miller homes

Annual Report 2016

the place to be®

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

Miller Homes – the place to be.

Strategic report

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Directors' report and financial statements

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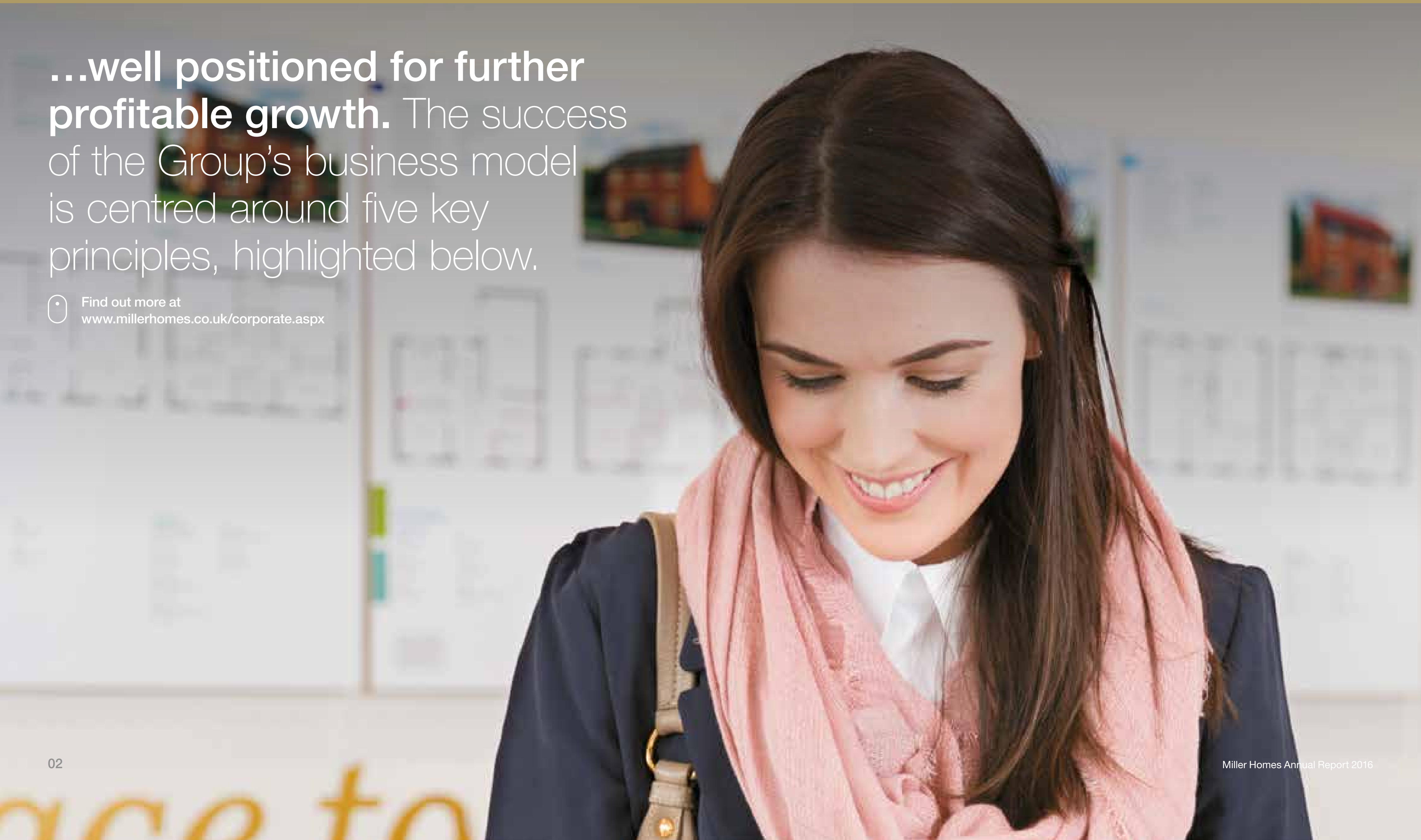
Core completions	Average selling price (ASP)	Revenue	Operating profi	Profit before tax	Net assets	Return on capital employed (ROCE)	Consented landbank
2,380	£231,000	£565m	£103m	£89m	£320m	30.3%	13,062
+11%	+2%	+13%	+31%	+44%	+20%	+10%	+13%

2016 was an outstanding year delivering operating profit in excess of £100m, a first for the Group. Targeted capacity increases to 4,000 units per annum by 2020, 68% higher than current levels, and will be supported by the launch of a new region in 2017.

Chris Endsor | Chief Executive

Watch Chris Endsor's review online at www.millerhomes.co.uk/corporate.aspx

the place to be…



…well positioned for further profitable growth. The success of the Group's business model is centred around five key principles, highlighted below.

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

the place to be...

strategic in land acquisitions

engaged with stakeholders

committed to quality

focused on customers' needs

valued through an empowering culture

56%
Percentage of the consented landbank sourced from strategic land.

£50m
Local contributions including planning gain payments to local authorities and the value of affordable housing delivered.

12
NHBC Pride in the Job Quality Awards in 2016.

93%
Percentage of customers who would recommend Miller Homes.

94%
Positive staff engagement.

the place to be...

...strategic in land acquisitions.

The primary focus is on family homes in quality locations which meet the financial and operational targets of the business.

Picture:
A CGI of the Roman Heights development at Streethay, Lichfi ld.

2016:
13,062

2015:
11,600

Number of plots in the consented landbank.

The Group has established a consistent, disciplined and diligent approach to acquisitions to ensure all sites purchased meet strict criteria.

A minimum of 22% gross margin and 25% ROCE are required together with other key factors, which include location and proximity to good local amenities, such as transport, employment and quality schools.

The consented landbank is supported by the strategic landbank which is significant in size relative to annual output and will make an increasing contribution to the Group's ongoing growth and success.

A good example of the quality of the Group's strategic landbank is Roman Heights, which was acquired during 2016. The development is set across 135 acres in the village of Streethay. It is well located being one mile from the heritage city of Lichfield and close to the A38, which is a major trunk road providing access to Birmingham and the West Midlands. The nearby Trent Valley Railway Station is on the West Coast mainline, with excellent links to Birmingham and London and easy access to the North West.

Roman Heights has been carefully designed to incorporate a wide range of facilities and amenities. A primary school, a mixed use community hub, a care home and significant green infrastructure, including a district park, will be developed to support the creation of 750 new homes.

As a site delivered from the Group's strategic landbank, it was acquired on excellent terms. The product mix has been differentiated to enable two points of sale which in turn will accelerate capital returns. The Group has also sold part of the site to another major housebuilder. Through this approach and favourable deferred land terms, the Group is forecasting to deliver a ROCE of over 40% on this site.

Read more in the Chief Executive's review on page 22.

Pictures:
1. A site map of the land being developed at Streethay, Lichfield.
2. The show home at Roman Heights, Streethay, Lichfi ld.
3. Lichfield Cathedral.

This site has achieved 25 reservations over a 6 week period since its launch at the end of January 2017.

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2016:
87%

2015:
81%

Calls to Miller Respect, Miller Homes' 24/7 community helpline, which were responded to within 24 hours.

Picture:
Partners involved in supporting Miller Homes in preserving Covenanter's Wood in Dreghorn, Edinburgh, are joined by schoolchildren from nearby Bonaly Primary School who are learning about the historic World War One trenches.

...engaged with stakeholders.

Working collaboratively and building strong, enduring relationships enables the Group to successfully deliver new homes and communities in a timely manner.

The Group has an established track record in effective stakeholder engagement and the value provided through undertaking such activity to expedite the planning process is widely recognised.

After new land is identified, engagement commences quickly with a wide range of stakeholders, including local residents, community groups, parish councils, schools and local authorities along with local subcontractors and suppliers.

Contributions to local communities come in various forms and include community amenities, such as education, affordable homes and transport, and working with local groups to identify ways of making a positive impact which will result in a lasting, positive legacy and help secure local support.

In Scotland, close relations were established with the Defence Infrastructure Organisation, part of the Ministry of Defence, and the City of Edinburgh Council to implement a detailed woodland management plan funded by the Group to help preserve, restore and enhance an important historical and popular woodland site close to the prestigious Polofields development in Edinburgh. The 46 acre Covenanter's Wood was used by soldiers in World War One to prepare for the Battle of the Somme.

The installation of interpretation boards and introduction of guided tours and school visits to the area provide a greater understanding of Scotland's military history.

In the Midlands, funding was provided for a new £2.2 million primary school located adjacent to the Dales View development in Brailsford, Derbyshire, which opened in June 2016. Situated in the heart of the village, Brailsford Church of England Primary School replaced the previous school building and provides a modern teaching and learning environment with state of the art facilities and expanded pupil capacity.

In the South of England, a joint venture with Wates Developments combines the strengths of both companies to bring forward new residential development in Southern England. In 2016, two developments were launched at Bradbery Gardens in Didcot, Oxfordshire, and Mulberry Fields in Southwater, West Sussex. A further two developments will launch under the joint venture during 2017. Of the four developments, three have originated from Wates Developments' strategic landbank.

Read more in the Corporate responsibility section on pages 30 and 31.

The number of plots which received a detailed planning approval during 2016 was 4,445 (2015: 2,389).

Pictures:
1. Tracey Lee, Regional Operations Director for Miller Homes South, and Martin Leach, Managing Director of Wates Developments.
2. The launch of the new £2.2m Brailsford Church of England Primary School.
3. The show home at Bradbery Gardens, Didcot, a joint venture with Wates Developments.

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Positive staff engagement.

...committed to quality.

To deliver homes that meet or exceed customers' expectations.

Picture:
The Dale, Wallace Fields, Robroyston, Glasgow.

2016:
95%

2015:
92%

Percentage of subcontractors with SMAS certifi ation.

Building attractive homes of the highest quality is a key priority with the utmost importance placed on health, safety and the management of the site.

The Group's commitment to encouraging the highest standards of site management is refl cted in the success of its teams and individuals.

The Group is one of a small number of housebuilders with management systems accredited under ISO 14001 (environment) and OHSAS 18001 (safety). Internal audits are undertaken annually with Lloyds of London carrying out surveillance visits twice a year.

The Group works collaboratively with the NHBC and provided support and input to the development of Construction Quality Reviews (CQRs), which will be rolled out to the sector in 2017. The CQRs provide an in-depth annual review of construction quality by the NHBC. They are undertaken by a NHBC Inspection Manager and up to 38 build stages are reviewed during each site inspection.

In 2016, 12 site managers received Quality Awards, four Seals of Excellence and one Regional Award in the NHBC's annual Pride in the Job Awards. Bill Hughes received the highest award, a Supreme Award in the Large Builder Category, for the excellent management of The Views in Billinge, near Wigan.

This is Bill's 56th NHBC award and his impressive array includes 23 Quality Awards, 19 Seals of Excellence, eight Regional Awards and six Supreme Awards – an outstanding achievement.

Neil Jefferson, Managing Director of the NHBC, said: "Every year the NHBC Pride in the Job Awards give us the chance to celebrate the efforts of site managers in promoting continuous improvement in the quality of new homes, year on year, for homeowners and their families to enjoy. I would like to congratulate Bill on this latest achievement. He is a credit to the industry, his company and of course himself. Having beaten an incredible number of others to win the title for an impressive sixth time, he can be proud to claim to be among the best in the business."

Read more in the Corporate responsibility section on pages 30 and 31.

1


Pictures:
1. **NHBC Pride in the Job Supreme Award winning site manager, Bill Hughes.**
2. **Portland Wynd, Blyth, Northumberland.**
3. **Sales adviser, Tricia Harron, on site at Kinglass Fields, Bo'ness.**

2


Accident Incident Rates fell by 17% to 282 per 100,000 employees, which is a 10 year low for the Group.

3


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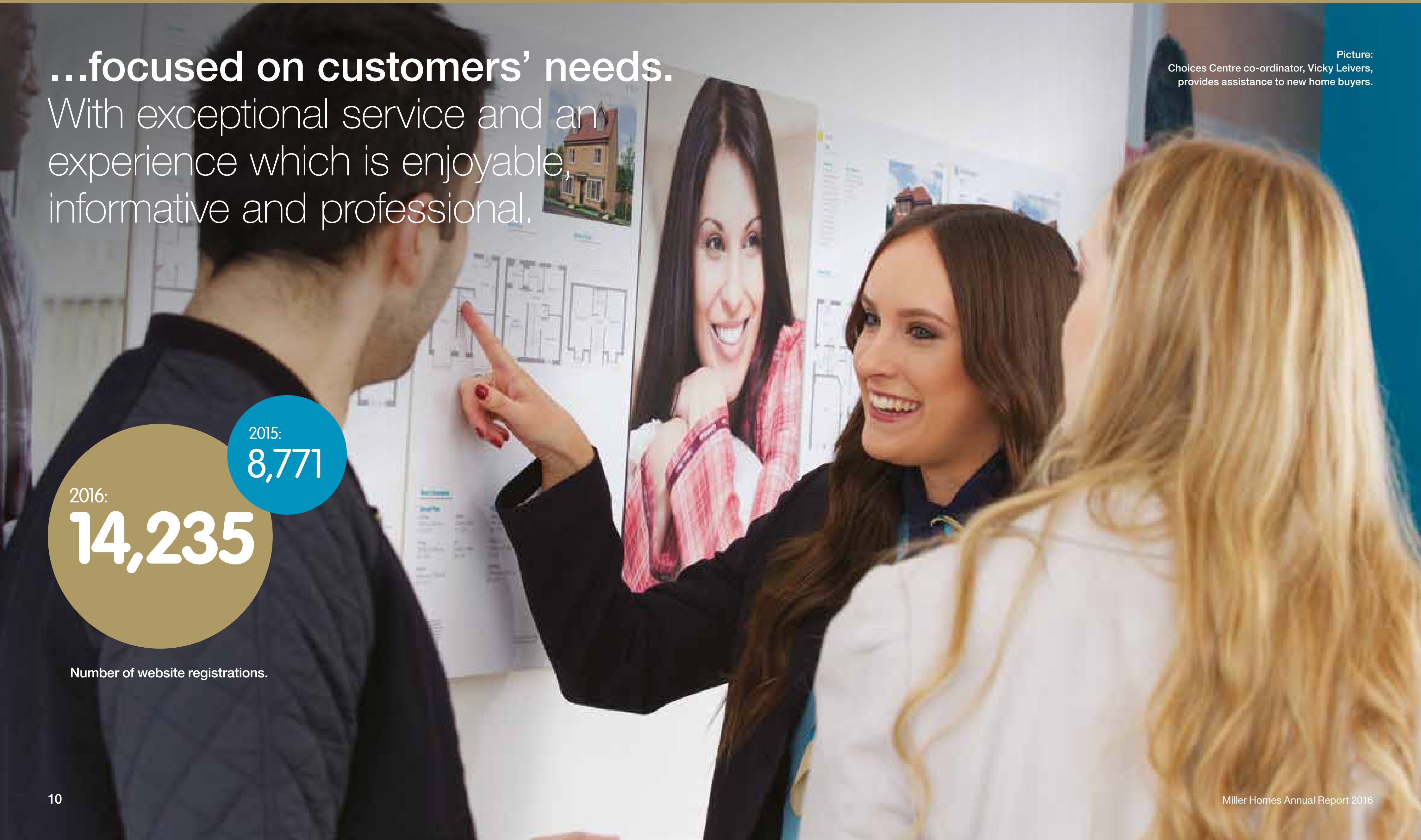

...focused on customers' needs.

