MILLER HOMES GROUP (FINCO) PLC

(previously Castle UK Finco PLC)

Annual report and financial statements

Registered number 13862650

31 December 2022

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The Group is pleased to report its first set of financial results which reflect the continued successful implementation of Miller Homes' strategy of volume growth and disciplined land investment in what was a year of significant change in the housing market.

House prices and sales rates started the period on a high, continuing an extended period of rapid growth that began early in the pandemic due in large measure to the 'race for space' during lockdown supported by low interest rates.

As the year progressed, sales rates expectedly began to normalise back to pre-pandemic levels. Then, as mortgage rates spiked following the September mini-budget, higher mortgage costs and wider cost of living pressures combined with a waning in consumer confidence all served to cause declines in sales rates of around 50% in the final quarter of the year. House prices still ended the year ahead of their starting figure having peaked in the third quarter.

At the start of the year, the Bank of England base rate was 0.25% with a typical 85% LTV mortgage commanding a rate of around 1.5%. At that time, most forecasters were suggesting both base rates and mortgage rates would steadily increase during the year, such that by the end of 2022 the base rate would be around 2%.

What happened in reality was that most commentators underestimated the increase in rates which was due to a combination of factors, including, the war in Ukraine, more persistent and prolonged inflation and the impact of the September mini-budget.

The last point in particular had a marked effect on the housing market, as the sudden spike in government gilts led to mortgage lenders immediately withdrawing around 40% of their products pending their subsequent re-pricing at higher rates, with a typical 85% LTV fixed rate mortgage having increased from 3 to 3.5% to over 6%.

Whilst these products were eventually re-launched, the publicity and headlines created in the aftermath of the mini-budget as well as the additional mortgage costs created inertia and a lack of momentum in the market. Many prospective purchasers put on hold their decision to commit until such time that there was greater clarity on the trajectory of mortgage rates as well as the outlook for house prices.

Since the mini-budget and the resultant November fiscal statement by the new Chancellor of the Exchequer, financial markets have steadied and mortgage rates are around 1% lower than their peak in October.

Strategy

Our existing ten region platform has the capacity to deliver 6,000 units pa compared to c4,000 units currently. We still believe in the long term fundamentals of our markets and have the ambition to continue with our growth plans but at the same time we have a desire to maintain our track record of high-quality margins and earnings relative to our peers. Given the uncertainty in the market in H2 2022 we were not confident that acquiring land would generate the margins we desire, therefore we paused land purchases which will temporarily impact our growth ambitions.

We believe the key strategic pillars set out below will provide sustainable profit growth for the Group:

- Investment in high quality land at or above our minimum hurdle rates with around 35% from higher margin strategic land;
- Build high quality homes and provide high levels of customer service as evidenced by independent NHBC Construction Quality Reviews (CQR) and HBF customer satisfaction surveys;
- Engage a highly motivated and skilled workforce as confirmed by independent staff engagement surveys and Investor in People reviews; and
- Generate a minimum 50% free cashflow through the cycle.

Strategic report *(continued)*

Performance

The Group acquired Miller Homes Group Limited ('MHGL') on 31 March 2022. Funds for the acquisition and to support the continuing growth strategy of the business were provided by Apollo and from the issue of senior secured notes. The Group performance referenced in these financial statements is for the 9 month period to 31 December 2022. Profit before tax of £29.9m reflected £120.8m of profit from MHGL following its acquisition on 31st March 2022, £57.1m of acquisition and funding costs and £33.8m of fair value adjustments relating to the upward revaluation of inventory held at acquisition which has subsequently been sold.

MHGL has prepared its financial statements for the 12 month period to 31 December 2022 and the key metrics for this period are commented on below in order to provide a more informed insight into the 2022 result of the Group's principal subsidiary. These are reconciled to the results presented in the consolidated income statement of Miller Homes Group (Finco) plc ("Finco") below (see note 3 for further details):

	MHGL 12 months to 31 Dec 2022 £m	Exclude MHGL 3 months pre acquisition £m	Include Consolidated Fair value adjustments £m	Include Parent Company costs £m	Finco 9 months to 31 Dec 2022 £m
Revenue	1,169.0	(253.3)	-	-	**915.7**
Cost of sales	(907.1)	190.2	(33.8)	-	(750.7)
Gross profit	261.9	(63.1)	(33.8)	-	**165.0**
Administrative expenses	(66.8)	15.5	-	(21.8)	(73.1)
Other operating income	1.1	(0.2)	-	-	0.9
Group operating profit	196.2	(47.8)	(33.8)	(21.8)	**92.8**
Share of result in joint ventures	0.5	(0.2)	-	-	0.3
Operating profit	196.7	(48.0)	(33.8)	(21.8)	**93.1**
Net finance costs	(37.0)	9.1	-	(35.3)	(63.2)
Profit before taxation	159.7	(38.9)	(33.8)	(57.1)	**29.9**
Income taxes	(34.6)	7.3	7.8	6.8	(12.7)
Profit for the period	125.1	(31.6)	(26.0)	(50.3)	**17.2**

MHGL performance for 12 months to 31 December 2022

We present below the performance of Miller Homes Group Limited, a controlled subsidiary, as included in its 2022 annual report filed separately.

A combination of price appreciation, volume growth and the first full year of Walker Timber (acquired in December 2021) led to a 12% increase in revenue to £1,169.0m (2021: £1,045.8m). New home revenue increased to £1,123.3m (2021: £1,036.4m) with other revenue also ahead at £45.7m (2021: £9.4m). The improvement in revenue from new home sales reflected a 4% increase in core completions to 3,921 (2021: 3,775) combined with a 4% increase in Average Selling Price ('ASP'). Private completions rose by 2% to 2,887 (2021: 2,823) with affordable unit completions also ahead by 9% to 1,034 (2021: 952). The increase in other revenue reflected higher land sale revenue of £26.3m (2021: £7.7m) and a full 12 months of external revenue from Walker Timber of £19.4m (2021: £1.7m).

ASP increased to £286,500 (2021: £274,600). This reflected a 5% increase in the ASP of private homes to £337,700 (2021: £320,200) and a 3% increase in the ASP of affordable homes to £143,600 (2021: £139,200) offset by an increase in the proportion of affordable homes sold in the year to 26% (2021: 25%). The 5% increase in private ASP was driven by both higher headline prices and lower usage of incentives and would have been higher but for a 4% decline in the average unit size to 1,163 sq ft (2021: 1,209 sq ft).

Strategic report *(continued)*

Performance (continued)

Gross profit adjusted for exceptional items of £20.6m rose by 8% to £282.5m (2021: £261.6m), representing an adjusted gross margin of 24.2% (2021: 25.0%). The reduction in margin was mainly driven by the impact of HPI/CPI, which whilst margin dilutive, ultimately resulted in a higher gross profit per core unit completion of £72,000 (2021: £69,300). Gross profit, including exceptional items, was £261.9m (2021: £256.1m). The current year's exceptional charge of £20.6m (2021: £5.5m) reflects potential fire safety costs in relation to legacy properties, meaning developments constructed before their ownership by Miller Homes.

Other operating income reflected management fee income earned on joint ventures and, to a lesser extent, the net profit on the re-sale of part exchange properties and increased slightly to £1.1m (2021: £1.0m). Administrative expenses fell marginally to £66.8m (2021: £67.0m). This largely reflected the prior year's figure including a £5.4m exceptional charge associated with a strategic review. Excluding last year's exceptional item, administrative expenses have increased by £5.2m, of which £2.7m relates to the inclusion of a full year's charge for Walker Timber.

As a percentage of revenue, administrative expenses have fallen to 5.7% (2021: 6.4%). The Group's share of joint venture profit fell to £0.5m (2021: £2.6m). This decline was reflected in a fall in completions from joint ventures falling to 49 units (2021: 74 units) as well as a change in the mix of completions with a greater weighting from our Scotland Division this year in comparison to last year which was more weighted to our Midlands and South division where ASPs are significantly higher.

Operating profit before exceptional items increased by 7% to £217.3m (2021: £203.6m), representing an adjusted operating margin of 18.6% (2021: 19.5%). Operating profit increased by 4% to £196.7m (2021: £192.7m).

Outlook

Looking ahead to 2023, it is recognised there is significant uncertainty in the UK economy due to increased interest rates and abnormally high levels of inflation. This has impacted consumer confidence albeit employment levels remain high.

We enter 2023 with lower forward sales but a higher cash balance. We intend to maintain a disciplined approach to land purchases with a focus on site quality, capital efficiency and intake margin.

The longer-term impact on consumer confidence is uncertain and it remains unclear when demand will re-bound. However, the Board remains confident in the merits of our regional business model focused on quality family homes in selected locations that are more affordable when compared to London and the South-East.

Strategic report *(continued)*

Stakeholder engagement

Section 172 of the Companies Act requires the directors to take into consideration the interests of stakeholders in all their decision making.

We appreciate that stakeholder engagement is important in establishing relationships with our employees, shareholders, customers, suppliers, lenders and wider society which not only underpins the good governance of the business but 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 as explained in more detail below.

How we engage	*What that means*
Employees • Intranet provides employees with news stories and updates on a regular/weekly basis. • Employee roadshows with presentations from executive and regional Directors • Fortnightly senior management team meetings introduced to cascade key messages • A new Learning & Development (L&D) strategy based on user requirements following focused working groups and business-wide survey.	Staff have increased dialogue with management. Senior management are more accessible and available through new technologies. Structured L&D programmes are more useable and have driven attendance.
Customers • Regular independent surveys of customer experience • Surveys to obtain customer feedback on specific topics • My Miller Home app allows two-way communication	We have developed new ways of engaging with our customers through digital means and increased real-time meetings and contact time for us and our customers. We launched a new customer journey during the year to improve the experience. We continued to listen to customers and what they wanted from the home-buying process and can adapt accordingly, e.g. more options and choices.
Shareholders • Executive Directors meet with shareholders at formal Board meetings four times each year • Weekly telephone calls with shareholders and monthly operational calls • Shareholders receive presentations from other members of the senior team • Shareholders provided with weekly operational dashboards	During the year, we established new communication channels with investor shareholders following the acquisition of MHGL by Apollo in March 2022. Formal Board meetings have been reduced in favour of weekly virtual meetings between shareholders and the executive team. Shareholders have real time information to allow speedy informed decision making.

