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miller

BUILDING FOR THE FUTURE

Annual Report 2009

THE GROUP AT A GLANCE

THE MILLER GROUP IS THE UK'S LARGEST PRIVATELY OWNED HOUSEBUILDING, PROPERTY DEVELOPMENT AND CONSTRUCTION BUSINESS

OUR MISSION IS TO DELIVER WORLD-CLASS LEVELS OF SERVICE TO OUR CUSTOMERS, OUTSTANDING LEVELS OF PERFORMANCE FOR OUR SHAREHOLDERS AND TO BE THE SECTOR'S BEST PARTNER, EMPLOYER AND SUSTAINABLE DEVELOPER.

OUR BUSINESS IS MADE UP OF FOUR DIVISIONS:

MILLER HOMES

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

To find out more read the Housing review on page 6.

MILLER DEVELOPMENTS

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

To find out more read the Property review on page 10.

MILLER CONSTRUCTION

Miller Construction is a major building contractor operating throughout the UK. We work with organisations that share our commitment to the philosophy of partnership. A significant part of our business is in the PPP sector.

To find out more read the Construction review on page 14.

OUR PERFORMANCE IN 2009

Group Turnover
£783m

Group Profit before Interest and Exceptionals
£13.1m

Exceptional Costs
£27.5m

Group Loss after Tax
£34.1m

Cash Inflow from Operations
£130m

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75 years of The Miller Group

MILLER MINING

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

To find out more read the Mining review on page 18.

FIND OUT MORE ABOUT THE MILLER GROUP AT
WWW.MILLER.CO.UK

CHAIRMAN'S STATEMENT
SIR BRIAN STEWART CBE

Sir Brian Stewart CBE
Chairman

MANAGING STAKEHOLDERS' INTERESTS

The turbulent macroeconomic conditions which affected all sectors of the economy during the course of 2008 – and to which I referred in last year's Annual Report – continued throughout 2009, having an impact on all areas of The Miller Group's activities. Despite the uncertain climate, however, the Group delivered a satisfactory performance over the past year.

This is a testament to many things: the diversity and fundamental strength of our business model, our experienced management and staff and the respected brand status Miller enjoys within the industry. It is also due to the early and decisive actions we took to deal with the effects of the financial crisis by restructuring our operations and finances. Overheads have reduced from £86m in 2007 to £47m in 2009, a 47% decrease. Staff numbers have fallen by a similar amount.

Our primary focus is to restore the Group to profitability. Group turnover reduced from £1,046m to £783m. Group loss before tax of £72.4m includes £27.5m of exceptional items. The majority of these relate to our overseas commercial properties and, in particular, those in Eastern and Central Europe where we have experienced pressure on rental levels.

Given the above, the Board once again recommends no dividend be paid.

On the positive side, we generated £130m of cash from operations in 2009.

The Group's balance sheet has been weakened in the past two years with the combined effects of the share buy-in, asset write-downs and trading losses. These were fully taken into consideration when the business was refinanced last year. We have committed and unsecured facilities through to March 2012 and continue to operate with over £200m headroom. The strong cash position will permit the Group to cancel £100m of facilities nine months ahead of schedule.

The Board is completely focused on performing in line with plans and in the process preserving the interests of all stakeholders and rebuilding shareholder value.

75 YEARS OF LOOKING TO THE FUTURE

2009 marked the 75th anniversary of The Miller Group. From the start – in 1934 – a few simple principles have guided everything we have achieved over the years:

Board
We welcome Brian Wallace who joined the Board on 3 November 2009. Brian is Finance Director of Ladbrokes Plc and has considerable financial and restructuring experience. Brian replaces Malcolm Gourlay as Chairman of the Audit Committee. Malcolm retires at the Annual General Meeting after 12 years of distinguished service and wise counsel to the Board. Dimitrios Hatzis retired from the Board in March 2010 and will maintain a link with the Group through the biannual Family Council meetings. On behalf of the Board, I thank Malcolm and Dimitrios for their valuable contributions to the Group.

People
The past two years have been the most challenging in the Group's history. The determination and spirit displayed by all employees in an adverse economic environment has been admirable. The Board recognises and acknowledges this unstinting dedication and commitment. Thank you to everyone.

Miller's 75th Anniversary
2009 marked the 75th anniversary of the Group, something in which we all take considerable pride. There are a number of similarities between the economic climate in which the business was started and the one in which we find ourselves today. However, the capability, resources and reputation for quality of the Group today are poles apart from its humble origins when founded by James, John and Lawrence Miller in 1934. To acknowledge this important anniversary, on the inside back cover of this report we chart the key milestones in the history and development of the business from 1934 to 2009.

Outlook
We are anticipating another difficult year ahead with a generally weak macroeconomic outlook, bank capital still being rationed and uncertainty surrounding the political direction of the country. However, we have come through a very volatile environment creditably. We have a very lean, tried and tested business ready for the challenges ahead.

With 50% of housing sales for 2010 already secured, a positively yielding property portfolio, a healthy Construction forward order book and highly experienced management teams dedicated to building on our success, I believe we can look to the period ahead with confidence.

THE BOARD IS FOCUSED ON PRESERVING THE INTERESTS OF ALL STAKEHOLDERS AND REBUILDING SHAREHOLDER VALUE.

- close liaison with our customers to ensure a precise understanding of what they require
- a constant focus on exceeding customer expectations
- a demand for the highest quality in everything we do; and
- the use of the latest technology and materials to create buildings and homes which will stand the test of time.

These founding principles underpin our approach to this day. An excellent example is the "Miller Zero" initiative completed in 2009 (see page 8) which positions the company at the leading edge of delivering high quality, energy efficient buildings which people will increasingly demand in the future.

BUSINESS REVIEW
KEITH M MILLER CBE

Keith. M. Miller.

Keith M Miller CBE
Group Chief Executive

EXPERIENCED TEAMS AND WELL-POSITIONED BUSINESSES

As a consequence of the difficult trading conditions over the past two years, we have by necessity concentrated resources internally. This is focused on four fundamental principles:

- ensuring effective, flat management structures and highly motivated teams
- maintaining firm control on asset and cash management
- paying the closest attention to our customers' requirements and making sure they are satisfied at all times; and
- continuing to challenge our cost base and the quality of our supply chain.

These actions have produced a very lean business. This not only helped us to record a satisfactory performance during 2009 but, looking ahead, will put the company in an excellent position as the economy emerges from recession. Whilst our strategy in the recent past has by necessity seen a contraction of the business and its constituent parts, we do not envisage any fundamental change in direction.

Strategy
The Group's business model relies on the strategic strength inherent in the diversity of its various parts. The two asset businesses – Housing and Property – are complemented by a cash generative Construction business. We also operate a major opencast coal site in South Wales.

BUILDING FOR THE FUTURE

During the last two years we have realigned our strategy to ensure that the Group is better equipped for the future and can realise its strategic objectives. This has involved three major initiatives:

Housing
Our ambition is to maintain our position as a major volume housebuilder and be one of the most respected in the country. We operate in eight regions, focusing on family housing. We work closely with the Homes and Communities Agency on the delivery of their affordable housing programmes and regeneration initiatives such as Home Buy Direct (HBD) and Kickstart. Housing volumes in 2009 were 2,068 (2008: 2,056) with 212 (2008: 379) sold to Housing Associations and 276 (2008: nil) sold with the benefit of the HBD scheme.

Property
We are essentially a trading business, developing our portfolio of land or income producing assets over a three year cycle. Our hold period has had to be extended in recent times with a scarcity of buyers and capital. Retail and offices are our principal areas of expertise although we do have exposure to leisure, mixed use and industrial. The business has around 2m sq ft of built space and a further 14m sq ft to be developed. Two-thirds of our portfolio is in the UK with the balance in Europe.

Construction
This business operates as a national contractor serving both the public and private sector. We operate in all the UK's major conurbations and sectors and have an average contract value of £18m. Partnering with our clients is a cornerstone of our business philosophy where we seek to provide value-engineered solutions. We work closely with a hand-picked, trusted and tested supply chain who are integral to delivering a high quality product on time and on budget.

Mining
We operate the UK's largest opencast coal mine at Ffos-y-fran in Merthyr Tydfil, Wales. This serves, by a direct rail link, the local power station at Aberthaw, and major industrial customers.

With the mine now through the infrastructure phase and in full production, we agreed terms for £45m medium term funding from Credit Suisse/Caterpillar Financial Services in March 2010. This will allow a significant equity release of over £20m.

THE GROUP'S BUSINESS MODEL RELIES ON THE STRATEGIC STRENGTH INHERENT IN THE DIVERSITY OF ITS VARIOUS PARTS.

Repositioning the business
We took early and decisive action in the Spring of 2008 to resize the business in anticipation of lower levels of activity.

Landbank and portfolio management
In Housing, plans have been accelerated to bring forward strategic land with strong earnings potential. The Property business has been improving the quality of tenants to maximise income and ultimately exit values.

Tight cash and cost control
Cash is controlled through a combination of short and medium term forecasts. We continually seek to drive cost out of our housebuilding and construction operations.

HOUSING

EFFICIENT MANAGEMENT OF OUR LANDBANK AND COST BASE

Market
The housing market improved steadily during 2009 albeit from the low base of 2008.

Visitor levels to our show homes also improved over last year, and we saw an increasing proportion of leads coming from our website. We believe this confirms that underlying consumer demand for new housing is still strong. However, in the short term, transaction levels remain suppressed due to concerns over mortgage availability and short term economic conditions – as well as the prospect of political change in 2010.