With exceptional service and an experience which is enjoyable, informative and professional.

Picture:
Choices Centre co-ordinator, Vicky Leivers, provides assistance to new home buyers.

2016:
14,235

2015:
8,771

Number of website registrations.

The Group is committed to providing an exceptional customer experience, delivered through its people, processes and positive culture.

Customers are at the heart of the Group's business ethos and in order to exceed their expectations specific training is provided to all operational staff, including those involved in the design, production and selling of homes. The main customer contact is with sales advisers, who attend a structured national training programme through the Miller Homes Sales Academy. This training caters for both those new to the industry and those with sector experience. The Academy provides opportunities for career development and succession planning along with driving a passion to be the best in the industry.

In parallel with the sales training programme, the Group has invested significantly over the last 10 years in developing a tailored CRM system, using Salesforce software. The customer and lead management system is best in class and provides an efficient end-to-end system for recording the customer journey from initial contact at lead management to post handover liaison. It is used by staff in sales, customer services and production departments who have regular contact with customers. The system also provides the ability to track responses to leads and maximise return on marketing activity.

The majority of customers desire access to digital information during the buying process. The Group's award-winning website allows customers to search for a new home using enhanced features, such as personalisation, urgency messaging, registration via social media, development alerts and book an appointment. Overall, website registrations increased by 62% in 2016. This was driven by enhancements to the mobile responsive website with registrations made via mobile devices increasing by 235% year on year.

Post reservation, the Group was the fi st housebuilder to continue the customer journey digitally through a dedicated section of the website, www.mymillerhome.com. This provides customers with updates on the build progress of their home, explanations of the various stages in the buying process and videos on how to operate heating, electrical appliances and home features. Not only can this information be accessed online but also via a QR code which customers can scan via their smart phone or tablet.

Pictures:
1. Amy Cook outside her new home at Somersgate, Repton, Derbyshire.
2. Sales adviser, Kristi Brimer, undertaking training through the Miller Homes Sales Academy.
3. Sales brochure for Park View, Gateshead, Tyne & Wear.

"Our experience with Miller Homes has been second to none. We were particularly impressed with the care and exceptional service that the team showed to us from day one."
– Amy Cook

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Positive staff engagement.

Picture:
Staff join Chief Executive, Chris Endsor, to celebrate Miller Homes retaining Investors in People Gold status.

2016:
97%

2015:
88%

Staff with a performance development review.

...valued through an empowering culture. Promoting a business culture which delivers results by inspiring individuals and encouraging a team based approach.

The Group's highly respected, dedicated and professional workforce, which is supported by an engaged subcontractor network, was recognised by two independent bodies during 2016.

The Group was delighted to retain the Investors in People Gold Award, the UK's leading people management standard, which demonstrates excellence in development and support of staff. It places the Group among the top 13% of all IIP accredited clients.

Peter Russian from Investors in People said: "I would like to congratulate Miller Homes on its commitment to continuous improvement. This represents a true commitment to employees and demonstrates a solid foundation of good practice which remains challenging and aspirational for many organisations."

The assessor was particularly impressed with the Group's support for nominated charity, Habitat for Humanity, which helps remove many families across the world from poverty housing. Working with a charity which engenders passion amongst employees has provided wider business benefi s – driving employee engagement by inspiring staff and encouraging teamwork.

The annual employee roadshows, held for all staff at six locations around the country, communicate the Group's values. These events are an opportunity for management to update on strategy and performance and staff to provide views and feedback. With input and involvement from the Board, these roadshows are an ideal platform to further engage. Opportunities are also created at these events to meet and develop relationships among staff who do not normally interact on a daily basis. It is important that each and every person feels a valued part of the Miller Homes team.

Levels of positive employee engagement across the business increased to 94% (2015: 84%) in the most recent externally conducted employee survey, illustrating the relationship cultivated with staff and the commitment to creating a positive working environment.

Pictures:
1. Volunteers from Miller Homes are joined by villagers from Salima in Malawi during their Habitat for Humanity Global Village Trip.
2. Miller Homes apprentices Josh Turner, Owen Rees, Adam Corbett and Luke Hodgson.
3. Winner of the Scottish Contractor of the Year Awards (l-r), Blair MacGregor from B MacGregor Roughcasting, with Stewart Lynes and Chris Endsor from Miller Homes.

1

2

In 2016, the Group retained Investors in People Gold status, placing it among the top 13% of all companies accredited with IIP.

3

Read more in the Chief Executive's review on pages 24 and 25.

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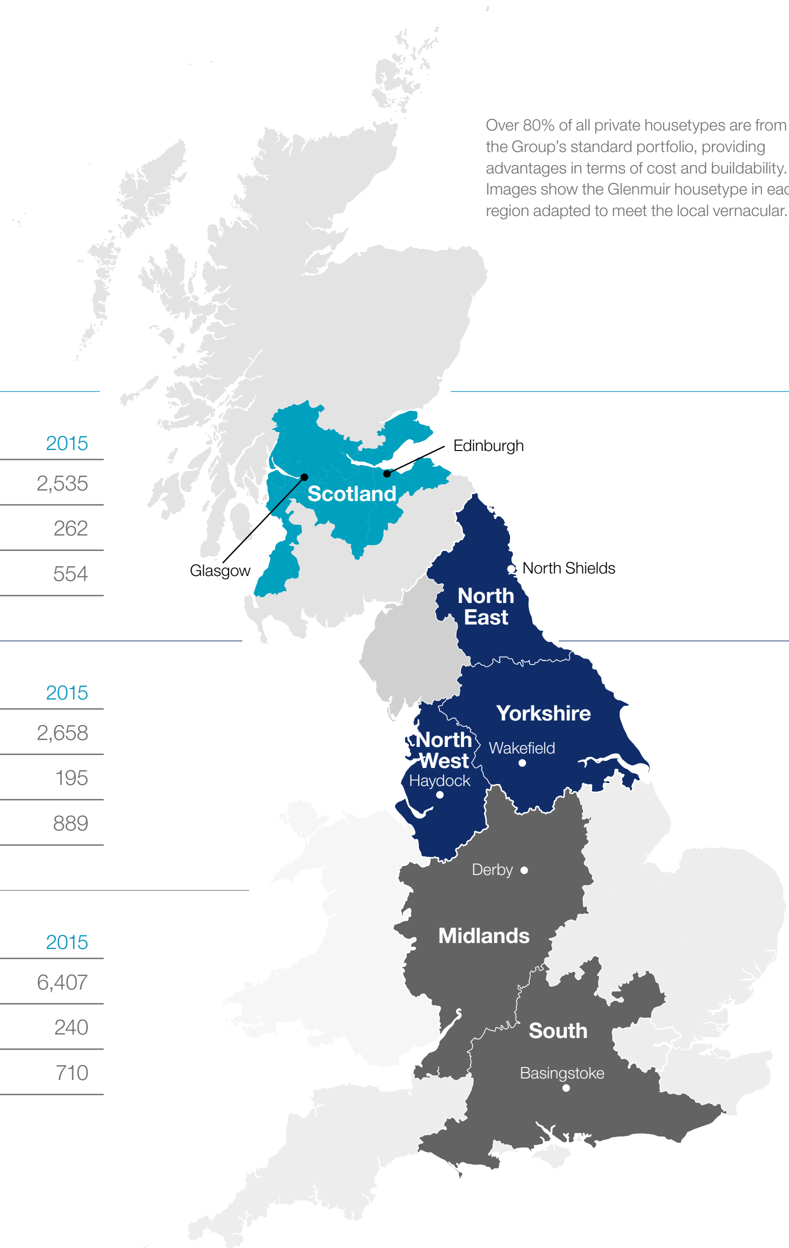
Where we operate

The Group occupies a distinctive position in the UK housing market and has continued to focus on its strong presence in regional markets, outside London and the South East, delivering predominantly family homes in quality suburban locations.

Over 80% of all private housetypes are from the Group's standard portfolio, providing advantages in terms of cost and buildability. Images show the Glenmuir housetype in each region adapted to meet the local vernacular.



Scotland

In Scotland, operations are primarily across the central belt with developments located around the key cities of Glasgow and Edinburgh. The intention is to continue to identify land around these core locations and to grow output to 800 units per year by 2020.

	2016	2015
Consented plots (no.)	2,172	2,535
ASP (£000)	253	262
Completions (no.)	612	554

North

The business in the North of England is based around the main cities and greater conurbations in the North East, Yorkshire and the North West, such as Newcastle, Sunderland, Leeds, Sheffi ld, Manchester and Liverpool. There is the capacity to grow the business to 1,500 units per year by 2020.

	2016	2015
Consented plots (no.)	4,223	2,658
ASP (£000)	198	195
Completions (no.)	953	889

Midlands and South

In the Midlands the focus is on Derbyshire, Leicestershire, Nottinghamshire and the south of Birmingham. The footprint in the South covers Central Southern England and the key counties of Oxfordshire, Berkshire and Hampshire. With the launch of a new region based in the South West Midlands, there is capacity to grow output to 1,700 units per year by 2020.

	2016	2015
Consented plots (no.)	6,667	6,407
ASP (£000)	252	240
Completions (no.)	815	710

What we do

The Group is focused on ensuring it has the people and systems to manage the detail during each key business process. This is further enhanced by the deep-rooted culture developed as part of the Miller difference ethos.

How we do it

Land	Selecting the right location with appropriate financial metrics, product and affordability levels is fundamental and the driver of decision making.
Planning/ technical	Extensive technical diligence undertaken (ground conditions, drainage, utilities, legal title) together with detailed understanding of local planning requirements.
Procurement	National team responsible for sourcing 75% of materials. Site sub-contractors largely outsourced to local rather than national firms.
Production	Standard house types account for over 80% of private output, which minimises buildability issues and maximises cost certainty.
Sales	Interaction between sales and production teams is critical to minimise stock levels and maximise value.
Customer service	A key focus for the business, in terms of both build quality and the customer journey and transcends beyond the production and sales teams.

Picture:
Norton Green, Sheffield, Yorkshire.

Built for growth

Further growth in the Group's existing regional businesses and the launch of a new region in the South West Midlands in 2017 will increase capacity to 4,000 units, 68% higher than 2016 output.

Strategic building blocks	Objectives	Measuring progress

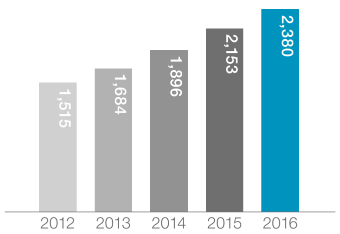
1. Target 68% growth in output to 4,000 units by 2020 from current level of 2,380 units.

Incremental growth in annual completions across each of the existing divisional businesses.

Launch of a new South West Midlands regional business in 2017 increasing overall capacity by 500 to 4,000 units.

Continue to deliver excellent levels of customer service.

Core completions

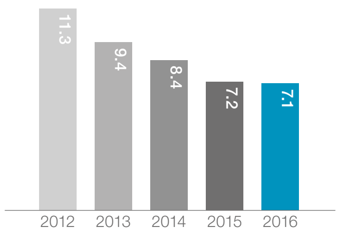


2. Maintain focus on existing regional footprint. The advantages of a regional approach are:

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

Growth to be delivered from current strong divisional businesses augmented by the launch of a second region in the Midlands. This approach minimises delivery risk and limits overhead increases.

Overheads (% of revenue)



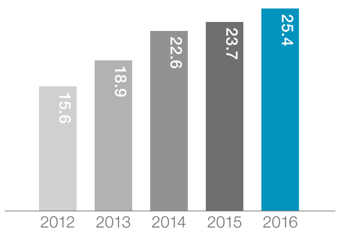
3. Maintain disciplined and selective approach to site acquisitions, optimising margin and capital effi iency.

Growth to be leveraged from the strategic landbank with strategic land completions increasing from 26% in 2016 to 35% of output by 2020.

Improve gross margins through land acquisition strategy rather than solely market movements. Embedded margin in 2016 owned landbank is 25.4% which points to future margin expansion.

Return on capital employed to increase with land acquired in 2016 having a blended ROCE on acquisition of 35%.

