetypes, they offer efficiencies in terms of build familiarity and cost. Importantly, a standardised portfolio provides the Group with a high degree of cost certainty which would be difficult to achieve through bespoke development.

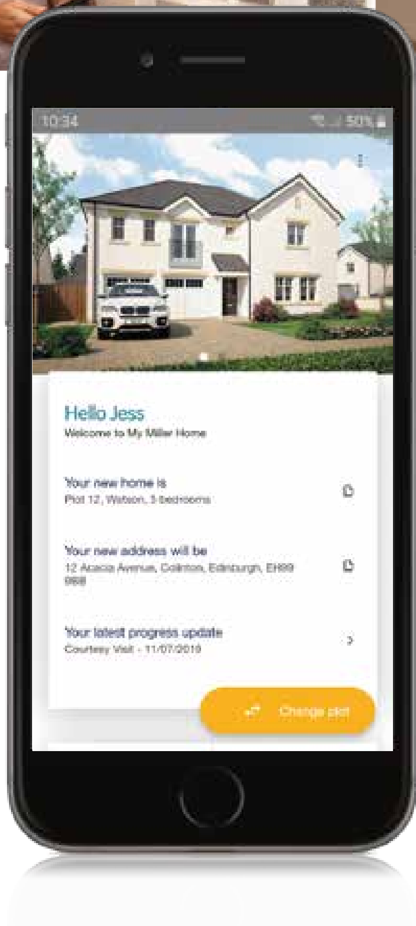
The purpose of the product range review was to ensure that our product continued to meet the needs of our customers and it remained both land and cost efficient. The review has identified a number of further value engineering opportunities which will produce cost savings without impacting either the customer experience or quality. The revised housetypes are being rolled out progressively with an estimated 50% of 2021 completions coming from new housetypes.

Working with local subcontractors

Subcontract labour is used to support the construction of our developments. This labour is typically provided by smaller local companies who are managed by the production and commercial teams in our regional operating businesses. This arrangement allows the Group to operate a flexible outsourced model while continuing to dictate the pace of construction in order that the Group ultimately retains control of work in progress.

It is important that we engage with subcontractors who share our commitment to high standards for both build quality as well as health and safety. Our Code of Conduct sets out our expectations for all our partners in relation to expected standard of performance. We also encourage our subcontractors to be members of the SMAS Worksafe scheme which promotes high standards of health and safety with 96% of our subcontractors enrolled in the scheme.

putting customers first



5. Sales

Investing in training and technology

To deliver the best possible service to our customers, we have invested significantly in both training and new technology, specifically our award-winning website and industry leading CRM system.

Every Development Sales Manager participates in an intensive three-day training and development programme as part of their induction before working through a modular training program in our Sales Academy. High standards are maintained with training opportunities identified by mystery shopping exercises.

Our CRM system, built on Salesforce, provides an efficient end-to-end system for recording the customer journey and allows rigorous lead management as well as insight and analysis of the results from marketing spend.

The Group has remained at the forefront of digital innovation to support the sales team and ensure the customer journey satisfies the expectations of today's buyers.

Digital innovation driving sales

Our ongoing development program ensures our website remains current and relevant. In 2017 we became the first homebuilder to enable customers to reserve their home via our website and since then, more than 700 customers have chosen to reserve online.

In 2019, we launched the My Miller Home app. The app allows customers who have reserved a home to access a wide range of information about their homebuying journey from their smartphone or tablet and keep them involved during every step of their journey. The app includes updates on the build progress of their home, meeting information and copies of customer signed documentation, purchased upgrades, demonstration videos, floorplans, as well as essential information and documents.

Further innovation is being introduced by enabling customers to personalise their new home from the comfort of their existing one using an online options tool. This will allow customers to visualise their selections and have transparency over their spend.

Images (clockwise from left to right): The options area within the new marketing suite; David Bolton and family; digital innovation and the My Miller Home app

"It's no secret that moving house can be stressful but it has been a pleasure dealing with Miller Homes. The company's culture is clearly built around its customers and that was obvious from the moment we met the site manager and saw the care and attention put into our new home."

David Bolton, Centurion Place, Kibworth, Leicestershire

6. Customer service

A culture of customer care

Our customers are at the heart of everything we do. We maintain a high level of customer service throughout every part of their journey with us, from initial enquiry until long after they have settled into their new home.

During 2019, the number of service orders raised by our customer service teams reduced by 5% and we experienced a 17% improvement in the average number of days to close an order.

The focus on providing the highest standards of customer service is embedded throughout the entire business and whilst we have dedicated customer service teams in each region to manage and respond to queries, this is only achieved through an approach in which colleagues across all business functions work collaboratively. We have invested in and improved our systems to ensure a co-ordinated and timely approach.

Maintaining high standards

Customer satisfaction is a key measure of our success and we continually monitor and evaluate our performance to identify areas for improvement. We are proud to have retained 5 stars for customer satisfaction in the HBF National New Homes Customer Satisfaction survey, with improvement year on year across all key measures of the benchmark including an increase in Recommend to 93% (2018: 91%).

The Group actively participates in the HBF steering group tasked with reviewing quality and customer satisfaction in response to the Government's plans to introduce a New Homes Ombudsman. As a forward-thinking business with a customer centric focus, the Group welcomes any initiatives which will help further raise standards across the industry as a whole.

Miller Homes and Fife Council announce new affordable homes at Lapwing Brae, Dunfermline

Stakeholder engagement

Overview

This is the first year when large private companies are required to report on how the directors have complied with their statutory duties under s172 of the Companies Act. Its aim is to promote the success of the company as a whole for the benefit of all stakeholders. We appreciate that stakeholder engagement is important in establishing relationships with our shareholders, employees, customers, suppliers, contractors, communities, lenders and wider society which not only underpins the good governance of the business but also fosters greater understanding of the needs and concerns of our stakeholders. If we listen to our stakeholders and encourage positive relationships this will impact on the way we conduct business, our policies, processes and procedures.

Our Stakeholders

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

Shareholders

- Executive directors meet with shareholders at Board meetings 10 times each year
- Shareholder directors visit regional offices and are encouraged to make site visits
- Each regional management team presents directly to the Holding Company Board including shareholder directors and Chairman
- An annual strategy update is presented to the shareholder directors and Chairman
- The Chief Executive, Chief Financial Officer and Chief Operating Officer attend regular ad hoc meetings with shareholders

What this means:

There are numerous opportunities for our shareholders and Chairman to engage with the executive directors and staff in the regional business. Board meetings are held in our regional offices and shareholder directors are encouraged to visit sites, leading to transparent governance and two-way communication with greater understanding of both shareholder and business needs.

Employees

- Employee focus groups
- Employee forums and regular briefing sessions on business updates across all offices
- Annual regional employee roadshows with presentations from executive and regional directors
- New training initiatives, including management training programme and mental health awareness
- Improved internal communication through enhanced intranet

What this means:

There has been a visible increase during 2019 in opportunities to both listen to and engage with employees. We have implemented a number of employee suggestions over the last 12 months with particular emphasis on improved communication across all regional businesses which have helped to maintain industry leading employee engagement scores.

Customers

- Independent surveys of customer experience
- Website surveys conducted with existing and potential customers to obtain their feedback and views
- My Miller Home app allows two-way communication with customers
- Director sign off prior to homes being handed over to customers
- Improved process for customer choices and options
- Customer feedback on showhome designs
- Feedback requested on showhomes from customers at reservation stage

What this means:

The way in which we engage with our customers is an evolving process and we are focused on meeting our targets on continued improvement in customer satisfaction as evidenced by the HBF 5 star rating in eight of the last nine years. We continue to listen to our customers and what they want from the home buying process and the finished home. We contact our customers at 7, 14 and 28 days after purchase to ensure they remain delighted.

Supply chain

- "Working together" tender guide for suppliers
- Long-term collaborative partnerships
- Supplier Code of Conduct
- Regular face-to-face meetings with suppliers including reporting feedback from site management teams
- Meetings with contractors prior to work commencing on site

What this means:

We have developed strong relationships with our suppliers and contractors leading to informed dialogue on design, cost increases and supply issues. Suppliers in turn have certainty on volumes and revenues.

Local communities

- Engage through public meetings
- Miller Respect, a dedicated phone line per site for neighbours and the community to report concerns
- Planning consultations
- Visits to local schools
- Support for local and national charities
- Volunteering is encouraged

What this means:

Neighbours and the wider local community understand what we are trying to achieve, which improves the planning process, minimises concerns over our developments and encourages direct communication with site. Delivery of attractive and considered developments which minimise the impact on the environment while delivering essential amenities such as schools and infrastructure.

Banks and funders

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

What this means:

We are committed to reporting our results on a quarterly basis to enable the Group's bondholders and RCF banks to receive timely and transparent financial information to assist them in their decision making. This is further supported by regular meetings. We believe that this approach, allied to our business performance, has resulted in excellent lender relationships.

Resilient regional markets

Economic and political landscape

Government policy on housing is focused strongly on increasing supply and the market although largely flat remained resilient, despite economic and political uncertainty.

In a year of economic uncertainty, political theatre, and Brexit malaise, 2019 at least closed with a clearer pathway for the UK Government's ability to leave the EU, if not the final shape this will take.

£239,000
average UK house price
Source: Halifax HPI Jan 2020

241,000
net additional dwellings in England 2018-19
Source: MHCLG December 2019

9%
increase in net additional dwellings in England 2018-19
Source: MHCLG December 2019

1.4%
annual house price growth
Source: Nationwide December 2019

Image: Sovereign Park, Shrewsbury, Shropshire

Market conditions

The housing market has proven to be remarkably resilient over the three and half years since the 2016 EU referendum, although the continued Brexit speculation and unplanned General Election did have an impact in 2019. Interest levels remained high but buyer hesitancy began to creep in, lengthening the time taken between initial interest and reservation. That said, we were still very satisfied with transaction levels and our private sales rate of 0.64 was only 4% down on the prior year. Reassuringly since the start of 2020, early indicators, such as our own website activity, leads and footfall, combined with reports of better movement and listings within the wider second hand market, give cautious cause for optimism that customers who had been holding off, are now actively back in the market and willing to commit.

Aside from the wider economic and political uncertainty in 2019, the factors affecting the purchase of a new home remained constant – low unemployment, low interest rates, wage growth, government support for purchasers and increased competition in the mortgage market. These are the main reasons that the regional new homes market remained relatively stable and customer demand continued to be strong. House price growth in the year was positive, albeit more subdued than in previous years. Nationwide reported annual house price growth of 1.4%, with only December itself having an annual increase in excess of 1%. The regional picture was mixed with London and the South East reporting annual price declines.

The UK Consumer Confidence Index saw an upturn in December 2019 reversing the steady decline seen since the 2016 EU referendum. The December 2019 index is still at -11 and it is nearly four years since the index has made it into positive territory. However, the rebound in December 2019 is the largest single month improvement since the summer of 2016 and suggests growing confidence in the UK's economic future underpinned by record high employment levels.

Supportive lending

The UK House Price to Earnings ratio, as measured by Nationwide, dropped to 5.8x (2018: 5.9x) in the fourth quarter of 2019. While this is still above the 4.5x long term average, our regional businesses are significantly below the national average, as shown in the graph below.

The Bank of England base rate remained unchanged through 2019 at 0.75%; however, mortgage rates fell as lenders competed for business. The number of 95% mortgages increased in 2019 and fixed rates remained the favoured product. The number of fixed rate mortgages available is double that of five years ago. Bank of England data showed that over 92% of all new mortgages taken in the first half of the year were fixed rate.

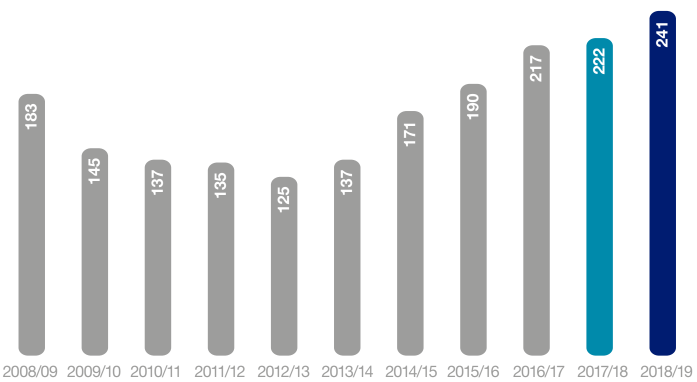
The Mortgage Market Review in 2014 curtailed risky lending practices and tightened lending rules. Five years on, lenders are looking to ways to apply a more flexible approach to lending, albeit in a responsible and controlled manner. The success of a period of sustained prudence in lending and the confidence in more rigorous underwriting practices could support a review of income multiples as the increase in long term fixed rate mortgage availability, would ease the stress test criteria. New build homes continued to help fill the gap in demand for housing and the lack of supply, reflected in the RICS Residential survey figures. In June 2019 average stock levels on estate agents books hit a new all-time low. By November stock levels had risen slightly to 41 properties per branch, but was still slightly lower than the 2018 figure of 42 homes.