Strategic report *(continued)*

Stakeholder engagement (continued)

How we engage	*What that means*
Supply chain • Long-term collaborative partnerships • Supplier Code of Conduct • Regular meetings with suppliers to report feedback • Meetings with contractors take place before work commences on site	Regular dialogue with our supply chain means they have full transparency of our plans to support our production targets and that we understand their concerns. The strength of our long-standing relationships, high levels of engagement, and the visibility we provide to our key suppliers allow us to ensure continuity of supply with negligible disruption to volume delivery.
Local communities • Through virtual public meetings • Miller Respect, a dedicated phone line per site for neighbours and the community to report concerns • Support for local and national charities • Staff-led community funding	We have established dedicated websites for public consultation with a 'live chat' option. This improved the planning process, minimised concerns and encouraged direct communication with our site teams. In 2022 we launched the Miller Homes Community Fund, a staff-led charity scheme of £100,000 pa supporting local community organisations that promote education, sport, wellbeing or the environment. Funding decisions are made locally by regionally based employees.
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 CEO, CFO and bondholders • Regular contact between the CFO and key relationship banks	New funding was put in place during 2022, cementing previous relationships, and we have established new ones with our bondholders, rating agencies and banks supporting our RCF. It was a difficult market raising new bond debt due to wider economic conditions. But, our existing relationships and reputation enabled placing £425m of fixed rate notes and €465m of floating rate notes in 2022.

Strategic report *(continued)*

Principal risks and uncertainties

Risk	Controls and Mitigation
Economic conditions, mortgage supply and rates	
Demand and selling prices for new homes are inextricably linked to consumer confidence which amongst other things is impacted by employment prospects, disposable incomes and the availability and cost of mortgages, particularly at higher loan to values.	Sales rates, cancellation levels, visitor levels, leads and prices are monitored on a weekly basis informing timely decision making. Our land acquisition diligence considers local employment, income levels and affordability which in turn is informed by current trading experience. Close relationships are maintained with mortgage lenders and government agencies to ensure that we utilise all available products and are involved in initiatives aimed at the new build sector.
<u>2022 commentary</u> *The UK economy slowed in 2022 due to the impact of cost-of-living pressures and rising interest rates. Mortgage rates which were already increasing in line with interest rate rises, increased more sharply in September 2022 following the mini-budget and the sudden rise in government gilts.* *House prices continued to rise during the first half of the year but gave back some of this increase in the second half of the year, still ending the year ahead of the starting position. Sales rates declined in the second half of 2022 and more particularly the final quarter.*	
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 return on capital employed exist which underpin our strategic plan. The Group has dedicated regionally based land teams for both current and strategic land. Regional land bid success rates are reviewed at Group level to critically review the level of bids, made together with the reasons for unsuccessful offers. The Chief Executive visits all sites prior to acquisition to ensure each site fits within the Group's land strategy and all land acquisitions and new strategic land options are approved by the Executive Board.
<u>2022 commentary</u> *Land purchases were curtailed during the second half of the year in light of political uncertainty and a deteriorating economic outlook.* *MHGL added 3,008 plots to the owned landbank which was around 25% less than what was consumed in the year.* *MHGL's consented landbank of 13,914 plots has decreased by 8% and land payables have fallen to £97m (2021: £144m). The Group continues to hold a significant strategic landbank of over 39,000 plots.*	

Strategic report *(continued)*

Principal risks and uncertainties (continued)

Risk	Controls and mitigation
Availability and cost of materials	
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.	Around 90% of house build materials are negotiated by the central procurement team. This ensures cost certainty over a fixed period and continuity of supply with lead-times monitored. Competencies are assessed to ensure both the appropriate quality and reliability of supply with feedback received from our construction team via a supplier assessment app developed by our in-house IT team. Subcontractors are managed at a regional level. Many of our subcontractor relationships are well established and long standing which mitigates the impact of labour and skill shortages as industry output increases. Our policy is to tender to maintain price competition, with higher value orders requiring the approval of Regional Managing Directors.
<u>*2022 commentary*</u> *The sharp re-bound in construction activity following the COVID-19 pandemic has led to increased lead-times on certain commodities. This continued to be carefully managed by our regional construction teams and central procurement team and ultimately MHGLs construction output was in line with that achieved in 2021 and ahead of pre-pandemic levels in 2019.* *Cost inflation during 2022 was around 10% with it more heavily weighted towards materials than labour. A cost mitigation strategy has been devised for 2023.*	
Government regulation	
The ability to ensure that the Group remains aware of emerging government legislation and is implemented within the necessary timescales.	The Group understands the importance of gaining an understanding of likely new legislation at as early a stage as possible. We strive to participate in industry working groups to both shape new legislation and also to understand the perspective of government. This is a multi-disciplinary approach with the key functions in recent years being legal, technical, production and customer service.
<u>*2022 commentary*</u> *There have been some significant regulatory changes during 2022. The key changes are:* • *fire safety legislation which is discussed as a separate risk item below including an additional 4% corporation tax rate for the sector which took effect from 1 April 2022.* • *nitrate neutrality legislation which impacts housing development in certain regions in England.* *Proposed amendments announced by the Government in December 2022 to the National Planning Policy Framework include changes to local housing numbers and the need for local authorities to maintain a plan for a five year housing supply.*	

Strategic report *(continued)*

Principal risks and uncertainties (continued)

Risk	Controls and mitigation
Fire safety	
The risk associated with properties above 11 metres built by the Group or companies subsequently acquired by the Group within the last 30 years which will require to be remediated under the Building Safety Act.	The Group has built a relatively low number of properties above 11 metres. Specialists have been appointed to assess the limited number of properties which are thought to be affected by this legislation and they have also provided assumptions and estimates for the remediation provisions which have been recorded in the financial statements.
<u>2022 commentary</u> *At the end of 2021, a provision of £9.7m had been booked by MHGL for all known cladding and fire safety issues at that time based on the scope of the Developer Pledge signed in April 2022, an initiative under which the major UK homebuilders have undertaken to remediate all life critical fire safety issues. The current draft contract with Government and the Building Safety Act has expanded homebuilders' liability beyond what was included in the Developer Pledge to also include legacy buildings. As a result of such regulatory changes, several legacy properties which have given rise to an exceptional charge of £20.6m in the 2022 financial statements.*	
Safety, health and environmental (SHE)	
Breaches of SHE legislation can result in workplace injuries, environmental damage or physical damage to property. This could result in financial penalties, reputational damage and delays to site related activities.	The in-house SHE team consists of 13 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 a dedicated SHE committee with cross-disciplinary attendance which monitors among other things the progress against the annual SHE strategy. Site operations are subject to monthly audits and SHE awareness tool-box talks are regularly communicated to both staff and subcontractors. Our internal awards initiative recognises and rewards the importance of SHE across the business. Protection of the environment during construction is built into our operating methods as we see increasing focus on conservation and the enhancement of the natural environment.
<u>2022 commentary</u> *ISO 45001 and 14001 accreditations were maintained during the year.* *Drugs and Alcohol Policy procedures were refreshed, supported by training sessions at all levels.* *The development of SHE Incident Reporting and Inspection Apps has simplified administration, generated greater visibility of live situations and increased speed to close outstanding actions.* *Short online training sessions (SHE Bytes) have been introduced to address certain topics across teams.*	

Strategic report *(continued)*

Principal risks and uncertainties (continued)

Risk	Controls and mitigation
Reputation	
This risk covers the reputational risk arising from the acts or decisions taken by the Group and the wider housebuilding sector.	Reputational risk is considered at various Executive sub-committees including the SHE and Quality committees. Regular consultation with HBF and participation in industry working groups.
2022 commentary *In anticipation of the launch of our participation in the New Homes Quality Code in 2023, new processes were launched to update handover procedures of homes to customers. Training of all staff was undertaken to ensure compliance with the new code.*	
Attract and retain employees	
It is important that the Group retains and attracts high calibre and diverse employees in order to deliver on all aspects of our strategy.	The Group's HR strategy is focused on all aspects of reward, retention, training and development, as well as performance management. The Group has committed to the Home Building Skills Pledge. This champions diversity and inclusion and promotes the industry as inclusive and progressive, attracting employees to a positive career in homebuilding. Staff roadshows, led by the Chief Executive, are undertaken annually. Staff engagement surveys and an independent review by Investors in People are undertaken on a triennial basis. Succession planning programme for all regional and Group director positions supplemented by a leadership development programme.
2022 commentary *A tapered approach to annual pay awards was implemented which was well received by staff at all levels across the Group.* *Investors in People assessment resulted in the Group being awarded Platinum status for the first time, a level awarded to only 6% of companies in the UK* *Initiatives in the year included the launch of a Financial Wellbeing Hub, updated online induction module including mental health awareness and Diversity and Inclusion workshops.*	

Strategic report *(continued)*

Principal risks and uncertainties (continued)

Risk	Controls and mitigation
Availability of finance The Group requires access to adequate financial resources in order to meet its existing commitments and to deliver its strategic plan.	Cash is managed by a combination of weekly and quarterly forecasts. The strategic plan covers a six year period and is updated at least annually and supported by sensitivity analysis to provide a basis for longer-term investment decisions. Additional sensitivity scenarios are prepared to stress test the Group's cashflows. The secured notes mature over 2028 and 2029 and do not have any financial covenants. The only financial condition of the revolving credit facility (RCF) is that the drawn balance is limited to 50% of net inventory.
2022 commentary *The Group's cash balance at 31 December 2022 was £190m further supplemented by a £180m RCF that remained undrawn (other than in respect of an outstanding avalised promissory note of £10m related to deferred payments on a land acquisition and a working capital facility for an aggregates amount of £0.4m).*	
IT The key IT risks relate to data breaches and system outages (including our website) which could result in both financial and reputational damage. In addition, to maximise business performance it is important to have access to all critical systems regardless of their place of work.	The greatest IT risk relates to a cyber event and/or a security breach. An annual cyber security plan is approved by the Risk Committee. The Group strives to ensure the latest software is installed for its critical systems to protect against the latest detected vulnerabilities. and facilitates access to these systems for staff who are becoming increasingly mobile. In addition, software is deployed to support threat detection, compliance and security incident management. Security reviews are performed by external consultants throughout the year. Full back-up and system recovery is in place as part of the wider Disaster Recovery Plan, and again this is tested annually.
2022 commentary *We continued to invest in IT during 2022 with some critical systems being transferred to the cloud thus improving resilience against cyber threats. A new third-party consultant was appointed to test our cyber security systems.* *We also ran a cyber awareness campaign and held GDPR training with relevant staff.*	

Strategic report *(continued)*

Principal risks and uncertainties (continued)

Risk	Controls and Mitigation
Fraud The risk associated with fraudulent activity.	The Group has a risk Committee which has a specific remit to review our approach. The greatest fraud risks are regarded as customer fraud/ adherence to Anti money laundering legislation, attempts to divert supplier payments and on site theft of materials.
<u>*2022 commentary*</u> *We continued to be vigilant to fraud attempts and adapted our procedures in some areas during the year.*	
Pensions The Group's defined benefit scheme was closed to new entrants in 1997 and to future accrual in 2010. The deficit could fluctuate due to changes in longevity assumptions, bond yields or asset values.	Investment strategy agreed with scheme trustees to reduce volatility in the asset base. This is regularly reviewed in light of market conditions.
2022 commentary *There was significant dialogue with trustees during the year, particularly in relation to the scheme's investment strategy and the fast -paced developments around LDI in light of the sudden spike in gilts shortly after the September mini-budget. At the year end, the scheme had around 70% of its liabilities hedged with around 60% of this being in the form of physical gilts or corporate bonds.*	

Strategic report *(continued)*

Key performance indicators of MHGL

MHGL, a controlled subsidiary, consolidates the trading of the group. Its annual report is filed separately and includes financial and non-financial indicators which relate to its key business objectives and which are presented below:

		2022	2021	Movement
Total housing sales (units)		3,970	3,849	+3%
ASP (£000)	(i)	286.5	274.6	+4%
Adjusted gross margin %	(ii)	24.2%	25.0%	-80 bps
Adjusted operating margin %	(iii)	18.6%	19.5%	-90 bps
Adjusted ROCE	(iv)	35.4%	34.4%	+100 bps
Consented landbank (plots)	(v)	13,914	15,169	-8%
Customer satisfaction – recommend a friend (%)	(vi)	91%	92%	-1%
SHE (Accident Incident rate / 100,000 persons)	(vii)	504	535	-6%
Operating profit		196.7	192.7	+2%

(i) This represents revenues from new home sales divided by the number of core completions. It measures movements in revenues per plot caused by either house price inflation, location or mix changes.