Owned landbank embedded margin (%)

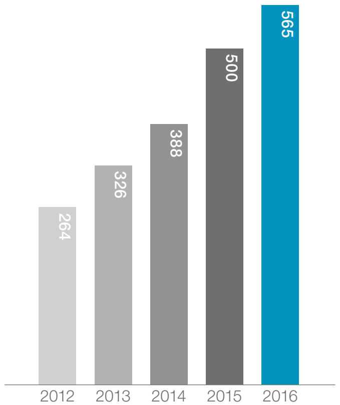


An outstanding performance

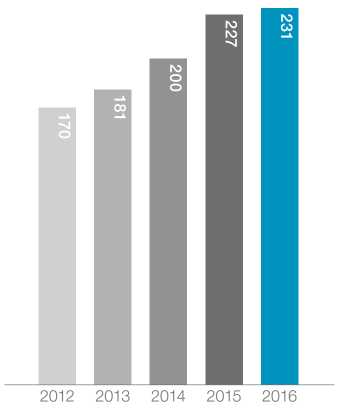
The Group has achieved significant progress in its KPIs with improvements in all key financial metrics for the fifth consecutive year.

Financial

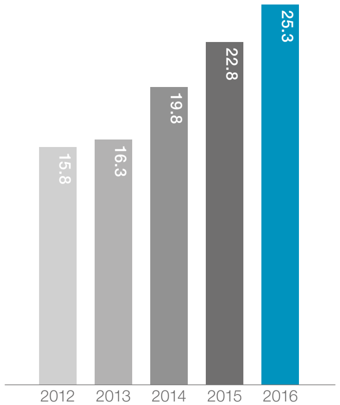
Revenue (£m)



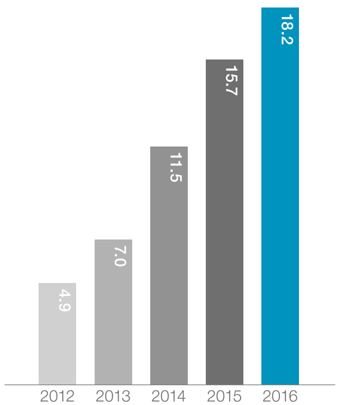
Average selling price (£000)



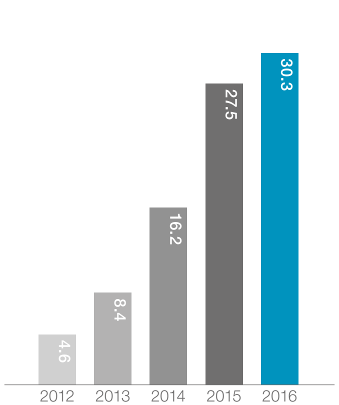
Gross margin (%)



Operating margin (%)

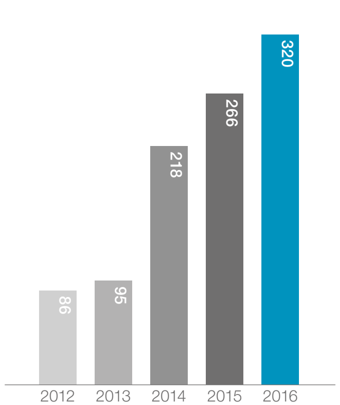


Return on capital employed(i) (%)



(i) operating profit adjusted for shared equity divided by the average of opening and closing capital employed, adjusted for non-operating deferred tax and shared equity loans.

Net asset value (£m)



Revenue

Performance
Turnover increased by 13% in 2016 principally due to an 11% rise in core volumes and 2% increase in ASP.

Strategic significance
The Group's strategy is to achieve volumes of 4,000 units per annum by 2020. Delivering this growth should lead to sustained increases in revenue and in turn profit.

Average selling price

Performance
The Group has delivered a significant improvement in ASP over the period principally driven by changes in its land acquisition strategy from 2012 onwards.

Strategic significance
Significant increases in ASP in recent years are in line with the strategy of selling larger homes in quality locations. This plan has largely been completed and accordingly future ASP increases are anticipated to be more modest and also tempered in part by an increase in affordable completions as new land enters production.

Gross margin

Performance
Gross margin improvement reflects the Group's low margin legacy land being replenished by higher margin new sites. The influence of legacy sites has diminished significantly over the period, falling from 81% in 2012 to 17% in 2016.

Strategic significance
With an embedded margin in the 2016 owned landbank of 25.4%, gross margin improvements in the short term are anticipated to be more measured than in prior years, absent any significant house price infl tion.

Operating margin

Performance
2016 saw a 250 basis point increase in operating margin which mirrored the improvement in gross margin.

Strategic significance
The 2017 target of 18% was delivered one year ahead of plan. The target for 2020 is to achieve an operating margin in excess of 20%, delivered principally through improved overhead recoveries.

Return on capital employed

Performance
Notwithstanding the significant investment in land in the year, ROCE continues to improve as the Group delivered completions from more recently acquired land boosting both gross and operating margins.

Strategic significance
The hurdle rate for land acquisitions is a minimum 25% ROCE. The Group has a track record of delivering improvements on acquisition land viabilities and accordingly believes the current levels of capital returns can be maintained as a minimum.

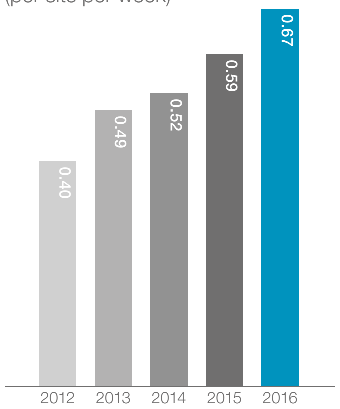
Net asset value

Performance
Net asset value has increased by 20% in 2016 with all profits retained by the Group.

Strategic significance
The Group's strategic plan is based around further profi able growth resulting in incremental improvements in net assets.

Financial

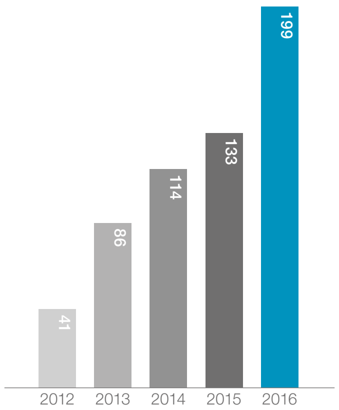
Private sales rate
(per site per week)



Performance
The private sales rate improved by 14% in 2016 reflecting improved trading conditions and the benefi of new site launches.

Strategic significance
The Group considers that a private sales rate of around 0.6 sales per site per week can be sustained in the medium term.

Forward sales (£m)

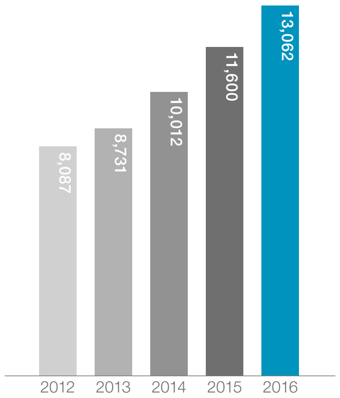


Performance
The 50% increase in 2017 forward sales reflects the benefit of the private sales rate improvement in 2016, a 10% increase in the private ASP and increased affordable units.

Strategic significance
The Group considers that the planned increase in sales outlets and a continuation of the current trading environment will see further increases in forward sales.

Non-financial

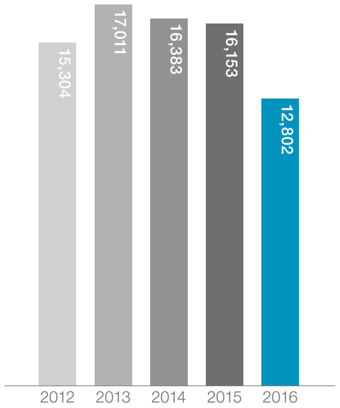
Consented landbank (plots)



Performance
The consented landbank increased by 13% in 2016 driven by a 25% increase in the owned landbank to 7,911 plots. The consented landbank represents 5.5 years' supply based on 2016 output.

Strategic significance
The Group's plan is to operate with a consented landbank of c5 years' supply, of which 3-3.5 years is derived from the owned landbank, with the balance from consented plots predominantly held under option.

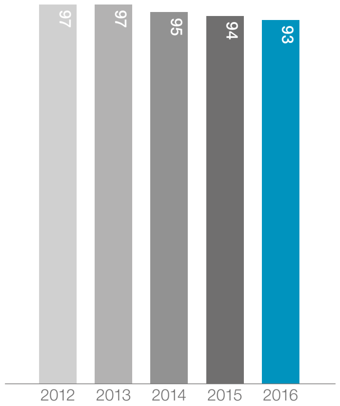
Strategic landbank (plots)



Performance
The reduction in the year in part reflects the pull-through of strategic sites into the consented landbank.

Strategic significance
The target is to hold a strategic landbank of c15,000 plots.

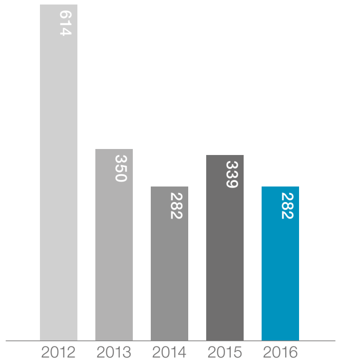
Customer satisfaction (%)



Performance
The Group continues to operate at exceptionally high levels of customer satisfaction both by historical levels and in comparison to peers.

Strategic significance
The Group firmly believes that for a business where customers are likely to make the largest purchase in their lifetime, it is important to deliver exceptional levels of customer service. Accordingly, it aspires to at least maintain the current high levels of customer satisfaction.

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



Performance
The 2016 result was a 17% improvement on 2015.

Strategic significance
Accident rates remain at a low level in comparison to historic averages despite an increase in site activity levels. The Group will continue its focus on risk assessment and accidents being minimised going forward.

Favourable conditions

A sustained focus on improving housing supply reinforced the prominence of the housing market to the UK economy and the industry demonstrated its resilience during a turbulent political and economic year.

Key highlights

12%

increase in Council of Mortgage Lenders gross mortgage lending in 2016

Source: CML

6.5%

increase in UK average selling price

Source: Halifax

293,000

number of planning permissions in England for the 12 months to the end of December 2016

Source: HBF/Glenigan

52%

increase in housing delivery in the last three years

Source: HBF/Glenigan

UK economy

2016 was an unprecedented year politically with the EU Referendum dominating both in the run up to the vote and following the decision to leave the EU. This surprise outcome and the consequent changes within the Government which followed were expected to have a widespread negative impact on consumer confidence and, in turn, the housing market in particular. This did not materialise and whilst it will be some time before the full impact of the decision to leave the EU is known, the housing market has remained robust. The sector continues to be underpinned by strong underlying market fundamentals, specifically high employment levels, low mortgage rates and improving loan to value availability.

The GfK Consumer Confidence Index fell immediately post Brexit, however confidence levels increased during the second half of the year as forecasters upgraded the economic outlook following a further decline in base rates. Although the outlook remains uncertain, forecasters are continuing to predict growth.

Market conditions

Changes to stamp duty caused some fluctuations in demand and consumer behaviour but the impact was largely felt in the London market where Buy to Let investment is more prominent. The Royal Institution of Chartered Surveyors (RICS) reported that the imbalance between lack of supply and demand for properties across the country, a feature which has fuelled the market since late 2013, is expected to continue at least in the short term.

For the first time since 2008, the regional markets performed ahead of the national average, which was depressed by London. Indicators show that instability in London occurred prior to the Brexit vote, precipitated by changes to Buy to Let in March 2016.

The Halifax House Price Index, which reports house price growth, ended the year at 6.5%. In recent years, growth has run at around 8% or 9%, more heavily influenced by London, however this latest figure more accurately refl cts regional activity. London experienced volatility in house prices whilst regionally these remained robust both sides of the referendum.

Mortgage availability and affordability

Mortgage approvals provide an accurate refl ction of activity in the market. Current estimates by the Council of Mortgage Lenders show a 12% increase in lending by banks and building societies to £246 billion, the highest gross lending level since 2008.

The Mortgage Market Review (2014) and FCA regulations are welcome influences which have ensured a more sustainable lending framework. Help to Buy in England until 2021 and Scotland until 2019 provide support for first time buyers. Changes made to the scheme in Scotland, with a lower price threshold (£230,000) and further tapering planned, has led to Help to Buy becoming a product more widely utilised by first time buyers. Positively, the change in price threshold in Scotland, where the Group has an average selling price of over £250,000, has not had any discernible impact on sales rates. More widely, better loan to value mortgage availability is now fill ng the gap, with more lenders offering 90-95% loans outside of the Help to Buy schemes.

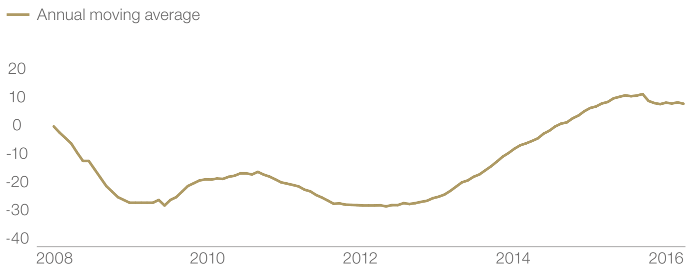
Despite the growth in house prices, mortgage payments as a percentage of income remained unchanged from 2015 at 30%, below the long term average of 35% and the peak of 48% in 2007. Affordability has been driven by historically low mortgage rates, which dipped further during 2016.

Housing supply

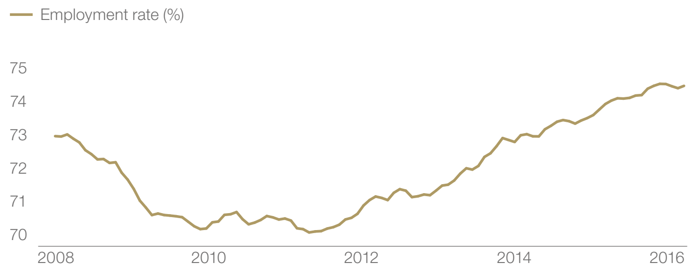
Many of the provisions of the Housing and Planning Act, which has been designed to increase home ownership and accelerate the speed of the planning process to help achieve government targets of 221,000 new homes per annum, were implemented during 2016.

Some measures are still to be implemented through new regulations in 2017 with further reform expected through the Neighbourhood Planning Bill and Housing White Paper. Whilst the NHBC recorded a fall in the number of new home starts by 3% to 152,000 (2015: 156,000), the figure was still the second highest in almost 10 years and planning permissions in England reached 293,127 for 12 months to the end of December 2016, the highest since the survey began in 2006. Overall, housing delivery has increased by 52% in the last three years and yet the shortfall in government stated requirements continue.