Government support

In the Queen's Speech following the election in December 2019, the Government's housing proposals talked of providing means to "support people to realise the dream of home ownership". The UK Government has pledged support, including extending Help to Buy to 2023, albeit with regional price caps and restrictions to first time buyers, as well as announcing the promised introduction of the First Home scheme. The Scottish Government has similarly extended their Help to Buy scheme to 2021 and also launched the First Home Fund which is open to all first time buyers of both new build and existing properties.

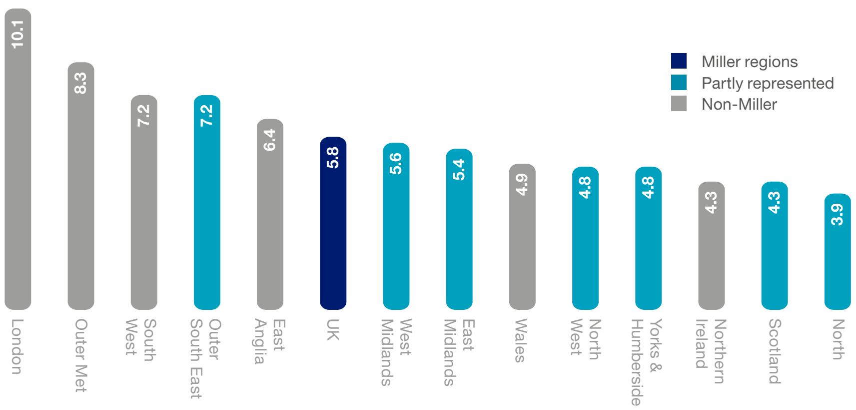
There was little in the way of new housing legislation in 2019 with the focus turning to 2020 and the likely new legislation to emerge from the new UK Government to deliver on its target of 300,000 new homes by the middle of the decade. Net additional dwellings did increase by 9% during 2018–19 to 241,340. In 2020 we are likely to see introduction of the New Homes Ombudsman and an enhanced Consumer Code for Homebuilders. We are already committed to the quality of our own build, finish and customer journey, evidenced by our 93% customer satisfaction. We welcome improvements to drive consistency in the industry, which in turn will increase confidence in the new homes sector.

Annual housing supply net dwellings, England (000s)



Source: Ministry of Housing, Communities and Local Government (MHCLG)

Mortgage payments to take home pay ratio by region



Source: Nationwide, Q4 2019

Continue delivering profitable and sustainable growth

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

1 High quality and customer focused business

Objective

Maintain HBF 5 star customer satisfaction.

Measuring progress

Customer satisfaction (%)

Objective

Strive to increase Construction Quality Review (CQR) build quality score to four or above.

Measuring progress

CQR scores

2 Upper quartile financial results

Objective

Maintain operating margin at or above 20%.

Measuring progress

Operating margin (%)

Objective

Maintain return on capital employed at or above 30%.

Measuring progress

Return on capital employed (%)

3 Regional volume growth to 5,000 units per annum

Objective

Achieve a minimum target of 25% of next year's core and joint venture completions.

Measuring progress

Forward sales (£m)

Objective

Deliver incremental growth in annual completions by reaching optimal output.

Measuring progress

Core and JV completions (units)

Image: Members of the Miller Homes team (left to right) Nick McCluskey, Build Manager; Alexis Grant, Development Sales Manager; and Paul Ritchie, Contracts Manager

4 Investing in our people

"We have held IIP accreditation for the past 17 years. We were first awarded IIP Gold in 2016 and reaccredited with Gold in 2019."

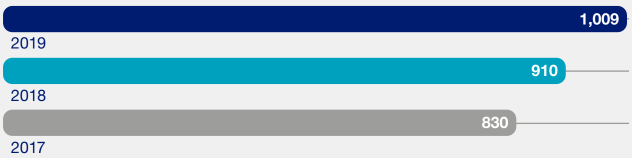
Chris Endsor, Chief Executive Officer

Objective

Support profitable business growth by increasing employee resource.

Measuring progress

Employee headcount

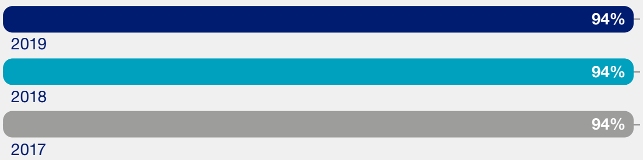


Objective

Maintain sector leading staff engagement scores.

Measuring progress

Employee engagement



Survey undertaken every 3 years (2016, 2019)
(2016: 94%)

5 Cash generative and investing in land to fuel further growth

Objective

To generate free cash flow of 50% of EBITDA.

Measuring progress

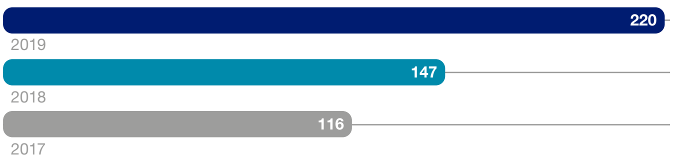
Free cashflow generation (£m)

Objective

Land spend to fuel growth.

Measuring progress

Land spend, net of land sales (£m)



2019 was our 8th consecutive year of profitable growth

Overview

2019 was a highly eventful year with three Brexit deadlines being set and missed and an unplanned General Election, all of which meant that politics and uncertainty were very much at the forefront of our customers' minds. The housing sector is one which traditionally benefits from consumer confidence and a positive macroeconomic outlook, both of which were in short supply in 2019.

Despite this backdrop, I am extremely satisfied to report record operating profits in 2019 of £167.9m (2018: £151.1m), 11% ahead of the prior year which resulted in our eighth consecutive year of growth.

Chris Endsor
Chief Executive

2019 highlights

10%
increase in core and joint venture completions to 3,498 (2018: 3,170)

11%
Increase in operating profit to £167.9m (2018: £151.1m)

£2.9bn
gross development value of owned landbank (2018: £2.4bn)

93%
customer satisfaction (2018: 91%)

Overview (continued)

Our strong trading performance was complemented by record land investment whilst at the same time increasing free cash generation to £84m (2018: £82m); both of which are a key focus for the Group. At the same time, I am proud that we retained our HBF 5 star customer satisfaction rating for the eighth year out of nine and achieved our key people strategy goals in the shape of a 94% employee engagement score and retention of Investors in People gold status.

We remain committed to growing the business. With this in mind, we created a new role of Chief Operating Officer within our Executive Board. I am delighted that this was an internal appointment with Stewart Lynes, previously our Divisional Managing Director for Scotland and the North of England being promoted. I wish Stewart well in his new role. Warren Thompson, will join the Group in the early part of 2020 as Divisional Managing Director for the North of England to complete our Executive Board. Warren is joining us from a listed competitor where he held a similar position.

Strategy

Our strategy is updated annually in conjunction with our Holding Company Board. We remain committed to operating a business model which supports sustainable growth and continue to see the strengths of our regional markets where real house prices are significantly below the 2008 peak and affordability levels remain below historic averages. We firmly believe there are significant advantages in having a regionally focused strategy, in the shape of a less competitive land market, reduced subcontractor cost pressures and availability issues, a more favourable planning environment and customers who are predominantly home owners rather than investors.

We regularly stress test our business plan and value our ability to maintain tight control of our cashflows in the event of any downturn. Our key operational cash levers arise from our strategic land purchases which are only committed at the point of purchase and our outsourced subcontract model which enables construction activity to be aligned to sales levels.

Having reached critical mass in our North East region and with additional land opportunities, combined with our strong regional management team in that area, we launched a new Teesside region during the year, ahead of plan. This takes us to nine regional businesses and increases our operational capacity to c5,000 units.

Government policy

There was little in the way of new housing legislation enacted during the year. Our focus turns to the likely agenda of the new UK Government as set out in the Conservative Party manifesto and the December 2019 Queen's Speech. The new Government has confirmed that it remains committed to delivering at least another million homes in the next five years, making further progress towards its target of 300,000 new homes a year by the mid-2020s. This is to be supported by the continued use of Help to Buy through to 2023, tackling inefficiencies in the planning system and through the introduction of the First Home Scheme, under which homes will be sold at a 30 per cent discount to local first-time buyers. This scheme is to be implemented through changes to the National Planning Policy Framework with the discount offered to local first-time buyers being locked into the property in perpetuity. A new market in long-term fixed rate mortgages, requiring only a 5% deposit is also proposed.

In addition, the other main initiatives from the UK Government are improvements in carbon reduction over the medium-term and increased regulation around build quality and customer satisfaction. We sit on the main industry working groups which allows us to proactively engage with government and help shape new legislation.

People

I am proud to lead a business and work alongside colleagues who are diligent, skilled, and are advocates on a daily basis for Miller Homes. This is my firm view and pleasingly has been endorsed by two independent organisations during the year, when we retained our Investors in People Gold status and achieved a 94% employee engagement score, an exceptional result with a high participation rate of 75%.

In a sector with a well-publicised skills shortage, it is important that we are not complacent and continue to build on the Miller Homes culture in order to attract and retain the best people. Our aim is to support our employees in more than a financial sense and as part of Health and Wellbeing policy, mental health awareness training was undertaken across the business. So far, we have trained over 400 staff members and appointed 100 Mental Health First Aiders. Other benefits were introduced during the year including flexible working in regional offices.

Our average employee numbers have increased by almost 50% to 1,009 over the last five years and in addition we support a 3,000 subcontractor workforce on a day to day basis. Our subcontractors value the support provided by us with respect to health and safety training and specifically on new and emerging issues. It is important that we provide structured training and development for our employees and also assist our subcontractors in complying with regulations. In 2019, our average training days per employee increased to 4.0 days (2018: 3.6 days). Structured training academies are well established for both our on-site sales and production teams. Both programmes provide staff with the necessary role-based technical skills and also provide the means for the delivery of our high standards of customer service and build quality. In addition, a management development programme was initiated during the year and will provide structured learning for 150 managers in the Group.

Culture, purpose and values

The culture of the Group is important to ensure the correct values and behaviours are displayed in our dealings with everyone with whom we engage, including our customers, employees, subcontractors, suppliers, local residents and other stakeholders.

Following an extensive review to more clearly define, articulate and embed the unique culture of the Group as it continues to grow, a new purpose and set of core values was introduced during 2019. Staff were heavily involved in the research which was undertaken during this process, resulting in our purpose being defined as 'we create great places where people prosper'. Four core values were identified, namely, we care about people, we care about performance, we care about pride and we care about prospering. Our purpose extends beyond our customers and the communities where we are building; it is also about our hard-working and committed teams and helping them prosper too.

Established human rights policies are in place to ensure compliance with areas such as diversity, whistleblowing and the requirements of the Modern Slavery Act 2015. The Group is also committed to the highest standards of ethical conduct and integrity in its business activities. We have an established anti-bribery policy and we require our key national suppliers to demonstrate their anti-bribery credentials. We believe this will deliver reputational benefits and maintain our established reputation with customers, suppliers and subcontractors.

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

The Group is committed to growing the business in a responsible and sustainable manner with a particular focus on the key areas of health and safety, environment, community and partners. The Group's key performance metrics in relation to corporate responsibility are explained in more detail on pages 40 and 41.

Charitable giving

We are committed to leaving a positive legacy in the communities in which we operate and we also believe that safe and secure housing is a basic human right. For these reasons, it is important to support a wide-range of charities from local ones through to our corporate partnership with global housing charity, Habitat for Humanity. We have a co-ordinated approach to charitable giving which promotes a company matching scheme for an employee's preferred charity or good cause. Each regional office has a nominated charity which is supported by our regional teams and supply chain.

In 2019, we raised £155,000. In addition, employees are given paid time off to participate in volunteering activities. Our support for Habitat for Humanity is wider than our financial contributions. In 2019, we built six much needed new Habitat homes during two Global Village Trips, one comprising staff volunteers and the other staff and members of our supply chain, which I headed up. Over the last three years £500,000 has been raised specifically for Habitat for Humanity.

Customer service and quality

For some time, the Group has been committed to providing industry leading levels of build quality and customer service. I have always believed that it is incumbent upon everyone within the industry to provide customers with both the product and service which is deserving of the largest purchase in their lifetime. Publicised cases of customer complaints have led to the sector coming under increasing scrutiny and I sit on the HBF committee tasked with liaising with the UK Government to agree on appropriate measures to address these concerns. The Queen's Speech of the new UK Government, confirms the intention to appoint a New Homes Ombudsman. I welcome this measure to drive up overall industry standards and we will continue to adapt our procedures to ensure we comply with any new regulations.

"We are committed to maintaining industry leading levels of customer service. It is important to have employees who are highly engaged in the business and also dedicated to delivering Miller Homes standards."

Image: Brookland Park, Middlesbrough, Teesside

Gender balance

	2019			2018		
	Male	**Female**	**Total**	Male	Female	Total
Directors	**5**	**1**	**6**	5	1	6
Managers	**120**	**40**	**160**	106	28	134
Other employees	**592**	**281**	**873**	550	256	806
Total	**717**	**322**	**1,039**	661	285	946

Note: Represents employee numbers at the end of each year.

Safety, health and environment

We have an in-house team of 12 professionals who specialise in Safety, Health and the Environment (SHE), led by our Group SHE Director who reports directly to me. In 2019, we strengthened the importance of SHE across the Group, by creating new roles of Divisional SHE Directors, reporting to the Group SHE Director, for each of our three operating divisions.