(ii) This represents gross profit before exceptional items divided by revenue. It measures MHGL's underlying profitability before administrative expenses.

(iii) This represents operating profit before exceptional items divided by revenue. It measures MHGL's underlying profitability after administrative expenses.

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

(v) This non-financial KPI represents land from the owned and controlled landbanks. Owned land is where title has been acquired or if purchase is by way of conditional contract, the conditions have been satisfied. Controlled land is where an option has been secured which has at least an outline planning consent or where a conditional contract is yet to be satisfied.

(vi) This non-financial KPI represents an external assessment, performed by the NHBC on behalf of the HBF and measures our customers' overall satisfaction with both the quality of their new home and the service provided.

(vii) This non-financial KPI represents the total number of accidents reportable under RIDDOR as expressed per 100,000 employees and subcontractors.

Julie M Jackson
Company Secretary
27 March 2023

Directors' report

The directors of Miller Homes Group (Finco) plc have pleasure in presenting their report and the audited financial statements for the period ended 31 December 2022.

Principal activities

The principal business conducted by the Group was residential housebuilding.

The company was incorporated on 20th January 2022 as Castle UK Finco plc. On 21st December 2022 it changed its name to Miller Homes Group (Finco) plc. On 31st March 2022 it acquired 100% of the share capital of Miller Homes Group Limited.

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 period amounted to £17.2 million. No dividend will be paid.

Going concern

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 period and at the date of this report are as follows:

Stewart Lynes (appointed 31st March 2022)
Ian Murdoch (appointed 31st March 2022)
Julie Jackson (appointed 31st March 2022)
Alexander Humphreys (appointed 31st March 2022)*
Rajesh Jegadeesh (appointed 20th January 2022)*
Chris Endsor (appointed 31st March 2022, resigned 25th January 2023)
Seda Karpukhina (appointed 20th January 2022, resigned 31st March 2022)*
TMF Corporate Administration Services Limited (appointed 20th January 2022, resigned 31st March 2022)
* *Apollo investor director*

Corporate Governance

The Board of Directors is responsible for the business's management, direction and performance. The structure for the governance of the Group is explained further below.

Main Board
The main Board sits for the holding company of Castle-Builder TopCo Limited, a company registered in Jersey. Chris Endsor chairs this Board as Non-Executive Chairman of the Group.

The Board has executive representation from the Chief Executive Officer- Stewart Lynes, Chief Financial Officer- Ian Murdoch and General Counsel and Company Secretary-Julie Jackson.

The Board also comprises Apollo Investor Directors and Stephen Stone, an experienced CEO and Chairman in the housing industry, who are non-executive members of the main Board.

Directors' report *(continued)*

The Group considers these individuals to possess the necessary experience and detailed industry knowledge to discharge their duties as Directors.

This Board formally meets four times a year but also has separate meetings on both strategy and to hear presentations directly from other operational and functional directors within the business. Monthly operational updates take place via virtual meetings with all directors present.

The Directors consider they have appropriate and sufficient contact with employees.

The main Board is considered to have oversight of the company and is responsible for its long-term success. It sets the long-term strategic aims and objectives, structure and capital, financial reporting, significant capital expenditure approval, land acquisition approval over a certain level, and decisions around key management.

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

The Board committees held at this level comprise:

Land Approval Committee

The Land Approval Committee has delegated authority to approve land acquisitions above a certain value or higher risk acquisitions based on the planning status. The Committee comprises the Chairman, the Chief Executive Officer, Stephen Stone and at least two Investor Directors. This Committee meets as necessary, dictated by business needs.

Remuneration Committee

The Remuneration Committee meets three times per annum or as needed by the requirements of the business. Alexander Humphries chairs this meeting. Recommendations are made to the main Board on all aspects of the remuneration, benefits and employment conditions. The Committee comprises its Chair, Stephen Stone and an additional Investor Director, with Executive Directors invited to attend.

Audit Committee

The Audit Committee considers and makes recommendations regarding the integrity of the financial statements of the Group, the effectiveness of internal controls, risk management, and the internal and external audit process.

The Committee is chaired by Investor Director, Rajesh Jegadesh and comprises two additional Investor Directors and Stephen Stone. The audit partner from KPMG and the Executive Directors are invited to attend these meetings, which take place twice yearly.

Executive Committee

Following MHGL's acquisition by Apollo in 2022, the Directors took the opportunity to carry out an organisational restructure of the Group to reflect the growth in the size of the business and best practices. This has led to a new framework being implemented where sub-committees support the Board and the Executive Committee, focusing on the business's strategic and operational aspects.

The Executive Committee was chaired in 2022 by the Chairman, and its attendees comprise the Chief Executive Officer, Chief Financial Officer, General Counsel and Company Secretary. The HR Director is invited to attend as appropriate.

The Executive Committee meets monthly and receives reports from the separate sub-committees (Quality, SHE, Operations, ESG and Risk). The Executive Committee is responsible for the implementation of the strategy set by the main Board and for promoting the long-term success of the Group.

Directors' report *(continued)*

Its principal responsibilities include financial management, governance controls, risk management, compliance and cultural direction.

The Committee has a regular agenda which ensures its responsibilities are addressed and, if necessary, revised throughout the year. Papers are compiled and issued before meetings, and written minutes are circulated by the Company Secretary.

The Group operates within a framework of policies available to all staff members on its internal website. Its principal policies are Anti-Bribery; Modern Slavery; Equality; Fraud Prevention; Data Protection and Safety, and Health & Environment.

The Company Secretary holds registers of compliance with the policies, and training is provided to enhance employee awareness.

Additionally, the Executive Committee is responsible for evaluating significant risks to the business. A rigorous evaluation process is carried out twice yearly.

Over the last 12 months, the Directors' view is that the macro-economic conditions remain the most significant risk to the business. This risk has increased due to the current economic headwinds caused by the war in Ukraine, global supply issues and significant inflation.

A detailed analysis of the risks is provided on pages 7 to 12.

Control

During the year the Company was ultimately controlled by Apollo Global Management Inc.

Apollo is a high-growth, global alternative asset manager. They seek to provide an excess return at every point along the risk-reward spectrum from investment grade to private equity, focusing on three business strategies: yield, hybrid and opportunistic.

Through their investment activity across a fully integrated platform, they serve their clients' retirement income and financial return needs and offer innovative capital solutions to businesses.

Employees

It is recognised that the culture of the business is extremely important to attract high calibre individuals. Equal opportunities and diversity is promoted throughout the business to ensure that all employees are treated in a non-discriminatory manner at all stages of their employment, including recruitment and selection, rewards, training and career development. The Equality and Diversity policy ensures that all employees are treated equally and fairly with no discrimination in respect of age, disability, religious belief, sexual orientation, race, colour, marital status, political belief or nationality.

The Group's objective is to attract and retain the best people and ensure they are recognised and rewarded for their contribution. It is committed to engaging with staff across the business and undertakes annual roadshows in each regional business. This is an open forum which provides an opportunity for staff to be more informed on business performance and medium-term objectives. Importantly, it allows each area of the business to understand their contribution and sets expectations for the forthcoming year. Staff engagement is monitored using external independent assessments which are undertaken on a triennial basis. The latest employee survey showed 93% staff engagement and Platinum status with Investors in People was also attained during the year.

Female employees represented 31% of total employees and 19% of directors and senior management.

Directors' report *(continued)*

Corporate responsibility

The Group's ethos is not only to build high quality homes but to do so safely and ethically in a manner which respects the local environment and the rights and dignity of all people with whom we engage, including our customers, employees, sub-contractors, local residents and other stakeholders. 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. The Group believes that a zero tolerance approach to bribery will deliver reputational benefits and maintain our established reputation with customers, suppliers and sub-contractors.

<u>Energy and carbon</u>

In 2022 we committed to a carbon reduction target to reduce our Scope 1 and 2 emissions by 80% by 2031. Activities underway to reduce our emissions include trials of solar generators and other technology to reduce diesel use during construction phases.

Other projects currently being assessed include reducing machinery idling on sites, solar-backed sales facilities, installation of solar panels at our timber frame manufacturing business and securing access to renewable energy through 'additional' mechanisms such as Power Purchase Agreements.

In 2023 we will be exploring our options to increase that supply to other areas of our business. Our total Scope 1 and 2 carbon emissions in 2022 were 8,082 tCO_2e, which equates to 1.85 tonnes per Equivalent Build Unit (EBU).

During the period we also completed our first baseline assessment of our Scope 3 carbon emissions. Completing this assessment has helped us identify other focus areas for carbon reduction. In 2023 we will use our Scope 3 assessment findings to model potential pathways and timescales to reach Net Zero carbon emissions.

<u>Waste</u>

We plan to ensure recycling rates of at least 75% across our business by 2025, with a goal of 85% recycling by 2030. By 2025 we will divert at least 98% of our waste from landfill and incineration processes where no energy recovery takes place, and we're aiming for 100% by 2030.

- Our group recycling rate in 2022 was 81%
- Our diversion from landfill rate was 98%
- We produced 30,612 tonnes of waste
- Our waste per 100m2 of build was 7.7 tonnes

<u>Timber</u>

All of our group supply of wholly timber products such as roof trusses and joists, staircases, timber cassettes and beams were supplied by companies which hold chain of custody certification from either FSC or PEFC. In 2023 we will be working to further engage suppliers and contractors on our sustainable requirements.