GfK consumer confi ence barometer (2008-2016)



UK employment rates (ONS UK Labour Market 2008-2016)



2016 was an outstanding year and with the launch of a new region in 2017, the Group is well positioned for further sustainable growth.

Chris Endsor
Chief Executive

Results

I am delighted to report that the Group delivered year on year improvements on all financial KPIs for the fifth consecutive year, demonstrating both the strength of the market and also the successful execution of our strategic plan. Of particular note were our two main performance measures of operating profit and ROCE, both of which are at record levels. Operating profit increased by 31% to £103.0m (2015: £78.4m). Underlying return on capital employed improved to 30.3% (2015: 27.5%), and was achieved despite a significant increase in land investment to £178m (2015: £126m).

Sales performance

The private sales rate in 2016 improved by 14% to 0.67 (2015: 0.59) net reservations per site per week. There was no discernible impact from the EU Referendum vote, either in terms of sales rates or pricing, providing assurance on the resilience of the market and the fact that customers in the regional markets typically have a requirement to move home or desire to own a home for the first time. For our customers, the decision to move home is linked to confidence in their job and the wider economy rather than property speculation. Sales outlets averaged 64 (2015: 65). This was lower than anticipated as some sites ended earlier than planned due to the increased sales rate.

Help to Buy initiated reservations increased slightly to 35% (2015: 33%) of private sales. First time buyers represented 75% of our Help to Buy customers and highlights the importance of Help to Buy in fulfilling customers' home ownership aspirations at the start of the housing ladder. This is recognised by the UK and Scottish governments, who have both committed to retaining their schemes through to at least 2021 and 2019 respectively. First time buyers accounted for 38% (2015: 32%) of our private reservations. Part exchange is used on a targeted basis on selected plots on our developments. Consequently, part exchange represented only 13% (2015: 16%) of private reservations in 2016. The private investor market accounted for 3% of 2016 reservations and accordingly we were unaffected by the stamp duty changes to second homes introduced in April 2016. In summary, the improved sales rate in the year was delivered without an over reliance on any of the specific incentives that we have at our disposal which again provides assurance of our ability to sustain these levels going forward under similar market conditions.

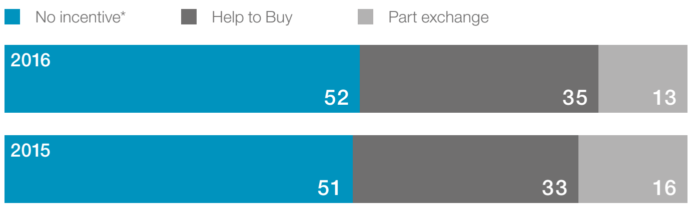
Overall completions in 2016 were 2,489 (2015: 2,295), of which core completions were 2,380 (2015: 2,153). Private completions increased by 10% to 2,032 (2015: 1,848) refl cting the improvement in sales rates in the year. The 10% increase in private completions was lower than the 14% sale rate improvement and reflects an increase in forward selling which in turn has contributed to a 50% increase in 2017 forward sales. Affordable completions increased by 14% to 348 (2015: 305) principally due to a greater weighting of affordable units from recently acquired sites. Joint venture units increased to 40 (2015: 21) and consisted of one development with Wates Developments Limited and one with Muse Developments Limited which is now complete. We have four current joint ventures, all with Wates, which should deliver around 100 units in 2017. Completions from management contracts fell to 69 (2015: 121) and refl ct the fact that these low margin contracts are in run-off.

Strategy

Excellent progress was made in 2016, with the 2017 operating margin target delivered one year ahead of plan. In light of this and the decision to launch a new region in 2017, the strategic plan was updated during the year. The new region will be based in the South West Midlands, an area in which we are already operating from our office in Derby which is nearing capacity. With existing operational experience of the South West Midlands area, the expansion is low risk from a delivery perspective, with an excellent network of land agents and subcontractors already in place. Overall capacity increases by 500 units to 4,000 units and is planned to be delivered by 2020. This represents an increase of 68% on 2016 core output and is significantly higher than growth forecasts for listed peers. This growth can be delivered within the current geographical footprint with limited additional overhead requirements. Importantly, debt reduction continues over the plan period to ensure that the growth is sustainable.

The updated strategic plan and the growth ambitions underpinning this, demonstrate continued confidence in our regional markets.

Reservations type (%)



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

Completions

	2016	2015	% Change
Private	2,032	1,848	+10%
Affordable	348	305	+14%
Core completions	2,380	2,153	+11%
Joint ventures	40	21	+90%
Management contracts	69	121	-43%
Total completions	2,489	2,295	+8%

2016 highlights

31%

increase in operating profit to £103.0m (2015: £78.4m)

11%

increase in core completions to 2,380 (2015: 2,153) driven by improved sales rates

13%

increase in the consented landbank to 13,062 plots (2015: 11,600 plots) due to a 25% increase in the owned landbank to 7,911 plots (2015: 6,341 plots)

50%

increase in the opening order book to £199m (2015: £133m), helping underpin 2017 turnover

25.9%

embedded margin in our consented landbank (2015: 24.3%)

Government policy

Government policy in both England and Scotland remains supportive to the homebuilding sector and was reaffirmed following the ministerial changes in the UK government in July 2016 and the Housing White Paper, published in February 2017. Both demand and supply policies recognise the need to create a growing and sustainable housing market.

It is evident that the UK Government and Bank of England will intervene where there are signs of specific segments of the market overheating, as witnessed by the decision to increase stamp duty on second homes to reduce demand in the buy to let sector. Such interventions demonstrate that policy makers and regulators will no longer rely on the blunt tool of interest rates to control the housing market, something which is positive for the overall UK housing market.

The planning environment at a national level continues to be favourable. However, there can be frustrations at a local level mainly in relation to the time taken to obtain a detailed planning permission on sites which already have an outline consent. This is delaying starts on certain sites and in turn housing output. Despite this, the current planning framework is leading to increased permissions which are comfortably exceeding current output. This provides confidence that annual output can continue to grow and in so doing deliver the UK government's target.

Land

The Group has an established land strategy backed up by comprehensive pre-acquisition diligence. In practice, this means that I visit all sites prior to purchase and all purchases are also approved by the Finance Director, Legal Director and relevant Divisional Managing Director. This ensures a consistent approach to all land purchases. The preference is to acquire land conditional upon the receipt of a detailed planning consent and 90% of the 2016 owned landbank benefi s from a detailed planning consent.

The Group has two landbank categories, namely, consented land and strategic land. Consented land represents land which is either owned or controlled via a conditional contract or option, with all land having a minimum of an outline planning consent subject to a section 106 or 75 agreement. Strategic land represents land controlled by an option contract to purchase over the life of the option agreement. This land currently does not benefit from a planning consent but has favourable prospects. Our in-house teams promote these strategic sites through the planning system and on receipt of a planning consent we have the option to acquire the site, typically at a 15% discount to market value.

The consented landbank increased by 13% to 13,062 plots (2015: 11,600 plots). This was driven by a 25% increase in the owned landbank to 7,911 plots (2015: 6,341 plots). The controlled landbank fell slightly to 5,151 plots (2015: 5,259 plots). The consented landbank represents 5.5 years' supply based on 2016 completions.

Land investment in 2016 totalled £178m, 41% higher than 2015. The number of plots purchased in 2016 was 4,191 and compared to 2,576 plots in the previous year. A significant number of acquisitions had favourable deferred terms and resulted in land creditors increasing to £79.4m (2015: £60.3m). The sites acquired in 2016 are forecast to generate ROCE in excess of 35%, significantly ahead of our minimum hurdle rate. Legacy land has now been largely eliminated and represents 3% of the owned landbank (2015: 10%). Accordingly, the embedded margin has continued to grow and stands at 25.4% (2015: 23.7%) at the year end. Strategic land comprises 32% of the 2016 owned landbank highlighting the Group's success in strategic land promotion in recent years. The medium term target is to deliver 35% of completions from strategic land which compares to 26% in 2016.

The strategic landbank totals 12,802 plots (2015: 16,153 plots) which is large relative to annual output. The process to determine which sites are optioned into the strategic landbank is rigorous and is based upon site size, location, planning prospects and discount to open market value. Similar to the acquisition of short term land, strategic options are approved by the Board. Smaller sites are targeted as these are considered to be more desirable in terms of planning, promotion prospects and improving capital return. The average site size is 225 plots with 72% currently located in the Midlands and South division. At the end of the year, 15 planning applications (2,130 plots) had been submitted to planning authorities for which decisions are awaited.

Consented landbank

	2016			2015		
	Plots	GDV £m	Margin %	Plots	GDV £m	Margin %
Owned and unconditional	7,911	1,868	25.4%	6,341	1,464	23.7%
Controlled	5,151	1,141	26.8%	5,259	1,138	25.2%
Consented	13,062	3,009	25.9%	11,600	2,602	24.3%

Supply chain

The Group has a central procurement team which is responsible for sourcing 75% of material purchases from national suppliers. This ensures consistency of specification, availability of materials and best price. Material availability was generally good during 2016 with products on longer lead-times being well managed by the procurement team. In addition, we have regional commercial teams who are responsible for sourcing the majority of subcontract labour requirements, as these are typically regional rather than national companies. No significant labour availability issues were experienced in 2016 although there were pockets of cost pressure mainly in relation to bricklaying and scaffolding. Annual cost inflation in 2016 was manageable at around 2% and due to forward ordering and prudent assumptions at land acquisition stage, the effect on 2016 earnings was lower than this.

We have long relationships with many of our subcontractors and assistance is offered by holding workshops on new and emerging legislation, particularly in relation to health and safety. During the year, 621 days of training were provided to subcontractors.

Direct exposure to currency related cost risk is minimal with over 90% of purchases sourced from UK manufacturers. Whilst there is indirect currency exposure via suppliers' raw material imports, the impact on 2017 is not significant due to forward ordering and competitive pricing by suppliers, particularly when considered in relation to the average selling price of our homes.

People

The Group has dedicated, enthusiastic and engaged staff which was independently recognised in 2016. An independent staff engagement survey was undertaken as well as the triennial Investors in People assessment. Our staff engagement survey confirmed that 94% of employees are positively engaged in the business. This was the highest ever score recorded by the firm conducting the review and also represented an improvement on the 84% recorded in our last review three years ago. The review by Investors in People confirmed the retention of our Gold status. This is another tremendous accolade for the Group as only 13% of all IIP accredited businesses receive the Gold standard. It is testimony to the values of the Group to have received these assessments from third parties at a time of significant levels of activity.

The average number of people employed has increased to 740 (2015: 684). In addition to this, the Group will typically have a further 2,000 subcontractors engaged on sites at any one time demonstrating the wider benefi to the economy from new build housing. It is therefore critical that enduring relationships are developed with all people connected to our business, employees and subcontractors. Staff loyalty is important to the Group and 32% of employees have 10 years' service or more.

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

Corporate responsibility

It is important as the business grows that it does so in a responsible way. The corporate responsibility strategy was updated during 2016, however the key areas of focus being product, processes, people and partners remain unchanged. These are explained in more detail on pages 30 to 31.

The Group actively tries to engage with local communities and held 23 public consultations during the year. In addition, we attempt to minimise disruption to local communities from construction work on new developments. The Miller Respect scheme provides the local community with the opportunity to raise pressing concerns via a 24/7 helpline. In 2016, 87% of calls made to the helpline received responses within 24 hours (2015: 81%).

I would like to express my gratitude to all members of staff and our supply chain partners for their support in our charitable fundraising activities during the year. The Group supports many local charities and good causes, and also has a chosen national charity, which in 2016 was Habitat for Humanity.

Pictures:
1. Admirals Wood, Sarisbury Green, Hampshire.
2. The Esk, Wheatfields, Seaton Delaval.

1

2

At the start of 2016, a fundraising target of £100,000 was set for our contribution to Habitat for Humanity and I was thrilled that we raised £228,000. The Group's fundraising efforts encapsulate the team spirit engendered within Miller and I was immensely proud of everyone participating in the wide and varied activities during the year. In addition to the fundraising, I along with 16 colleagues, visited Malawi for one week to build four homes for local families. The funds raised exceeded expectations and will enable a further 75 homes to be built and change peoples' lives for the better.

Customer service and quality

The provision of excellent levels of customer service both prior to and after the purchase of a home is a key objective of the Group. This extends beyond customer facing and production staff to all employees of the Group and is underpinned by Customer Service teams in each division who respond promptly to customer queries. We continue to use an independent firm, In House, to survey our customers and obtain important feedback on their experience both pre and post home purchase. This feedback is used as part of our continuous improvement plans. In 2016, 93% of customers independently surveyed confi med that they would recommend us.

Bill Hughes, a site manager in our North West region, was named as the Supreme Winner in the Large Housebuilder category of the NHBC's Pride in the Job Awards. This is the sixth time that Bill has won this award which marks him out as the UK's top site manager amongst large housebuilders. This award recognises the attention to detail in all production stages and Bill epitomises the standards that site managers within the Group strive to attain.

Safety, health and environment

As levels of construction activity increase, it reinforces the need to have robust and effective safety, health and environmental (SHE) procedures. Overseen by the Group SHE Director who reports directly to me, there is a dedicated team of seven SHE professionals who undertook around 400 inspections during 2016. These inspections ensure compliance with Group procedures and also the sharing of best practice. 98.5% of all actions arising from site inspections were subsequently addressed on time.

A combination of internal and external SHE training is undertaken which also extends to our supply chain. In 2016, facilitated workshops were held, with around 170 subcontractors attending. During the year, our reportable incidents per 100,000 employees fell to 282 (2015: 339).

Outlook

The Group entered the year with strong forward sales and reduced borrowings. The sales performance in early 2017 has resulted in further improvements in forward sales and we are currently 55% forward sold for the current year (2016: 50%).