The SHE team audits to ISO 14001 and OHSAS 18001 and our SHE management system has been accredited since 2009 through LRQA (Lloyds Register of Quality Assurance). LRQA undertake twice yearly surveillance visits and a full renewal visit every three years. In addition, to its audit role, the SHE team engages proactively with our production teams and subcontractors to ensure the safety of employees, subcontractors, customers and those living in the surrounding area of our developments. The environmental role of the SHE team has increased in importance in recent years leading to a focus on effective planning of our activities to minimise the impact on the surrounding natural environment both during and after construction.

At the start of each year, the Board sets out a comprehensive SHE strategy, which is focused on the key risk items. For 2019, the key improvement areas were greater contribution from our contractors in SHE management and standard setting, improved visibility of active SHE leadership from our executive and regional directors and accident reduction through associated personal responsibility. We held workshops at which 170 contracting firms attended. Sixty executive and regional directors took part in individual site visits and in respect of accident prevention, learning events were highlighted to our teams through SHE news-flashes.

As part of our monitoring processes, we undertook both inspections of our sites and management systems as well as audits across all functions and at all workplaces. Over 2,800 actions were added to site inspection logs, with 99% of actions completed on time. Following two separate incidents involving falls from height, and in order to improve the way we managed access between floors, we engaged with a supplier to design and manufacture a bespoke access hatch, which has since been supplied to those sites adopting traditional masonry construction methods.

Increased site activity levels and additional workers on site, in turn increases the risk of health and safety incidents. Against this backdrop, it was encouraging to see a fall in reportable incidents per 100,000 employees to 473 (2018: 484) and we want to see further reductions in 2020. Our strategy for 2020 will build upon the success of 2019 by continuing to engage with our subcontractors, implement and audit the adoption of Miller Standards and increase the visibility of Active SHE Leadership through Director and Senior Manager visits across the business.

Outlook

We have left behind an eventful but nonetheless highly successful 2019 and enter a new year with a record order book and a strong balance sheet. There is now more certainty in relation to the UK's exit from the EU, if not the final trading relationship and impact on the UK economy.

I truly believe this is a great business, with a clear strategic focus on mainstream regional housing markets and a management team intent on investing in our people, all of which is under a culture of ensuring we delight our customers and add value to all our stakeholders.

I would like to thank all our staff and stakeholders for their contribution which made 2019 a record year and I am cautiously optimistic that 2020 will be another successful year for the Group.

Chris Endsor
Chief Executive
27 February 2020

An excellent year and well positioned for 2020

Introduction

Having now worked for Miller Homes for 11 years, I was delighted to be promoted to the newly created role of Chief Operating Officer during the year and would like to thank Chris Endsor and the Holding Company Board for this opportunity.

Stewart Lynes
Chief Operating Officer

2019 highlights

17%
increase in average sales outlets to 83 (2018: 71)

20%
operating margin (2018: 20.2%)

9%
increase in the consented landbank to 13,633 plots (2018: 12,524 plots)

12%
increase in forward sales for 2020 to £328m (2018: £292m)

Sales performance

Given the political and economic uncertainty in 2019, we were extremely satisfied with the Group's sales performance during the year, notwithstanding a small reduction in the private sales rate to 0.64 (2018: 0.67) net reservations per site per week. Our 2019 performance is still one of the highest sales rates in recent years, and speaks both to the resilience of the UK new homes market and the quality of the Group's developments. The significant investment in land in 2017 and 2018, led to a 17% increase in sales outlets which averaged 83 (2018: 71) during the year. We opened 33 new developments in 2019, significantly ahead of 2018. Prices, after taking into account the use of sales incentives, were broadly flat during 2019 which again demonstrates the underlying resilience of our regional markets.

Our customer profile and presence in Scotland, means that our proportion of Help to Buy sales is typically lower than our listed competitors. This continued to be the case in 2019, with Help to Buy sales representing 35% (2018: 33%) of private reservations and 32% (2018: 30%) of private new home revenues. The existing Help to Buy scheme in England will see two main changes in April 2021, namely, being available exclusively to first time buyers and the introduction of regional price caps, with the current price cap of £600,000 only applying in London. A reduced price cap of £200,000 has been in place on the Scottish scheme for a number of years.

A slowing second hand market meant that our use of part exchange increased to 17% (2018: 12%) of private reservations. We have robust controls around part exchange both in relation to acquisition criteria and the onward sale of these properties. As a regional homebuilder whose primary focus is on family homes, sales to investors continue to be a very small percentage of overall sales. In 2019, sales to investors represented only 2% (2018: 2%) of private reservations. In this regard, our private sales rate of 0.64 is not distorted by investor or bulk sales. We were the first major homebuilder to launch online reservations in 2017 and have since seen a steady increase in the utilisation of this feature which allows customers to reserve online outside the normal opening hours of sales centres. In 2019, online reservations represented 17% (2018: 8%) of all private reservations, with just under 60% of these reservations being made outside our normal opening hours.

Overall completions in 2019 were 3,498 (2018: 3,170), of which core completions were 3,328 (2018: 2,954). Private completions increased by 10% to 2,652 (2018: 2,411) due primarily to increased sales outlets. Affordable completions increased by 24% to 676 (2018: 543) and represented 20% (2018: 18%) of core completions. Joint venture completions reduced to 170 (2018: 216) reflecting a lower number of active joint ventures.

Land

There continued to be sufficient land opportunities in our target markets which met our financial criteria. There are many other criteria for a typical Miller Homes development with building homes in locations where our customers want to live being paramount. Access to good quality local schools, proximity to areas of high employment and good transport links are key drivers. Strong customer demand is important to underpin our targets in relation to both sales rates and capital efficiency.

We acquired 30 sites (2018: 28) during 2019 and entered into 18 new options (2018: 12). To facilitate this, we have at the same time increased our land buying resource and have 26 specialists across our regional businesses, an increase of two from the previous year. Against the backdrop of Brexit related uncertainty, our land buying strategy continued to be focused on popular locations where above average sales rates were more likely to be delivered.

The consented landbank increased by 9% to 13,633 plots (2018: 12,524 plots) driven by the owned landbank which grew by 17% to 10,718 plots (2018: 9,174 plots). The acquisition of 4,933 plots (2018: 3,886 plots) at a cost of £227m (2018: £204m) was a record for the Group. The profile of purchases was weighted more to the latter half of the year which will mean that the full benefit of completions from these developments will not be seen until 2021. The ASP of the owned landbank increased modestly to £267,000 (2018: £264,000). The increase in landbank size has led to an 18% rise in GDV to £2.9 billion (2018: £2.4 billion). Our preference is to acquire land with the benefit of a detailed planning permission and 89% (2018: 94%) of the owned landbank had such a consent. All owned land with a detailed planning permission is currently being developed given our focus on capital efficiency.

In addition to the owned landbank, the Group has control over a further 2,915 plots (2018: 3,350 plots) which have a minimum of an outline planning consent and are secured by either a conditional contract or option. We target an overall consented landbank of 4-5 years with the owned landbank representing 3-3.5 years' supply supplemented by the controlled landbank of 1-2 years. We believe that this strikes the appropriate balance between security of supply on the one hand and capital efficiency and risk management on the other.

Deferred land payments, particularly on larger sites, are important to meet ROCE targets. The average size of sites acquired in 2019 was 164 plots which based on current sales rates have an average 3.6 year expected duration, broadly in line with the Group's 3.0 to 3.5 years' range. Sites acquired from the strategic landbank comprise 28% of the 2019 owned 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 (2019: 27%).

The strategic landbank totals 20,035 plots (2018: 17,331 plots). The process to determine which sites are contracted into the strategic landbank is rigorous and is based upon site size, location, planning prospects and discount to open market value. Smaller sites are targeted as these are considered to be more desirable and deliverable in terms of planning promotion prospects and cash lock-up. The average site size is just under 270 plots, which is relatively small in strategic land terms. At the end of the year, 11 planning applications (2,538 plots) had been submitted to planning authorities on strategic sites for which decisions are awaited.

Product

During 2019, we conducted a full-scale review of our product range to ensure it meets our customers' aspirations in relation to both specification and price-point as well as identifying further value engineering opportunities and maximising land efficiency. An important part of the review was to ensure that each of our 46 housetypes were sufficiently differentiated from one another, particularly those housetypes with a similar price-point. The standard housetype range meets the requirements of the 62 different planning authorities with whom we have relationships across the country. Four different elevational styles allow our street-scenes to complement existing local housing. The new product range will continue to meet our high standards of design and quality whilst being faster to build, be more suitable for modern methods of construction (MMC) and help reduce build costs and waste. In 2019 25% of our core completions were constructed using timber frame.

Completions by type

	2019	2018	% Change
Private	**2,652**	2,411	10%
Affordable	**676**	543	24%
Core	**3,328**	2,954	13%
Joint ventures	**170**	216	(21%)
Total	**3,498**	3,170	10%

The majority of sites acquired in 2019 will benefit from the new product range being launched in April 2020. The roll-out on existing developments will be dictated by those developments with sufficient longevity to justify the changeover. Accordingly, a phased approach will be taken with an estimated 50% of 2021 completions coming from the new product range. The benefit in 2020 from the new product range will be limited to some extent but will help mitigate cost inflation, with a greater benefit coming through in 2021.

Use of the new product range will be monitored by the Product Development Committee which meets on a regular basis to monitor compliance, customer needs and feedback from our production, sales and commercial teams. To complement our new housetypes, a new range of customer options and upgrades will be available in early 2020. To assist our customers, optional upgrades and choices will be able to be selected online from 2020 through the My Miller Home area of our website in the convenience of their home, building on the success of our online reservation offering.

Supply chain

The priorities of the Group's central procurement team during the year were to ensure continuity of material supplies in light of the potential No-Deal Brexit deadlines as well as the more routine tasks of cost optimisation and material availability.

In relation to Brexit, around 90% of the housebuild materials sourced by our central procurement team are manufactured in the UK, with the main exceptions being garage doors, ceramic tiles and kitchen appliances. A comprehensive review of our supply chain was undertaken to identify any indirect exposure to imports arising from our supply chain purchasing its raw materials from abroad. The key risk identified was timber-based components such as roof trusses, chipboard flooring, joists and internal doors. For those suppliers identified as having the greatest Brexit exposure, discussions took place to understand stock levels and contingency plans. Advance ordering and purchasing was initiated on a limited basis. A further Brexit related issue is the extent of any loss of labour stemming from the UK leaving the EU. The majority of our production labour is supplied via subcontractors and as a regional homebuilder, we believe that we have a relatively small reliance on EU labour, with the vast majority of the subcontract workforce being UK nationals.

In addition, in 2019 we introduced a new process to obtain feedback from our site production teams on the performance of our supply chain. This has assisted the central procurement team to assess suppliers against pre-agreed quality and service targets. The feedback received has been encouraging with areas for improvement shared with the relevant supplier. Cost increases averaged 3% during the year and product availability was generally good, with some materials on extended delivery dates proactively managed by our central procurement team.

Build quality and customer service

The Group has been committed to providing industry leading levels of build quality and customer service for a number of years which are central to our business ethos. In relation to build quality, our sites are well managed which ensures that the better subcontractors want to work with us. The Group uses NHBC as the provider of the 10 year customer warranty on all its developments. As part of this service, the NHBC perform an independent inspection of all key build stages on all our homes constructed. Our premiums fall into the A* rated category, the lowest premium category which is reflective of the low level of claims experienced by NHBC. The NHBC undertake an annual assessment of construction quality across a maximum of 38 build stages known as Construction Quality Reviews (CQR). Our CQR score stands at 3.96 which we understand is upper-quartile in the large homebuilder category.

We have a detailed customer journey with five scheduled meetings throughout the home-buying journey and allow customers to inspect their home at an early stage of construction. This enables them to view areas which would otherwise not be possible when the house is fully completed. The use of standard housetypes throughout the Group enables build familiarity for our production teams and is important in ensuring consistent levels of build quality. Our customer service inspectors have tablet devices to allow them to log and attach a photograph where appropriate for any remedial items in our CRM system. This has a number of advantages including ease of identifying common faults and it also facilitates the recovery of costs from suppliers and subcontractors in the case of defective materials and poor workmanship. We have plans to allow customers to log items they want to draw our attention to online as part of a new project which will commence in 2020.

Two independent surveys are used to assess and monitor customer satisfaction. The first survey, conducted by In-House Research, obtains feedback six to eight weeks after customers 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 continuous improvement. The second survey is conducted by the NHBC on behalf of the Home Builders Federation eight weeks after the house purchase. The HBF 5 star rating is awarded for customer satisfaction ratings in excess of 90%. Our 2019 HBF score was 93%, and represents the eighth time in the last nine years that we have achieved a 5 star rating.