Directors' report *(continued)*

Environment

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

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

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

Charitable giving

Supporting local causes within our communities remains a key regional focus for the Group and one we have continued to recognise and enhance this year with the launch of our Community Fund in late September. The fund will have more than £100,000 available annually to support local groups, individual sponsorships and good causes linked to wellbeing, sport or education that have a link to the places where we work and build homes. Staff volunteers run the fund. The initial launch generated unprecedented interest, with over 400 applications. We actively encourage our employees to get involved with charitable projects and support a variety of initiatives at both regional and national levels.

In addition to the Community Fund, regional charities nominated by our staff receive donations during the year thanks to company-wide campaigns and regional and individual fundraising efforts.

At a Group level, we continue to support Habitat for Humanity, which has been our national charity for seven years. This year we provided a special donation of £25,000 following the war breaking out in Ukraine. The charity has used these funds to support refugee families in neighbouring countries.

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.

Directors' report *(continued)*

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

KPMG was appointed auditor by the directors during the period. 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 M Jackson
Company Secretary
27 March 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group's financial statements state whether they have been prepared in accordance with UK adopted international accounting standards;
- for the Parent Company's financial statements state whether applicable UK accounting standards have been followed, subject to, any material departures discussed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MILLER HOMES GROUP (FINCO) PLC

1 Our opinion is unmodified

We have audited the financial statements of Miller Homes Group (Finco) Plc ("the Company") for the period ended 31 December 2022 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 cashflow 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 2022 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework,* and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

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

	The Risk	**Our Response**
Group Site margin estimates impacting cost of sales, development work in progress and land in inventories carrying values Inventories: £868.9m Cost of sales: £750.7m Refer to page: 34 (Accounting Policy) and pages: 46 and 54 (financial disclosures)	**Subjective Estimate** Gross margin represents the estimated return on each plot sold on each development site. When revenue is recognised on the sale of individual plots, the expected gross margin for the development site at completion is estimated and applied to determine the inventories amount that corresponds to the cost of the plots sold hence, needing to be allocated from inventories to cost of sales in the period. The effect of these matters is that as part of our risk assessment we determined that the site margin estimates impacting cost of sales and carrying amount of inventories have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount.	**Our procedures included:** **Historical comparisons:** For a selection of sites that were fully sold in the period, we performed a retrospective review to compare the past overall build cost budget (including infrastructure and development costs) and sales forecasts to actual costs and selling prices achieved to assess the accuracy of site budgets and forecasts. **Personnel interviews:** We obtained an understanding of the performance and status of a risk-based sample of development sites through discussion with regional management to consider whether relevant information was included in site margin forecasts. **Test of detail:** For a risk-based sample of development sites, we used the information gathered from the procedures above and attendance of Groups' regional cost review meetings to challenge management's estimated margins. We reperformed the margin calculation for that sample of sites to verify its accuracy. We also performed visits at a selection of sites. **Assessing transparency:** We assessed the adequacy of the Group's disclosures about the degree of estimation involved in calculating the gross margin and carrying value of development work in progress and land in inventories

Group Acquisition accounting valuation of Brand and Development work in progress inventories Brand: £172m development work in progress inventories fair value adjustment: £33.8m Refer to pages: 33 - 34 (Accounting Policy) and pages: 39 - 40 (financial disclosures)	**Subjective Estimate** The acquisition accounting during the period requires estimation at fair values of the acquired assets and liabilities. For certain assets, in particular brand, and development work in progress inventories, subjective assumptions are applied to estimate their fair values. The effect of these matters is that as part of our risk assessment we determined that fair value estimates impacting brand and development work in progress inventories have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount.	**Our procedures included:** **Assessing methodology:** We assessed whether the methodology used to estimate the fair values of the brand and development work in progress inventories are in accordance with the relevant accounting standards. **Benchmarking assumptions:** We benchmarked management's estimation of the fair value adjustments to the acquired development work in progress inventories against industry related information. **Our valuation expertise:** We used our valuation expertise to challenge management's estimation of the Brand fair value. **Assessing transparency:** We assessed the adequacy of the financial statement disclosures of the business combination as well as the degree of estimation involved in the valuation of acquired intangible assets.
Group Impairment of Intangible Assets Goodwill: £379.7m Brand: £172m Refer to page: 34 (Accounting Policy) and page: 44, (financial disclosures)	**Forecast based assessment** The downturn in the Housebuilding Industry and wider UK economic environment means that future demand and prices are challenging to predict. Additionally inflationary pressures may occur across the Group's supply chain resulting in increased costs. Both factors, as well as long term uncertainties including the impact of climate change, increased the challenge in predicting future expected cash flows used to calculate the recoverable value of the cash generating unit in the Group's impairment testing. The estimated recoverable amount of these Intangible Assets balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that as part of our risk assessment we determined that the estimations used to perform the impairment testing of the Intangible Assets have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount.	**Our procedures included:** **Historical comparisons:** We evaluated the track record of historical assumptions used against actual results achieved to assess management's ability to forecast. **Assessing methodology:** We assessed whether the principles and integrity of the cash flow model are in accordance with applicable standards. **Benchmarking assumptions:** We benchmarked management's key assumptions used in the impairment testing to market data and to comparable companies. **Test of detail:** We obtained the Group's board minutes, strategic plans and risk assessment including with regard to the climate change risk and used these to assumptions underpinning management's impairment forecast. **Our valuation expertise:** We developed independently, using our valuation expertise, a discount rate range that we compared to management's. **Sensitivity analysis:** We developed sensitivity scenarios using our valuation expertise to benchmark management's estimate of the cash generating unit value in use. **Assessing transparency:** We assessed the adequacy of the financial statement disclosures of the impairment testing as well as the degree of estimation involved in the valuation of acquired intangible assets.

Group	**Subjective estimate**	**Our procedures included:**
Fire safety remediation provision Provision: £28.8m Refer to page: 35 (Accounting Policy) and page: 49, (financial disclosures)	The estimation of the fire safety provision requires identification of the impacted properties, an assessment of the defects requiring remediation and the estimation of the corresponding future costs. The effect of these matters is that as part of our risk assessment we determined that fire safety remediation provision is associated with a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	**Assessment of management's process:** We performed inquiries to the Group's finance, operational, and legal personnel and inspected the documentation they used to identify the buildings requiring remediation to assess that process and search for disconfirming evidence. We challenged management's judgements made during their process by comparing them to relevant, available industry data. **Test of detail:** We evaluated the work of management's expert to estimate the cost of remediation and we challenged their assumptions and basis of estimation. **Test of detail:** We evaluated the existence and extent of the obligation for the Group to remediate life critical fire safety issues by inspecting the Pledge for England, the Self Remediation Contract with the Secretary of State for the Department of Levelling Up, Housing and Communities and evidence to support the Group's commitments in Scotland. **Assessing transparency:** We assessed whether the Group's disclosures in respect of the Fire Safety provision, including of the risks and estimation uncertainty in the provision, have been adequately disclosed.
Parent	**Forecast based assessment**	**Our procedures included:**
Impairment of investment in subsidiaries Investments: £527.9m Refer to page: 33 (Accounting Policy) and page: 45, (financial disclosures)	The downturn in the Housebuilding Industry and wider UK economic environment means that future demand and prices are challenging to predict. Additionally inflationary pressures may occur across the Group's supply chain resulting in increased costs. Both factors, as well as long term uncertainties including the impact of climate change, increased the challenge in predicting future expected cash flows used to calculate the recoverable value of the investments in subsidiaries as part of the parent Company's investments impairment testing. The estimated recoverable amount of these investment in subsidiaries balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that as part of our risk assessment we determined that the estimations used to perform the impairment testing of the investment in subsidiaries have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount.	**Historical comparisons:** We evaluated the track record of historical assumptions used against actual results achieved to assess management's ability to forecast. **Assessing methodology:** We assessed whether the principles and integrity of the cash flow model are in accordance with applicable standards. **Benchmarking assumptions:** We benchmarked management's key assumptions used in the impairment testing to market data and to comparable companies. **Test of detail:** We obtained the Group's board minutes, strategic plans and risk assessment including with regard to the climate change risk and used these to assumptions underpinning management's impairment forecast. **Our valuation expertise:** We developed independently, using our valuation expertise, a discount rate range that we compared to management's. **Sensitivity analysis:** We developed sensitivity scenarios using our valuation expertise to benchmark management's estimate of the cash generating unit value in use. **Assessing transparency:** We assessed the adequacy of the financial statement disclosures of the parent Company investments impairment testing.

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 £5.3m, determined with reference to a benchmark of Group profit before tax and exceptional items and acquisition fair value adjustments to inventories of which it represents 5%.

Materiality for the parent Company financial statements as a whole was set at £3.9m, determined with reference to a benchmark of Company total assets, of which it represents 0.28%.

Performance materiality was set at 75% of materiality for the financial statements as a whole, which equates to £3.9m for the Group and £2.9m for the parent Company. We applied this percentage in our determination of performance materiality because we did not identify factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £250,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

We were able to rely upon the Group's internal control over financial reporting in some areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work. In the other areas, the scope of the audit work performed was fully substantive.

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

4 Going concern

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

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's and Company's business model, its market, funding, and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period.

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

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

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

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:
- Enquiring of directors and inspection of policy documentation as to the Group's policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit Committee minutes.
- Considering remuneration incentive schemes and performance targets for senior management and directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue transactions are sufficiently non-complex and the point at which revenue can be recognized is sufficiently free from judgement that the risk of a material misstatement within revenue in relation to fraud is acceptably low.

We identified an additional fraud risk in respect to the site margin estimation which impacts cost of sales and the carrying value of the development work in progress and land in inventory. The margin estimation is subject to management estimation.

Further detail in respect of valuation of site margins is set out in the key audit matters disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included journal entries which move cost from the profit and loss account into inventory on the balance sheet, unusual cash and debt account journal combinations and journals posted after the financial close date.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias including assessing the site margin estimation for bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

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

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

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

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

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

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

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

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

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

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

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

Strategic report and directors' report

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

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

Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 20, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

S. Gueddana

Slim Gueddana (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

28 March 2023

Consolidated income statement

for the period from 20th January 2022 to 31 December 2022

	Note	**Pre exceptional items 2022 £m**	**Exceptional items (*note 2*) 2022 £m**	**Total 2022 £m**
Revenue	*4*	**915.7**	-	**915.7**
Cost of sales		(730.1)	(20.6)	(750.7)
Gross profit		**185.6**	**(20.6)**	**165.0**
Administrative expenses		(52.0)	(21.1)	(73.1)
Other operating income		0.9	-	0.9
Group operating profit		**134.5**	**(41.7)**	**92.8**
Share of profit in joint ventures	*13*	0.3	-	0.3
Operating profit	*2*	**134.8**	**(41.7)**	**93.1**
Finance costs	*7*	(64.8)	-	(64.8)
Finance income	*8*	1.6	-	1.6
Net finance costs		**(63.2)**	-	**(63.2)**
Profit before taxation		**71.6**	**(41.7)**	**29.9**
Income taxes	*9*	(18.7)	6.0	(12.7)
Profit for the period		**52.9**	**(35.7)**	**17.2**

The consolidated income statement reflects the underlying trading results of the company's principal subsidiary holding company, Miller Homes Group Limited, from the date of its acquisition on 31st March 2022, together with related transaction costs, fair value adjustments and finance costs. A reconciliation to the 2022 full year results of Miller Homes Group Limited is provided in Note 3. The consolidated results of Miller Homes Group Limited are presented in its Annual report and financial statements which are filed separately.