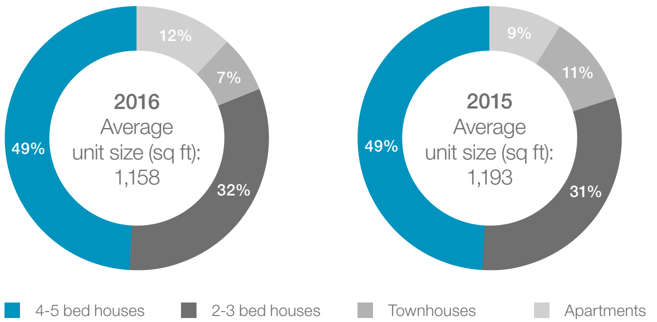
Sales trends are monitored on a weekly basis, with visitor levels, reservation rates and pricing being the most important. These will continue to be reviewed to detect any impact from the continuing discussions around the EU Referendum vote. The fundamental drivers of supply and demand remain favourable with support from both government and mortgage lenders.

I remain confident in our regional markets and in the growth prospects of the Group.

2016 was an extremely rewarding year for the Group and my senior colleagues and I wish to thank all the team at Miller Homes for their continued commitment and dedication to the business and our supply chain partners for their support throughout the year.

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

Private unit product mix



Picture:
Regency Gardens, Southwell, Nottinghamshire.

The Group exceeded £100m operating profit for the first time.

Ian Murdoch

Ian Murdoch
Finance Director

Operating performance

Revenue increased by 13% to £565.3m (2015: £499.6m). This reflected an increase in revenues from housing completions to £549.3m (2015: £489.1m) with other revenues higher at £16.0m (2015: £10.5m) due to the sale of surplus land. The 12% growth in revenues from housing completions reflected an 11% increase in core completions to 2,380 (2015: 2,153) and a 2% increase in ASP. Higher sales rates resulted in completions of private units rising to 2,032 (2015: 1,848). The increase in affordable unit completions to 348 (2015: 305) is due to more recently acquired sites having a higher allocation of affordable housing when compared to older legacy sites.

All divisions experienced growth in completions. The increase in volumes was greatest in the Midlands and South division which delivered an increase of 15% due to significant land investment in recent years. The increase in ASP was most marked in the Midlands and South division which reflected an increase in average unit size.

The increase in ASP to £231,000 (2015: £227,000) was achieved despite an increase in the proportion of affordable housing completions which represented 15% (2015: 14%) of core completions. Private ASP increased by 1% to £251,000 (2015: £248,000) notwithstanding a 3% reduction in average unit size. A greater proportion of affordable units from the Midlands and South division resulted in the ASP of affordable units increasing by 14% to £116,000 (2015: £102,000).

Gross profit increased by 25% to £142.8m (2015: £114.1m). Gross margin increased by 250 basis points to 25.3% (2015: 22.8%) and continues to benefit from fewer legacy land completions and modest house price inflation. Legacy land completions fell to 17% (2015: 19%) of core completions and represent only 3% of the year end owned landbank.

Overheads increased to £40.2m (2015: £36.2m) mainly due to an increase in staff costs and incentive arrangements. As a percentage of revenue, overheads have fallen to 7.1% (2015: 7.2%).

The significant increase in gross profit offset by a more modest rise in overheads has resulted in a 31% increase in operating profit to £103.0m (2015: £78.4m). A 250 basis point increase in operating margin to 18.2% (2015: 15.7%) was delivered and the medium term target has been revised upwards to 20%.

Finance cost

The Group's net finance cost of £13.7m (2015: £16.4m) comprised bank interest and amounts payable on intercompany loans of £10.7m (2015: £14.8m); imputed interest on land creditors of £4.4m (2015: £2.9m); and a charge of £1.1m (2015: £1.1m) in relation to the defined benefit pension scheme. This was offset by interest receivable of £1.6m (2015: £2.4m) representing imputed interest on the unwind of the discount applied to available for sale assets and other interest receivable of £0.9m (2015: £nil).

The £4.1m reduction in bank interest and amounts payable on intercompany loans reflected the prior year write-off of bank arrangement fees (£2.1m) and lower debt levels.

Taxation

The tax charge in the year was £17.9m (2015: £13.1m). This reflected the utilisation of the Group's deferred tax asset, principally comprising brought forward tax losses. Changes being introduced by the 2016 Finance Act will restrict the utilisation of brought forward losses by 50% on an annual basis and will lead to the Group recommencing corporation tax payments in 2017. In arriving at the deferred tax asset of £51m, historic tax losses have been valued at the enacted corporation tax rate for the period in which the losses are anticipated to be utilised.

Financial highlights

	2016	2015
Completions (no.)	**2,380**	2,153
ASP (£000)	**231**	227
Revenue (£m)	**565**	500
Operating profit (£m)	**103**	78
Operating margin (%)	**18.2**	15.7
Net debt (£m)	**122**	140
Net assets (£m)	**320**	266
Underlying ROCE (%)	**30.3%**	27.5%

Picture:
Orchardfield Gardens, East Linton, East Lothian.

2016 highlights

44%

increase in profit before tax to £89.3m (2015: £62.0m)

250

basis point improvement in gross margin to 25.3% (2015: 22.8%)

250

basis point improvement in operating margin to 18.2% (2015: 15.7%) as gross margins improve

280

basis point improvement in return on underlying capital employed to 30.3% (2015: 27.5%) reflecting improved operating margins

20%

increase in net assets to £320m (2015: £266m) with 2016 profits retained in the business

Cashflow and debt

The Group's net debt fell to £121.6m (2015: £140.2m). This was delivered despite a £40m increase in land spend and refl cts the impact of improved sales rates and strict control of work in progress.

The Group has five year committed bank facilities of £210m with headroom of £120m at the end of the year. These facilities provide the Group with the resources required to deliver the growth in the business plan including the launch of the new South West Midlands region. £75m of debt is hedged at a cost of funds of 4.2% per annum.

Balance sheet

The Group's net assets have increased significantly to £320.3m (2015: £266.4m) due to the strong financial performance in the year. Combined with a reduction in net debt, this has resulted in gearing falling to 38% (2015: 53%).

Return on underlying capital employed, which excludes non-operating shared equity and deferred tax interests, improved to 30.3% (2015: 27.5%). The 10% increase in the year reflected a 16% increase in operating margin offset by a 5% reduction in capital turn to 1.69 times (2015: 1.77 times). The movement in capital turn refl cts a significant increase in land investment during the year which has been largely mitigated by the positive impact of increased sales rates, diligent management of work in progress and the benefit of new sites launched in recent years.

Investment in land rose by 28% to £338.5m (2015: £265.4m). The number of plots in the owned and unconditional landbank increased to 7,911 (2015: 6,341). Work in progress has increased to £191.6m (2015: £164.1m) and reflects increased activity levels on site whilst still minimising finished stock levels.

The level of impairment provisions continues to fall in line with the reduction in legacy plots in the landbank. As at 31 December 2016, an impairment provision of £1.8m (2015: £9.8m) was held.

Available for sale assets represent the Group's investment in shared equity loans which were issued during 2008 to 2013. The investment in these assets fell by £6.2m to £28.0m (2015: £34.2m), principally due to redemptions of £7.8m (2015: £9.7m) offset by an unwind in the fair value discount and provision movements (£1.6m (2015: £2.4m)). The Group prudently carries its shared equity assets at a discount of 35% (2015: 34%) against its original value.

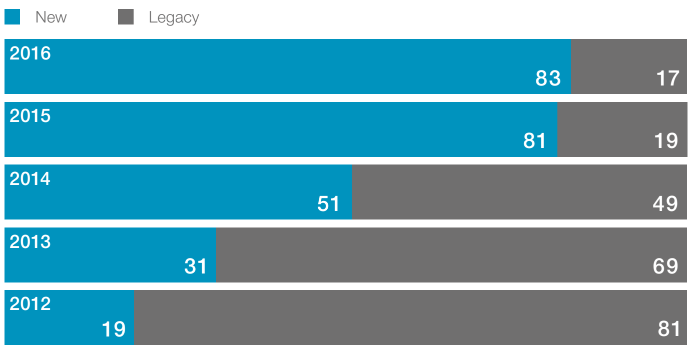
Land creditors increased to £79.4m (2015: £60.3m) reflecting both an increase in land investment in the year and the nature of sites acquired.

Pensions

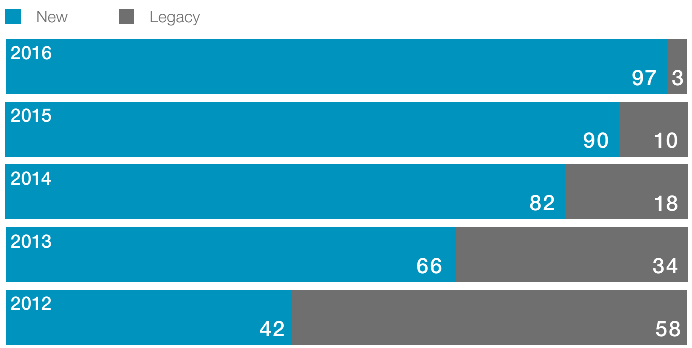
The defined benefi scheme was closed to new entrants in 1997 and to future accrual in 2010. The scheme deficit has increased to £46.4m (2015: £29.7m) which refl cts contributions of £5m offset by an actuarial loss of £20.6m and interest charge of £1.1m. Accounting standards prescribe that pension liabilities are discounted using corporate bond yields which have fallen from 3.9% to 2.8% over the course of 2016. The triennial valuation as at 30 June 2016 has been agreed with trustees.

Pension arrangements for the Group's employees are provided through a defined contribution scheme with the annual cost refl cted in the Income Statement amounting to £2.2m (2015: £2.2m).

Core completions by land type (%)



Owned landbank by land type (%)

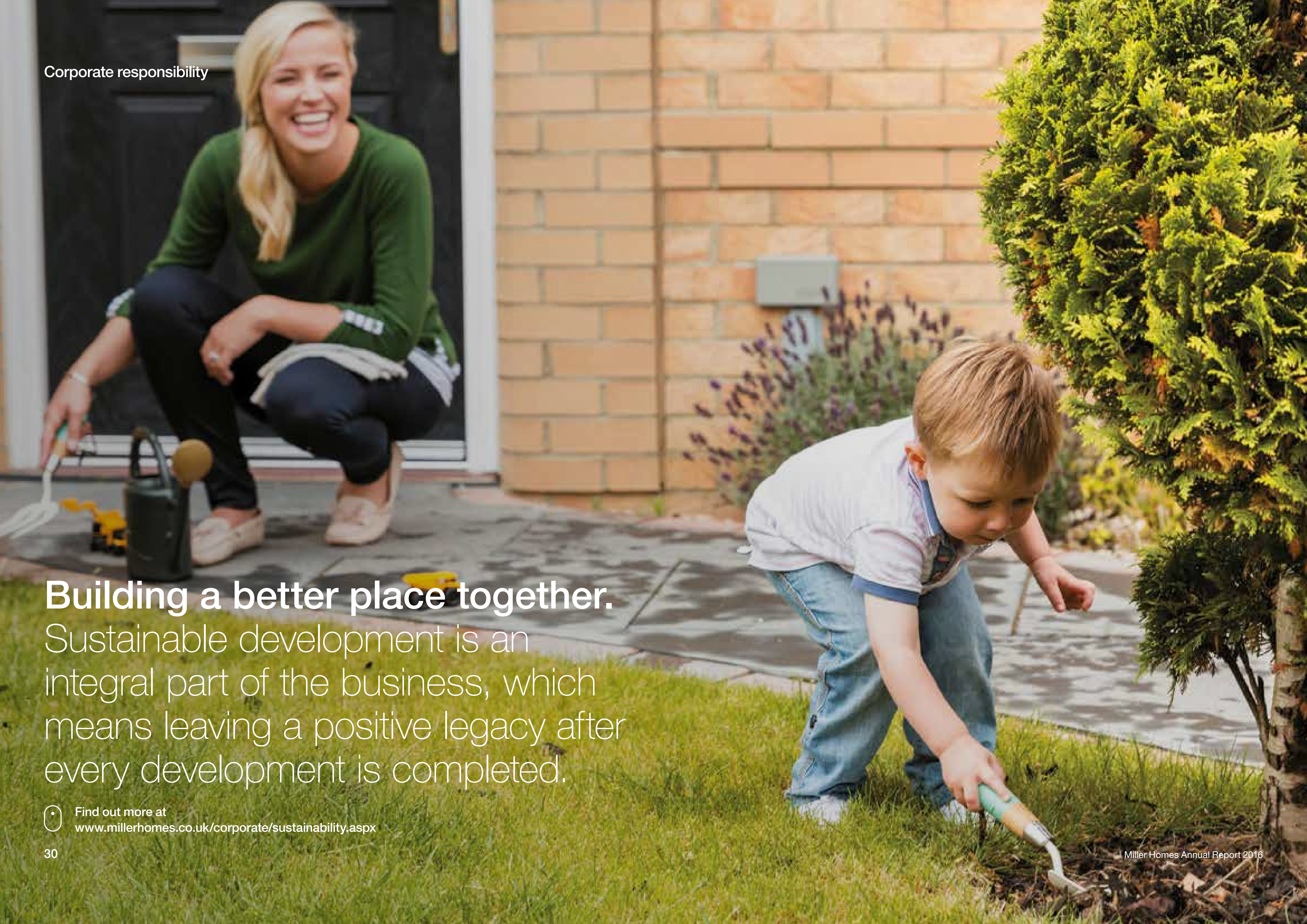


Managing risk

The Board is committed to identifying, evaluating and managing the principal risks and uncertainties facing the Group.