Stewart Lynes
Chief Operating Officer
27 February 2020

Landbank

	2019		2018	
	Plots	**GDV £m**	Plots	GDV £m
Owned/unconditional	**10,718**	**2,864**	9,174	2,419
Controlled	**2,915**	**722**	3,350	850
Consented	**13,633**	**3,586**	12,524	3,269

Private unit product mix

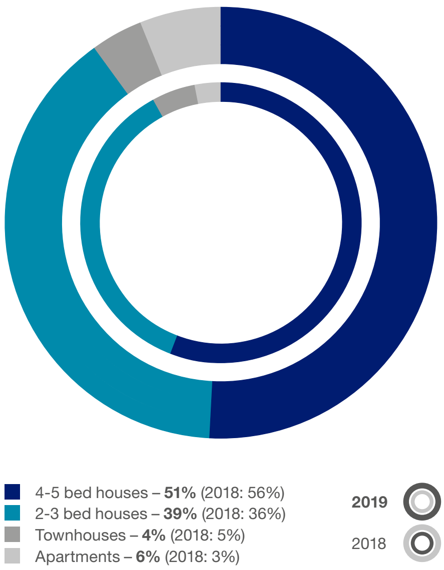


Image: Crofthead Maidenhill, Newton Mearns, East Renfrewshire

The Group generated £84m of free cash flow after £220m of net land spend

Overview

Record operating profit of £168m (2018: £151m) and £84m (2018: £82m) of free cashflow generation were the key financial highlights for the Group in 2019. In addition, record land investment will assist in supporting future profitable growth.

Ian Murdoch
Chief Financial Officer

2019 highlights

13%
increase in revenue to £841m (2018: £747m)

25.0%
gross margin (2018: 25.7%)

31.5%
return on capital employed (2018: 33.4%)

£84m
free cashflow generated (2018: £82m)

Operating performance

Revenue increased by 13% to £841.4m (2018: £747.0m). This reflected an increase in new home revenue to £830.0m (2018: £736.8m) with other revenue marginally higher at £11.4m (2018: £10.2m). The growth in revenue from new home sales reflected a 13% increase in core completions to 3,328 (2018: 2,954) with ASP unchanged. Higher sales outlets and the disposal of 89 units at the Telford NHT development in Edinburgh led to private units rising by 10% to 2,652 (2018: 2,411). Affordable unit completions increased by 24% to 676 (2018: 543) driven largely by increased sales outlets which typically have a higher proportion of affordable housing.

All divisions experienced an increase in completions. The increase in volumes and ASP was greatest in the Midlands and South division which delivered a 14% increase in core completions and 3% increase in ASP both driven by the West Midlands region which was launched in the latter half of 2017.

ASP was unchanged at £249,000 (2018: £249,000) which reflected an increase in the proportion of affordable homes sold in the year to 20% (2018: 18%) offset by an increase in private ASP to £284,000 (2018: £281,000). The average unit size of private home completions was marginally behind 2018 at 1,177 sq ft (2018: 1,181 sq ft). The ASP of affordable homes increased to £114,000 (2018: £108,000) and reflected a 5% increase in the average size of our affordable units.

Gross profit increased by 10% to £210.7m (2018: £192.0m) despite a marginal reduction in gross margin to 25.0% (2018: 25.7%). Gross profit per unit fell by 3% to £63,300 (2018: £65,000).

Administrative expenses were unchanged at £47.9m (2018: £47.9m). This reflected a combination of increased headcount offset by lower staff incentive costs in 2019 as well as 2018 including a £0.7m exceptional charge in relation to Guaranteed Minimum Pension (GMP) equalisation charges. As a percentage of revenue, administrative expenses have fallen to 5.7% (2018: 6.4%).

The increase in gross profit combined with flat administrative expenses has resulted in an 11% increase in operating profit to £167.9m (2018: £151.1m). Operating margin fell marginally to 20.0% (2018: 20.2%) which reflects a reduction in gross margin and lower joint venture profits offset by improved overhead recoveries.

Finance cost

The Group's net finance cost has fallen by £3.2m to £45.8m (2018: £49.0m) which reflects a lower charge on intercompany loans of £12.0m (2018: £14.4m) following the £43.5m part repayment of the intercompany loan in November 2018. All other interest categories were broadly similar to the prior year and the largest interest cost continued to be that associated with the senior secured notes of £27.4m (2018: £28.2m), inclusive of the amortised deferred financing costs and non-utilisation fees.

Taxation

The tax charge in the year was £23.1m (2018: £19.2m) which comprised £10.6m (2018: £9.0m) of corporation tax and £12.5m (2018: £10.2m) of deferred tax. The Group's deferred tax asset continued to fall as historic tax losses were utilised. The balance at the year end was £4.8m (2018: £15.9m) with the main elements represented by a £7.9m asset in respect of historic tax losses, £3.0m in respect of retirement benefit obligations and £2.9m of other temporary differences offset by a £9.2m liability in respect of the intangible brand asset. As the UK Government's decision to postpone the reduction in corporation tax rates to 17% has not yet been enacted by Parliament, the impact on the deferred tax asset has not yet been reflected in the accounts.

The total contribution to the UK and Scottish Government's finances in 2019, directly through taxes borne by the Group itself, and indirectly by payroll and other taxes we collect on behalf of both Governments was £78.8m (2018: £74.1m). The total amount of tax is significantly greater than the tax charge shown in our accounts and is an indication of our wider financial contribution to the UK economy.

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

Cashflow and debt

The Group continued to generate significant levels of cash in the year notwithstanding increased investment in land and work in progress. Free cashflow in the year was £84.0m (2018: £81.7m) which equated to a cash conversion from EBITDA ratio of 49% (2018: 54%).

The Group is funded through a combination of the following facilities:
- £244.0m, 5.5% Senior Secured Notes due 2024 and £161.0m Senior Secured Floating Rate Notes due 2023
- £130.0m committed RCF to 2023 which was only drawn for a one month period during 2019
- £131.4m, 10% unsecured intercompany loan

On the basis of the above indebtedness, the cash balance of £139.8m and deferred financing costs of £13.7m, the Group had net debt of £382.9m (2018: £419.3m). Excluding intercompany loans, external debt fell to £251.5m (2018: £299.9m) as a result of an increase in the cash balance offset by a £3.1m reduction in deferred financing costs. The increase in the intercompany loan to £131.4m (2018: £119.4m) reflects the 10% per annum interest cost which is settled on repayment of the loan.

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

Financial overview

	2019	2018
Total completions (no.)	**3,498**	3,170
ASP (£000)	**249**	249
Revenue (£m)	**841**	747
Operating profit (£m)	**168**	151
Operating margin (%)	**20.0**	20.2
Net external debt (£m)	**252**	300
Net assets (£m)	**332**	240
Underlying ROCE (%)	**31.5%**	33.4%

Balance sheet

The Group's net assets have increased by £92.5m to £332.1m (2018: £239.6m) due to the strong trading performance in the year.

Return on underlying capital employed, which excludes non-operating intangible assets, shared equity and deferred tax interests, was down marginally at 31.5% (2018: 33.4%). The reduction reflected the substantial land investment in the year. In 2019, net inventory, which represents statutory inventory net of land payables, increased by 13% to £682.3m (2018: £602.0m).

The increase in net inventory reflected continued investment in inventories to £834.3m (2018: £745.5m) offset by land payables of £152.0m (2018: £143.5m). Investment in land rose by 15% to £517.3m (2018: £448.3m) which is due to a 17% increase in the owned and unconditional landbank to 10,718 plots (2018: 9,174 plots) and a 1% decrease in the average plot cost to £48,300 (2018: £48,900).

The decrease in plot cost is largely a reflection of the location of new sites acquired in 2019 and specifically the investment made in the new Teesside region. As a percentage of ASP, the plot cost is slightly lower than last year at 18.1% (2018: 18.5%). Work in progress has increased to £296.4m (2018: £281.2m) and reflects a 5% increase in sites in the landbank at the end of the year.

Land payables represent creditors due in respect of land acquired on deferred terms and occasionally where contracts have been exchanged and the conditions have been satisfied. Land contracts which have been exchanged and where the conditions have yet to be satisfied, represent off-balance sheet contractual obligations to make certain payments if the conditions were satisfied. The estimated value of these contracts was £21.0m (2018: £76.1m).

Shared equity loan receivables represent the Group's investment in shared equity loans which were issued during the period 2008 to 2013. Redemptions in the year resulted in the investment in these assets falling to £8.9m (2018: £13.7m). The Group prudently carries its shared equity assets at fair value with a provision of £9.5m (2018: £13.3m) being held against the initial carrying value of £18.4m (2018: £27.0m).

Pensions

The defined benefit scheme was closed to new entrants in 1997 and to future accrual in 2010. The scheme deficit increased to £16.5m (2018: £13.0m) due to an actuarial loss of £7.9m and an interest charge of £0.3m offset by contributions of £4.7m. The actuarial loss reflects a significant reduction of 0.8% in bond yields in the year, which has been partly mitigated by the liability hedging in place.

During the year, changes were made to the investment strategy, the effect of which was to de-risk the asset portfolio and to increase the liability hedging from 50% to 65%. Pension arrangements for the Group's employees are now provided through a defined contribution scheme with the annual cost reflected in the Income statement amounting to £3.1m (2018: £2.6m).

Risk management

The Board maintains a risk register to identify and manage key business risks. The key risk continued to be related to Brexit and resulting macro-economic concerns. This and other risks are discussed on pages 38 and 39. In addition, under IFRS 9, the Group is required to disclose the main risks associated with its financial instruments, namely, credit risk, liquidity risk, market risk and inflation risk. These are set out in note 22 of the financial statements. In addition to the adequacy of financial resources, the key financial risk is the valuation of inventory, as set out in note 26.

Ian Murdoch
Chief Financial Officer
27 February 2020

Contribution to Government finances

	2019 £m	2018 £m
Tax paid by the Group		
UK corporation tax	**8.4**	6.2
Stamp duty	**11.4**	10.6
Employer's national insurance	**6.3**	5.6
Apprentice levy	**0.3**	0.3
Non-domestic rates and council tax	**1.3**	1.2
Section 75 and 106 agreements	**27.6**	29.3
	55.3	53.2
Tax collected and paid over by the Group		
PAYE and employees' national insurance	**17.3**	15.3
Construction industry scheme	**6.2**	5.6
Total	**78.8**	74.1

EBITDA to free cash flow reconciliation

	2019 £m	2018 £m
EBITDA	**170.9**	151.5
Net land investment (in excess of cost of sales)	**(70.0)**	(25.6)
Development spend (in excess of cost of sales)	**(22.9)**	(42.6)
Change in working capital	**(2.6)**	(6.5)
Cash flows from JVs (not included in EBITDA)	**6.0**	(2.2)
Shared equity loan receivables	**4.8**	7.6
Other	**(2.2)**	(0.5)
Free cash flow	**84.0**	81.7
Net land spend (included in cost of sales)	**150.4**	121.4
Net land spend (in excess of cost of sales)	**70.0**	25.6
Free cash flow pre net land spend	**304.4**	228.7

Image: Moorfoot Meadow, North Middleton, Midlothian

Principal risks and uncertainties

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

Risk description	Controls and mitigation	2019 commentary
Economic conditions, mortgage supply and rates		
Demand and selling prices for new homes are inextricably linked to consumer confidence which amongst other things is impacted by employment prospects, disposable incomes and the availability and cost of mortgages, particularly at higher loan to values. Changes to the Help to Buy scheme and the manner in which the UK leaves the EU could also have an impact on this risk.	Sales rates and prices are monitored on a weekly basis informing timely decision making. The land acquisition process considers local employment, income levels and affordability which in turn is informed by current trading experience. Close relationships are maintained with mortgage lenders and government agencies to ensure that we utilise all available products and are involved in initiatives aimed at the new build sector.	There has been a modest reduction in sales rates in 2019 albeit they are still at a high level when compared to historic averages and are pleasing in light of the Brexit related uncertainty faced throughout 2019. Employment levels remain high and there remains good availability of affordable mortgage finance.
Availability of materials and subcontractors		
The ability to procure sufficient materials and skilled labour to ensure build quality standards are maintained, build programmes are delivered and homes are built cost effectively.	77% of housebuild materials are negotiated by the central procurement team. 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. All materials with the exception of ceramic tiles, garage doors and electrical appliances are manufactured in the UK. Subcontractors are managed at a regional level. Many of our subcontractor relationships are well established and long standing which mitigates the impact of labour and skill shortages as industry output increases. Our policy is to tender to maintain price competition, with higher value orders requiring the approval of Regional Managing Directors. The level of EU subcontract labour used by the Group is estimated at around 5-10%.	A detailed supply chain review was finalised in 2019 to ascertain the preparedness of our key national suppliers in the event of a No Deal Brexit. This highlighted that there was exposure to raw materials imported from the EU, mainly in relation to timber-based products but generally stock levels had been increased to mitigate the impact of any delays at UK/EU border points.
Land availability		
The ability to secure the quantum of consented and strategic land in the appropriate locations and on terms which enable the Group's business plan to be delivered.	Established land acquisition hurdle rates for gross margin and ROCE exist which underpins our strategic plan. The Group has dedicated regionally-based land teams for both current and strategic land. Regional land bid success rates are reviewed at Group level to ensure we are making enough bids and we also critically review reasons as to why bids are not accepted. The Chief Executive visits all sites prior to acquisition to ensure a consistent approach to land acquisition across the Group and that each site fits within the overall land strategy. All land acquisitions and new strategic land options are approved by the Executive Board.	The Group added 4,933 plots to the owned landbank at a replacement rate of 1.4 times 2019 output and at rates in excess of both its gross margin and ROCE hurdles.
Government regulation		
The ability to ensure that the Group remains aware of emerging government legislation and is implemented within the necessary timescales.	The Group understands the importance of gaining an understanding of likely new legislation at an early stage as possible. We strive to participate in industry working groups to both shape new legislation and also to understand the perspective of government. This is a multi-disciplinary approach with the key functions in recent years being legal, technical, production and customer service.	Whilst there was limited new legislation impacting the new homes sector in 2019, there is likely to be emerging legislation covering build quality and carbon reduction targets in 2020.