The notes on pages 31 to 59 form part of these financial statements.

Consolidated statement of comprehensive income

for the period from 20th January 2022 to 31 December 2022

	2022 £m
Profit for the period	17.2
Items that will not be reclassified to profit or loss:	
Actuarial loss on retirement benefit surplus	(12.2)
Deferred tax on actuarial loss	4.2
Total comprehensive income for the period attributable to owners of the parent	**9.2**

Consolidated statement of changes in equity

for the period from 20th January 2022 to 31 December 2022

	Share capital £m	Retained earnings £m	Total £m
At 20th January 2022	-	-	-
Issue of share capital	527.9	-	527.9
Profit for the period	-	17.2	17.2
Actuarial loss on retirement benefit surplus (net of deferred tax)	-	(8.0)	(8.0)
Balance at 31 December 2022	**527.9**	**9.2**	**537.1**

Company statement of changes in equity

for the period from 20th January 2022 to 31 December 2022

	Share capital £m	Retained earnings £m	Total £m
At 20th January 2022	-	-	-
Issue of share capital	527.9	-	527.9
Loss for the period	-	(11.9)	(11.9)
Balance at 31 December 2022	**527.9**	**(11.9)**	**516.0**

The notes on pages 31 to 59 form part of these financial statements.

Statements of financial position

As at 31 December 2022

	Note	Group 2022 £m	Company 2022 £m
Assets			
Non-current assets			
Intangible assets	*11*	551.7	-
Property, plant and equipment	*12*	7.9	-
Right of use asset	*21*	7.9	-
Investments	*13*	12.4	527.9
Shared equity receivables	*14*	3.5	-
Trade and other receivables	*16*	19.7	845.7
Retirement benefit surplus	*30*	8.2	-
		611.3	**1,373.6**
Current assets			
Inventories	*15*	868.9	-
Trade and other receivables	*16*	39.5	2.9
Cash and cash equivalents	*25*	189.8	-
		1,098.2	**2.9**
Total assets		**1,709.5**	**1,376.5**
Liabilities			
Non-current liabilities			
Loans and borrowings	*18*	(801.0)	(801.0)
Trade and other payables	*17*	(17.2)	-
Lease liabilities	*21*	(5.8)	-
Provisions	*20*	(33.1)	-
Deferred tax	*19*	(34.3)	-
		(891.4)	**(801.0)**
Current liabilities			
Trade and other payables	*17*	(278.5)	(59.5)
Lease liabilities	*21*	(2.5)	-
		(281.0)	(59.5)
Total liabilities		**(1,172.4)**	**(860.5)**
Net assets		**537.1**	**516.0**
Equity			
Share capital	*22*	527.9	527.9
Retained earnings		9.2	(11.9)
Total equity attributable to owners of the parent		**537.1**	**516.0**

The notes on pages 31 to 59 form part of these financial statements. These financial statements were approved by the board of directors on 27 March 2023 and were signed on its behalf by:

Ian Murdoch

Ian Murdoch
Director

Stewart Lynes
Director

Company registered number: 13862650

Consolidated cash flow statement

for the period from 20th January 2022 to 31 December 2022

	Note	**2022** **£m**
Cash flows from operating activities		
Profit for the period		17.2
Adjustments for:		
Provisions		20.6
Depreciation		2.4
Finance income		(1.6)
Finance cost		64.8
Share of post-tax loss from joint ventures		(0.3)
Taxation		12.7
Operating profit before changes in working capital and non cash items		115.8
Working capital movements:		
Movement in trade and other receivables		1.2
Movement in inventories		45.6
Movement in trade and other payables		(69.3)
Cash generated from operations		93.3
Interest paid		(42.5)
Corporation tax paid		(19.2)
Net cash inflow from operating activities		**31.6**
Cash flows from investing activities		
Acquisition of Miller Homes Group Limited (net of cash of £178.3m)		(1,140.1)
Acquisition of property, plant and equipment		(1.7)
Movement in loans with joint ventures		(0.1)
Net cash outflow from investing activities		**(1,141.9)**
Cash flows from financing activities		
Proceeds from issue of share capital		527.9
Proceeds from issue of senior secured notes (net of arrangement fees of £41.2m)	*25*	774.1
Lease payments	*25*	(1.9)
Net cash inflow from financing activities		**1,300.1**
Net increase in cash and cash equivalents	*25*	189.8
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period		**189.8**

The consolidated cashflow statement reflects the underlying cashflows of the company's principal subsidiary holding company, Miller Homes Group Limited, from the date of its acquisition on 31st March 2022, together with the related acquisition transaction and finance costs of the acquiring group.

The notes on pages 31 to 59 form part of these financial statements.

Notes
(forming part of the financial statements)

1 Accounting policies

Miller Homes Group (Finco) plc (the "Company") is a public company incorporated, domiciled and registered in England in the United Kingdom. The registered number is 13862650 and the registered address is 2 Centro Place, Pride Park, Derby, Derbyshire, England, DE24 8RF.

The Group financial statements have been prepared and approved by the Directors in accordance with UK adopted International Accouting Standards. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. The Parent Company financial statements have been prepared in accordance with UK accounting standards including FRS 101 Reduced Disclosure Framework. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards, 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 significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 27.

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

1.1 Measurement convention

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

1.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Parent Company and all its subsidiary undertakings at the reporting date. The results of subsidiary undertakings acquired or disposed of during the year are included in the financial statements from or to the effective date of acquisition or disposal. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Inter group balances and transactions, and any unrealised income and expenses arising from intra group transactions are eliminated in the consolidated accounts.

1.3 Going concern

Despite some of the external challenges we faced as a sector including rising energy costs that followed the war in Ukraine and several changes in Government leadership causing significant economic instability, the Group has remained profitable and cash generative. This company's consolidated balance sheet as at 31 December 2022 shows a net asset position of £537.1m and a cash position of £189.8m.

Notes *(continued)*

1 Accounting policies *(continued)*

The Directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that based on its financial resources and taking account of severe but reasonably possible downside assumptions regarding sales rates and house prices, the Group and Company will have sufficient funds to meet their liabilities as they fall due for that period.

These projections take into account the funding facilities available to the Company and the Group following its acquisition of Miller Homes Group Limited on 31st March 2022. As part of the transaction £425m of fixed rate senior secured notes, repayable in May 2029 and €465m of floating rate notes, repayable in May 2028 were issued and a £180m revolving credit facility was entered into, which is committed until 30th September 2027. The secured notes do not have any financial covenants. The only financial condition is that the drawn balance of the revolving credit facility ('RCF') is limited to 50% of net inventory.

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

1.4 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 require 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.

1.5 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

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 within trade and other payables.

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.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits.

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, less any impairment losses. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Notes *(continued)*

1 Accounting policies (continued)

1.6 Intangible assets

Goodwill

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

Other intangible assets

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

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

Amortisation

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

- Brand value indefinite life

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

1.7 Investments in subsidiaries

Investments in subsidiaries are measured at cost less impairment.

1.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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 charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Plant and equipment: 3-10 years
- Property: 25 years

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

1.9 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Notes *(continued)*

1 Accounting policies (continued)

1.10 Inventories

Inventories, including land options and promotion agreements, 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 property. As such, the activity is regarded as a mechanism for selling.

Accordingly, impairments and gains and losses on the sale of part exchange properties are classified as other operating income, with the sales proceeds of part exchange properties not being included in revenue.

1.11 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. Gains and losses arising from changes in fair value are recognised directly in the income statement.

1.12 Foreign exchange

Balances denominated in foreign currencies are translated at the prevailing year end rate with exchange gains/losses recognised as finance income or costs. Foreign exchange swaps are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in the income statement as finance income or costs.

1.13 Impairment of goodwill and intangibles

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.

Notes *(continued)*

1.14 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

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.

Defined benefit plans

The Group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group. 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 expected to be recoverable by the employer) 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.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.15 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation.

1.16 Revenue and profit recognition

Revenue principally represents the amounts (excluding value added tax) derived from the sale of new homes, affordable housing contracts, land and timber kits. Revenue from new home sales represents the selling price for the home, 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 (see note 27). Revenue from affordable housing contracts is recognised, either in line with the stage of completion determined by an independently verified valuation, or on physical completion depending upon contract terms. Revenue from land sales is recognised on legal completion. Timber kit revenue is recognised on the supply of goods or by reference to the stage of completion if the contract includes erection.

Notes *(continued)*

1.17 Expenses

Leases

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

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

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

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

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

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

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

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

Finance income and cost

Finance costs comprise interest payable on senior secured notes, bank loans, shareholder loans, the unwinding of the discount from nominal to present day value of trade payables on extended terms (land payables), imputed interest on leases, net foreign exchange losses and interest on retirement benefit obligations. Finance income comprises the unwind of the discount from nominal to present day value of trade receivables on extended terms (land debtors) and interest on loans to joint ventures.

Interest income and interest payable is recognised in profit or loss as it accrues. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

Notes *(continued)*

1.18 Taxation

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 temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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.

1.19 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 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.

1.20 Exceptional items

Exceptional items are those which in the opinion of the directors, are material by size or nature, non-recurring, outside the normal course of business and of such significance that they require separate disclosure.

1.21 Adopted IFRS not yet applied

The following new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

• IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.
• Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
• Definition of Accounting Estimates (Amendments to IAS 8).

Notes *(continued)*

2 Operating profit

Operating profit is stated after charging the following:

	9 months to 31 December 2022 £m
Depreciation:	
Depreciation on owned assets	0.6
Right-of-use asset depreciation	1.8
	2.4
Exceptional items:	
Acquisition costs (charged to administrative expenses)	21.1
Fire safety costs (charged to cost of sales)	20.6
	41.7

Exceptional items represent expected fire safety costs in relation to a small number of legacy high rise apartment scheme developments (see note 20) together with costs incurred by the Group in relation to its acquisition of Miller Homes Group Limited (‘MHGL’).

	2022 £000
Auditor’s remuneration:	
Audit of the Group’s financial statements	20
Audit of financial statements of subsidiaries pursuant to legislation	302
Other services relating to taxation	2

The auditors remuneration is for the audit of the full year accounts of subsidiary undertakings as it is not practicable to split this amount between periods.