Risk	Risk description	Controls and mitigation	Risk movement
Economic conditions, mortgage supply and rates	Demand for new homes is inextricably linked to consumer confidence which amongst other things is impacted by employment prospects, disposable incomes and the availability and cost of mortgages, particularly at higher loan to values.	Land acquisition process and hence product range/pricing considers local employment, incomes and affordability. Sales rates and prices are monitored on a weekly basis informing decision making on a timely basis. Close relationships are maintained with mortgage lenders and government agencies to ensure that we utilise all available products and are involved in those initiatives aimed at the new build sector. Sites are valued on a monthly basis with carrying values assessed as part of the quarterly forecasting process.	▲ UK growth forecasts, whilst still positive, have weakened and become more uncertain in light of the June 2016 EU Referendum decision. To date there has been no trading impact on the Group.
Supply chain	The ability to procure sufficient materials and labour to ensure homes can be completed to a high standard, in line with build programmes and at costs which protect site margins.	All key materials are negotiated by the central procurement team. National deals are in place, ensuring cost certainty over the short term and continuity of supply. The most significant supply chain issue relates to the availability and cost of subcontract labour. The management of subcontractors is undertaken 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. In addition, we undertake tendering to maintain price competition.	▲ This risk has increased during the year due to the cost impact arising from the current sterling exchange rate with the main global currencies. That said, the impact on 2017 earnings is not assessed as being material.
Land availability	The ability to secure the quantum of land in the appropriate locations and at hurdle rates to ensure the Group's strategic plan is delivered.	There are established land acquisition hurdle rates of 22% gross margin and 25% ROCE which also underpin the strategic plan. The Chief Executive visits all sites prior to acquisition to ensure a consistent approach to land acquisition is taken across the business and each site fits within the overall land strategy. All land acquisitions are scrutinised and approved by the Board.	– The Group is able to acquire sufficient land at or above its stated hurdle rates to achieve its growth ambitions.
Funding	The Group requires access to adequate financial resources in order to meet its existing commitments and to deliver its strategic plan.	The Group entered into new five year committed bank facilities in June 2015 which provide it with the ability to deliver the growth reflected within the updated strategic plan. Cash is managed by a combination of short term and medium term forecasts. Business plans are updated on an annual basis and supported by sensitivity analysis.	▼ The Group has committed facilities through to 2020 which are sufficient to deliver its strategic plan.

Risk	Risk description	Controls and mitigation	Risk movement
Staff retention	It is important that the Group retains and attracts high calibre employees in order to deliver on all aspects of the strategy.	The Group has a comprehensive HR strategy that addresses all aspects of reward, retention and talent development, as well as performance management. Succession plans are in place for middle and senior management. Staff briefings are conducted on a regular basis with staff engagement surveys undertaken bi-annually.	The labour market continues to remain competitive. The Group does not view the decision to leave the EU as having an effect on the availability of labour, given the low incidence of EU workers in its regional markets.
Safety, health and environmental (SHE)	Breaches of SHE legislation can result in workplace injuries, environmental damage or physical damage to property. This could result in financial penalties, reputational damage and delays to site related activities.	There is an in-house SHE team all of whom are professionally qualified. The team is managed independently from our operational businesses under the guidance of our SHE Director who in turn reports directly to the Chief Executive. The Group has an approved SHE strategy with progress monitored regularly during the year. Site operations are subject to monthly audits and SHE awareness tool-box talks are regularly communicated to both staff and subcontractors. SHE performance is measured through a range of balanced KPIs and reviewed at Board level.	This risk continues to be actively managed with no overall change in the year.
Planning	The timely progression of planning consents is important to the Group in that the majority of site purchases and ultimately site starts are dependent on detailed or full planning consents being obtained. In addition, the attainment of planning consents will also unlock the significant value in the Group's strategic landbank.	The Group has a dedicated strategic land team which monitors planning policy at a national and regional level. The Group seeks to acquire land with the benefi of an implementable planning permission.	The risk continues to be well managed by the Group as evidenced by the quantity of land acquired in 2016 with the benefit of a detailed planning permission.
Pensions	The Group's defined benefi scheme was closed to new entrants in 1997 and to future accrual in 2010. The deficit could fluctuate due to increased longevity assumptions, reduced bond yields or changes in asset values.	The triennial valuation was undertaken as at 30 June 2016 and a deficit repair plan has been agreed. During 2016, the Group and trustees agreed a revision in the investment strategy with a view to increasing the liability hedge ratio.	The changes to the investment strategy in 2016 will help to minimise future volatility in liabilities arising from changes in discount rates.
IT	A prolonged system outage of operational systems, including our website, which affects operational targets of the business and our reputation within a consumer environment.	The Group undertakes an annual security review which includes penetration testing, action and review cycles. Full backup and system recovery is in place as part of the wider Disaster Recovery plan, and this is tested annually. System enhancements during business critical times are limited to emergency only changes to minimise any potential downtime in these periods.	The IT risk has risen during the year due to the increased cyber security threat.



Building a better place together.

Sustainable development is an integral part of the business, which means leaving a positive legacy after every development is completed.

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

Sustained progression was achieved in each of the four key principles which form the basis of the Group's sustainability strategy.

Product

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

93%
percentage of customers who would recommend Miller Homes (2015: 94%)

5 star rating
in the HBF National New Home Customer Satisfaction Survey (2015: 5 star)

76%
sites with sustainable drainage (2015: 73%)

100%
plots sold with smart meters (2015: 100%)

1:5
sites with Pride in the Job Quality Award winning site managers (2015: 1:4)

24%
of sites using off-site fabrication methods (2015: 28%)

60%
net promoter score (2015: 65%)

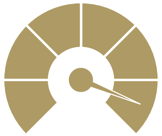
2016

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

Processes

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

95%
average SHE audit score (2015: 94%)



1.9 tCO_2
GHG scope 1 and 2 carbon emissions per EBU (2015: 1.9 tCO_2)

8.2
tonnes of construction waste per equivalent build unit (2015: 9.6 tonnes)

106g km
average vehicle CO_2 emissions from fleet list (2015: 109g km)

97%
of new sites using ecology specialists (2015: 97%)

94%
of construction waste diverted from landfill (2015: 96%)

20,806
timber pallets recycled and reused (2015: 22,720)

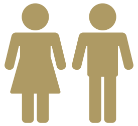
2016

The Group maintained its focus on sustainable performance, achieving improved results for many of its environmental impacts. Ecology remained a key component in terms of land due diligence.

People

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

97%
employees with a performance development review (2015: 88%)



3.2
average number of training days per employee (2015: 3.0)

18%
annual employee turnover (2015: 23%)

282
reportable incidents per 100,000 employees (2015: 339)

94%
positive staff engagement (2015: 84%)

32%
proportion of female employees (2015: 32%)

14%
females as a proportion of managers and directors (2015: 16%)

2016

The Group demonstrated its commitment to staff development through increased training days and performance reviews resulting in exceptionally high levels of positive staff engagement and a lower turnover rate.

Partners

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

£50m
local contributions (2015: £45m)

74
national suppliers assessed under our Code of Conduct (2015: 66)

100%
proportion of responsibly sourced construction timber (2015: 100%)

95%
of subcontractors with SMAS certification (2015: 92%)

939
subcontractor companies supported (2015: 918)

96%
employees and subcontractors with CSCS certification (2015: 96%)

23
public consultations held (2015: 23)

2016

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

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

Chris Endsor
Chief Executive
7 March 2017

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

Board

Led by the Chief Executive, the Board comprises the Finance Director, Legal Director and Divisional Managing Directors. The Board has broad commercial experience but also detailed industry knowledge, with individuals having diverse backgrounds but possessing complementary skills. The Board meets six times per annum and is accountable to its shareholders for the proper conduct of the Group with the overarching responsibility to discharge the statutory duties of directors. Functional department heads regularly present to the Board. In addition, there is a holding company board of The Miller Homes Group (UK) Limited which meets four times per annum.

Certain decisions are referred to the holding company board on key financial or strategic matters in accordance with a set of agreed parameters.

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

Corporate Approval Committee

The Corporate Approval Committee has delegated authority to approve certain land acquisitions, contracts, investments and capital expenditure over defined limits. The committee comprises the Chief Executive or Finance Director and a member of the holding company board.

Remuneration Committee

The Remuneration Committee meets three times per annum. Recommendations are made to the holding company board on all aspects of the remuneration, benefi s and employment conditions of the Board.

Audit Committee

The Audit Committee considers and makes recommendations regarding the integrity of the financial statements of the Group; the effectiveness of internal controls and risk management and the internal and external audit process. The committee meets three times per annum.

Chris Endsor
Chief Executive
Chris joined the Group in 2000, following the acquisition of the Birch Group where he was a founder and Group Managing Director. He has held a number of senior positions within the Group and was appointed Chief Executive in 2011. Chris has 35 years' industry experience, having initially trained and qualified as a quantity surveyor. He is a Fellow of the Chartered Institute of Building and has an in depth knowledge of the industry and in particular has taken a keen interest in land strategy throughout all his senior management positions. Chris adopts an inclusive leadership style designed to deliver excellence through teamwork and constructive challenge.

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

Steve Birch
Divisional Managing Director, North
Steve joined the Group following the acquisition of Fairclough Homes in 2005. With a background in finance, he has 32 years' sector experience, 17 of which as a Managing Director. Steve has an in depth knowledge of the industry with a particular focus on finance and land. He is an Associate Member of the Chartered Institute of Management Accountants.

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

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

Stewart Lynes
Divisional Managing Director, Scotland
Stewart joined the Group in 2008. He was promoted to Operations Director in 2011 and to his current role of Managing Director in 2013. Stewart is a qualified quantity surveyor and chairs the Commercial Directors' meetings on a national basis. Having previously worked for several large listed housebuilders, Stewart has 16 years' experience in the sector and is a member of the Homes for Scotland Board. In addition to his surveying skills, Stewart's strengths are in land buying and sales.

Picture:
The Orchid, Bradbery Gardens, Didcot.

Directors' report

The directors of Miller Homes Holdings Limited have pleasure in presenting their report and the audited financial statements for the year ended 31 December 2016.

Principal activities

The principal business conducted by the Group was residential housebuilding.

Business review

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

Results and dividends

The Group profit after taxation for the financial year amounted to £71.4 million (2015: £48.9 million). No dividend will be paid.

Going concern

The Group's business activities, together with factors likely to affect its future development and performance are set out in the Strategic report. The financial position of the Group, its cashflows and details of its borrowing facilities are described in the Finance Director's review on pages 26 to 27. The directors have prepared cashflow forecasts, which take into account reasonable sensitivities, in order to assess the future funding requirements of the Group, its committed bank facilities and its compliance with banking covenants.

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

Directors

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

- Chris Endsor
- Ian Murdoch
- Julie Jackson
- Steve Birch
- Stewart Lynes
- Darren Jones

Employees

The Directors' report in relation to employees is shown on page 24.

Supplier payment policy

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

Contributions

The Group made £63,000 of charitable donations during the year and did not incur any political expenditure.

Disclosure of information to auditor

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

Auditor

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

By order of the Board

Julie Jackson
Company Secretary
7 March 2017

Registered Number: SC255430

Statement of Directors' responsibilities in respect of the Strategic report and Directors' report and the fi ancial statements

Financial statements and accounting records

The directors are responsible for preparing the Strategic report and Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Directors' responsibility statement

The directors confirm that, to the best of each person's knowledge:

- the Group financial statements in this report, which have been prepared in accordance with IFRS and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, and the Parent Company financial statements in this report, which have been prepared in accordance with FRS 101 and those parts of the Companies Act 2006 applicable to companies reporting under FRS 101, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the Group taken as a whole; and
- the Strategic report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties they face.

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

We have audited the financial statements of Miller Homes Holdings Limited for the year ended 31 December 2016 set out on pages 38 to 62. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 101 Reduced Disclosure Framework.

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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 36, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express our opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

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

KPMG LLP
Saltire Court, 20 Castle Terrace
Edinburgh EH1 2EG
United Kingdom
7 March 2017

Consolidated income statement
for the year ended 31 December 2016

	Note	2016 £m	2015 £m
Revenue	1	**565.3**	499.6
Cost of sales		**(422.5)**	(385.5)
Gross profi		**142.8**	114.1
Administrative expenses		**(40.2)**	(36.2)
Group operating profit		**102.6**	77.9
Share of profit in joint ventures		**0.4**	0.5
Operating profi	2	**103.0**	78.4
Finance costs	5	**(16.2)**	(18.8)
Finance income	6	**2.5**	2.4
Net finance costs		**(13.7)**	(16.4)
Profit before taxation		**89.3**	62.0
Income taxes	7	**(17.9)**	(13.1)
Profit for the year		**71.4**	48.9

The notes on pages 42 to 62 form part of the financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2016

	2016 £m	2015 £m
Profit for the year	**71.4**	48.9
Items that will not be reclassified to profit and loss:		
Change in fair value of financial instruments	**(0.8)**	(0.2)
Actuarial loss on retirement benefi obligations	**(20.6)**	(0.9)
Deferred tax on actuarial loss	**3.9**	0.2
Total comprehensive income for the year attributable to owners of the parent	**53.9**	48.0

Consolidated statement of changes in equity
for the year ended 31 December 2016

	Share capital £m	Retained earnings £m	Total £m
Balance at 31 December 2014	125.0	93.4	218.4
Profit for the year	–	48.9	48.9
Change in fair value of financial instruments	–	(0.2)	(0.2)
Actuarial loss on retirement benefit obligations (net of deferred tax)	–	(0.7)	(0.7)
Balance at 31 December 2015	125.0	141.4	266.4
Profit for the year	–	71.4	71.4
Change in fair value of financial instruments	–	(0.8)	(0.8)
Actuarial loss on retirement benefit obligations (net of deferred tax)	–	(16.7)	(16.7)
Balance at 31 December 2016	**125.0**	**195.3**	**320.3**

Company statement of changes in equity
for the year ended 31 December 2016

	Share capital £m	Retained earnings £m	Total £m
Balance at 31 December 2014	125.0	33.8	158.8
Loss for the year	–	(7.7)	(7.7)
Balance at 31 December 2015	125.0	26.1	151.1
Loss for the year	–	(6.0)	(6.0)
Balance at 31 December 2016	**125.0**	**20.1**	**145.1**

The notes on pages 42 to 62 form part of the financial statements.