Risk description	Controls and mitigation	2019 commentary

Availability of finance

Risk description	Controls and mitigation	2019 commentary
The Group requires access to adequate financial resources in order to meet its existing commitments and to deliver its strategic plan.	Cash is managed by a combination of weekly and quarterly forecasts. The strategic plan covers a five year period and is updated on an annual basis and supported by sensitivity analysis to provide a basis for longer-term investment decisions. The timing of new land investment and development spend is important from a cash management perspective. In this regard, the uncommitted nature of strategic land purchases and the Group's subcontractor model provide significant flexibility to manage both land and development spend in the event of a reduction in sales activity. The secured notes do not have any financial covenants. There is regular quarterly communication with bond investors.	The Group's cash balance at 31 December 2019 was £140m. This is further supplemented by an undrawn £130m revolving credit facility and stress testing is performed on an annual basis to ensure that adequate headroom exists.

Attract and retain employees

Risk description	Controls and mitigation	2019 commentary
In a sector with skill shortages, 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. 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. Employee turnover is reviewed with exit interviews held and feedback obtained. Staff roadshows led by the Chief Executive are undertaken annually. Staff engagement surveys and an independent review by Investors in People are undertaken on a triennial basis.	A number of new initiatives were launched in 2019 designed to both attract new talent and develop our existing people. This included a management development programme for 150 managers in the business, flexible working and dedicated training programs for our production teams to add to that already in place for our sales teams. Headcount increased by 11% in 2019 and the number of unfilled positions at any given time is relatively low.

Safety, health and environmental (SHE)

Risk description	Controls and mitigation	2019 commentary
Breaches of SHE legislation can result in workplace injuries, environmental damage or physical damage to property. This could result in financial penalties, reputational damage and delays to site related activities.	The in-house SHE team consists of 12 qualified professionals. The team is managed independently from our operational businesses under the guidance of our SHE Director who in turn reports directly to the Chief Executive. The Group has an approved SHE strategy with progress monitored regularly during the year at Board level. Site operations are subject to monthly audits and SHE awareness tool-box talks are regularly communicated to both staff and subcontractors.	The Accident Incident Rate score fell by 2% in 2019 but is still higher than the Group's internal target. In 2019, there was a focus on falls from height and scaffolding provision was reviewed by raising awareness across the Group. A proprietary system was developed with one of our suppliers which was HSE approved to mitigate falls. Mental health training was provided to over 400 employees and 100 Mental Health First Aiders were appointed.

IT

Risk description	Controls and mitigation	2019 commentary
The key IT risks relate to data breaches which could result in both financial and reputational damage and prolonged system outage of operational systems, including our website, which affects operational targets of the business.	Security reviews are performed by external consultants on a quarterly basis. In addition, the Group endeavours to use the latest software versions to reduce the risk of successful cyber attacks. Full backup and system recovery is in place as part of the wider Disaster Recovery plan, and again this is tested annually. 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, the possibility of ransomware attacks and potential GDPR fines for data breaches. However, there were no reported incidents in 2019.

Pensions

Risk description	Controls and mitigation	2019 commentary
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 for 30 June 2019 has been prepared and negotiations with the scheme's trustees are at an advanced stage. External advisors were appointed in 2019 to re-shape the scheme's investment strategy, the effect of which was to reduce the volatility in the scheme's asset portfolio and increase the liability hedge from 50% to 65%.	The £3.5m increase in the deficit in the year is a reflection of the significant reduction in bond yields during the year which has been partly mitigated by the liability hedging put in place over the last couple of years.

We create great places where people prosper

During 2019 we built on our new company purpose – we create great places where people prosper – and our core values – we care about people, we care about performance, we care about pride and we care about prospering.

These defining values of Miller Homes underpin our corporate culture and in turn drive our attitudes towards corporate and social responsibility. During the year a number of initiatives were launched as well as enhanced communication to further embed the cultural values into the business.

We see our purpose as applying to our core business of creating homes for our customers but also creating great communities in our developments and creating a great place for our people to also prosper. We believe that if we all work towards the same purpose then all of us and our stakeholders benefit.

Children from St Teresa's Primary School in Stretford enjoy their new books with development sales managers, Anderson Bailey and Elaine Buckley, following a donation from Miller Homes North West

People

Our customers and colleagues are at the heart of everything we do and friendliness, teamwork and genuine relationships are the cornerstones of success every day. We support and listen to each other, always respecting and valuing others people's views, feelings and aspirations.

We have a culture of investing in our people. Our training strategy allows our staff to develop to be the best that they can be. In 2019 over 22,000 hours of training were delivered to staff meaning we had the ability to make well-deserved promotions of which there were 56 in the year.

We recognise that the physical and mental well-being of all of our staff is important and we have an annual 'Get Active' campaign which encourages our staff to engage in physical activity.

There is an understanding of the importance of mental health which is an acknowledged issue within the wider construction industry. To help tackle the stigma often associated with mental health and provide support for those in our team who may need it now or in the future, we have pledged our commitment to an industry-wide mental health campaign being led by the HBF. Through our involvement, staff have access to support from the Lighthouse Construction Industry Charity, which provides emotional and financial support to the construction industry and their families. Through our mental health framework, we are also providing general mental health awareness training and appointing Mental Health First Aiders to provide additional support for anyone who requires it on a regional basis.

A leadership development programme has been initiated to support senior managers in their current roles but also to identify and invest in future talent by coaching those who have potential to lead the business.

Performance

Every home we deliver takes a real team effort to create. Every contribution makes a difference and when we all take responsibility for doing the very best we can, both individually and as a team, we win together.

Performance is measured in non-financial KPIs which we believe drive the culture at Miller Homes. We consider our performance on sustainability. We understand we have a duty to minimise our impact on the environment and use resources in the most efficient manner. In 2019 our carbon intensity reduced to 1.95 tonnes per 100m^2 and waste intensity reduced to 7.09 tonnes per 100m^2.

We used renewable technology in 30% of sites and we only use A rated appliances in our homes. This considers both the environment and the way in which our customers use their homes. Consideration is being given to improve the thermal performance of new homes through improved fabric and build.

We understand that to improve performance, we not only need to train our staff but also attract new people to our business. During 2019 a number of initiatives have been instigated to attract and retain new employees, including more flexible working, increased visibility of our purpose and values and enhanced communication.

Pride

It's important that every one of our team goes home feeling that the day has been worthwhile. The integrity, honesty, decency and professionalism that we bring to everything we do gives us pride in ourselves and our business.

We want our customers to be proud to live in a Miller home and our staff to be proud to work for us. There are many reasons to be proud and pride will mean different things to different people, but in essence it is about being proud in the culture at Miller Homes.

We are particularly proud of our approach to health and safety. At Miller Homes there is a culture of doing the right thing which fosters an environment of being able to speak up and know that responsibility is shared. Our health and safety team has a culture of supporting and educating not just our staff but also our subcontractors and we work with everyone on our sites and in our offices to ensure that they understand the importance of safety and our approach. We delivered 2,238 hours of toolbox talks to Miller staff and contractors in 2019.

We have a strong culture of charitable giving and our staff are encouraged to get involved in supporting our corporate charity partner, Habitat for Humanity. Over the last three years funds of over £500,000 have been raised and 10 homes built in Malawi for some of the most vulnerable people in the world. In addition, our regional offices are encouraged to support local charities and in 2019 over £155,000 was raised for charitable causes through a variety of different fundraising activities. We encourage our staff to volunteer and take part and matching funds are offered for monies raised.

We are immensely proud of our build quality and continue to perform well in the NHBC's Pride in the Job Awards where individual site managers are recognised for the quality of their sites. In 2019, 10 site managers received Quality Awards with half of these also receiving Seals of Excellence and one, Andrew Halladay, winning the regional award for the North West and being named runner-up in the Large Housebuilder category at the Supreme Awards.

Prospering

We are in a competitive business and creativity, innovation and commercial acumen have helped the Group to grow and succeed over the last 85 years. These are attributes that will allow us to continue to prosper.

To ensure that we all prosper, we have to develop communities which have a positive impact on society. This means we work with local communities where we build new developments. We consult both pre and post planning with our neighbours and have open channels of communication throughout the build process. We contact all our neighbours before we start work and make them aware of our Miller Respect scheme.

This provides a 24 hour telephone service where neighbours and the public can raise any concerns which they have about our site build process. We want to minimise our impact during the construction phase which has the additional benefit of reducing risk to the business.

Last year, we delivered 752 affordable homes, enabling those who have housing needs or are unable to meet market rates to have the opportunity of a home in which to prosper. We work closely with different regional housing associations and have developed excellent working relationships.

We want our subcontractors and suppliers to prosper too and believe that a partnership approach works best to ensure we work with others who support our core values. Whilst we have rigorous standards, we support our subcontractors in meeting these standards. In 2019 we supported 1,403 subcontractors and have signed up to the Prompt Payment Code where we are committed to paying on time and dealing fairly with disputes.

Board of Directors

John White
Chairman
●

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

Patrick Fox
Non-Executive Director
●

Patrick joined Bridgepoint in 2002. He currently sits on the Boards of Fat Face, Estera and A-Katsastus. Prior to joining Bridgepoint he worked for JP Morgan and BNP Paribas.

Jamie Wyatt
Non-Executive Director
●

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

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.

Ian Murdoch
Chief Financial Officer
●●

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

Julie Jackson
General Counsel and Company Secretary
●●

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

Stewart Lynes
Chief Operating Officer
●●

Stewart joined the Group in 2008. He was promoted to the role of Managing Director for Scotland in 2013 before expanding his role in 2018 to also assume responsibility for the North of England division. In 2019, Stewart was promoted to the newly created role of Chief Operating Officer. Stewart is a qualified quantity surveyor and chairs the Commercial Directors' meetings on a national basis. He has 18 years' experience in the sector and is a member of the Homes for Scotland Board.

Darren Jones
Divisional Managing Director, Midlands and South
●

Darren joined the Group in 2013. He has over 30 years' experience in the industry. Darren has a trade background and has held various roles during this time including Area Managing Director and Regional Chairman positions for a large listed homebuilder. 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.

Scott Chamberlin
Managing Director, Strategic Land
●

Scott joined the Group in 2018 having previously worked for Gleeson Strategic Land. Scott is responsible for the expansion and development of the Group's strategic landbank and the successful promotion of sites through the planning system to ensure the Group's growth aspirations can be fulfilled. He has over 25 years' experience in town planning and land development and is a Chartered Town Planner.

Key
- ● Holding Company Board
- ● Executive Board

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

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

Executive Board

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

The Company operates by an Executive Board which is led by the Chief Executive and also comprises the Chief Operating Officer, Chief Financial Officer, General Counsel and its divisional Managing Directors. Biographies of each Director are set out on page 42. The Group considers these individuals possess the necessary experience and detailed industry knowledge to discharge their duties as Directors.

The Directors consider they have appropriate and sufficient contact with employees. The Executive Board met six times during 2019 with functional heads of Sales and Marketing, Procurement, IT, SHE and HR presenting operational reports on a regular basis on performance of service functions.

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

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

Additionally, the Executive Board is responsible for evaluating significant risks to the business. A rigorous evaluation process is carried out twice yearly. Over the last 12 months the view of the Directors is that the macro economic conditions remain the greatest risk to the business and this risk has remained constant over the last 12 months largely due to the remaining uncertainty surrounding the form of a Brexit deal. A detailed analysis of the risks is provided on pages 38 and 39.

Holding Company Board

In addition to the Executive Board, the Group has a Holding Company Board which met 10 times in 2019. The Holding Company Board comprises the Chief Executive, Chief Financial Officer, Chief Operating Officer and General Counsel, Patrick Fox and Jamie Wyatt who are non-executive shareholder Directors from Bridgepoint and an independent Non-Executive Chairman, John White, who has extensive experience of the homebuilding industry. The Holding Company Board is considered to have oversight of the Company and the wider Group. During the year, this Board held meetings in all of the regional offices of the business enabling the shareholder directors and Chairman direct access to the Group's employees.

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

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

Land Approval Committee

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

Remuneration Committee

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

Audit Committee

The Audit Committee considers and makes recommendations regarding the integrity of the financial statements of the Group; the effectiveness of internal controls and risk management and the internal and external audit process. The committee met twice during 2019 and is chaired by a Bridgepoint Director.

Ultimate Holding Company

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

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

Directors' report

The Directors of Miller Homes Group Holdings plc have pleasure in presenting their report and the audited financial statements for the year ended 31 December 2019.