Notes *(continued)*

3 Acquisitions of businesses

Acquisitions in the current period

On 31st March 2022, the Company acquired 100% of the issued share capital of MHGL a UK housebuilder, for £1,318.4m satisfied in cash and the repayment of existing debt. In the period to 31 December 2022 the business contributed £82.2m to net profit. If the acquisition had occurred on 20th January 2022, the date of incorporation of the company, consolidated revenue of the group would have been £1,118.9m and net profit would have been £44.4m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 20th January 2022.

Effect of acquisition

The acquisition had the following effect on the Company's assets and liabilities.

	Recognised values on acquisition £m
Acquiree's net assets at the acquisition date:	
Property, plant and equipment	13.0
Investments	12.0
Intangible assets (Brand)	172.0
Inventories	920.8
Trade and other receivables	44.5
Cash and cash equivalents	178.3
Trade and other payables	(361.7)
Retirement benefit obligations	8.0
Deferred tax liability	(48.2)
Net identifiable assets and liabilities	**938.7**
Consideration paid:	
Initial cash price paid	914.4
Repayment of existing debt	404.0
Total consideration	**1,318.4**
Goodwill on acquisition	**379.7**

Goodwill has arisen on the acquisition reflecting the assembled workforce, management team and future growth prospects of the business.

The Miller Homes brand represents a separately identifiable intangible asset that has been recognised on acquisition and recorded at fair value based on a valuation by an independent IP valuation specialist using the relief from royalty approach. A royalty rate of 2.5% was applied. The valuation of the brand is sensitive to assumption changes and the independent IP valuation specialist determined a valuation range of £165-178m. The group adopted the mid point of this range.

Inventories have been stated at fair value. The carrying values of reserved and exchanged plots have been uplifted by £33.8m in the table above to reflect the sales status of plots at the date of acquisition. Land options included within inventories have been assessed based on the value of the option, the likelihood of the option being exercised and the time to exercise.

Proforma financial information

For the purposes of allowing the users of the financial statements to understand how the consolidated results of the Company's principal subsidiary undertaking, MHGL, for the 12 months ended 31 December 2022, reconcile to the results of the Group for the period, the following pro-forma financial information is provided:

Notes *(continued)*

3 Acquisitions of businesses *(continued)*

	MHGL 12 months to 31 Dec 2022 £m	Exclude MHGL 3 months pre acquisition £m	Include Consolidated Fair value adjustments £m	Include parent company costs £m	Consolidated income statement 31 Dec 22 £m
Revenue	1,169.0	(253.3)	-	-	**915.7**
Cost of sales	(907.1)	190.2	(33.8)	-	(750.7)
Gross profit	261.9	(63.1)	(33.8)	-	**165.0**
Administrative expenses	(66.8)	15.5	-	(21.8)	(73.1)
Other operating income	1.1	(0.2)	-	-	0.9
Group operating profit	196.2	(47.8)	(33.8)	(21.8)	**92.8**
Share of result in joint ventures	0.5	(0.2)	-	-	0.3
Operating profit	196.7	(48.0)	(33.8)	(21.8)	**93.1**
Net finance costs	(37.0)	9.1	-	(35.3)	(63.2)
Profit before taxation	159.7	(38.9)	(33.8)	(57.1)	**29.9**
Income taxes	(34.6)	7.3	7.8	6.8	(12.7)
Profit for the period	125.1	(31.6)	(26.0)	(50.3)	**17.2**

The information shown above has been prepared as follows:

MHGL 12 months to 31 December 2022

This information has been extracted from the consolidated audited financial statements of Miller Homes Group Limited. These financial statements are available to the public and may be obtained from Companies House.

MHGL 3 months to date of acquisition

The financial statements of Miller Homes Group (Finco) plc reflect the trading profits of Miller Homes Group Limited from the date of acquisition and consequently do not include the profit for the first 3 months of the year.

Fair value adjustments

The assets and liabilities of the acquired company require to be reflected at fair value at the date of their acquisition. This resulted in an increase in the value of inventories to an amount higher than the original book value. Of the inventories which were subject to the fair value adjustment, 96% were subsequently sold in the final three quarters of 2022 resulting in a higher cost of sales charge. This adjustment (which is non-recurring) shows the effect of that fair value accounting in the 9 months to 31 December 2022.

Parent company costs

Acquisition related costs of £21.1m (treated as an exceptional item), overhead costs of £0.7m and finance costs totalling £35.3m have been incurred by Miller Homes Group Finco plc and its subsidiary Castle UK Bidco Limited ('Bidco') which are both parent companies of MHGL. This adjustment shows the effect of these costs.

Notes *(continued)*

4 Revenue and other operating income

The Group generates revenue primarily from the sale of new build homes. Other sources of revenue are land sales and timber kit sales.

	2022 £m
Major product lines	
Sale of new build homes	896.0
Land sales	6.2
Timber kit	13.5
	915.7
Timing of revenue recognition	
Products transferred at a point in time	813.7
Products transferred over time (see note 1.16)	102.0
	915.7

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

	2022 £m
Receivables included in trade receivables	14.4
Payables included within other creditors	(20.2)

Amounts included in trade receivables relate to work billed but not paid on housing association and timber kit contracts. Amounts included within other creditors represent advance consideration received from customers on Housing Association contracts and customer deposits.

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

2024 £m	2025 £m	2026 £m	2027 onwards £m
53.9	15.8	2.6	0.2

No information is provided about remaining performance obligations at 31 December 2022 that have an expected duration of one year or less, as allowed by IFRS 15.

Other operating income

Other operating income includes the profit or loss on the sale of part exchange properties and management fees from joint ventures. Part exchange properties costing £4.2m were acquired and part exchange properties with a value of £1.5m were sold.

Notes *(continued)*

5 Staff numbers and costs

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

	Number of employees
Production	413
Sales	127
Administration	407
	947

The aggregate payroll costs of these persons were as follows:

	9 months to December 2022 £m
Wages and salaries	58.5
Social security costs	7.1
Pension costs	2.8
	68.4

6 Remuneration of key management

The ten members of key management comprises the executive board directors, the divisional managing directors and the Human Resources director as they are considered to have the authority and responsibility for planning, directing and controlling the activities of the Group. Retirement benefits accrued to nine members of key management under money purchase schemes. Key management remuneration, including Directors, comprised:

	9 months to December 2022 £m
Salary and other benefits	2.2
Annual bonus	1.4
Other pension costs	-
	3.6

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

	9 months to December 2022 £m
Salary and other benefits	1.2
Annual bonus	0.7
Other pension costs	-
	1.9

The aggregate emoluments of the highest paid director was £608,000 and contributions of £3,000 were paid to a money purchase scheme on his behalf for the nine months to 31 December 2022. Retirement benefits are accruing to 3 directors under money purchase schemes.

Notes *(continued)*

7 Finance costs

	9 months to December 2022 £m
Interest payable on senior secured notes, loans and overdrafts	56.8
Exchange loss (including unrealised swap gain of £19.7m)	2.4
Imputed interest on land payables on deferred terms	5.4
Imputed interest on lease liabilities	0.2
	64.8

8 Finance income

	9 months to December 2022 £m
Imputed interest on land sales debtors	0.7
Finance income related to retirement benefit obligations	0.2
Interest on loans to joint ventures	0.4
Other interest	0.3
	1.6

9 Income taxes

	9 months to December 2022 £m
Current tax charge:	
Current year	(22.4)
Deferred tax credit:	
Current year	9.7
Total tax charge for the period	**(12.7)**

Reconciliation of effective tax rate:

	£m
Profit before tax	29.9
Tax using the UK corporate tax rate of 19%	(5.7)
Effects of:	
Residential Property Development tax	(3.4)
Permanent difference relating to acquisition costs	(4.0)
Change of rate	0.3
Adjustment in respect of joint ventures	0.1
Total charge for the year	**(12.7)**

The corporate tax rate will increase to 25% from 1 April 2023 with an additional rate of 4% in respect of Residential Property Development tax (‘RPDT’). A rate of 25% or 29% is applied to deferred tax, depending upon whether temporary differences are expected to reverse.

Notes *(continued)*

10 Dividends

There were no distributions to equity shareholders in the period ended 31 December 2022.

11 Intangible assets

Group	Goodwill £m	Brand value £m	Total £m
Cost and net book value			
Balance at 20 January 2022	-	-	-
Acquisitions through business combinations	379.7	172.0	551.7
Balance at 31 December 2022	**379.7**	**172.0**	**551.7**

Amortisation and impairment

Intangible assets are deemed to have an indefinite economic life therefore are not amortised. Their carrying values are tested for impairment at least annually. The latest impairment review was performed at December 2022. The recoverable amount is determined using a 'value in use' calculation with key assumptions being discount rate, sales rate, selling prices, projected gross margin and growth rate. A pre-tax discount rate of 15.4% is used reflecting the Group's risk adjusted WACC. Other assumptions are based upon expectations of future performance which have been informed by past experience, but include an allowance for a reduction in sales rates, selling prices and project gross margin in the early years. The values used are consistent with the forecasts for 2023-28 after which a terminal growth rate of 2% has been applied. The directors believe these assumptions are appropriate and sensitivity analysis including the application of a higher discount rate and a lower terminal growth rate indicates that changes in the key assumptions would maintain a reasonable amount of headroom over the carrying value.

12 Property, plant and equipment

Group	Property £m	Plant and equipment £m	Total £m
Cost			
Balance at 20 January 2022	-	-	-
On acquisition	4.5	8.0	12.5
Additions	0.3	1.4	1.7
Balance at 31 December 2022	**4.8**	**9.4**	**14.2**
Accumulated depreciation			
Balance at 20 January 2022	-	-	-
On acquisition	-	5.7	5.7
Charge for the period	0.1	0.5	0.6
Balance at 31 December 2022	**0.1**	**6.2**	**6.3**
Net book value			
Balance at 31 December 2022	**4.7**	**3.2**	**7.9**

Notes *(continued)*

13 Investments

	Group 2022 £m	Company 2022 £m
Investment in joint ventures	12.4	-
Investment in subsidiaries	-	527.9
	12.4	**527.9**

Investments are tested for impairment applying a similar methodology to that applied to intangible assets (see note 11).