The key feature of the housing market in 2009 has been the impact of restricted mortgage availability, reduced loan to value ratios, and continued tightening of credit requirements by many lenders. In order to bridge the funding gap caused by the reduced loan to value ratios, we have successfully promoted shared equity: either our own MiWay product or the Homes and Communities Agency's ("HCA") HomeBuy Direct ("HBD") scheme. These two schemes combined accounted for 46% of our net reservations during 2009.

We have worked closely with the HCA throughout the year and have been successful in selling over 500 units under the HBD scheme, and achieving 276 completions. HBD will continue to be available during 2010 following further allocations of funding received through the HCA Kickstart programme, an initiative designed to achieve the commencement of new, or the re-launch of stalled, developments.

We were delighted to end the year with the announcement that Miller Homes had been selected to be a member of the Northern Cluster of HCA's Development Partner Panel/Public Land Initiative.

Performance
Against a difficult backdrop, Miller Homes delivered a creditable performance in 2009 and exceeded our volume targets by more than 10%. The total number of housing completions for 2009 was 2,068 (2008: 2,056). This steady performance was delivered despite the relatively weak business-in-hand position we had at the start of 2009.

Total volume included 164 (2008: 379) affordable housing units. The reduction reflected the planning obligations on our owned landbank and the timing of site starts. In addition we have re-planned a number of our sites in conjunction with our Housing Association partners that were originally intended for private sale.

Turnover fell by 7% to £331m (2008: £358m), and our average selling price reduced slightly to £160,000 (2008: £164,000). Operating margins remained depressed due to market conditions. We closed our Northern Home Counties region, which has been merged with our Southern region to improve economies of scale in the South of England.

Sales Analysis

£331m

Scotland	North	Midlands & South
20%	40%	40%

01

02

A BRAND THAT'S BUILT TO LAST

Saxon Park
Everyone at Miller Homes was delighted to learn recently that Phil Egan and his partner, Jo, were so pleased with their new 'Carlton' four bedroom home in Miller's Saxon Park development in Warrington that they had persuaded no fewer than three separate lots of friends to move into the same development!

These included Zara Rogers, Jo's sister: "Phil and Jo suggested that Anthony and I take a look at Saxon Park. We immediately fell for the 'Wolsey' three bedroom house which had everything we were looking for – excellent accommodation on three floors (I particularly liked the master bedroom being up on the top floor!), a good sized garden in a lovely, quiet area yet close to the town centre and ideally situated for Liverpool and Manchester. The Miller team offered us some great incentives and made the whole moving experience easy. We love it here."

"THE MILLER BRAND HAD SUCH A POSITIVE IMPACT ON PHIL AND HIS PARTNER THAT THEY'VE DONE A GREAT SALES JOB – RECOMMENDING OUR HOMES AT SAXON PARK TO THREE OTHER PEOPLE: THEIR SISTER ZARA AS WELL AS THEIR FRIENDS MANDY AND LEANNE."

Zoe McIver, Miller Homes Sales Consultant

01 Birkacre Park, Chorley.
02 Zoe McIver, Miller Homes Sales Consultant, Phil Egan and Zara Rogers.

HOUSING
CONTINUED

01

BUILDING THE HOMES OF THE FUTURE

Miller Zero

2009 saw the completion of our Miller Zero initiative – a range of eco-friendly properties designed to the highest energy and water efficiency standards in order to meet the requirements of the Government's Code for Sustainable Homes which comes into effect in 2016.

At our Merton Rise residential development near Basingstoke, we completed five homes for sale – including the first carbon zero house to be built by a UK volume housebuilder on a live site. From 2016 onwards, all new-build homes must be carbon zero. Seven years ahead of time, this research project is identifying the precise design, cost and construction implications inherent in the homes of the future.

At the 2009 Housebuilding Innovation Awards, Miller Zero won the 'Best Low or Zero Carbon Initiative' award.

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Risk Management

Risk management is embedded within all areas of the business: from detailed operating policies and procedures to regular reporting and review of risk at Board level. We maintain a risk register which is subject to regular review. This tool is used to identify and assess the major risks that we face, and design and monitor the actions we take to manage those risks.

Landbank

In light of the continuing difficult market conditions, our short term focus remained very much on cash management. As a result, we maintained a prudent approach to land acquisitions and adopted a short term strategy of reducing our existing land holdings before future reinvestment when the market stabilises. At 31 December 2009, we owned approximately 8,300 plots (2008: 10,300) representing approximately four years' supply at current output levels.

We have been working to improve the quality of our owned landbank and maximise its value through revisions to existing planning consents designed to deliver the type of homes for which there is a stronger demand and on which mortgages will be more readily available.

Our strategic land holdings will be a significant source of development opportunities over the short to medium term and will deliver above average margins. We have critically assessed our strategic land holdings and have focused our ongoing investments on a number of sites that we expect to deliver implementable planning consents over the next five years. We believe that we can deliver around 14,000 plots over this period. At 31 December 2009, we had options over 5,050 acres (2008: 5,200) which may be developed in the longer term.

Customer Care

Our commitment to customer care remains central to our business. Miller Homes remains the only housebuilder to regularly publish the results of independent customer satisfaction surveys. During the year 97% (2008: 90%) of respondents stated that they would recommend Miller Homes to their best friend. In the last six months we achieved a Net Promoter Score™ of 62 which compares very favourably with scores in our sector as well as other industries which use this internationally recognised customer loyalty measure.

Looking Forward

We entered 2010 with forward sales representing more than 30% of our planned volume for the year. The market in the first 10 weeks of 2010 has been similar to that experienced in 2009, with a continuation of the shortage in mortgage supply and short term concerns regarding the recession and the forthcoming general election dampening what we believe is stronger underlying demand. We do not believe that there will be a widespread recovery in the market until mortgage supply and lending terms return to more normal levels.

The restructuring we undertook in 2008 and 2009 has ensured that we have retained all of our key skills and the capacity to continue operations in all of our geographic areas. This, and the increased investment we are making to ensure delivery from our strategic land holdings, means we can look forward with confidence.

01 Outside a Miller Zero home at Merton Rise, Basingstoke.
02 The interior of a Miller Zero home.

Landbank (plots)

8,300

Scotland	North	Midlands & South
28%	42%	30%

PROPERTY

STRONG PORTFOLIO MANAGEMENT

Market

In common with other parts of the economy, the commercial property sector has experienced unprecedented market conditions over the past two years. Whilst 2008 was characterised by falling values brought about by the financial sector collapse and consequent liquidity freeze, in 2009 capital values remained volatile as weakening occupational markets have started to affect sentiment.

Encouragingly, however, there was a significant recovery in values in the last quarter of 2009. This was largely restricted to prime assets and was driven by the weight of institutional and overseas money looking for high quality investment product. Secondary property also benefited in the same period, but the extent to which this recovery will be sustainable is still not clear.

Whilst occupational demand for our own portfolio has remained reasonably strong during 2009, it still remains the largest threat to a more sustained and broad-based recovery in the sector in 2010 and beyond.

Performance

Despite another difficult year, the business made a pre-exceptional operating profit of £13.1m, a highly creditable performance. Asset write-downs totalling £20.1m were taken principally in relation to our overseas projects reflecting much weaker occupational markets than in the UK.

Our current portfolio comprises over 50 projects capable of delivering 16m sq ft of accommodation (including joint ventures). We remain active across all sectors of the market, from leisure and retail to offices and mixed use.

Investment in new and existing projects was held back pending expected better returns and buying opportunities ahead and, as a consequence, the business ended the year with substantial cash available for new business activities.

Risk Management

Our strategy is to maintain a broad based commercial property business spanning both the UK and Europe. We operate in three principal spheres: development, property trading and change of use, adopting a highly entrepreneurial approach to generate value across all sectors. We have a mixed portfolio comprising long term major development projects and shorter term opportunities that allow us to trade on within a two to three year timescale. The emphasis over the past eighteen months has been to actively asset-manage current projects to ensure lettings, income and cashflow are maximised.

Strong risk management disciplines are embedded in our approach to business, leading to a focus on pre-let opportunities. Additionally, many of our development activities are undertaken in joint venture with a range of private and public sector partners. In Europe, all development projects are undertaken in joint venture with strong local partners. The majority of projects are funded externally by a range of relationship banks on non-recourse arrangements.

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BUILDING ATTRACTIVE RETAIL SPACES

Attracting Premium European Brands
Our Factory Outlet centres in Budapest, Hungary and Ringsted, Denmark have traded well over the last year reflecting the attractiveness of this retail concept at a time when retailers are struggling on the high street faced with difficult economic conditions.

New lettings were achieved at Ringsted with a number of high quality tenants including G-Star, Rosendahl and B Young. These supplement an already impressive line up of brands including Nike, Reebok, Puma, Hugo Boss, Mango, and Miss Sixty amongst others and takes this 135,000 sq ft development to 70% let overall. In Budapest, Phase 3 of Premier Outlet Centre achieved new lettings to Marlboro Classics, Samsonite and Timberland. The combined gross leasable area of the three phases of the centre is 190,000 sq ft.

04

01 The Calvin Klein, Le Creuset and Levi Strauss stores at Ringsted.
02 Mall Varna, Bulgaria.
03 Inside the Nike store at Ringsted.
04 Inside the Levi Strauss store at Ringsted.

PROPERTY
CONTINUED

Managing our portfolio
87% of our portfolio is income-yielding with a broad range of occupiers in the UK and Europe. The balance of the portfolio represents long term land holdings which will be developed out over the next 10 years.

UK
Although occupational markets were generally weak, we achieved some notable successes during the year. Major lettings were secured in Aberdeen where we fully let a 32,000 sq ft speculative office development to Aker Business Services, in Edinburgh where we let 21,000 sq ft of office space to Business Stream at Edinburgh Park, and in Nottingham where we secured a 35,000 sq ft pre-let to Speedo International for their new headquarters.