Principal activities

The principal business conducted by the Group is residential housebuilding.

Business review

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

Results and dividends

The Group profit after taxation for the financial year amounted to £99.0 million (2018: £82.9 million). No dividend will be paid.

Going concern

The Group's business activities, together with factors likely to affect its future development and performance are set out in the Strategic report. The financial position of the Group, its cashflows and details of its borrowing facilities are described in the Chief Financial Officer's review on pages 34 to 36. 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
Stewart Lynes
Julie Jackson
Ian Murdoch
Darren Jones
Scott Chamberlin

Employees

The Directors' report in relation to employees is shown on pages 27 and 28.

Supplier payment policy

It is Group policy to abide by the agreed terms of payment with suppliers where the goods and services have been supplied in accordance with the relevant terms and conditions of contract. We also subscribe to the Prompt Payment Code.

Guidelines for disclosure and transparency in private equity

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

Disclosure of information to auditor

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

Auditor

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

By order of the Board

Julie Jackson
Company Secretary
27 February 2020

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

The Directors are responsible for preparing the 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 the Directors 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 they have elected to prepare the Parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of 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 and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

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

1. Our opinion is unmodified

We have audited the financial statements of Miller Homes Group Holdings plc ("the Company") for the year ended 31 December 2019 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, Consolidated cash flow statement, and the related notes, including the accounting policies in Note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 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 (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

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

	The Risk	Our Response
Group Valuation of Land and work in progress and Site Margins Land and work in progress: £813.7m (2018: £729.5m) Gross margin: £210.7m (2018: £192.0m) Risk direction: unchanged	**Subjective Estimate** The gross profit recognised on current sites and the carrying value of land held for development and work in progress is reliant on the Group's forecasts of the future selling price and the build costs, both of which are uncertain and can vary with market conditions.	**Our procedures included:** – **Tests of control:** Assessing the design and implementation of the Group's processes upon which gross margin is based. – **Tests of detail:** For a sample of sites with unit sales during the year comparing the gross margin recognised to the latest site end outturn and checking whether differences in margin recognised are supported by changes in outturns. This includes corroborating explanations received from management in respect of valuations to underlying documentation where appropriate. – **Historical comparisons:** Comparing budgeted and latest site outturns to assess the Group's ability to accurately forecast. – **Benchmarking assumptions:** Challenging judgements made by management on site outturns based on our knowledge of the Group and the industry. – **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the degree of estimation involved in calculating the gross margin and carrying value of land and work in progress.

	The Risk	Our Response
Group and company The impact of uncertainties due to the UK exiting the European Union on our audit Risk direction: decreasing	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in the valuation of land and work in progress and site margins below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. **Our procedures included:** – **Our Brexit knowledge:** We considered the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. – **Sensitivity analysis:** When addressing the valuation of land and work in progress and site margins and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty. – **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on the valuation of land and work in progress and site margins we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.
Group Going concern assessment and disclosures Risk direction: decreasing	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company. That judgement is based upon an evaluation of the Group and Company's business model and risks, including the impact of Brexit, and how those risks might affect the Group and Company's financial resources over a period of at least a year from the date of approval of the financial statements. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may cast significant doubt about the ability to continue as a going concern. Had they been such, that that fact would have been required to have been disclosed.	**Our procedures included:** – **Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts, taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. – **Historical comparison:** We compared historical cash flow forecast to actual cash flows achieved in the year and previously in order to assess forecasting accuracy. – **Funding assessment:** We confirmed the committed level of financing by reference to supporting documentation. – **Our sector experience:** We assessed the financial forecasts with reference to our knowledge of the business. – **Assessing transparency:** We assessed the completeness and accuracy of the matters covered in the going concern disclosure.
Parent Company Valuation of Investment £537.4m (2018: £537.4m) Risk direction: unchanged	**Forecast-based valuation** There is a possibility that the carrying value of investments is not supported by either the net assets or forecast profitability of the underlying entities.	**Our audit approach included:** – **Historical comparisons:** Comparing budgeted and latest company information to assess the Group's ability to accurately forecast. – **Sensitivity analysis:** Performing sensitivity analysis on the assumptions utilised in forecasting information; – **Assessing Transparency:** We assessed the adequacy of the related disclosures in the financial statements

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

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

Materiality for the Group financial statements as a whole was set at £5.50m (2018: £5.10m), determined with reference to a benchmark of profit before tax from continuing operations of which it represents 4.37%. In 2018 a benchmark of profit before tax from continuing operations was used of which materiality represented 5.0%.

Materiality for the parent company financial statements as a whole was set at £4.675m (2018: £5.05m), determined with reference to a benchmark of total assets, of which it represents 0.67% (2018: 0.82%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £275,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

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

4. We have nothing to report on going concern

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

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

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

Based on this work, 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 a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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

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

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

Strategic report and Directors' report

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

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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 45, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

Bruce Marks (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court, 20 Castle Terrace, Edinburgh
11 March 2020

Consolidated income statement
for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Revenue	3	**841.4**	747.0
Cost of sales		**(630.7)**	(555.0)
Gross profit		**210.7**	192.0
Other operating income	3	**1.4**	1.9
Administrative expenses		**(47.9)**	(47.9)
Group operating profit		**164.2**	146.0
Share of result in joint ventures		**3.7**	5.1
Operating profit	2	**167.9**	151.1
Finance cost	6	**(46.9)**	(51.1)
Finance income	7	**1.1**	2.1
Net finance costs		**(45.8)**	(49.0)
Profit before taxation		**122.1**	102.1
Income taxes	8	**(23.1)**	(19.2)
Profit for the year		**99.0**	82.9

The notes on pages 54 to 76 form part of the financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2019

	2019 £m	2018 £m
Profit for the year	**99.0**	82.9
Items that will not be reclassified to profit and loss:		
Actuarial loss on retirement benefit obligations	**(7.9)**	(1.4)
Deferred tax on actuarial loss	**1.4**	0.3
Total comprehensive income for the year attributable to owners of the parent	**92.5**	81.8

Consolidated statement of changes in equity
for the year ended 31 December 2019

	Share capital £m	Retained earnings £m	Total £m
Balance at 31 December 2017	151.0	6.8	157.8
Profit for the year	–	82.9	82.9
Actuarial loss on retirement benefit obligations (net of deferred tax)	–	(1.1)	(1.1)
Balance at 31 December 2018	151.0	88.6	239.6
Profit for the year	–	99.0	99.0
Actuarial loss on retirement benefit obligations (net of deferred tax)	–	(6.5)	(6.5)
Balance at 31 December 2019	**151.0**	**181.1**	**332.1**

Company statement of changes in equity
for the year ended 31 December 2019

	Share capital £m	Retained earnings £m	Total £m
Balance at 31 December 2017	151.0	(21.4)	129.6
Loss for the year	–	(29.9)	(29.9)
Balance at 31 December 2018	151.0	(51.3)	99.7
Profit for the year	–	66.6	66.6
Balance at 31 December 2019	**151.0**	**15.3**	**166.3**

The notes on pages 54 to 76 form part of the financial statements.

Statements of financial position
as at 31 December 2019

	Note	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Assets					
Non-current assets					
Intangible assets	10	**146.2**	146.2	**–**	–
Property, plant and equipment	11	**1.4**	1.3	**–**	–
Right-of-use assets	20	**8.2**	–	**–**	–
Investments	12	**15.6**	21.6	**537.4**	537.4
Shared equity loan receivables	13	**8.9**	13.7	**–**	–
Deferred tax	14	**4.8**	15.9	**–**	–
Trade and other receivables	16	**–**	–	**150.7**	69.3
		185.1	198.7	**688.1**	606.7
Current assets					
Inventories	15	**834.3**	745.5	**–**	–
Trade and other receivables	16	**20.6**	20.0	**6.0**	6.0
Cash and cash equivalents		**139.8**	98.6	**0.1**	0.2
		994.7	864.1	**6.1**	6.2
Total assets		**1,179.8**	1,062.8	**694.2**	612.9
Liabilities					
Non-current liabilities					
Loans and borrowings	18	**(522.7)**	(507.6)	**(522.7)**	(507.6)
Trade and other payables	17	**(44.6)**	(45.2)	**–**	–
Lease liabilities	20	**(6.4)**	–	**–**	–
Retirement benefit obligations	29	**(16.5)**	(13.0)	**–**	–
Provisions and deferred income	19	**(2.6)**	(3.0)	**–**	–
		(592.8)	(568.8)	**(522.7)**	(507.6)
Current liabilities					
Loans and borrowings	18	**–**	(10.3)	**–**	–
Trade and other payables	17	**(252.8)**	(244.1)	**(5.2)**	(5.6)
Lease liabilities	20	**(2.1)**	–	**–**	–
		(254.9)	(254.4)	**(5.2)**	(5.6)
Total liabilities		**(847.7)**	(823.2)	**(527.9)**	(513.2)
Net assets		**332.1**	239.6	**166.3**	99.7
Equity					
Share capital	21	**151.0**	151.0	**151.0**	151.0
Retained earnings		**181.1**	88.6	**15.3**	(51.3)
Total equity attributable to owners of the parent		**332.1**	239.6	**166.3**	99.7

The notes on pages 54 to 76 form part of the financial statements. These financial statements were approved by the Board of Directors on 27 February 2020 and were signed on its behalf by:

Chris Endsor
Chief Executive

Ian Murdoch
Chief Financial Officer

Registered number 10854458

Consolidated cash flow statement
for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Profit for the year		**99.0**	82.9
Depreciation		**3.0**	0.4
Finance income		**(1.1)**	(2.1)
Finance cost		**46.9**	51.1
Share of post tax result from joint ventures		**(3.7)**	(5.1)
Taxation		**23.1**	19.2
Operating profit before changes in working capital		**167.2**	146.4
Working capital movements:			
Movement in trade and other receivables		**4.2**	16.9
Movement in inventories		**(97.8)**	(132.6)
Movement in trade and other payables		**0.7**	48.1
Cash generated from operations		**74.3**	78.8
Interest paid		**(23.4)**	(24.4)
Corporation tax paid		**(8.4)**	(6.2)
Net cash inflow from operating activities		**42.5**	48.2
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(0.7)**	(1.0)
Movement in loans with joint ventures		**9.7**	2.9
Net cash inflow from investing activities		**9.0**	1.9
Cash flows from financing activities			
Repayment of senior secured notes		**–**	(20.4)
Movement in other borrowings	24	**(10.3)**	(43.5)
Net cash outflow from financing activities		**(10.3)**	(63.9)
Movement in cash and cash equivalents	24	**41.2**	(13.8)
Cash and cash equivalents at beginning of year		**98.6**	112.4
Cash and cash equivalents at end of year	24	**139.8**	98.6

The notes on pages 54 to 76 form part of the financial statements.

Notes
(forming part of the financial statements)

1. Accounting policies

Basis of preparation

The Group financial statements have been prepared and approved by the Directors in accordance with 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 26.

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

Basis of consolidation

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

Measurement convention

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

Going concern

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 2019

The impact from standards and interpretations that are applicable for the first time in the Group's financial statements for the year ended 31 December 2019 are explained in note 30.

Revenue and profit recognition

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

Jointly controlled entities (equity accounted investees)

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

Investments in subsidiaries

Investments in subsidiaries are measured at cost less impairment.

1. Accounting policies continued

Net finance costs

Finance costs comprise interest payable on senior secured notes, bank loans and amounts owed to Group undertakings and the unwinding of the discount from nominal to present day value of trade payables on extended terms (land payables), lease liabilities and retirement benefit obligations. Finance income comprises the unwinding of the discount from nominal to present day value of trade receivables on extended terms (land receivables) 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.

Leases

During the year, the Group adopted IFRS 16 'Leases' using the modified retrospective approach allowed under the standard. Comparative information has not been restated and continues to be reported under IAS 17 'Leases' and IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. The details of the current and prior years accounting policies are disclosed separately below. Further information on the adoption and initial application of IFRS 16 can be found in Note 20 and Note 30.

Policy applicable from 1 January 2019:
For contracts entered into on or after 1 January 2019, the Group assesses at inception whether the contract is, or contains, a lease. A lease exists if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assessment includes whether:

– the contract involves the use of an identified asset;
– the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the contract period; and
– the Group has the right to direct the use of the asset.

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

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

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

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

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

Policy applicable prior to 1 January 2019:
Rentals payable under operating leases were charged to the income statement on a straight-line basis over the term of the relevant lease.

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

Intangible assets

Goodwill

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

1. Accounting policies continued

Other intangible assets

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

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

Amortisation

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

– Brand value: Indefinite life

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

Impairment excluding inventories and deferred tax assets

Non-financial assets

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

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

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

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

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

Property, plant and equipment

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

Plant and equipment: 3 to 10 years

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

Shared equity loan receivables

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

Inventories

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

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

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

1. Accounting policies continued

Trade and other receivables

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

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

Cash and cash equivalents

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

Trade and other payables

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

Interest-bearing borrowings

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

Retirement benefit obligations

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

The Group operates a defined benefit pension scheme. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of comprehensive income, actuarial gains and losses. The scheme was closed to future accrual in 2010.