Group	**2022 £m**
Joint ventures:	
At start of period	-
On acquisition	12.0
Share of results of joint ventures	0.3
Distributions	(2.5)
Movement in shareholder loans	2.6
At end of period	**12.4**

The Group has an interest in five active joint ventures, Miller Wates (Southwater) Limited, Miller Wates (Chalgrove) Limited, Miller Wates (Oakley) LLP, Miller M2 (Maddiston) Limited and Miller M2 (Kirkcaldy) Limited. It holds 50% of the ordinary share capital of each and all are incorporated in the United Kingdom and engage in the principal activity of residential housebuilding. The Group's share of assets and liabilities of joint ventures is shown below:

	2022 £m
Current assets	3.7
Current liabilities	(5.1)
Loans provided to joint ventures	13.8
	12.4

The Group's share of the joint venture's income and expenses during the period (before tax) is shown below:

	2022 £m
Income	5.4
Expenses	(5.1)
	0.3

Notes *(continued)*

13 Investments *(continued)*

Company	**2022 £m**
Subsidiaries:	
At start of period	-
Additions	527.9
At end of period	**527.9**

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

	Nature of business
Castle UK Bidco Limited	Holding company
Miller Homes Group Limited	Holding company
Miller Homes Holdings Limited	Residential housebuilding
Miller Homes Limited	Residential housebuilding
Walker Timber Limited	Timber frame construction

Each is incorporated in the United Kingdom and the Group owns 100% of the ordinary share capital.

14 Shared equity loan receivables

Group	**2022 £m**
At start of period	-
On acquisition	4.6
Redemptions (net of fair value movements)	(1.1)
At end of period	**3.5**

15 Inventories

Group	**2022 £m**
Land	502.7
Work in progress	363.0
Part exchange properties	3.2
	868.9

Land and work in progress recognised as cost of sales amounted to £691.7m.

Notes *(continued)*

16 Trade and other receivables

	Group 2022 £m	Company 2022 £m
Current:		
Trade receivables	33.4	-
Corporation tax recoverable	-	2.8
Other receivables	3.3	-
Prepayments and accrued income	2.6	-
Amounts owed by parent undertaking	0.2	0.1
	39.5	**2.9**
Non-current:		
Amounts owed by subsidiary undertaking	**-**	**826.0**
Foreign exchange swaps (note 23)	**19.7**	**19.7**
	19.7	**845.7**

Amounts owed by subsidiary undertakings are repayable in May 2029. Interest is charged at 7%.

17 Trade and other payables

	Group 2022 £m	Company 2022 £m
Current:		
Trade payables	114.9	-
Other payables	24.7	-
Land payables	79.3	-
Corporation tax	2.3	-
Accruals and deferred income	57.3	10.0
Amounts owed to subsidiary undertaking	-	49.5
	278.5	**59.5**
Non-current:		
Land payables	**17.2**	**-**

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. The difference between the nominal and initial fair value is amortised over the deferred period to finance costs, increasing the land creditor to its full cash settlement value on the payment date. The maturity profile of the total contracted cash payments in respect of land creditors is as follows:

	Balance £m	Total contracted cash payment £m	Due less than 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m
As at 31 December 2022	**96.5**	**108.2**	**79.3**	**11.1**	**17.8**

Notes *(continued)*

18 Interest bearing loans and other borrowings

	Group 2022 £m	Company 2022 £m
Non-current:		
Senior secured notes	801.0	801.0
	801.0	**801.0**

Senior secured notes
Analysis of debt:

	£m
Senior Secured Floating Rate Notes (at Euribor plus 5.25%) due May 2028	412.3
Senior Secured Notes at 7.0% due May 2029	425.0
Debt arrangement fees	(36.3)
	801.0

During the period the Group issued £425m of fixed rate notes and €465m of floating rate notes to partially fund the acquisition of Miller Homes Group Limited, with interest paid bi-annually or quarterly, respectively. The notes do not have any financial covenants and are secured by a floating charge over assets of the Group and a pledge over the shares of certain subsidiaries. The Euro denominated notes are converted at the year-end spot rate of €1.128.

The group has an RCF facility of £180m which is committed until September 2027. There are no cash drawings on the RCF at the year end.

19 Deferred tax

Group

	Retirement benefit obligations £m	Capital allowances £m	Other temporary differences £m	Fair value adjustments £m	Brand value £m	Total £m
At start of period	-	-	-	-	-	-
On acquisition	(2.8)	0.3	5.0	(7.7)	(43.0)	(48.2)
Other comprehensive income credit	4.2	-	-	-	-	4.2
Income statement credit	(4.3)	-	6.3	7.7	-	9.7
At end of period	**(2.9)**	**0.3**	**11.3**	**-**	**(43.0)**	**(34.3)**

The introduction of RPDT has resulted in a reduction in the deferred tax liability of £1.2m.

Notes *(continued)*

20 Provisions

Group	Fire safety £m	Property £m	Other £m	Total £m
At start of period	-	-	-	-
On acquisition	8.5	1.6	2.7	12.8
Utilised in year	(0.3)	-	-	(0.3)
Created in year	20.6	-	-	20.6
At end of period	**28.8**	**1.6**	**2.7**	**33.1**

The Group signed the Developer Pledge to undertake to remediate fire safety issues in England above 11 metres in April 2022. During 2022 the Government passed the Building Safety Act which widened the scope of liability for remediating building defects. In March 2023 the Group signed the Self Remediation Contract with the Secretary of State for the Department of Levelling Up, Housing and Communities, which sets out the detailed terms of developers' responsibilities to identify buildings which come within the scope of the obligations and to assess the risk of fire safety defects within these buildings and, where necessary and in accordance with the terms of the contract, to remediate those buildings.

Prior to 2022, the Group had already undertaken a review of its legacy multi-storey apartment schemes in line with the relevant government guidance at that time and has already carried out works to rectify some identified issues both in England and in Scotland. The Group extended its review to identify the population of buildings that may require remediation under the current legislation and Self Remediation Contract. That process included searches and consideration of the Group's records, insurance records, and all relevant information received from third parties. Whilst that process is complete there remains a residual risk that new information comes to light in the future that might extend the known population of buildings that may require remediation. The Group used third party reports as well as its internal expertise to assess the extent of remediation needed and estimate its cost.

Based on this assessment, an exceptional charge of £20.6m was booked in 2022 to cover additional costs of remedial work identified resulting from the extension of liability identified during the year. Together with amounts provided in prior years, less the provision utilised during the period, a total provision of £28.8m is recorded in the balance sheet at 31 December 2022.

The amounts provided reflect the current best estimate of the extent and future costs of work required, however, these estimates may change as work progresses. Consequently the ultimate cost of remediation and the range of possible estimates of these, are uncertain and may differ from the Group's current best estimate.

The property provision covers the estimated costs to make good dilapidations on occupied properties. Other provisions represent legal and constructive obligations.

Provisions are expected to be utilised over the next three years.

Notes *(continued)*

21 Leases

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

Group *Right-of-use assets*	**Office premises** **£m**	**Equipment** **£m**	**Total** **£m**
At start of period	-	-	-
Acquisitions	4.3	1.9	6.2
Additions	0.2	3.3	3.5
Depreciation	(0.8)	(1.0)	(1.8)
At end of period	**3.7**	**4.2**	**7.9**

Group *Lease liabilities*	**Office premises** **£m**	**Equipment** **£m**	**Total** **£m**
At start of period	-	-	-
Acquisitions	4.5	2.1	6.6
Additions	0.2	3.3	3.5
Lease payments	(0.9)	(1.1)	(2.0)
Imputed interest	0.1	0.1	0.2
At end of period	**3.9**	**4.4**	**8.3**

Maturity:

	2022 **£m**
Current	2.5
Non current	5.8

The total cash outflow for leases during the period was £2.0m, including £0.2m of interest.

22 Share capital

	2022 **£m**
Allotted, called up and fully paid	
527,939,635 ordinary shares of £1 each	**527.9**

Share capital of £527.9m was issued during the period and was used to partly fund the acquisition of Miller Homes Group Limited.

Notes *(continued)*

23 Financial instruments

The Group's financial instruments comprise cash, other loans, trade and other receivables (including foreign exchange swaps), 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 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.

	Group £m	**Company £m**
Financial assets measured at fair value:		
Foreign exchange swaps	19.7	19.7
Shared equity loan receivables	3.5	-
Financial assets not measured at fair value:		
Trade and other receivables	39.5	828.9
Cash and cash equivalents	189.8	-
Financial liabilities not measured at fair value:		
Trade and other payables (excluding land payables)	199.2	59.5
Land payables	96.5	-
Interest bearing loans and other borrowings	801.0	801.0
Lease liabilities	8.3	-

The following table provides an analysis of financial assets 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 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Foreign exchange swaps	19.7	-	-	19.7
Shared equity receivables	-	-	3.5	3.5
As at 31 December 2022	**19.7**	**-**	**3.5**	**23.2**

Level 1: fair value measurements derived from quoted prices (unadjusted) in active markets to identical assets;
Level 2: fair value measurements 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 derived from valuation techniques that include inputs for the asset/liability that are not based on observable market data (unobservable inputs).

Notes *(continued)*

23 Financial instruments *(continued)*

Financial risk

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

(i) Credit risk
The Group's exposure to credit risk is limited by the fact that the Group generally receives cash at the point of legal completion of its sales. There are certain categories of revenue where this is not the case; for instance housing association revenues or land sales where management considers that the ratings of these various debtors are good and therefore credit risk is low. The Group has £3.5m of shared equity 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.

(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 its senior secured bond facility and a £180m RCF. The only financial condition of the RCF is that the drawn balance is limited to 50% of net inventory. The Group manages its funding requirements by monitoring cash flows against forecast requirements on a weekly basis.

(iii) Market risk
The Group is affected by movements in UK house prices. These in turn are affected by factors such as credit availability, employment levels, interest rates, consumer confidence and supply of land with planning. Whilst it is not possible for the Group to fully mitigate market risk on a national macroeconomic basis, the Group does continually monitor its geographical spread within the UK, seeking to balance investment in areas offering the best immediate returns with a long-term spread of its operations throughout the UK to minimise the effect of local microeconomic fluctuations.

(iv) Interest rate risk
Interest rate risk reflects the Group's exposure to interest rates in the market. The Group's senior secured bond facility is partly subject to floating interest rates based on EURIBOR. The Group has reduced its exposure to interest rate movements through the issue of fixed rate bonds. In total £425m of debt is fixed at a cost of funds of 7%. For the nine months ended 31 December 2022 it is estimated that an increase of 1% in interest rates would increase the Group's net finance costs by £2.9m. The maturity of the financial liabilities has been disclosed in note 18.

(v) Exchange rate risk
Exchange rate risk reflects the Group's exposure to exchange rates in the market. The Group's senior secured bond facility includes €465m that is Euro denominated. The Group has reduced its exposure to exchange rate movements through entering into exchange rate swaps totalling €465m that mature between February 2025 and February 2027 at a fixed rate of €1.19, compared to a year end rate of €1.128.

Capital management

The Board's policy is to maintain a strong balance sheet so as to promote shareholder, customer and creditor confidence and to sustain the future development of the business. The Group is currently financed by a combination of equity share capital and senior secured bonds.