We also attracted Glenmorangie to develop a new £45m office and bottling facility in the Alba Business Park in Livingston, central Scotland, and disposed of an industrial park and land at Cambuslang, near Glasgow.

On our long-term development sites, attention continues to be focused on extending and improving planning consents and conditions. Planning permission was received in Aberdeen for Ardent House, a 227,000 sq ft office development. In the mixed use sector, we successfully extended the planning consent at Arena Central, Birmingham, for a further five years; and at the Omega development in Warrington we are working on a revised masterplan to broaden the mix of uses.

Europe
Our factory outlet schemes at Ringsted near Copenhagen, Denmark, and at Budapest, Hungary, performed satisfactorily despite the difficult economic conditions. New lettings were secured with Samsonite, Gas Jeans, Rosendahl and G-Star. Elsewhere, in Eastern Europe, the recession has been more keenly felt but we have been working closely with our retail tenants in Bulgaria and Romania to maintain occupancy levels above 90% at the cost of some rental concessions.

Looking forward
2010 got off to an encouraging start with the sale in January of our 60,000 sq ft Grade A office development at Edinburgh Quay to Cordea Savills European Commercial Fund for £21.5m. Investment markets improved significantly during the last quarter of 2009 and this deal is testament to the continuing strong demand for high quality commercial property. Occupier demand is, however, expected to remain weak through 2010 as all economies across Europe remain in recession or in the slow recovery from it.

Our property business is, however, well placed to benefit as market conditions improve. Our portfolio is well let and cash generative. As a result of the early decisive action we took on the eve of the economic downturn, we now have considerable equity to invest at a time when we are starting to see an increased flow of attractive new business opportunities.

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Space (sq ft) (by sector)

16m

Offices	Retail	Mixed
64%	16%	20%

03

"OUR NEW FACILITIES, IN PARTNERSHIP WITH MILLER BIRCH, WILL FURTHER ENHANCE OUR REPUTATION AS A GLOBAL LEADER."

David Robinson, President of Speedo International

BUILDING STRONG CLIENT RELATIONSHIPS

Making a Splash with Speedo

ng^2 has an impressive global brand line up which was strengthened by the selection of the site by Speedo for its new International Headquarters.

David Robinson, President of Speedo International said: "Speedo has a long connection with Nottingham and we were delighted to be able to remain in the East Midlands and create a bespoke headquarters. It was imperative to us that we continued to produce and further develop the world's best and most technically advanced swimwear here in Nottingham.

"ng^2 was unparalleled in terms of location, environment and accessibility and our new HQ is at the fore when it comes to sustainability, another important part of the Speedo culture. Our new facilities, in partnership with Miller Birch, will further enhance our reputation as a global leader."

01 Edinburgh Quay 2, Edinburgh.
02 A visualisation of the new Speedo headquarters building at ng^2.
03 David Robinson, President of Speedo International.

CONSTRUCTION

MAINTAINING AND STRENGTHENING A BALANCED ORDER BOOK

Market

The full impact of the recession was experienced by the construction industry during 2009 with a greatly reduced volume of commercial opportunities, particularly from the private sector.

The lower volume of opportunities has led to ferocious competition for the work available with competitors bidding below cost in many instances. We have remained focused on our core values and have been successful in winning work with clients where "value for money" and "a value-adding partnering approach" are the key criteria rather than first past the post at the lowest apparent bid cost. We remain a lean and efficient organisation which affords us a low cost base allowing us to focus on and win profitable work through the recession rather than having to chase turnover to contribute towards a high fixed cost base.

Our mix of work has clearly moved towards the public sector which comprises 84% of our order book. Our average contract size was £18m.

Our strategy is to maintain our lean business model whilst aggressively pursuing new long term framework alliances and niche lines of business in health, education, defence and the public utilities.

Performance

The business produced an exceptional financial performance for the year despite very challenging market conditions. Turnover was £409m, down 34% from 2008 but still our second highest ever. The business places a lot of emphasis on planning and forecasting. This, and the focus on quality rather than quantity of turnover, produced record profitability with an industry-leading operating margin of 3.8%. This result was delivered despite absorbing £1.4m of exceptional costs in the year.

Risk Management

The business fully recognises and accepts that it operates in a high risk environment both operationally and commercially. Management of risk is, therefore, integral to all of our activities. The cardinal rule is that we will not accept risk on a project which we cannot understand, price and manage.

The key risks to the business are volume, pricing and contract terms. The business operates a risk register which sets out each of the key business risks in detail together with the strategy to mitigate and manage each risk. This is reviewed and debated by the Board on a regular basis and updated together with planned activities to improve our risk control.

The business operates long term relationships with key supply chain subcontract partners. We work with our partners from pre-bid stage on every project to achieve best value for our clients. Risk is allocated throughout the supply chain according to where it can be best managed.

Key management performance indicators are set out in the business plans for each business unit. These are measured and reviewed at monthly meetings between business unit management and the executive.

01

02

01 Union Square, Aberdeen.
02 Moat House Leisure & Neighbourhood Centre, Coventry.
03 Beaumont Leys School, Leicester.

03

AWARD-WINNING BUILDINGS

Creating Inspiring Learning Environments
Beaumont Leys, one of the four schools delivered in the first wave of the Leicester Building Schools for the Future (BSF) project, was the winner of the Grand Prix Award at the annual Excellence in BSF Awards 2009.

The school also won the BSF School of the Year Award. The awards have been established to celebrate the achievements across all areas of the BSF programme to improve educational outcomes and life chances for young people. But it's the pupils who are the real winners.

Liz Logie, Headteacher at Beaumont Leys explains why: "When we were working with the Miller team initially on the new school, I was clear that I wanted a building that was fabulous and gorgeous, inclusive and secure, open and flexible. We really did succeed, this is a school with a heart and soul and there is a real buzz.

"The new school has had a dramatic impact on everyone's sense of wellbeing and this is clear in students' attitudes, behaviour and effort. There is a real sense of pride, which is great to see. The fact that our first set of GCSE results in the new school are the best in the school's history has just been the icing on the cake!"

CONSTRUCTION
CONTINUED

"THE COMPANY'S INVESTMENT IN THE PERSONAL AND PROFESSIONAL DEVELOPMENT OF ITS STAFF IS ILLUSTRATED BY THE QUALITY OF ITS TEAMS ACROSS THE UK."
Adrian Kelly, Miller Construction

01

02

AWARD-WINNING PEOPLE

Adrian Kelly – Award Winning Construction Manager
At the 2009 Chartered Institute of Building (CIOB) "Construction Manager of the Year" Awards, Miller Project Manager, Adrian Kelly, was delighted to win the Gold Medal for his work on a new Primary Care Centre in Wetherby, Yorkshire. The award was in the category of "New Build/ Refurbishment Projects Over £5m to £7m."

Adrian's ambition has taken him a long way in the industry from his early days as a joiner to become a nationally respected Project Manager. He has always been determined to succeed in his career, most recently gaining a distinction in the NEBOSH (National Examination Board of Occupational Safety and Health) certificate in construction health and safety while working on the Wetherby project.

Throughout the contract, Adrian focused his team 100% on giving the client exactly what they wanted. At the same time, he fine-tuned the build programme and project strategy with the result that the building was successfully completed two months ahead of schedule and on budget.

Adrian fought off tough competition to win the Gold Medal, an award that undoubtedly recognises his individual talents. He himself modestly believes it is recognition not only of Miller's commitment to the professional and personal development of its staff, but also the quality of the company's construction teams across the country striving every day to exceed clients' expectations.

01 Adrian Kelly.
02 Wetherby Advanced Primary Care Centre.
03 Motherwell College.

03

Health and Safety
Health and safety is the number one priority for all of our staff and partners. We achieved a record performance in terms of health and safety, beating our Accident Incident Rate (AIR) target by 40%. We were delighted to receive seven awards under the Considerate Constructors Scheme including gold awards for Union Square Aberdeen, Malinslee Primary School, Telford and The Centre, Livingston.

Strengthening our order book
The business is focused on and has a strong, successful track record in winning and delivering projects where value and partnering are key. We seek to work in long term, repeat business relationships wherever possible.

During the year we secured a number of significant new contracts, particularly in the public sector. Our extensive experience and excellent track record in the education sector was a key factor in securing the £35m Scottish Centre for Regenerative Medicine for Edinburgh University. Other education sector projects won included new teaching facilities at Stoke College (£23m), Barnsley College (£34m), Hartlepool College (£37m) and Leeds University (£8m). We are preferred bidder on Isle of Wight College, Forth Valley College, Leeds University and Durham University. We were also delighted to win the £23m project to build a new Area Command Centre for North Tyneside Police.

In the commercial sector we procured repeat office accommodation orders under our long term partnership with The Prudential at Milton Keynes and at Washington. We continue to partner with the UK's major retailers, working with Costco and Morrisons on projects in Scotland. Finally we were appointed as a Royal Mail framework contractor and have secured our first project with them.

Our strategy and joint venture alliances in the PPP sector progressed well during the year. We have been shortlisted on police and fire station projects in the North West and in Gloucester. We are also shortlisted on sheltered housing in North Tyneside and the Scottish Futures Trust HUB project in South East Scotland and North Scotland. We achieved a further financial close at Leeds LIFT and secured two projects at Barking & Havering LIFT.

Alliances are an important feature of our partnering ethos. We entered into an alliance with Alumno who have strong credentials in the student accommodation sector. We anticipate a strong pipeline of work from this arrangement and we achieved financial close on our first project at Telford College, Edinburgh.