Dividends on shares presented within total equity

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

Segmental reporting

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

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

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

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

Impact of standards and interpretations in issue but not yet effective

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

2. Operating profit

Operating profit is stated after charging the following:

	2019 £m	2018 £m
Depreciation on owned assets	**0.6**	0.4
Right-of-use asset depreciation	**2.4**	–
	3.0	0.4
Operating lease rentals:		
– land and buildings	**–**	1.3
– other	**–**	1.2

	2019 £000	2018 £000
Auditor's remuneration:		
Audit of the Group's financial statements	**31**	31
Audit of financial statements of subsidiaries and joint ventures pursuant to legislation	**121**	125
Other services relating to taxation	**12**	48
All other services	**84**	7

3. Revenue and other operating income

Revenue

The Group generates revenue primarily from the sale of new homes. Other sources of revenue are land sales and rental income.

Major product lines

	2019 £m	2018 £m
Sale of new homes	**830.0**	736.8
Land sales	**11.0**	8.5
Other revenue	**0.4**	1.7
	841.4	747.0

Timing of revenue recognition

	2019 £m	2018 £m
Products and services transferred at a point in time	**775.0**	696.5
Products and services transferred over time	**66.4**	50.5
	841.4	747.0

Contract balances

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

	2019 £m	2018 £m
Receivables included in trade receivables	**1.8**	5.8
Receivables included in amounts recoverable on contracts	**1.3**	2.7
Payables included within other creditors	**(7.9)**	(6.0)

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

The amount of £6.0m that was included in other payables at last year end was included in revenue in the year. The amount of £7.9m included in other payables at the year end represents cash received not recognised as revenue in the year.

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

	2021 £m	2022 £m	2023 onwards £m
	40.5	22.2	3.6

No information is provided about remaining performance obligations at 31 December 2019 that have an expected duration of one year or less, as allowed by IFRS 15.

Other operating income

Other operating income includes the profit/loss on sale of part exchange properties and management fees on joint ventures. During the year, part exchange units costing £73.1m (2018: £46.6m) were acquired and part exchange units with a value of £68.4m (2018: £44.5m) were sold.

4. Staff numbers and costs

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

	2019 Number	2018 Number
Production	**435**	396
Sales	**136**	108
Administration	**438**	406
	1,009	910

The aggregate payroll costs of these persons were as follows:

	2019 £m	2018 £m
Wages and salaries	**55.5**	52.2
Social security costs	**6.0**	5.7
Pension costs	**3.1**	3.4
	64.6	61.3

5. Remuneration of key management

Key management comprises the six Directors listed on page 42 as they are considered to have the authority and responsibility for planning, directing and controlling the activities of the Group. Retirement benefits accrued to six (2018: six) members of key management under money purchase schemes. Key management remuneration, including Directors, comprised:

	2019 £m	2018 £m
Salary and other benefits	**2.0**	1.7
Annual bonus	**0.7**	1.3
Other pension costs	**0.1**	0.1
	2.8	3.1

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

	2019 £m	2018 £m
Salary and other benefits	**2.0**	1.0
Annual bonus	**0.7**	0.8
Other pension costs	**0.1**	–
	2.8	1.8

Retirement benefits are accruing to six (2018: six) Directors under money purchase schemes. The aggregate emoluments of the highest paid Director was £718,000 (2018: £921,000) and contributions were paid by the Group to his money purchase pension scheme of £10,000 (2018: £10,000).

6. Finance cost

	2019 £m	2018 £m
Interest payable on senior secured notes, bank loans and overdrafts	**27.4**	28.2
Interest payable on amounts owed to immediate Parent Company	**12.0**	14.4
Imputed interest on land payables on deferred terms	**6.8**	8.0
Finance costs related to retirement benefit obligations	**0.3**	0.5
Imputed interest on lease liabilities	**0.4**	–
	46.9	51.1

7. Finance income

	2019 £m	2018 £m
Imputed interest on land sales on deferred terms	**–**	0.6
Interest on loans to joint ventures	**0.5**	0.8
Other	**0.6**	0.7
	1.1	2.1

8. Income taxes

	2019 £m	2018 £m
Current tax charge:		
Current year	**(10.6)**	(8.0)
Prior years	**–**	(1.0)
Total current tax	**(10.6)**	(9.0)
Deferred tax charge:		
Current year	**(12.5)**	(11.5)
Prior years	**–**	1.3
Total deferred tax (note 14)	**(12.5)**	(10.2)
Tax charge for the year	**(23.1)**	(19.2)

Reconciliation of effective tax rate

	2019 £m	2018 £m
Profit before tax	**122.1**	102.1
Tax using the UK corporate tax rate (see below)	**(23.2)**	(19.4)
Effects of:		
Permanent differences	**(0.6)**	(1.1)
Adjustment in respect of prior years	**–**	0.3
Adjustment in respect of joint ventures	**0.7**	1.0
Total charge for the year	**(23.1)**	(19.2)

Current tax has been charged at 19% (2018: 19%) in the reconciliation above. At the balance sheet date the corporate tax rate was enacted to reduce to 17% from 1 April 2020.

A corporate tax rate of 19% (2018: 19%) is applied to deferred tax, except for temporary differences expected to reverse after the 17% rate becomes effective. Any changes to the currently enacted rates will be reflected in the financial statements once enacted.

9. Dividends

There were no dividends to equity shareholders in the year ended 31 December 2019 (2018: £nil).

10. Intangible assets

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

Amortisation and impairment

Intangible assets are deemed to have an indefinite economic life and are therefore not amortised. Their carrying values are tested for impairment at least annually. The latest impairment review was performed at December 2019. The recoverable amount is determined using a 'value in use' calculation with key assumptions being discount rate, growth rate and projected gross margin. A post tax discount rate of 7% is used reflecting the Group's risk adjusted WACC. Other assumptions are based upon expectations of future performance. The values used are consistent with the Group's forecasts for future years. The Directors believe these assumptions are appropriate and sensitivity analysis indicates that changes in the key assumptions would maintain a reasonable amount of headroom over the carrying value.

11. Property, plant and equipment

Cost	Plant and equipment £m
At 31 December 2017	1.9
Additions	1.0
At 31 December 2018	**2.9**
Additions	0.7
At 31 December 2019	**3.6**

Accumulated depreciation	£m
At 31 December 2017	1.2
Charge for the year	0.4
At 31 December 2018	**1.6**
Charge for the year	0.6
At 31 December 2019	**2.2**

Net book value	
At 31 December 2018	1.3
At 31 December 2019	**1.4**

12. Investments

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Investment in joint ventures	**15.6**	21.6	**–**	–
Investment in subsidiaries	**–**	–	**537.4**	537.4
	15.6	21.6	**537.4**	537.4

Investment in joint ventures	Group 2019 £m	Group 2018 £m
At beginning of year	**21.6**	19.4
Share of profits	**3.7**	5.1
Movement in shareholder loans	**(9.7)**	(2.9)
At end of year	**15.6**	21.6

The total of the Group's profit before taxation from interests in joint ventures and associates is £4.7m (2018: £6.1m).

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

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

	Group 2019 £m	Group 2018 £m
Current assets	**23.6**	27.4
Current liabilities	**(16.4)**	(23.9)
Loans provided to joint ventures	**8.4**	18.1
	15.6	21.6

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

	Group 2019 £m	Group 2018 £m
Income	**25.3**	33.4
Expenses	**(20.6)**	(27.3)
	4.7	6.1

Investment in subsidiaries	Company 2019 £m	Company 2018 £m
At beginning and end of year	**537.4**	537.4

12. Investments continued

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

Subsidiary undertakings	Nature of business
Miller Homes Holdings Limited	Residential housebuilding
Miller Homes Limited	Residential housebuilding
Miller (Telford South) Limited	Residential housebuilding
Miller Framwellgate Limited	Residential housebuilding
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 31.

13. Shared equity loan receivables

	Group	
	2019 £m	2018 £m
At start of year	**13.7**	21.3
Redemptions (net of fair value movements)	**(4.8)**	(7.6)
At end of year	**8.9**	13.7

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

14. Deferred tax

	Group					
	Trading losses £m	Retirement benefit obligations £m	Capital allowances £m	Other temporary differences £m	Other intangibles £m	Total £m
At 31 December 2017	27.8	3.9	0.3	3.0	(9.2)	25.8
Other comprehensive income credit	–	0.3	–	–	–	0.3
Income statement charge	(7.9)	(1.9)	(0.1)	(0.3)	–	(10.2)
At 31 December 2018	**19.9**	**2.3**	**0.2**	**2.7**	**(9.2)**	**15.9**
Other comprehensive income credit	–	1.4	–	–	–	1.4
Income statement charge	(12.0)	(0.7)	–	0.2	–	(12.5)
At 31 December 2019	**7.9**	**3.0**	**0.2**	**2.9**	**(9.2)**	**4.8**

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

15. Inventories

	Group	
	2019 £m	2018 £m
Land	**517.3**	448.3
Work in progress	**296.4**	281.2
Part exchange properties	**20.6**	16.0
	834.3	745.5

Land and work in progress recognised as cost of sales in the year to 31 December 2019 amounted to £634.9m (2018: £551.1m). The reversal of write-downs of stocks to net realisable value in the year amounted to £0.2m (2018: write down of £1.2m). The write-down and reversal are included in cost of sales.

16. Trade and other receivables

	Group		Company	
Current	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Trade receivables	**6.1**	6.2	**–**	–
Amounts recoverable on contracts	**1.3**	2.7	**–**	–
Amounts owed by ultimate Parent Company	**6.0**	6.0	**6.0**	6.0
Other receivables	**5.7**	3.5	**–**	–
Prepayments and accrued income	**1.5**	1.6	**–**	–
	20.6	20.0	**6.0**	6.0

	Group		Company	
Non-current	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Amounts owed by subsidiary undertakings	**–**	–	**150.7**	69.3

17. Trade and other payables

	Group		Company	
Current	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Trade payables	**85.0**	89.7	**–**	–
Other payables	**15.9**	14.9	**–**	–
Land payables (see below)	**107.4**	98.3	**–**	–
Accruals and deferred income	**37.0**	35.9	**5.2**	5.6
Corporation tax	**7.5**	5.3	**–**	–
	252.8	244.1	**5.2**	5.6

	Group	
Non-current	**2019 £m**	2018 £m
Land payables (see below)	**44.6**	45.2

17. Trade and other payables continued

Land payables

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

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

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

	Balance £m	Total contracted cash payments £m	Due less than 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m
As at 31 December 2018	143.5	150.9	98.3	36.1	16.5
As at 31 December 2019	**152.0**	**161.6**	**107.4**	**25.5**	**28.7**

18. Loans and other borrowings

	Group	
Current	**2019 £m**	2018 £m
Other loans	–	10.3

	Group		Company	
Non-current	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Senior secured notes (net of deferred financing costs)	**391.3**	388.2	**391.3**	388.2
Amounts owed to immediate parent undertaking	**131.4**	119.4	**131.4**	119.4
	522.7	507.6	**522.7**	507.6

Senior secured notes

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

	Group and Company	
	2019 £m	2018 £m
Floating (at Libor plus 5.25%) due 2023	**161.0**	161.0
Fixed (at 5.5%) due 2024	**244.0**	244.0
Deferred financing costs	**(13.7)**	(16.8)
	391.3	388.2

The senior secured notes are secured by a debenture and floating charge over the assets of the Group and a pledge over the shares of certain of its principal subsidiaries.

Other loans

Other loans relate to the Group's interest in Telford NHT (2011) LLP, an entity established to provide residential property for rental purposes which was divested in January 2019.

Amounts owed to immediate parent undertaking

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

19. Provisions and deferred income

	Group		
	Property £m	Other £m	Total £m
At 1 January 2019	1.5	1.5	3.0
Transfer to lease liabilities	(0.3)	–	(0.3)
Utilised during the year	(0.4)	(0.1)	(0.5)
Created in year	0.4	–	0.4
At 31 December 2019	**1.2**	**1.4**	**2.6**

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

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

20. Leases

The Group adopted IFRS 16 with an initial application date of 1 January 2019. The Group applied the modified retrospective approach and comparative information has not been presented. Further information on the adoption of IFRS 16 can be found in Note 30.

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

Right-of-use assets

£m	Office premises	Equipment	Total
At 1 January 2019	**6.3**	**2.6**	**8.9**
Additions	0.5	1.2	1.7
Depreciation	(1.0)	(1.4)	(2.4)
At 31 December 2019	**5.8**	**2.4**	**8.2**

Lease liabilities

£m	Office premises	Equipment	Total
At 1 January 2019	**6.6**	**2.6**	**9.2**
Additions	0.5	1.2	1.7
Lease payments	(1.3)	(1.5)	(2.8)
Imputed interest	0.2	0.2	0.4
At 31 December 2019	**6.0**	**2.5**	**8.5**
Maturity:			
Current	1.0	1.1	2.1
Non current	5.0	1.4	6.4

The total cash outflow for leases during the year was £2.8m, including £0.4m of interest.