Statements of fi ancial position
as at 31 December 2016

	Note	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Assets					
Non-current assets					
Property, plant and equipment	9	**0.3**	0.2	**–**	–
Investments	10	**21.2**	14.3	**369.6**	363.2
Available for sale financial assets	11	**28.0**	34.2	**–**	–
Deferred tax	12	**51.0**	65.0	**–**	–
		100.5	113.7	**369.6**	363.2
Current assets					
Inventories	13	**544.4**	441.8	**–**	–
Trade and other receivables	14	**31.0**	27.7	**–**	–
Cash and cash equivalents		**41.1**	8.6	**–**	–
		616.5	478.1	**–**	–
Total assets		**717.0**	591.8	**369.6**	363.2
Liabilities					
Non-current liabilities					
Interest bearing loans and borrowings	16	**(157.7)**	(148.8)	**–**	–
Trade and other payables	15	**(33.4)**	(12.5)	**–**	–
Retirement benefi obligations	27	**(46.4)**	(29.7)	**–**	–
Provisions and deferred income	17	**(6.5)**	(5.2)	**(2.9)**	(0.8)
		(244.0)	(196.2)	**(2.9)**	(0.8)
Current liabilities					
Interest bearing loans and borrowings	16	**(5.0)**	–	**–**	–
Trade and other payables	15	**(147.7)**	(129.2)	**(221.6)**	(211.3)
		(152.7)	(129.2)	**(221.6)**	(211.3)
Total liabilities		**(396.7)**	(325.4)	**(224.5)**	(212.1)
Net assets		**320.3**	266.4	**145.1**	151.1
Equity					
Share capital	18	**125.0**	125.0	**125.0**	125.0
Retained earnings		**195.3**	141.4	**20.1**	26.1
Total equity attributable to owners of the parent		**320.3**	266.4	**145.1**	151.1

The notes on pages 42 to 62 form part of the financial statements. These financial statements were approved by the Board of Directors on 7 March 2017 and were signed on its behalf by:

Chris Endsor
Chief Executive

Ian Murdoch
Finance Director

Registered Number: SC255430

Consolidated cash flow statement
for the year ended 31 December 2016

	Note	2016 £m	2015 £m
Cash flows from operating activities			
Profit for the year		**71.4**	48.9
Depreciation		**0.1**	0.1
Amortisation of land option costs		**0.5**	0.6
Finance income		**(2.5)**	(2.4)
Finance cost		**16.2**	18.8
Share of post tax profits from joint ventures		**(0.4)**	(0.5)
Taxation		**17.9**	13.1
Operating profit before changes in working capital		**103.2**	78.6
Working capital movements:			
Movement in trade and other receivables		**4.5**	(1.0)
Movement in inventories		**(109.2)**	(38.2)
Movement in trade and other payables		**36.7**	2.3
Cash generated from operations		**35.2**	41.7
Interest paid		**(9.9)**	(14.8)
Corporation tax received		**–**	0.2
Net cash inflow from operating activities		**25.3**	27.1
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(0.2)**	(0.2)
Distributions from joint ventures		**1.2**	–
Movement in loans with joint ventures		**(7.7)**	(9.2)
Net cash outflow from investing activities		**(6.7)**	(9.4)
Cash flows from fi ancing activities			
Increase/(decrease) in bank borrowings	21	**10.7**	(60.1)
Increase in other long term borrowings	21	**3.2**	21.5
Net cash inflow/(outflow) from fi ancing activities		**13.9**	(38.6)
Net increase/(decrease) in cash and cash equivalents	21	**32.5**	(20.9)
Cash and cash equivalents at beginning of year		**8.6**	29.5
Cash and cash equivalents at end of year	21	**41.1**	8.6

The notes on pages 42 to 62 form part of the financial statements.

1. Accounting policies

Basis of preparation

The Group financial statements have been prepared and approved by the directors in accordance with IFRSs as adopted by the EU ("Adopted IFRSs"). The accounting policies set out below have, unless otherwise stated, been applied consistently in the financial statements. The Parent Company financial statements have been prepared in accordance with FRS 101 Reduced Disclosure Framework. The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 have been applied. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

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

Judgements made by the directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 24.

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

Basis of consolidation

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

Measurement convention

The financial statements are prepared on the historical cost basis with the exception of available for sale financial assets which are stated at their fair value.

Going concern

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

New accounting standards effective in 2016

The standards and interpretations that are applicable for the first time in the Group's financial statements for the year ended 31 December 2016 have no effect on these financial statements.

Revenue and profit recognition

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

Jointly controlled entities (equity accounted investees)

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

Investments in subsidiaries

Investments in subsidiaries are measured at cost less impairment.

Net finance costs

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

Income taxes

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

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

Operating leases

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

Property, plant and equipment

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

Plant and equipment:	3 to 10 years

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

Available for sale financial assets

Receivables on extended terms granted as part of a sales transaction are secured by way of a legal charge on the relevant property, categorised as an available for sale financial asset and are stated at fair value as described in note 11. Gains and losses arising from changes in fair value are recognised in other comprehensive income, with the exception of impairment losses, the impact of changes in future cash flows and interest calculated using the effective interest rate method, which are recognised directly in the income statement. Where the investment is disposed of, or is determined to be impaired, the cumulative gain or loss previously recognised in equity is included in the income statement for the year.

1. Accounting policies (continued)

Inventories

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

Land purchased on deferred payment terms is recorded at fair value. Any difference between fair value and the amount which will ultimately be paid is charged as a finance expense 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 a cost of sale, with the sales proceeds of part exchange properties not being included in revenue.

Trade and other receivables

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

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

Cash and cash equivalents

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

Trade and other payables

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

Interest-bearing borrowings

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

Retirement benefit obligations

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

The Group operates a 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 recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of comprehensive income, actuarial gains and losses. The scheme was closed to future accrual in 2010.

Share-based payments

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

Dividends on shares presented within total equity

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

Segmental reporting

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

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

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

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

Impact of standards and interpretations in issue but not yet effective

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

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from contracts with customers
- IFRS 16 Leases

2. Operating profit

Operating profit is stated after charging the following:

	2016 £m	2015 £m
Depreciation	**0.1**	0.1
Operating lease rentals		
– land and buildings	**1.2**	1.3
– other	**1.3**	1.2

	2016 £000	2015 £000
Auditor's remuneration:		
Audit of the Group's financial statements	**5**	5
Audit of financial statements of subsidiaries pursuant to legislation	**97**	90
Other services relating to taxation	**40**	30
All other services	**45**	81

3. Staff numbers and costs

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

	2016 Number	2015 Number
Production	**285**	258
Sales	**102**	97
Administration	**353**	329
	740	684

The aggregate payroll costs of these persons were as follows:

	2016 £m	2015 £m
Wages and salaries	**39.3**	36.2
Social security costs	**4.4**	4.0
Pension costs	**2.2**	2.2
	45.9	42.4

4. Remuneration of key management

Key management comprises the six members of the Board listed on page 33 as they are considered to have the authority and responsibility for planning, directing and controlling the activities of the Group. Retirement benefits accrued to six (2015: six) members of key management under money purchase schemes. Key management remuneration, including directors, comprised:

	2016 £m	2015 £m
Salary and other benefi s	**1.8**	1.5
Annual bonus	**1.4**	1.4
Other pension costs	**0.1**	0.2
	3.3	3.1

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

	2016 £m	2015 £m
Salary and other benefi s	**1.7**	0.8
Annual bonus	**1.4**	0.8
Other pension costs	**0.1**	0.1
	3.2	1.7

Retirement benefits are accruing to six (2015: three) directors under money purchase schemes.

The aggregate of emoluments, bonus and amounts receivable under long-term incentive schemes of the highest paid director was £994,000 (2015: £870,000) and contributions were paid by the Group to his money purchase pension scheme of £7,500 (2015: £74,000).

The Group operates a long term incentive scheme which rewards directors for performance over a period of greater than one year. Performance conditions are aligned to the growth in value of the Group. The scheme is accounted for as a share based payment and treated as cash settled, however prospective changes in the value of the Group could result in the requirement to adopt equity settled accounting. At the year end the estimated value of the expected entitlement was £2,203,000 (2015: £383,000). There is uncertainty over when this amount will ultimately be paid. Directors also participate in an annual bonus scheme. Amounts payable in respect of the annual bonus scheme are shown within directors emoluments.

5. Finance costs

	2016 £m	2015 £m
Interest payable on bank loans and overdrafts	**7.5**	13.3
Interest payable on amounts owed to fellow subsidiary companies	**3.2**	1.5
Imputed interest on land payable on deferred terms	**4.4**	2.9
Finance costs related to employee benefi obligations	**1.1**	1.1
	16.2	18.8

6. Finance income

	2016 £m	2015 £m
Imputed interest on available for sale financial assets	**1.6**	2.4
Interest on loans to joint ventures	**0.5**	–
Other	**0.4**	–
	2.5	2.4

7. Income taxes

	2016 £m	2015 £m
Current tax credit:		
Total current tax	–	0.2
Deferred tax charge:		
Origination and reversal of temporary differences	(17.9)	(10.6)
Impact of reduction in tax rate	–	(2.7)
Total deferred tax (note 12)	(17.9)	(13.3)
Tax charge for the year	**(17.9)**	(13.1)

Reconciliation of effective tax rate:

	2016 £m	2015 £m
Profit before tax	89.3	62.0
Tax using the UK corporate tax rate (see below)	(17.9)	(12.5)
Effects of:		
Impact of change in tax rate	–	(2.6)
Permanent differences	(0.4)	(0.9)
Adjustment in respect of prior years	0.3	2.8
Adjustment in respect of joint ventures	0.1	0.1
Total charge for the year	**(17.9)**	(13.1)

Current tax has been charged at 20% (2015: 20.25%) in the reconciliation above. The corporate tax rate reduced to 21% from 1 April 2014 and to 20% from 1 April 2015. It will reduce to 19% from 1 April 2017 and to 17% from 1 April 2020.

The future corporate tax rate of 19% (2015: 19%) is applied to deferred tax, except for temporary differences expected to reverse before this rate becomes effective.

8. Dividends

There were no distributions to equity shareholders in the year ended 31 December 2016 (2015: £nil).

9. Property, plant and equipment

Cost	Plant and equipment £m
At 31 December 2014	1.4
Additions	0.1
At 31 December 2015	1.5
Additions	0.2
Disposals	(0.1)
At 31 December 2016	**1.6**
Accumulated depreciation	**£m**
At 31 December 2014	1.2
Charge for the year	0.1
At 31 December 2015	1.3
Charge for the year	0.1
Disposals	(0.1)
At 31 December 2016	**1.3**
Net book value	
At 31 December 2015	0.2
At 31 December 2016	**0.3**

10. Investments

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Investment in joint ventures	**21.2**	14.3	**19.5**	13.1
Investment in subsidiaries	**–**	–	**350.1**	350.1
	21.2	14.3	**369.6**	363.2

	2016 £m	2015 £m	**2016 £m**	2015 £m
Joint ventures:				
At beginning of year	**14.3**	4.6	**13.1**	3.5
Share of profi s	**0.4**	0.5	**–**	–
Distribution	**(1.2)**	–	**(1.2)**	–
Movement in shareholder loans	**7.7**	9.2	**7.6**	9.6
At end of year	**21.2**	14.3	**19.5**	13.1

10. Investments (continued)

Subsidiaries	Company 2016 £m	Company 2015 £m
At beginning and end of year	**350.1**	350.1

The total of the Group's profit before taxation from interests in joint ventures and associates is £0.4m (2015: £0.6m).

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

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

	Group 2016 £m	Group 2015 £m
Current assets	**26.6**	23.2
Current liabilities	**(27.8)**	(23.5)
Loans provided to joint ventures	**22.4**	14.6
	21.2	14.3

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

	2016 £m	2015 £m
Income	**5.9**	4.8
Expenses	**(5.5)**	(4.2)
	0.4	0.6

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

	Nature of business
Subsidiary undertakings:	
Miller Homes Limited	Residential housebuilding
Miller (Telford South) Limited	Residential housebuilding
Miller Framwellgate Limited	Residential housebuilding
Miller East Kilbride Limited	Residential housebuilding
Miller Cambuslang Limited	Residential housebuilding
Miller Homes St Neots Limited	Residential housebuilding

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

Details of all Group companies are given in note 28.

11. Available for sale financial assets

	Group 2016 £m	Group 2015 £m
At start of year	**34.2**	41.5
Redemptions	**(7.8)**	(9.7)
Imputed interest	**1.6**	2.4
At end of year	**28.0**	34.2

Available for sale financial assets comprise loans which were granted as part of sales transactions under the Group's Miway scheme and the HCA HomeBuy Direct and FirstBuy shared equity schemes. They are secured by way of a second ranking legal charge on the related property. The assets are recorded at fair value, being the estimated future amount receivable by the Group, discounted to present day values. The fair value of anticipated cash receipts takes into account the directors' view of future house price movements, the expected timing of receipts, and the likelihood that a purchaser defaults on repayment. The directors review the future anticipated receipts from the assets at the end of each financial year. The difference between the anticipated future receipt and the initial fair value is credited over the estimated deferred term to finance income (see note 6), with the financial asset increasing to its full expected cash settlement value on the receipt date. Credit risk, which the directors currently consider to be mitigated through holding a second legal charge over the assets, is accounted for in determining fair values and appropriate discount factors are applied. The directors review the financial assets for impairment at each balance sheet date. There were no indicators of impairment at 31 December 2016 (2015: nil). None of the financial assets are past their due dates (2015: nil) and the directors expect an average maturity profile of between 5 and 10 years from the balance sheet date.