Client management
It is our aim to exceed our clients' expectations on every project thereby building strong relationships and ensuring repeat business.

During the year, we successfully completed the handover of the 1,000,000 sq ft gross Union Square shopping centre in Aberdeen for Hammerson, on time and on budget. At £120m, this was the largest single project we have completed to date.

Looking forward
The current market remains extremely challenging. Management has carried out an extensive strategy review which has identified a number of new initiatives and sector opportunities. We are focused on pursuing these opportunities, many of which will create new alliances with partners who complement our own strengths.

Order Book

£415.1m

Private	Public
16%	84%

MINING

GROWING OUTPUT

The Ffos-y-fran Land Reclamation Scheme reached a major milestone with its one millionth tonne of coal being extracted during the year. The 1,000 acre project is reclaiming contaminated and unstable land, whilst at the same time producing over 11m tonnes of coal reserves using open cast methods. It is being carried out in joint venture with Argent Group plc and is expected to last 17 years.

Our major customer is RWE npower with whom we have a five-year contract to supply Aberthaw Power Station (APS). Aberthaw has been specifically designed to burn Welsh dry steam coal and, significantly, has recently been fitted with the latest flue gas desulphurisation technology, designed to reduce sulphur dioxide emissions by over 90%. APS supplies South Wales with over 42% of its electricity supply.

Amongst the major benefits provided by the scheme are the removal of three potentially hazardous waste tips. This has relieved the local community of Merthyr Tydfil of a major liability. The scheme directly employs over 150 people, the majority of whom reside locally. The joint venture continues to work closely with the local Council to maximise the economic and amenity benefits for the wider area.

THE SCHEME DIRECTLY EMPLOYS OVER 150 PEOPLE, THE MAJORITY OF WHOM RESIDE LOCALLY.

In March 2010 we agreed terms to refinance the project, through a £45m five year bank facility, which will allow a significant equity release to the partners.

Miller Argent has been awarded the accolade of "Surface Miner of the Year" at the 2010 Coal UK Awards.

01

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01 The Ffos-y-fran Land Reclamation Scheme from the air.

02 Plant hard at work at Ffos-y-fran.

PRINCIPAL RISKS AND UNCERTAINTIES

MANAGING RISK

As part of its normal operating procedure, the Miller Group Board is committed to identifying, evaluating and managing the principal risks and uncertainties facing the Group at any given time.

The following are the principal risks and uncertainties that impact on the Group. Further information on risk is given in the sections of the Chief Executive's Business Review covering each division and in the Group Finance Director's Review.

Market related
General macroeconomic conditions have a direct bearing on the levels of demand for homes and commercial property space, at the same time influencing the spending patterns of public and private sector clients. We monitor a variety of key economic performance indicators to determine our future output levels, adjusting order books, landbanks and property investment levels accordingly.

Financial
The Group requires access to adequate financial resources in order to deliver its objectives in both housebuilding and property and to manage cash across the Group. Cash is managed by a combination of short and medium term forecasts. We have a committed three year facility through to March 2012 with three of the UK's major banks together with project finance supplied by a number of other UK clearing and overseas banks.

Business Process Risks
General approach
Throughout all parts of the business, strict adherence to the principle that we only accept risks that can be fully identified and priced is a fundamental aspect of the Miller approach to business. Ultimately, this principle determines the type of business that we accept and how it is evaluated.

The identification and management of risk is constantly evolving. The Group and each of its divisions have a risk scorecard which is updated regularly throughout the year and fully reviewed at meetings of the Audit Committee. These identify the most significant risks affecting each division and evaluate existing control techniques for effectiveness. The risks are rigorously examined and re-evaluated. We frequently use third party experts to facilitate this process.

An established Group reporting framework and management information system dictate how each business operates. All major risks are considered against a comprehensive system of management and control processes.
An important characteristic of the Group-wide risk control procedure is the range of delegated authority levels set for land and contract procurement. Using a mix of criteria, these identify large and/or unusual projects which will require additional senior management approvals.

The major risks that could have an adverse impact on our business are:

Corporate Risks
People
People are the Group's most important asset. It is imperative that we attract and retain the best people. Training opportunities and personal development plans are key areas of focus and are kept constantly under review to ensure our processes are in line with best practice. We have an established succession plan for middle and senior management which helps identify tomorrow's leaders.

Health and Safety
Health and Safety is at the forefront of risk management with proactive policies and procedures regularly tested to ensure compliance. This protects our staff, supply chain personnel and the public.

Information Technology
Like any modern business, we are heavily reliant on the integrity and reliability of our IT network and applications. Centralised back-up is completed each evening and a regularly tested comprehensive disaster recovery plan is in place that would restore all of our systems as quickly as possible in the event of failure.

Insurance
The Group has a comprehensive insurance programme which is renewed annually. This protects our staff, customers, supply chain personnel, members of the public and, of course, our physical assets. We retain a modest level of self insurance and anticipate limited change in our approach on renewal.

Pensions
The Group has two pension schemes – a defined contribution Group Personal Pension Scheme and a Defined Benefit Scheme. The latter was closed to new entrants in 1997. We closely monitor our funding obligations in relation to our Defined Benefit Scheme. On an FRS 17 basis, there was a surplus of £0.1m at 31 December 2009.

Housing
Market and Land Values
Housing is the largest business within the Group. In the year under review, it was also the division most affected by the ongoing depressed economic environment, particularly the significant downturn experienced in the UK housing market. We manage market risk by regularly reviewing sales prices and incentives. As required by accounting standards, our landbank and housing stock is held at the lower of cost and net realisable value. At the year end, we performed a detailed review of all our residential land and work in progress on a site-by-site basis and have recorded provisions for future losses where appropriate.

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Land Acquisition
All proposed land acquisitions are subject to a strict evaluation process involving key personnel from our sales, technical, build and cost control teams. Independent, external substantiation of major assumptions is regularly sought especially when we are assessing complex brownfield sites. It is normal for the Divisional Chief Executive to personally visit and approve every land transaction. The Group Chief Executive reviews all acquisitions. In response to current market conditions, we have curtailed our land acquisition programme.

Property
Market and Asset Values
Every year, we expect to trade a proportion of our portfolio. If the market changes, we respond by reviewing overall budgets, and adjusting rent and yield expectations. Similar to Housing, our assets are held at the lower of cost and net realisable value and in normal market conditions will deliver margins in line with Group hurdle rates. We have re-evaluated the carrying values of our property portfolio based on current rents and yields and recorded an impairment in value where appropriate.

Property acquisition and development
Property acquisition follows a rigorous process where divisional management, with the assistance of external property agents and technical experts, challenge and check all planning, revenue and cost assumptions. The Divisional Chief Executive and Group Chief Executive approve all acquisitions.

Development risk is controlled by commencing the majority of projects only when there is a substantial pre-let or pre-sale agreement. Joint ventures are frequently entered into in order to share risk or to import expertise. Rigorous partner approval criteria are applied before we legally conclude any arrangements.

Construction
Contract Procurement and Build Risk
Our policy is to work only with clients who recognise the value which a partnering-led building contractor can bring to projects. This is the primary procurement filter. Thereafter, we assess projects after due consideration of technical and build risks, our resource capability and covenant strength. Tiered authority levels are in place with the Divisional Chief Executive approving all new work and the Group Chief Executive approving all projects with a value exceeding £25m or where contract conditions are onerous or unusual.

Build risks are controlled and monitored by our teams who rely heavily on our established management information systems. Tight discipline is maintained with all projects being reviewed each month with a focus on current progress and forecast out-turn compared with the original programme and budget cost.

Mining
In line with Group practice, the Ffos-y-fran land reclamation scheme (a joint venture) adopts the same risk management processes and approach as the rest of the company. The principal risk is sales and we have secured a five year contract with RWE npower to supply its power station at Aberthaw. Our mine plan is fully costed and regularly reviewed and includes appropriate allowances for contingencies such as adverse weather. The most significant cost is fuel and we hedge the majority of our medium term fuel requirements.

WE HAVE RE-EVALUATED THE CARRYING VALUES OF OUR PROPERTY PORTFOLIO AND RECORDED AN IMPAIRMENT IN VALUE WHERE APPROPRIATE.

GROUP FINANCE DIRECTOR'S REVIEW
JOHN RICHARDS

John Richards
Group Finance Director

COMMITTED FINANCES WITH STRONG CASH AND COST MANAGEMENT

Trading Performance
Trading conditions remained challenging throughout the year. Group turnover of £783m was as expected 25% down on 2008. This was primarily the result of reduced Construction activity which we had assumed in our budgets.

Group Profit Before Interest and Exceptional Items of £13.1m is in line with 2008. This was underpinned by a strong performance from Construction. We incurred exceptional charges of £27.5m (2008: £136.0m). The majority of these were in our Property business and specifically relate to our Eastern European properties where there are short term rental pressures.

Despite reducing debt levels, the interest charge for the year rose 12% to £58m. This is due to the significant cost of bank refinancing arrangement fees and margins under our current facility.

The tax credit relates to deferred tax on trading losses and the write-back of historic provisions.

Balance Sheet
Capital Employed reduced by 10% to £938m due to tight landbank and portfolio management.

Deferred Tax
The Group has considered carefully the extent to which future taxable profits will be available against which carried forward tax losses can be utilised. The Group's forecasts show a return to profitability in the medium term and consequently we have recognised a deferred tax asset in relation to an element of past losses.

Financing
The Group currently has committed facilities of £797m and an agreed amortisation profile through to March 2012. These are unsecured and provided by Lloyds Banking Group, Royal Bank of Scotland and National Australia Bank.