21. Share capital

	2019 £m	2018 £m
Allotted, called up and fully paid 151,000,000 ordinary shares of £1 each	**151.0**	151.0

22. Financial instruments

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

Measurement of fair values

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

	2019 £m	2018 £m
Financial assets measured at fair value		
Shared equity loan receivables	**8.9**	13.7
Financial assets not measured at fair value		
Trade and other receivables	**20.6**	20.0
Cash and cash equivalents	**139.8**	98.6
Financial liabilities not measured at fair value		
Trade and other payables (excluding land payables)	**145.4**	145.8
Land payables	**152.0**	143.5
Interest bearing loans and borrowings	**522.7**	517.9
Lease liabilities	**8.5**	–

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

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

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Shared equity loan receivables				
As at 31 December 2018	–	–	13.7	13.7
As at 31 December 2019	**–**	**–**	**8.9**	**8.9**

Valuation technique for shared equity loan receivables

The fair value is determined by considering the expected payment profile using the discounted present value of expected future cash flows. The major unobservable inputs include the expected timing of redemption payments, management's estimates of the market value of the properties and of the appropriate risk adjusted discount rate to determine present value of the cash flows. A discount rate of 8.3% (2018: 8.3%) has been applied. The estimated fair value would increase if the risk adjusted discount rate was reduced, and the fair value would also be impacted by any change in the estimate of the timing of redemption receipts. There are a number of uncertainties inherent in such estimates, which would impact on the carrying value of shared equity loan receivables.

22. 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 Directors are responsible for managing these risks and the policies adopted are set out below.

(i) Credit risk

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

The Group has £8.9m (2018: £13.7m) of shared equity loan receivables which exposes it to credit risk although this asset is spread over a large number of properties. As such, the Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The maximum exposure to credit risk at 31 December 2019 is represented by the carrying amount of each financial asset.

(ii) Liquidity risk

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

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

(iii) Market risk

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

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

(iv) Interest rate risk

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

For the 12 months ended 31 December 2019, it is estimated that an increase of 1% in interest rates would increase the Group's net finance costs by £1.6m (2018: £1.6m).

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

Capital management

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

Management of cash and cash equivalents and net debt

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

23. Reconciliation of net cash flow to net debt

	2019 £m	2018 £m
Movement in cash and cash equivalents	**41.2**	(13.8)
Movement in other loans	**10.3**	–
Movement in senior secured notes	**(3.1)**	17.3
Movement in long term borrowings	**(12.0)**	29.1
Movement in net debt in year	**36.4**	32.6
Net debt at beginning of year	**(419.3)**	(451.9)
Net debt at end of year	**(382.9)**	(419.3)

24. Analysis of net debt

	31 December 2018 £m	Cash flow £m	Non cash movement £m	31 December 2019 £m
Cash and cash equivalents	98.6	41.2	–	**139.8**
Senior secured notes	(388.2)	–	(3.1)	**(391.3)**
Other loans	(10.3)	10.3	–	**–**
Net external debt	(299.9)	51.5	(3.1)	**(251.5)**
Amounts owed to immediate parent undertaking	(119.4)	–	(12.0)	**(131.4)**
Net debt	**(419.3)**	**51.5**	**(15.1)**	**(382.9)**

25. Contingent liabilities

Certain subsidiaries have contingent liabilities in relation to indemnities provided for performance bonds and guarantees of performance obligations. These relate to contracting or development agreements entered in the ordinary course of business.

26. Accounting estimates and judgements

Carrying value of inventories

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

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

27. Related party transactions

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

	2019 £m	2018 £m
Amounts owed by joint ventures in respect of outstanding loans and other outstanding payables	**8.4**	18.1
Amounts owed by ultimate parent company	**6.0**	6.0
Amounts owed to Miller Midco 2 Limited	**(131.4)**	(119.4)
Interest payable to Miller Midco 2 Limited	**(12.0)**	(14.4)
Interest receivable on loans to joint ventures	**0.5**	0.8
Monitoring fee payable to Bridgepoint	**0.3**	0.3

During the year the wife of a Director acquired a new build house for its full market value of £219,000. In addition, a loan of £79,000 was made to a Director which remains outstanding at the year end.

28. Ultimate parent company

At 31 December 2019, the Company was a subsidiary undertaking of Miller Midco 2 Limited. The ultimate parent company incorporated in the United Kingdom is Miller Homes Group Limited.

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

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

29. Retirement benefit obligations

The Group operates defined contribution and defined benefit pension schemes.

Defined contribution schemes

Contributions during the year	2019 £m	2018 £m
Group defined contribution schemes consolidated income statement charge	**3.1**	2.6

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	2019	2018
Weighted average assumptions to determine benefit obligations		
Discount rate	**2.00%**	2.85%
Rate of price inflation (RPI)	**2.95%**	3.15%
Weighted average assumptions to determine net cost		
Discount rate	**2.85%**	2.60%
Rate of pension increases	**3.05%**	3.00%
Rate of price inflation (RPI)	**3.15%**	3.10%

29. Retirement benefit obligations continued

Defined benefit scheme continued

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

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

Life expectancy	
Retired member aged 65 (male life expectancy at age 65)	21.8 years
Non-retired member aged 45 (male life expectancy at age 65)	23.1 years

The base mortality assumptions are based upon the S3PA mortality tables. Allowance for future increases in life expectancy is made with an annual rate of improvement in mortality of 1.25% assumed.

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

Sensitivities	Change in assumption	Movement in scheme liabilities
Discount rate	Decrease by 0.1% Increase by 0.1%	£2.7m (1.6%) increase £2.5m (1.5%) decrease
Rate of inflation	Increase by 0.1% Decrease by 0.1%	£1.5m (0.9%) increase £1.4m (0.8%) decrease
Life expectancy – future improvements	Increase by 0.1% Decrease by 0.1%	£0.6m (0.4%) increase £0.6m (0.4%) decrease

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

	2019 £m	2018 £m
Interest cost	**4.2**	4.1
Interest income	**(3.9)**	(3.6)
Total pension cost recognised in finance costs in the consolidated income statement	**0.3**	0.5
Total pension cost recognised in administrative expenses	**–**	0.7
Total pension cost recognised in the consolidated income statement	**0.3**	1.2

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

	2019 £m	2018 £m
Return on scheme assets excluding interest income	**(9.9)**	7.2
Actuarial loss/(gain) arising from changes in the assumptions underlying the present value of benefit obligations	**18.7**	(5.8)
Experience gain	**(1.1)**	–
Demographic assumptions	**0.2**	–
Total pension cost recognised in the consolidated statement of comprehensive income	**7.9**	1.4

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

	2019 £m	2018 £m
Present value of defined benefit obligations	**165.8**	152.3
Fair value of scheme assets	**(149.3)**	(139.3)
Recognised liability for defined benefit obligations	**16.5**	13.0

29. Retirement benefit obligations continued

Defined benefit scheme continued

	2019 £m	2018 £m
Liability for defined benefit obligations at start of year	**13.0**	21.7
Contributions	**(4.7)**	(11.3)
Expense recognised in the consolidated income statement	**0.3**	1.2
Amounts recognised in the Group statement of comprehensive income	**7.9**	1.4
Liability for defined benefit obligations at end of year	**16.5**	13.0

A deferred tax asset of £3.0m (2018: £2.3m) has been recognised in relation to the retirement benefit obligations (note 14).

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

	2019 £m	2018 £m
Present value of defined benefit obligations at start of year	**152.3**	160.2
Past service cost	**–**	0.7
Interest cost	**4.2**	4.1
Actuarial loss/(gain) on scheme liabilities	**18.7**	(5.8)
Experience gain	**(1.1)**	–
Demographic assumptions	**0.2**	–
Benefits paid from scheme	**(8.5)**	(6.9)
Present value of defined benefit obligations at end of year	**165.8**	152.3

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

	2019 £m	2018 £m
Fair value of scheme assets at start of year	**139.3**	138.5
Contributions	**4.7**	11.3
Interest income	**3.9**	3.6
Actuarial gain/(loss) on scheme assets	**9.9**	(7.2)
Benefits paid from scheme	**(8.5)**	(6.9)
Fair value of scheme assets at end of year	**149.3**	139.3

An analysis of scheme assets at the balance sheet date is as follows:

	Percentage of scheme assets	
	2019	2018
Equity type investments	**31.6%**	29.8%
Debt type securities	**67.8%**	69.3%
Other	**0.6%**	0.9%
Total	**100.0%**	100.0%

29. Retirement benefit obligations continued

Defined benefit scheme continued

Funding

The scheme is subject to the funding legislation outlined in the Pensions Act 2004. This, together with the documents issued by the Pensions Regulator and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension plans in the UK. The funding of the scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions used in the financial statements. The latest full actuarial valuation, carried out at 30 June 2016, by a qualified independent actuary, showed a deficit of £47.6m.

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 2020 is £4.8m.

30. Adoption of new accounting standards

The Group has adopted IFRS 16 'Leases' and IFRIC 23 'Uncertainty over Income Tax Treatments' from 1 January 2019. There was no material impact arising from the adoption of IFRIC 23. The impact of IFRS 16 is explained below.

IFRS 16 replaces IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease' and is mandatorily effective for accounting periods beginning on or after 1 January 2019. The Group has applied IFRS 16 using the modified retrospective approach, under which the initial Right-of-use asset is based on the lease liability at 1 January 2019. Comparative information has therefore not been restated and is reported under the previous accounting policies. Details of the change in accounting policy are described below.

Definition of a lease

Prior to the adoption of IFRS 16, the Group determined at inception whether an arrangement is a lease under IAS 17 or contains a lease under IFRIC 4. Under IFRS 16, the Group assess whether an arrangement is or contains a lease based on the definitions in the new standard. The Group elected to apply the practical expedient in the transition provisions of IFRS 16 to grandfather the assessment of arrangements undertaken in prior periods. Accordingly, IFRS 16 has only been applied to contracts that were either previously identified as leases or entered into subsequent to the initial application of IFRS 16 on 1 January 2019.

The Group as a lessee

The Group previously classified leases as either operating or finance leases based on an assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the leased asset. Immediately prior to the initial application of IFRS 16, the Group had operating leases related to office premises and equipment and no finance leases.

Under IFRS 16, most leases previously classified as operating leases under IAS 17 are recognised on the balance sheet as a right-of-use asset along with a corresponding lease liability.

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

Right-of-use assets are initially measured at cost, comprising the initial measurement of the lease liability, plus any initial direct costs and an estimate of asset retirement obligations, less any lease incentives. Subsequently, right-of-use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and are adjusted for certain remeasurements of the lease liability. Depreciation is calculated on a straight-line basis over the length of the lease.

The Group has elected to apply exemptions for short-term leases and leases for which the underlying asset is of low value. For these leases, payments are charged to the income statement on a straight-line basis over the term of the relevant lease. For the year ended 31 December 2019, payments charged to the income statement related to low value and short-term leases were insignificant.

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

Impact on the financial statements

On transition to IFRS 16, the Group recognised £8.9m of right-of-use assets and £9.2m of lease liabilities, including £0.3m that had previously been recognised as an onerous lease provision.

The lease liabilities were determined by discounting the relevant lease payments at the interest rate inherent within the lease or at the Group's incremental borrowing rate of 3%.

30. Adoption of new accounting standards continued

The reconciliation between operating lease commitments previously reported in the financial statements for the year ended 31 December 2018 discounted at the Group's incremental borrowing rate and the lease liabilities recognised in the balance sheet on initial application of IFRS 16 is shown below.

£m	Buildings	Other	Total
Operating lease commitment reported at 31 December 2018	7.4	3.4	10.8
Effect of discount to NPV of lease payments	(0.8)	(0.2)	(1.0)
Other*	–	(0.6)	(0.6)
Discounted value at 1 January 2019	6.6	2.6	9.2

* Primarily attributable to exemptions taken for short life and low value assets and also the non-lease components associated with the Group's vehicle fleet arrangements reported as operating lease commitments in the prior year. The Group elected to exclude non-lease components from the lease liability balance determined under IFRS 16.

Notes (continued)
(forming part of the financial statements)

31. 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 2019 are disclosed below. All companies are incorporated in the United Kingdom, engaged in housebuilding and associated activities and are owned directly by Miller Homes Holdings Limited unless indicated below:

Fully owned subsidiaries

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

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

Joint ventures (all 50%)

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

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

Associates (45%)

New Laurieston (Glasgow) Limited – G (Trading)

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

The letter shown following the name of each company identifies the address of its registered office as follows:
A – 2 Lochside View, Edinburgh
B – 2 Centro Place, Derby
C – Redburn Court, North Shields
D – 18 Bothwell Street, Glasgow
E – 14-17 Market Street, London
F – 52-54 Rose Street, Aberdeen
G – 3 Cockburn Street, Edinburgh

Miller Homes Group Holdings plc
2 Centro Place
Pride Park
Derby
DE24 8RF

Company registration number
10854458

Regional offices

Scotland West
300 Springhill Parkway
Glasgow
G69 6GA

Scotland East
2 Lochside View
Edinburgh Park
Edinburgh
EH12 9DH

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

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

North West of England
Woodlands Park
Ashton Road
Newton-le-Willows
WA12 0HF

Yorkshire
Peel Avenue
Calder Park
Wakefield
WF2 7UA

East Midlands
2 Centro Place
Pride Park
Derby
DE24 8RF

West Midlands
Whittington Hall
Whittington Road
Worcester
WR5 2RX

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