12. Deferred tax

The following are the deferred tax assets recognised by the Group and the movements thereon during the year:

	Group				
	Trading losses £m	Retirement benefi obligations £m	Capital allowances £m	Other temporary differences £m	Total £m
At 31 December 2014	71.0	6.1	0.6	0.4	78.1
Other comprehensive income credit	–	0.2	–	–	0.2
Income statement charge	(12.5)	(0.6)	(0.2)	–	(13.3)
At 31 December 2015	58.5	5.7	0.4	0.4	65.0
Other comprehensive income credit	–	3.9	–	–	3.9
Income statement charge	(16.4)	(0.8)	(0.1)	(0.6)	(17.9)
At 31 December 2016	**42.1**	**8.8**	**0.3**	**(0.2)**	**51.0**

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

13. Inventories

	Group	
	2016 £m	2015 £m
Land	**338.5**	265.4
Work in progress	**191.6**	164.1
Part exchange properties	**10.1**	8.5
Land option costs	**4.2**	3.8
At end of year	**544.4**	441.8

Land and work in progress recognised as cost of sales in the year to 31 December 2016 amounted to £419.6m (2015: £380.0m). The write-down of stocks to net realisable value in the year amounted to £0.3m (2015: £0.6m). The reversal of write-downs in the year amounted to £0.8m (2015: £0.3m). The write-down and reversal are included in cost of sales.

14. Trade and other receivables

	Group	
	2016 £m	2015 £m
Trade receivables	**10.5**	2.8
Amounts recoverable on contracts	**4.1**	7.2
Amounts owed by fellow subsidiary companies	**4.4**	9.9
Other receivables	**10.1**	6.2
Prepayments and accrued income	**1.9**	1.6
	31.0	27.7

15. Trade and other payables

	Group		Company	
Current	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Trade payables	**62.3**	47.4	**–**	–
Amounts owed to fellow subsidiary companies	**–**	–	**221.6**	211.3
Other payables	**11.7**	8.8	**–**	–
Land payables (see below)	**46.0**	47.8	**–**	–
Accruals and deferred income	**27.7**	25.2	**–**	–
	147.7	129.2	**221.6**	211.3

Non-current	Group 2016 £m	Group 2015 £m
Land payables (see below)	**33.4**	12.5

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

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

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

	Balance £m	Total contracted cash payment £m	Due less than 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m
As at 31 December 2015	60.3	63.5	47.8	14.0	1.7
As at 31 December 2016	**79.4**	**84.3**	**46.0**	**26.3**	**12.0**

16. Interest bearing loans and other borrowings

Current	Group 2016 £m	Group 2015 £m
Bank loans (secured)	**5.0**	–

Non-current	Group 2016 £m	Group 2015 £m
Bank loans (secured)	**122.7**	117.0
Long term borrowings	**35.0**	31.8
	157.7	148.8

16. Interest bearing loans and other borrowings (continued)

Bank loans

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

	2016 £m	2015 £m
Analysis of debt:		
Bank loans due within 1 year	**5.0**	–
Bank loans due 1-2 years	**10.0**	5.0
Bank loans due 2-5 years	**112.7**	112.0
	127.7	117.0

Long term borrowings

Long term borrowings relate to the Group's interest in Telford NHT (2011) LLP, an entity established to provide residential property for rental purposes and loan notes at £24.7m ultimately provided by certain shareholders of The Miller Homes Group (UK) Limited. The full amount is payable in 2-5 years, however, following the year end the loan notes were repaid.

17. Provisions and deferred income

	Group			Company
	Property £m	Other £m	Total £m	Other £m
At start of year	2.6	2.6	5.2	0.8
Utilised during the year	(0.5)	(0.3)	(0.8)	–
Created in year	–	2.1	2.1	2.1
At end of year	**2.1**	**4.4**	**6.5**	**2.9**

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

Other provisions represent legal and constructive obligations including the Group's long term incentive plan. These are expected to be utilised over the next three years.

18. Share capital

	2016 £m	2015 £m
Allotted, called up and fully paid		
125,000,000 (2015: 125,000,000) 'A' ordinary shares of £1 each	**125.0**	125.0
10,000 (2015: 10,000) 'B' ordinary shares of 1p each	**–**	–

19. Financial instruments

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

Measurement of fair values

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

	2016 £m	2015 £m
Financial assets measured at fair value:		
Available for sale financial assets	**28.0**	34.2
Financial assets not measured at fair value:		
Trade and other receivables	**31.0**	27.7
Cash and cash equivalents	**41.1**	8.6
Financial liabilities not measured at fair value:		
Trade and other payables (excluding land payables)	**101.7**	81.4
Land payables	**79.4**	60.3
Bank and other loans	**162.7**	148.8

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

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

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Available for sale financial assets				
As at 31 December 2015	–	–	34.2	34.2
As at 31 December 2016	**–**	**–**	**28.0**	**28.0**

Valuation technique for available for sale financial assets

The fair value is determined by considering the expected payment profile using the discounted present value of expected future cash flows. The major unobservable inputs include the expected timing of redemption payments, management's estimates of the market value of the properties and of the appropriate risk adjusted discount rate to determine present value of the cash flows. The estimated fair value would increase if the risk adjusted discount rate was reduced, and the fair value would also be impacted by any change in the estimate of the timing of redemption receipts. There are a number of uncertainties inherent in such estimates, which would impact on the carrying value of the available for sale financial assets.

19. Financial instruments (continued)

Financial risk

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

(i) Credit risk

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

The Group has £28.0m (2015: £34.2m) of available for sale financial assets which exposes it to credit risk although this asset is spread over a large number of properties. As such, the Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The maximum exposure to credit risk at 31 December 2016 is represented by the carrying amount of each financial asset.

(ii) Liquidity risk

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

The day to day working capital requirements of the Group are provided through bank borrowings and shareholder loans. The Group manages its funding requirements by monitoring cash flows against forecast requirements on a weekly basis.

(iii) Market risk

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

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

(iv) Interest rate risk

Interest rate risk reflects the Group's exposure to interest rates in the market. The Group's secured bank loans are subject to floating interest rates based on LIBOR. The Group has reduced its exposure to interest rate movements through the use of interest rate swaps. In total £75m of debt is hedged at a cost of funds of 4.2%.

For the 12 months ended 31 December 2016 it is estimated that an increase of 1% in interest rates would increase the Group's net finance costs by £0.7m (2015: £1.0m).

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

Capital management

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

Management of cash and cash equivalents and net debt

The management of cash and net debt remains a principal focus of the directors, together with the 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.

20. Reconciliation of net cash flow to net debt

	2016 £m	2015 £m
Increase/(decrease) in cash and cash equivalents	**32.5**	(20.9)
(Increase)/decrease in bank loans	**(10.7)**	60.1
Increase in long term borrowings	**(3.2)**	(21.5)
Movement in net debt in year	**18.6**	17.7
Net debt at beginning of year	**(140.2)**	(157.9)
Net debt at end of year	**(121.6)**	(140.2)

21. Analysis of net debt

	31 Dec 2015 £m	Cash flow £m	31 Dec 2016 £m
Cash and cash equivalents	8.6	32.5	**41.1**
Bank loans	(117.0)	(10.7)	**(127.7)**
Long term borrowings	(31.8)	(3.2)	**(35.0)**
Net debt	(140.2)	18.6	**(121.6)**

22. Commitments

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

	31 December 2016		31 December 2015	
	Land & Buildings £m	Other £m	Land & Buildings £m	Other £m
Lease expiring:				
Within one year	**1.1**	**1.5**	1.1	1.1
Between two and five years	**3.1**	**2.5**	3.3	1.7
Greater than five years	**1.6**	**–**	1.8	–

23. Contingent liabilities

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

The Group's bank has a floating charge over the assets of the Company and certain of its principal subsidiaries and a first ranking charge over certain assets of the Group.

24. Accounting estimates and judgements

Carrying value of inventories

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

The Group has established internal controls that are designed to ensure an effective assessment is made of inventory carrying values and the costs to complete developments. The Group reviews the carrying value of its inventories on a quarterly basis with these reviews performed on a site by site basis using forecast sales prices and anticipated costs to complete based on a combination of the specific trading conditions of each site in addition to future anticipated general market conditions.

Recognition of deferred tax asset

As at 31 December 2016, the Group has recognised a deferred tax asset of £51.0m, of which £42.1m relates to trading losses that are available to offset trading profits in future years. The judgement to recognise the deferred tax asset is dependent upon an assessment made by the directors in relation to the future profitability of the Group and hence recovery of the asset. The future profitability of the Group is dependent upon a variety of factors, some of which are influenced by macroeconomic conditions.

Carrying value of available for sale assets

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

25. Related party transactions

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

	2016 £m	2015 £m
Amounts owed by joint ventures in respect of outstanding loans and other outstanding payables	**22.4**	14.6
Amounts owed by associates in respect of loans and other outstanding payables	**0.3**	0.3
Amounts owed to TMGL Holdings Limited in respect of outstanding loans	**(24.7)**	(21.4)
Amounts owed by TMGL Holdings Limited in respect of outstanding loans	**4.5**	10.0
Amounts owed to TMGL Holdings Limited in respect of outstanding payables	**(0.1)**	(0.1)
Transactions between the Group and TMGL Holdings Limited in respect of interest charges on loans	**3.2**	1.5
Transactions between the Group and fellow subsidiary undertakings of The Miller Homes Group (UK) Limited in respect of rent and office management	**–**	0.6
Services provided by the Group to fellow subsidiary undertakings of The Miller Homes Group (UK) Limited in respect of administrative services	**–**	0.3

During the year a family member of a director of the Company, purchased a residential property for its full market value of £191,000.

26. Ultimate parent company

At 31 December 2016, the Company was a subsidiary undertaking of The Miller Homes Group (UK) Limited, which is the ultimate Parent Company registered in Scotland and incorporated in the United Kingdom. The address of the company and of the ultimate parent company is 2 Lochside View, Edinburgh.

The largest group in which the results of this Company are consolidated is that headed by The Miller Homes Group (UK) Limited. The consolidated financial statements of this Group are available to the public and may be obtained from the Registrar of Companies, Companies House, 4th Floor, Edinburgh Quay, 139 Fountainbridge, Edinburgh, EH3 9FF.

At the date of approval of these financial statements, the Company was ultimately controlled by GSO Capital Partners LP, a division of the Blackstone Group LP.

27. Retirement benefit obligations

The Group operates defined contribution and defined benefit pension schemes.

Defined contribution schemes

	2016 £m	2015 £m
Contributions during the year		
Group defined contribution schemes consolidated income statement charge	**2.2**	2.2

Defined benefit scheme

Under a deed of participation, substitution, amendment and apportionment, Miller Homes Limited, the Group's main subsidiary, became the principal employer of The Miller Group Limited pension scheme on 9 July 2014. This is a defined benefit scheme which is closed to future accrual.

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

Principal actuarial assumptions	2016	2015
Weighted average assumptions to determine benefit obligations		
Discount rate	**2.8%**	3.9%
Rate of price inflation (RPI)	**3.3%**	3.1%
Weighted average assumptions to determine net cost		
Discount rate	**3.9%**	3.7%
Rate of pension increases	**3.0%**	2.9%
Rate of price inflation (RPI)	**3.1%**	3.0%

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

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

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

The base mortality assumptions are based upon the S1NA mortality tables. Allowance for future increases in life expectancy is made with an annual rate of improvement in mortality of 1.0% assumed.

27. Retirement benefit obligations (continued)

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% Increase by 0.1%	£2.9m (1.7%) increase £2.8m (1.6%) decrease
Rate of inflation	Increase by 0.1% Decrease by 0.1%	£1.7m (1.0%) increase £1.6m (0.9%) decrease
Life expectancy	Minus one year age adjustment	£6.0m (3.5%) increase

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

	2016 £m	2015 £m
Interest cost	5.5	5.3
Interest income	(4.4)	(4.2)
Total pension cost recognised in finance costs in the consolidated income statement	**1.1**	1.1
Total pension cost recognised in the consolidated income statement	**1.1**	1.1

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

	2016 £m	2015 £m
Return on scheme assets excluding interest income	(8.6)	3.3
Actuarial loss/(gain) arising from changes in the assumptions underlying the present value of benefi obligations	29.2	(2.4)
Total pension cost recognised in the consolidated statement of comprehensive income	**20.6**	0.9

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

	2016 £m	2015 £m
Present value of funded obligations	171.1	143.3
Fair value of scheme assets	(124.7)	(113.6)
Recognised liability for defined benefit obligations	**46.4**	29.7

	2016 £m	2015 £m
Liability for defined benefi obligations at start of year	29.7	30.7
Contributions	(5.0)	(3.0)
Expense recognised in the consolidated income statement	1.1	1.1
Amounts recognised in the Group statement of comprehensive income	20.6	0.9
Liability for defined benefit obligations at end of year	**46.4**	29.7

A deferred tax asset of £8.8m (2015: £5.7m) has been recognised in relation to the pension liability (note 12).

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

	2016 £m	2015 £m
Present value of defined benefit obligations at start of year	**143.3**	147.7
Interest cost	**5.5**	5.3
Actuarial loss/(gain)	**29.2**	(2.4)
Benefi s paid from scheme	**(6.9)**	(7.3)
Present value of defined benefit obligations at end of year	**171.1**	143.3

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

	2016 £m	2015 £m
Fair value of scheme assets at start of year	**113.6**	117.0
Contributions	**5.0**	3.0
Interest income	**4.4**	4.2
Actuarial gain/(loss) on scheme assets	**8.6**	(3.3)
Benefi s paid from scheme	**(6.9)**	(7.3)
Fair value of scheme assets at end of year	**124.7**	113.6

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

	Percentage of scheme assets
Equity type investments	49.1%
Debt securities	49.3%
Other	1.6%
Total	100.0%

Funding

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

In line with the requirements noted above the actuarial valuation is agreed between the Group and the trustees and is calculated using prudent, as opposed to best estimate, actuarial assumptions. Following the completion of the triennial actuarial valuation, a revised schedule of contributions was put in place. Under this revised schedule, the Group will pay deficit contributions of £45m over the recovery period of 10 years. The expected employer contribution to the scheme in the year ending 31 December 2017 is £4.8m.

28. 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 2016 are disclosed below. All companies are incorporated in the United Kingdom, engaged in housebuilding and associated activities and are owned directly by Miller Homes Holdings Limited unless indicated below:

Fully owned subsidiaries

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

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

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

Joint ventures (all 50%)

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

Associates (45%)

New Laurieston (Glasgow) Limited – G

Limited liability partnerships (33.33%)

Telford NHT 2011 LLP [(vii)] – A

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

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