We generated a cash inflow from operations of £130m during the year and operated with substantial facility headroom. The Group has scheduled bank amortisation of £100m in 2010. Due to strong cash generation this will be repaid early.

The primary purpose of these facilities is to finance the working capital requirements of our Housing business. A proportion is also allocated to our Property business for use as equity capital for the many single asset and joint venture vehicles they manage.

In addition, there are project-specific loans of over £300m which fund wholly owned commercial property projects and individually significant housing projects. These loans have limited recourse to the core facility.

The Group also has interests in a number of major joint venture facilities which support large commercial development and PPP projects. They have no recourse to the Group.

GROUP FINANCE DIRECTOR'S REVIEW
CONTINUED

THE GROUP GENERATED A CASH INFLOW FROM OPERATIONS OF £130M DURING THE YEAR.

Hedging
We currently have £275m of core borrowings hedged at a weighted cost of funds of 4.7%. There are 11 individual swaps which mature at various stages over the next three years. Interest on our remaining borrowings is at floating rates.

Whilst the Group has overseas operations in Europe, our foreign currency exposure is minimal. Hedging is in place to cover our Euro investment in overseas subsidiaries and joint ventures through the use of a Euro loan facility.

Accounting Policies
Profit Recognition
The Group continues to adopt a prudent approach to income and profit recognition. In Property and Housing, turnover is recognised following both legal completion and receipt of cash. Cost and income appraisals are performed monthly with prudent assumptions made regarding both future costs and revenues. In Construction, similar prudent policies are followed, with profits recognised in line with the completion of the project to the extent the ultimate out-turn is foreseeable. Profit out-turns reflect conservative assumptions as regards future costs and only income which has been certified is recognised.

Investments and Joint Ventures
All joint ventures and limited partnerships are accounted for in accordance with the gross equity method of accounting in line with FRS 9. Profit recognition policies are consistent with our wholly owned subsidiaries. PFI/PPP special purpose companies are accounted for as investments. Our financial exposure to these investments is restricted to the capital initially invested. Bid costs for prospective projects are written off as incurred in accordance with UITF Abstract 34 and subsequent costs are only capitalised on the attainment of preferred bidder status.

CORPORATE RESPONSIBILITY

CONSTRUCTING A SUSTAINABLE FUTURE

"CSR IS RIGHTLY HIGH ON THE GROUP'S AGENDA. IN SEEKING TO MAKE STEADY PROGRESS YEAR ON YEAR, OUR GOAL IS TO STRENGTHEN MILLER'S POSITION AT THE FOREFRONT OF THE INDUSTRY BY SETTING EXAMPLES OF GOOD PRACTICE AND LEADING THE WAY IN CREATING A MORE SUSTAINABLE BUILT ENVIRONMENT."

Keith M Miller CBE, Group Chief Executive

For The Miller Group, Corporate Social Responsibility is a fundamental part of the company's core culture which lies at the heart of everything we do.

Commitment to CSR forms an integral part of daily divisional strategy for each of our businesses. Working in close partnership with our customers, our clients and our supply chain contractors, as well as the people in the local communities where we are active, we continually seek to improve the way we undertake our activities in order to create a safer, less disruptive and more sustainable environment.

Key Achievements in 2009:

- Launch of Miller Zero, our first carbon zero home built as part of a live development
- First Scottish-based contractor to sign up to the Government's Waste and Resources Action Plan (WRAP) initiative
- Support for the Yarmouth Guild of Artists and Craftsmen, giving the local community greater access to the arts through new facilities for local artists
- Provision of two mini-buses for local community groups at Merthyr Tydfil, South Wales.

In everything we do in the CSR field we try to exceed current statutory obligations covering health and safety, our staff, community involvement, climate change and the environment, our supply chain and procurement procedures, corporate governance and economic sustainability. In all of our relationships with stakeholders, we acknowledge the benefits and opportunities presented to the company through our commitment to being at all times a good corporate citizen.

Each of our active projects on the ground is managed according to a detailed set of Key Performance Indicators which are monitored at the highest level in the company. In the interests of best practice, all knowledge and experience is shared across each of the Group divisions.

Housing

In September, at the Merton Rise residential development near Basingstoke, Miller Homes introduced the Miller Zero eco-friendly homes concept by completing for sale the first carbon zero house to be built by a UK volume housebuilder on a live development. Miller Zero is a range of environmental properties designed to comply with the Government's Code for Sustainable Homes, a national standard designed to reduce carbon emissions and create more sustainable homes. So far, five pilot homes have been completed, each meeting a different level of the Code. "Code 6" is the top of the scale and represents the zero carbon home. Government legislation states that Code 6 will be mandatory for all new-build properties from 2016. Meeting the challenging requirements of the Code, particularly levels 5 and 6, represents a significant investment of resources, financial, technical and man-hours. However, completing this pioneering home seven years before the Code is mandatory has given Miller Homes an excellent understanding of the additional costs, technical expertise and other issues which housebuilders, suppliers and sub-contractors will face in future.

We were delighted when our achievement was recognised at the annual Housebuilding Innovation Awards 2009 where Miller Zero won the Best Low or Zero Carbon Initiative award.

At the NHBC Pride in the Job Awards, Miller Homes was proud to announce 19 winners. Six of these winners won the "Seal of Excellence" and two were crowned overall Regional Winners and went on to the NHBC UK Supreme Awards.

CORPORATE RESPONSIBILITY
CONTINUED

Property
Miller Developments was pleased to be able to help the Great Yarmouth Guild of Artists and Craftsmen throughout 2009. The 60 year old Guild comprises local artists and craftspeople who previously showcased their work in the local library. Poor access had always been an issue preventing members of the Guild from bringing their work to the notice of the wider community. Miller was able to offer the Guild suitable exhibition space within the Victoria Arcade. The Guild covers the operating costs of the unit donated but occupies it rent-free.

The unit has become a local hotspot for artistic talent and regularly hosts demonstrations for the general public to enjoy, benefiting both the Guild and the wider community in Great Yarmouth.

Construction
Miller Construction is the first Scottish-headquartered contractor to sign up to the Government's Waste and Resources Action Plan (WRAP) which aims to halve total waste going to landfill by 2012. The initiative commits those involved to reducing waste across all projects, not only to help the environment but also to encourage more efficient, resource-conscious building techniques. One of the key requirements of WRAP is to measure all waste streams, set reduction targets and deliver measurable improvements.

Miller Construction was delighted to be recognised at the 2009 Considerate Constructors Scheme (CCS) national awards, where we won three Gold, one Silver and three Bronze awards. The division continues to score 9% above the industry average in the CCS.

In addition, Miller Construction has launched its own Sustainable Champions Scheme whereby select senior representatives from across the Group will investigate best practice and share this information across all operating divisions. The Champions will receive BREEAM assessor training in order that both business and clients can fully benefit from this additional knowledge.

01

Mining
In addition to the land reclamation which is being undertaken at Ffos-y-fran, which over a period of about 17 years will see some 1,000 acres of derelict and unstable land reclaimed and regenerated for the benefit of the local community at no cost to the public purse, the focus of our activities at Merthyr Tydfil has been to benefit the local community.

During 2009, Miller-Argent joint venture provided two mini-buses (one with specialist equipment to accommodate wheelchair passengers) for community groups to use free of charge. Take up has been excellent with, to date, over 100 different community groups having taken advantage of the vehicles. They continue to do so on a regular basis. The Community Fund which was established at the beginning of the project has now benefited from contributions of around £850,000 by the joint venture.

Charitable Activities
Despite the financial climate endured throughout the year, the Group successfully maintained the level of its charitable activities. The company operates a Matched Funding Scheme and, during the course of the year, matched individual fundraising efforts by employees.

Our overall approach to charitable giving was reassessed to ensure available funds are better focused on supporting the charities identified for Miller help. Focus moved from supporting professional sports people to community-based activities and the arts. We sponsored the Christmas production at Edinburgh Festival Theatre in aid of our nominated charities: Teenage Cancer Trust, the Young Persons Unit of The Royal Edinburgh Hospital and a theatre workshop for Drummond High School in Edinburgh.

01 Miller Homes' winners at the NHBC Pride in the Job Awards dinner.
02 3Gs Dance Team with the Miller Argent Community Bus.
03 Great Yarmouth Guild of Artists and Craftsmen.
04 Winners of the 2009 Considerate Constructors Scheme (CCS) outside Miller House.

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WE ARE PROUD OF OUR STATUS AS AN EMPLOYER OF CHOICE WITHIN THE INDUSTRY AND OUR COMMITMENT TO EQUAL OPPORTUNITIES IS UNFALTERING.

People

In 2009, we were delighted to retain Investors in People accreditation across all of our businesses, underlining the calibre of our employees and our commitment to providing opportunities for personal growth through training and development.

We actively encourage all of our employees to engage in personal development and to take advantage of the various opportunities for advancement open to them. Individual training needs are analysed on an annual basis through a comprehensive performance and development appraisal process which is aligned to overall Group and divisional strategic goals. Miller fundamentally believes in, and supports, training and development at all levels in the business and encourages individuals' appetites for self-development.

In 2009, we expanded our web-based training and development initiatives by introducing new bespoke on-line courses covering induction and equal opportunities. This approach has enabled training to be undertaken on a broad base across the Group making it more effective, accessible and quantifiable.

We are proud of our status as an employer of choice within the industry and our commitment to equal opportunities is unfaltering. All of our employees, regardless of race, age, gender, nationality, religion, disability, sexual orientation or background, have the opportunity to develop their full potential within The Miller Group. Our recognition of the value of a diverse workforce is reflected in our employment policies and procedures which provide fair opportunities for all in respect of employment, benefits, training, placement and promotion.