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 monitoring of compliance with loan covenants, and 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.

Notes *(continued)*

24 Reconciliation of net cash flow to net debt

	2022 £m
Increase in cash and cash equivalents	189.8
Increase in senior secured notes	(801.0)
Increase in foreign exchange swap asset	19.7
Increase in lease liabilities	(1.8)
	(593.3)
Net debt at beginning of period	-
Debt acquired with Miller Homes Group Limited	(6.5)
Net debt at end of period	**(599.8)**

25 Analysis of net debt

	At start of period £m	Cash flow £m	On Acquisition £m	Non cash movement £m	**At end of period £m**
Cash and cash equivalents	-	189.8	-	-	**189.8**
Senior secured notes	-	(774.1)	-	(26.9)	**(801.0)**
Foreign exchange swap asset	-	-	-	19.7	**19.7**
Lease liability	-	1.9	(6.5)	(3.7)	**(8.3)**
Net debt	**-**	**(582.4)**	**(6.5)**	**(10.9)**	**(599.8)**

26 Contingent liabilities

The Company and certain subsidiaries have contingent liabilities in relation to indemnities provided for performance bonds and guarantees of performance obligations. These relate to contracting or development agreements entered in the ordinary course of business. The Group's senior secured noteholders have a debenture and floating charge over the assets of the Company and certain of its principal subsidiaries.

Notes *(continued)*

27 Accounting estimates and judgements

Carrying value of inventories and cost of sales

Inventories of land and development work in progress are stated at the lower of cost and net realisable value ('NRV'). Due to the nature of development activity and in particular, the length of the development cycle, the Group allocates 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. Inventories were stated at fair value at the date of acquisition which involved the exercise of judgment as explained in more detail in note 3.

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. NRV represents the estimated selling price of units less all estimated costs of completions including an appropriate allocation of overheads.

Retirement benefit obligations

The value of the defined benefit plan liabilities is determined by using various long term actuarial assumptions, including future rates of inflation, growth, yields, returns on investments and mortality rates. As actual changes in inflation, growth, yields and investment returns may differ from those assumed, this is a key source of estimation uncertainty within the financial statements. Changes in these assumptions over time and differences to the actual outcome will be reflected in the statement of comprehensive income. Note 30 details the main assumptions in accounting for the Group's defined benefit pension scheme along with sensitivities of the liabilities to changes in these assumptions.

Intangible assets

Intangible assets are deemed to have an indefinite economic life and are tested for impairment as described in note 11.

Provisions

Provisions include the cost of remedial work on a number of legacy properties. As explained in note 20 the ultimate cost of this is uncertain.

28 Related party transactions

	2022 £m
Amounts owed by joint ventures	13.8
Interest receivable on loans to joint ventures	0.4

29 Ultimate parent company

At 31 December 2022, the Company was an immediate subsidiary undertaking of Castle UK Midco 2 Limited. The ultimate parent company registered in the United Kingdom is Castle UK Midco 1 Limited. The address of the immediate and ultimate UK registered parent companies is 2 Centro Place, Derby, DE24 8RF. The Company heads the largest UK group in which the results of this Company are consolidated.

The ultimate parent company was AP Castle Holdings SCSp, which has its registered office address at 7, Rue de la Chapelle, L – 1325, Luxembourg. The largest and smallest group in which the results of this Company are consolidated is that headed by Castle-Builder Topco Limited, which has its registered office at PO Box 536, 13-14 Esplanade, St. Helier, Jersey, JE4 5UR. The consolidated financial statements of this Group are not available to the public.

At the date of approval of these financial statements, the Company was ultimately controlled by funds controlled by Apollo Global Management Inc, whose address is 9 West 57th Street, 42nd Floor, New York, NY 10019.

Notes *(continued)*

30 Retirement benefit surplus

The Group operates defined contribution and defined benefit pension schemes.

Defined contribution schemes

	2022 £m
Group defined contribution schemes consolidated income statement charge	2.8

Defined benefit scheme

Miller Homes Limited, the Group's main subsidiary, 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 net asset value or fair (bid) value using the latest available prices. The liabilities of the scheme have been calculated at the balance sheet date by rolling forward the June 2022 funding liability and restating it using the following assumptions:

Principal actuarial assumptions	**2022**
Weighted average assumptions to determine benefit obligations	
Discount rate	4.80%
Rate of price inflation (RPI)	3.45%
Weighted average assumptions to determine net cost	
Discount rate	1.85%
Rate of price inflation (RPI)	3.60%
Rate of price inflation (CPI)	2.85%

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

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

Assumptions

Retired member aged 65 (male/female life expectancy at age 65)	21.9 / 24.3 years
Non retired member aged 45 (male/female life expectancy age 65)	23.2 / 26.2 years

The base mortality assumptions are based upon the CMI 2021 model with a 2020 and 2021 weighting parameter of 10%. 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:

Assumptions	Change in assumption	Movement in scheme liabilities
Discount rate	Decrease by 0.1%	£1.4m (1.2%) increase
	Increase by 0.1%	£1.2m (1.1%) decrease
Rate of inflation	Increase by 0.1%	£0.8m (0.6%) increase
	Decrease by 0.1%	£0.7m (0.6%) decrease
Life expectancy: future improvements	Increase by 0.1%	£0.3m (0.3%) increase
	Decrease by 0.1%	£0.3m (0.3%) decrease

Notes *(continued)*

30 Retirement benefit surplus (continued)

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

	9 months to 31 December 2022 £m
Interest cost	3.1
Interest income	(3.3)
Total recognised in finance income in the consolidated income statement	**(0.2)**

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

	9 months to 31 December 2022 £m
Loss on scheme assets excluding interest income	(59.9)
Actuarial gain arising from changes in assumptions	56.6
Experience adjustment	(7.6)
Demographic assumptions	(1.3)
Total pension cost recognised in the consolidated statement of comprehensive income	**(12.2)**

The asset included in the consolidated statement of financial position is as follows:

	2022 £m
Present value of funded obligations	(117.9)
Fair value of scheme assets	126.1
	8.2

	2022 £m
Defined benefit surplus at start of period	-
On acquisition	8.0
Contributions	12.2
Income recognised in the consolidated income statement	0.2
Amounts recognised in the Consolidated statement of comprehensive income	(12.2)
Defined benefit surplus at the end of period	**8.2**

Deferred tax is provided on the surplus at a rate of 35%.

Notes *(continued)*

30 Retirement benefit surplus *(continued)*

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

	2022 £m
Present value of defined benefit obligations at start of period	-
On acquisition	(168.4)
Interest cost	(3.1)
Actuarial gain arising from changes in assumptions	56.6
Experience adjustment	(7.6)
Demographic assumptions	(1.3)
Benefits paid from scheme	5.9
Present value of defined benefit obligations at the end of the period	**(117.9)**

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

	2022 £m
Fair value of scheme assets at start of period	-
On acquisition	176.4
Contributions	12.2
Interest income	3.3
Actuarial loss on scheme assets	(59.9)
Benefits paid from scheme	(5.9)
Fair value of scheme assets at end of period	**126.1**

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

	Percentage of scheme assets
Debt type securities and unleveraged gilts*	92.1%
Liability driven investments	6.5%
Cash	1.4%
Total	**100.0%**

***** Of which 54.7% is valued based on a quoted market price in an active market

Funding

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

In line with the requirements noted above the actuarial valuation is agreed between the Group and the trustees and is calculated using prudent, as opposed to best estimate, actuarial assumptions. Following the completion of the triennial actuarial valuation, a revised schedule of contributions was put in place. Under this revised schedule, the Group agreed to pay deficit contributions of £8.0m over the recovery period of April 2021 to July 2023. As a result of the acquisition by Apollo a revised and accelerated schedule of contributions was agreed which resulted in £13m of payments being made to the scheme in 2022. Consequently, the expected employer contribution to the scheme in the year ending 31 December 2023 is £nil. Benefit payments by the scheme of £6m are expected in 2023.

Notes *(continued)*

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 2021 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 as follows:

Fully owned subsidiaries

Trading

Castle UK Bidco Limited- B
Miller Homes Holdings Limited (x) – A
Miller Homes Limited – A
Miller Residential Development Services Limited – A
Miller Homes Group Holdings Ltd (viii) – B
Walker Timber Limited - A
Miller Homes Group Limited- B

Dormant

Birch Limited – B
Birch Commercial Limited (i) – B
Birch Homes Limited (i) – B
Cussins Homes (Yorks) Limited – B
Highfields Developments Limited – B
FHL Nominees (No1) Ltd – B
James Miller & Partners Limited – A
Lemmington Estates Limited – B
MHL (Mancos) Limited – A
Miller (Cobblers Hall) Limited – B
Miller (Telford North) Limited – A
Miller East Kilbride Limited – A
Miller Airdrie Limited – B
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 Midco 1 Limited (xi) – B
Miller Midco 2 Limited (ix) – B
Miller Maidenhead Limited – B
Miller Residential (Northern) Limited – B
Miller Homes St Neots Limited – A
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
Miller Fairclough Management Services Limited (v) – B
Miller Belmont Limited – A
Land & City Properties (Bollington) Limited – A
L Williams & Co Limited- B
Lowland Plaid Limited- D
Miller (Telford South) Limited (ii) – A
Miller Homes St Neots Limited – A
Miller Framwellgate Limited – B
Wallace Land and Investments Limited (vii) - A

Joint ventures (all 50%)

Trading

Miller Wates (Southwater) Limited – B
Miller Wates (Chalgrove) Limited – B
Miller Wates (Oakley) LLP – B
Miller M2 (Maddiston) Limited - A
Miller M2 (Kirkcaldy) Limited - A

Dormant

Mount Park Developments Limited (vi) – A
Perth Land and Estates Limited (vi) – A
College Street Residential Developments Limited (vi) – A
Lancefield Quay Limited – A
Miller Gadsby (Burton Albion) 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
Miller Wates (Wallingford) Limited – B
Miller Wates (Bracklesham) Limited – B
Miller Wates (Didcot) Limited – B
Canniesburn Limited – C

Notes *(continued)*

31 Group companies *(continued)*

Associates (45%) (*trading*)
New Laurieston (Glasgow) Limited – A

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

A – 2 Lochside View, Edinburgh	(i) Held via Birch Limited
B – 2 Centro Place, Derby	(ii) Held via Miller Homes Special Projects Portfolio Limited
C – 52-54 Rose Street, Aberdeen	(iii) Held via MF Development Company UK Limited
D – 18 Bothwell Street, Glasgow	(iv) Held via MF Development Funding Company UK Limited
E – 14-17 Market Street, London	(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 Midco 2 Limited
	(ix) Held via Miller Midco 1 Limited
	(x) Held via Miller Homes Group Holdings Limited
	(xi) Held via Miller Homes Group Limited
	(x) Held via Castle UK Bidco Limited