BOARD OF DIRECTORS

EXPERIENCED MANAGEMENT TEAMS WORKING TOGETHER

Sir Brian Stewart CBE
Chairman (64)
2 years service
Appointed a Non-Executive Director in November 2008, he became Chairman on 1 January 2009. Formerly Chairman of both Scottish & Newcastle and Standard Life. In February 2010 he was appointed Chairman Designate and Non-Executive Director of C & C Group. He is a qualified Chartered Accountant.

Keith Miller CBE
Group Chief Executive (60)
35 years service
Joined the Group in 1975. He was appointed a Director in 1976 and Group Chief Executive in 1994.

John Richards
Group Finance Director (52)
22 years service
Joined the Group in 1987 and was appointed to the Board in 1994 as Group Finance Director. Prior to this appointment he was a Director of Miller Homes and Miller Developments. He is a Non-Executive Director of Aberforth Geared Capital and Income Trust plc.

Phil Miller
Executive Director (53)
20 years service
Joined the Group in 1989 and was appointed a Director in 1997. He is Chief Executive of Miller Developments. Currently Chairman of the Scottish Property Federation.

Tim Hough
Executive Director (52)
7 years service
Joined the Group in September 2002. He is Chief Executive of Miller Homes. Non-Executive Director of NHBC and Chair of their Standards Committee.

Tim Bowdler
Non-Executive (62)
6 years service
Appointed a Non-Executive Director in March 2004. Formerly CEO of Johnston Press plc, he is Chairman of The Press Association. He is Chairman of the Remuneration Committee.

Brian Wallace
Non-Executive (56)
First year in service
Appointed a Non-Executive Director in November 2009. He is Group Finance Director of Ladbrokes plc. Previous Non-Executive Director of Scottish & Newcastle plc and Hays plc.

Malcolm Gourlay
Non-Executive (67)
13 years service
Appointed a Non-Executive Director in 1997. Chairman of Martin Currie Limited and Havelock Europa plc. He is a Chartered Accountant and is Chairman of the Audit Committee.

Andrew Huntley
Non-Executive (71)
7 years service
Appointed a Non-Executive Director in September 2002. He is a Director of the AIM-listed Real Office Group and the FTSE 100 Liberty International. Formerly Chairman of Insignia Richard Ellis and AIM-listed Panceltica Holdings. Also formerly Non-Executive Director of Catella Property UK and the Pillar Group.

Dimitrios Hatzis
Non-Executive (49)
2 years service
Appointed a Non-Executive Director in February 2008. Formerly in the Group Executive Committee of Amey plc, he works as a consultant and transaction adviser. He is a Chartered Civil Engineer.

Pamela Smyth
Company Secretary and
Group Legal Director (45)
20 years service
Joined the Group in 1989. Appointed Company Secretary in 2002, she is also the Group Legal Director responsible for all legal and company secretarial matters within the Group.

SENIOR MANAGEMENT

HIGH QUALITY PEOPLE AND EXPERIENCED TEAMS ARE OUR PRINCIPAL ASSET. THEY ARE THE CORNERSTONE OF THE BUSINESS AND FUNDAMENTAL TO OUR SUCCESS. LISTED BELOW IS A SUMMARY OF OUR KEY SENIOR MANAGEMENT AND THEIR YEARS OF SERVICE WITH THE GROUP.

HOUSING

Chris Endsor, Regional Chairman	25
Ronnie Jacobs, Regional Chairman	10
Brian Light, Regional Chairman	8
Ewan Anderson, Finance Director	8
Julie Jackson, Legal Director	6
Garry McDonald, Procurement Director	6
Sue Warwick, Sales and Marketing Director	7

DEVELOPMENTS

Andrew Sutherland, Joint Managing Director	18
David Milloy, Joint Managing Director	12
Neil Johnston, Development Director	15
Kirsty MacGregor, Head of Legal Services	5
Pamela Grant, Development Director	17
Mark Hewett, Development Director	5
Jonathan Wallis, Development Director	3

CONSTRUCTION

Robin Mackie, Chief Executive	22
Tom de la Motte, Joint Managing Director	8
Brian McQuade, Joint Managing Director	6
Alan Scott, Finance Director	7
Steve Hart, Regional Director	7
Gordon Wilson, Legal Director	5
Ian Jubb, Regional Director	2

MINING

James Poyner, Director	28

GROUP EXECUTIVE

Stephen Dunn, Group HR Director	2
Donald Borland, Group Treasury Director and Finance Director of Miller Developments	12
Graeme Stirling, Group IT Director	12

LANDMARKS FOR THE FUTURE
A SELECTION OF OTHER SIGNIFICANT PROJECTS FROM 2009

01 500 Brook Drive, Green Park, Reading.
02 Varcity, Edinburgh.
03 The Centre, Livingston.
04 Pavilion Offices, Knutsford.
05 Unity Quarter, Salford.
06 Freedom House, Aberdeen.

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ACCOUNTS

THE GROUP GENERATED OPERATING CASH OF £130M DURING THE YEAR AND WILL REPAY EARLY £100M OF SCHEDULED BANK DEBT AMORTISATION.

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CORPORATE GOVERNANCE

The maintenance of effective corporate governance is a key priority for the Board. The statement below describes how the principles of the Combined Code on Corporate Governance, as amended in June 2008 (the 'Code'), have been adopted and implemented by the Group.

Board of Directors

The Board is collectively responsible for corporate governance and for establishing the policies and strategies of the Group. It is supplied with information of appropriate form and quality in a timely manner. The directors are listed on page 26. The senior independent director is Mr J M Gourlay. Directors are subject to election at the first Annual General Meeting after their appointment and for re-election thereafter at intervals of not more than three years. The Board had seven scheduled meetings during the year and there was full attendance except that Mr B Wallace was absent for one meeting and Mr A S Huntley was absent for two meetings. There was one additional Board meeting held during the year which was attended by all Board members except for Mr A S Huntley and Mr P H Miller. There are three standing Board Committees: Nominations, Remuneration and Audit.

The Board uses the information contained within the Annual Report to present a balanced and understandable assessment of the Group's position and prospects. The Board has a formal schedule of matters reserved to it for decision but otherwise delegates specific responsibilities. Matters reserved for the Board include approval of the annual and interim results, dividend policy, major acquisitions and monitoring of risk.

The Board undertakes an annual evaluation of its performance, that of its committees and of individual directors through face-to-face discussions between the Chairman and individual Board members. The non-executive directors undertake an annual performance evaluation of the Chairman, taking into account the views of other directors.

The Chairman and the non-executive directors are considered independent. Dr D Hatzis has demonstrated his independence of character and judgement since joining the Board notwithstanding his relationships with significant family shareholders. Mr J M Gourlay has now completed over nine years service as a non-executive director. The Board considers him to remain independent because his long-standing appointment has not in any way affected his objectivity and his detailed knowledge of the Group allows him to provide constructive challenge where appropriate.

All directors have access to the advice and services of the Company Secretary and may seek independent professional advice and training, at the Company's expense, if required to carry out their duties. The Company has appropriate insurance cover in the event of legal action against any director.

Nominations Committee

The Nominations Committee is chaired by Sir Brian Stewart and comprises the Group Chief Executive and the non-executive directors. The Committee has written terms of reference and recommends all new appointments to the Board. The Committee met once during the year to consider the appointment of Mr B Wallace.

Remuneration Committee

The Remuneration Committee is chaired by Mr T Bowdler and comprises the non-executive directors. The Committee met three times during the year and there was full attendance except that Mr T Bowdler and Mr A S Huntley were each absent for one meeting. The Committee has written terms of reference and determines the remuneration of the executive directors and assists in the formulation of remuneration policy for other senior executives.

Further details of the remuneration policy are set out in the Remuneration Report. Where executive directors serve as a non-executive director elsewhere any fees earned are retained by the Group.

Accountability and audit
We have an Audit Committee which is chaired by Mr J M Gourlay and comprises the non-executive directors. It has written terms of reference which include the review of the interim and annual accounts, review of the internal and external audit plans and the consideration of any matters raised by the internal and external auditors. During the year the Committee met on three occasions at which there was full attendance except that Mr A S Huntley and Mr B Wallace were each absent for one meeting.

The Audit Committee reviews and monitors the external auditors' independence and objectivity. During the year the external auditors provided tax compliance, tax advisory and corporate finance services. In the view of the Committee this did not compromise the auditors' independence as, where appropriate, teams from offices separate from the audit team were used. The external auditors operate their own procedures to safeguard their independence being compromised.

The Group has a whistle-blowing procedure in place which is publicised in the staff handbook and as part of the new employee induction programme. All employees are reminded periodically that they may raise concerns about malpractice, improper or illegal behaviour, in confidence, without concern about victimisation or disciplinary action.

Internal control
The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that has been in place for the year under review and up to the date of approval of the Annual Report and accounts, and that this process is regularly reviewed by the Board. The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed.

Management are responsible for the identification and evaluation of significant risks applicable to their areas of business together with the design and operation of suitable internal controls. These risks are assessed on a continuous basis and may be associated with a variety of internal or external sources including market changes, control breakdowns, disruption of information systems, competition and regulatory requirements.

Management provide regular updates of significant risks affecting their businesses to the Board together with details of key internal controls and risk management initiatives. This process is facilitated by internal audit who also provide assurance as to the operation and validity of the system of internal control and review corrective action plans. Management report regularly on their review of risks and how they are managed to the Audit Committee who review, on behalf of the Board, the key risks inherent in the business and the system of control necessary to manage such risks, and present their findings to the Board. Internal audit independently review the risk identification procedures and control processes implemented by management, and report to the Audit Committee on a half yearly basis. The Audit Committee reviews the assurance procedures, ensuring that an appropriate mix of techniques is used to obtain the level of assurance required by the Board.

The Group Chief Executive also reports to the Board on behalf of the Executive Team on major changes in the business and the external environment which affect significant risks.

The Group Finance Director provides the Board with monthly financial information which includes key performance and risk indicators. Where areas for improvement in the system are identified, the Board considers the recommendations made by the Executive Team and the Audit Committee.

CORPORATE GOVERNANCE (CONTINUED)

Relations with shareholders
The Group holds active dialogue with all its shareholders. Family shareholders are informed through a Family Council.
A representative of Uberior Investments plc attends Board meetings. Employee shareholders are regularly informed via the intranet. Non-executive directors are kept informed of the views of shareholders. All members of the Board attend the Annual General Meeting. Both the Chairman and the senior non-executive director are available to meet shareholders if requested.

Statement of compliance
The Board has reviewed its governance arrangements against the Combined Code on Corporate Governance and complies fully with the principles and provisions set out except that:

- Provision A7.2 requires that non-executive directors who serve longer than nine years be subject to annual re-election. Mr J M Gourlay was last re-appointed in May 2007 and under the Company's Articles of Association is not required to offer himself for annual re-election despite having served for over nine years. Mr J M Gourlay will be retiring at the AGM.

Going concern
The directors have reviewed the latest annual budget and strategic plan.

They believe the Group has adequate funding resources to continue in operational existence in the foreseeable future. For this reason the accounts have been prepared on a going concern basis.

Statement of directors' responsibilities
The directors are responsible for preparing the Report of the Directors and accounts in accordance with applicable law and regulations. Company law requires the directors to prepare accounts for each financial year. Under that law they have elected to prepare the accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). Under Company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company and Group 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 accounts 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.

REMUNERATION REPORT

Remuneration Committee

The remuneration of the executive directors is determined by the Remuneration Committee (the 'Committee') within a framework set by the Board on its behalf. Its role is to make recommendations to the Board on all aspects of the remuneration, benefits and employment conditions of the executive directors and other senior management. The Committee is chaired by Mr T Bowdler and also comprises Sir Brian Stewart, Mr J M Gourlay, Mr B Wallace, Dr D Hatzis and Mr A S Huntley. It has access to independent advice where it considers it appropriate. During the year the Group Human Resources Director provided the Committee with regular benchmarking information obtained from external sources.

The remuneration of the non-executive directors is determined by the Board, with the non-executive directors concerned not participating in the decision.

Remuneration Policy

The Remuneration Policy is intended to attract, retain and motivate executive directors and to align the interests of directors and shareholders. The key elements of the executive directors' remuneration package are basic salary, annual bonus, company car, private health insurance and membership of the Group pension schemes and Long-Term Incentive Plans ('LTIPs'). In deciding on appropriate levels of remuneration the Committee has regard to rates of pay for similar positions in comparable companies as well as internal factors including performance.

Bonus is geared towards the achievement of short-term annual budget targets. It is paid annually. A Performance Share Plan ('PSP') aligns reward with the achievement of the Group's medium-term strategic targets.

Non-executive directors receive an annual fee and do not participate in the annual bonus scheme or any of the Company's PSP, LTIPs or pension schemes.

Basic salary

The Committee reviews the basic salaries of executive directors annually and whenever an individual changes position or responsibility. Basic salaries were last reviewed in June 2009 and there were no consequent changes.

Annual bonus

No bonus scheme was in place for 2009. In the prior year the Group operated a non-pensionable performance-related bonus scheme for executive directors. No annual bonus was earned under the 2008 scheme.

Long-Term Incentive Plan (LTIP)

No LTIP was in place for 2009 or 2008. In 2007 on the achievement of the annual target performance conditions an additional bonus of 10% of salary was earned with further sums earned for performance above target, on a pro rata basis, up to a maximum bonus of 20% of basic salary. The amount of additional bonus earned was deferred and placed into a three-year long-term incentive plan. The value of the deferred bonus is adjusted in line with the movement in the share price over the three-year scheme period. At the year end the provisional value of the bonus deferred by the executive directors is £27,000 in relation to the 2007 scheme. In relation to the 2006 plan £26,000 was settled in April 2009 and £13,000 is provisionally deferred at December 2009.

Performance Share Plan

No Performance Share Plan ('PSP') was in place for 2009 or 2008. In 2007 a PSP operated under which, at the discretion of the Committee, shares could be provisionally allocated at nil cost to executive directors (including the Group Chief Executive) and selected employees. Before the provisional share allocation vests predetermined performance conditions must be met. The performance condition requires profit before tax ('PBT') growth of at least 7.5% per annum over a three-year period at which point 25% of the shares provisionally awarded vest. For the provisional shares to vest in full, an increase in PBT equating to an aggregate of 20% per annum over a three-year period is required. This performance condition is considered a stretching target and an appropriate indicator of management's success in growing the business. The performance conditions for the 2007 scheme were not met therefore no shares will vest.

REMUNERATION REPORT (CONTINUED)

Details of provisional share awards and share options granted to executive directors are as follows:

	AT 1 JANUARY 2009	GRANTED	LAPSED	AT 31 DECEMBER 2009	EXERCISE PRICE	EARLIEST DATE OF EXERCISE	EXPIRY DATE
K M Miller							
PSP – 2007	**27,273**	–	(27,273)	–	£nil	30 April 2010	30 April 2010
J S Richards							
PSP – 2007	**18,182**	–	(18,182)	–	£nil	30 April 2010	30 April 2010
P H Miller							
PSP – 2007	**18,182**	–	(18,182)	–	£nil	30 April 2010	30 April 2010
SAYE	**1,946**	–	–	**1,946**	£8.49	31 August 2010	28 February 2011
T Hough							
PSP – 2007	**18,182**	–	(18,182)	–	£nil	30 April 2010	30 April 2010
SAYE	–	388	–	**388**	£1.60	31 August 2014	28 February 2015
SAYE	**2,283**	–	(2,283)	–	£7.16	31 August 2009	28 February 2010

Directors' interests in shares of the Company

	ORDINARY SHARES OF 10P	
	31.12.09	31.12.08
K M Miller: Beneficial	**3,152,725**	3,152,725
As trustee	**636,000**	636,000
J S Richards	**205,000**	213,750
P H Miller	**136,007**	143,165
T Hough	**153,425**	161,500
Sir B Stewart	**10,000**	–
J M Gourlay	**10,000**	10,000
T Bowdler	**10,000**	10,000
A S Huntley	**10,000**	10,000
D Hatzis	**46,250**	21,250

Other benefits

The executive directors receive certain benefits in kind, principally a car or an allowance in lieu, life assurance and private medical insurance. These benefits are not pensionable.

Pensions

Mr J S Richards and Mr P H Miller contribute to The Miller Group Limited Pension Scheme (Directors and Senior Executives' section) which is a contributory, defined benefit scheme. Mr K M Miller contributed to this scheme until the change in UK pension legislation in April 2006 after which he opted out of the Group's pension scheme arrangements and was compensated for the resulting loss of benefits via a salary supplement. Individuals in the scheme contribute 14.5% of basic salary. Mr T Hough is a member of the Group Personal Pension Plan which is a defined contribution scheme. The Group contributes to both a personal pension plan and the Group defined benefit scheme on behalf of Mr P H Miller. Only basic salary is pensionable. Employees (including directors) are allowed to sacrifice an element of their salary equivalent to the pension contribution they would have made. The amount of salary sacrificed is contributed by the Company as an employer contribution to the pension scheme.

Service contracts

Executive directors

All executive directors have service contracts which provide for a 12-month notice period by either party.

Non-executive directors

The appointment of non-executive directors is subject to the Articles of Association of the Company. In the case of all non-executive directors the notice period is six months. Details of terms are as follows:

	DATE OF INITIAL APPOINTMENT	COMMENCEMENT DATE OF CURRENT TERM
Sir Brian Stewart	4 November 2008	11 May 2009
J M Gourlay	1 December 1997	15 May 2007
A S Huntley	10 September 2002	11 May 2009
T Bowdler	17 March 2004	11 May 2009
D Hatzis	5 February 2008	13 May 2008
B Wallace	3 November 2009	3 November 2009

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report and the audited accounts for the year ended 31 December 2009.

Principal activities
The business conducted by the Group consists of Housing, Property Development, Construction and Mining.

Business review
The operations of the Group and its principal risks and uncertainties and relevant key performance indicators are reviewed in detail in the Business Review and Group Finance Director's Review which are set out on pages 4 to 22 of this report.

Results and dividends
The Group loss after taxation for the financial year amounted to £34.1m (2008: £149.5m). No dividend will be paid.

Directors
The directors at the date of this report are shown on page 26. In accordance with the Company's Articles of Association, Mr P H Miller and Mr J S Richards retire by rotation and, being eligible, offer themselves for re-election. J M Gourlay retires after 13 years of service and Dr D Hatzis resigns. Having been appointed since the last Annual General Meeting Mr B Wallace retires and, being eligible, offers himself for re-election. The interests of the directors in shares and share options are disclosed in the Remuneration Report on page 34.

Employees
Applications for employment of disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of a person who does not suffer from a disability. It is Group policy to keep employees informed regarding the achievements and prospects of the Group. In particular, team briefing is in operation and a newsletter is issued at regular intervals.

Supplier payment policy
Each business is responsible for agreeing the terms and conditions, including terms of payment, relating to transactions with its suppliers. 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. While payment terms within the Group vary, the Company's average supplier payment period at 31 December 2009 was 30 days (2008: 18 days).

Contributions
The total of charitable donations made by the Group was £88,000.

Close company status
In terms of the Income and Corporation Taxes Act 1988, the Company is a close company.

Disclosure of information to auditors
The directors who held office at the date of approval of the Report of the Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are 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 Company's auditors are aware of that information.

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

By order of the Board,
P J Smyth,
Secretary
Edinburgh
16 March 2010

REPORT OF THE AUDITORS

Independent auditor's report to the members of The Miller Group Limited
We have audited the accounts of The Miller Group Limited for the year ended 31 December 2009 set out on pages 38 to 59. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting Standards (UK Generally Accepted Accounting Practice).

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 auditors' 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 32, the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit the accounts 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the accounts
A description of the scope of an audit of accounts is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP

Opinion on accounts
In our opinion the accounts:
- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- 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 Directors' Report for the financial year for which the accounts are prepared is consistent with the accounts.

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 accounts 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.

M Ross (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

KPMG LLP
Chartered Accountants
Registered Auditors
Edinburgh
16 March 2010

GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2009

		2009			2008		
NOTES		**BEFORE EXCEPTIONAL ITEMS £M**	**EXCEPTIONAL ITEMS (note 7) £M**	**TOTAL £M**	BEFORE EXCEPTIONAL ITEMS £M	EXCEPTIONAL ITEMS (note 7) £M	TOTAL £M
2	**Turnover: Group and share of joint ventures**	**783.0**	**–**	**783.0**	1,046.6	–	1,046.6
	Less share of joint ventures	**(21.7)**	**–**	**(21.7)**	(44.3)	–	(44.3)
	Group Turnover	**761.3**	**–**	**761.3**	1,002.3	–	1,002.3
	Cost of sales	**(701.9)**	**(22.6)**	**(724.5)**	(930.4)	(121.4)	(1,051.8)
	Gross profit/(loss)	**59.4**	**(22.6)**	**36.8**	71.9	(121.4)	(49.5)
	Administrative expenses						
	Recurring	**(46.6)**	**–**	**(46.6)**	(70.4)	–	(70.4)
	Exceptional	**–**	**(2.0)**	**(2.0)**	–	(11.1)	(11.1)
	Group operating profit/(loss)	**12.8**	**(24.6)**	**(11.8)**	1.5	(132.5)	(131.0)
	Share of operating profit/(loss) in:						
	Joint ventures	**0.3**	**(2.9)**	**(2.6)**	7.2	–	7.2
	Associates	**–**	**–**	**–**	0.5	–	0.5
	Total operating profit/(loss)	**13.1**	**(27.5)**	**(14.4)**	9.2	(132.5)	(123.3)
	Profit on disposal of joint ventures	**–**	**–**	**–**	5.7	–	5.7
2	**Profit/(loss) before interest**	**13.1**	**(27.5)**	**(14.4)**	14.9	(132.5)	(117.6)
3	Net interest expense	**(58.0)**	**–**	**(58.0)**	(48.9)	(3.5)	(52.4)
6	**Loss on ordinary activities before tax**	**(44.9)**	**(27.5)**	**(72.4)**	(34.0)	(136.0)	(170.0)
9	Tax			**38.3**			20.5
	Loss after taxation for the financial year			**(34.1)**			(149.5)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2009

NOTES		**2009 £M**	2008 £M
	(Loss)/profit after taxation for the financial year		
	Group	**(29.5)**	(157.1)
	Joint ventures and associates	**(4.6)**	7.6
		(34.1)	(149.5)
5	Actuarial gain/(loss) on pension scheme	**7.5**	(11.8)
	Exchange gain	**–**	0.5
	Total gains and losses recognised relating to the financial year	**(26.6)**	(160.8)

BALANCE SHEETS
AT 31 DECEMBER 2009

NOTES		GROUP 2009 £M	GROUP 2008 £M	COMPANY 2009 £M	COMPANY 2008 £M
	Fixed assets				
11	Tangible assets	**12.4**	12.9	**–**	–
12	Investments in joint ventures:			**11.8**	11.4
	Share of gross assets	**193.3**	209.5		
	Share of gross liabilities	**(202.2)**	(204.3)		
	Loans to joint ventures	**87.1**	74.1		
		78.2	79.3	**11.8**	11.4
12	Other investments	**9.3**	8.9	**15.9**	15.9
		99.9	101.1	**27.7**	27.3
	Current assets				
13	Stocks and work in progress	**898.6**	1,128.7	**–**	–
14	Debtors:				
	Due within one year	**57.7**	102.1	**0.6**	8.6
	Due after more than one year	**70.6**	6.2	**679.6**	610.1
	Cash at bank and in hand	**9.6**	14.6	**–**	103.0
		1,036.5	1,251.6	**680.2**	721.7
15	**Creditors: amounts falling due within one year**	**(409.7)**	(392.9)	**(144.1)**	(99.8)
	Net current assets	**626.8**	858.7	**536.1**	621.9
	Total assets less current liabilities	**726.7**	959.8	**563.8**	649.2
16	**Creditors: amounts falling due after more than one year**	**(671.1)**	(870.1)	**(505.9)**	(582.2)
5	**Net pension asset/(liability)**	**0.1**	(7.8)	**–**	–
	Net assets	**55.7**	81.9	**57.9**	67.0
	Capital and reserves				
17	Called up share capital	**2.0**	2.0	**2.0**	2.0
18	Share premium account	**3.5**	3.5	**3.5**	3.5
18	Capital redemption reserve	**0.5**	0.5	**0.5**	0.5
18	Profit and loss account	**49.7**	75.9	**51.9**	61.0
	Shareholders' funds	**55.7**	81.9	**57.9**	67.0

These accounts were approved by the Board of Directors on 16 March 2010 and were signed on its behalf by:

Sir Brian Stewart Chairman
John Richards Group Finance Director

GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

Reconciliation of operating loss to net cash flow from operating activities

NOTES		2009 £M	2008 £M
	Operating loss	**(11.8)**	(131.0)
	Goodwill	**–**	21.2
	Depreciation	**0.5**	2.0
	Share-based payments	**0.3**	(0.6)
	Decrease/(increase) in stocks and work in progress	**206.9**	(62.7)
	Decrease/(increase) in debtors	**8.4**	(1.1)
	(Decrease)/increase in creditors and provisions	**(74.7)**	10.9
	Net cash inflow/(outflow) from operating activities	**129.6**	(161.3)

Consolidated cash flow statement

NOTES		2009 £M	2008 £M
	Net cash inflow/(outflow) from operating activities	**129.6**	(161.3)
	Dividends received from joint ventures and associated undertakings	**4.3**	3.5
23	Returns on investments and servicing of finance	**(61.2)**	(54.6)
	Corporation tax received	**8.9**	6.5
23	Capital expenditure and financial investment	**(0.4)**	(2.5)
23	Acquisitions and disposals	**(7.8)**	12.4
	Equity dividends paid	**–**	(7.7)
	Net cash inflow/(outflow) before financing	**73.4**	(203.7)
23	Financing	**(73.6)**	189.6
	Decrease in cash	**(0.2)**	(14.1)

Reconciliation of net cash flow to movement in net debt

NOTES		2009 £M	2008 £M
	Decrease in cash	**(0.2)**	(14.1)
	Cash flow from decrease/(increase) in debt	**73.7**	(274.3)
24	Movement in debt in year	**73.5**	(288.4)
24	Net debt at beginning of year	**(956.4)**	(668.0)
24	Net debt at end of year	**(882.9)**	(956.4)

NOTES
(FORMING PART OF THE ACCOUNTS)

1. Accounting policies

Basis of accounting
The accounts are prepared under the historical cost basis of accounting and in accordance with applicable accounting standards. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to these financial statements.

Basis of preparation
The consolidated accounts include the accounts of the parent company and all its subsidiary undertakings made up to 31 December each year. The results of subsidiary undertakings acquired or disposed of during the year are included in the accounts from or to the effective dates of acquisition or disposal. As permitted by Section 408 of the Companies Act 2006 the profit and loss account of the parent company is not presented.

The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out, respectively, in the Business Review on pages 4 to 18 and the Group Finance Director's Review on pages 21 to 22. The Group Finance Director's Review includes the directors' approach to managing the Group's funding and treasury requirements; and the details of the Group's financial instruments and hedging arrangements.

The directors have prepared detailed cash flow forecasts for the Group and Company for the period through to December 2011. The Group's banking facilities are subject to compliance with certain covenants relating to cash flow generation, net assets and certain other conditions. These covenants and conditions are sensitive to changes in the key assumptions. In preparing their sensitivity analyses, the directors have taken account of the unusual circumstances prevailing in the property market at the current time and recognise that the current difficult economic climate creates uncertainty over the timing and amount of ultimate realisation of the Group's cash flows. Whilst the directors cannot envisage all possible circumstances that may impact the Group in the future, the directors believe that, taking account of reasonably possible adverse movements in housing volumes and selling prices; rental yields and the quantum and timing of commercial property transactions; and construction volumes and price, the Group has sufficient resources available to it to ensure continued compliance with relevant covenants and conditions.

Accordingly, 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.

Joint ventures and associates
An associate is an undertaking in which the Group has a long-term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in the consolidated balance sheet. Where a Group company is party to a joint arrangement which is not an entity, that company accounts directly for its part of the income and expenditure, assets, liabilities and cash flows of the joint arrangement. Such arrangements are reported in the consolidated accounts on the same basis.

Turnover
Turnover comprises invoiced sales of homes, land and property developments, rentals receivable, coal despatched and management fees and in the case of long-term contracts, the value of work done during the year. Within the Homes business incentives are offered to customers which affect the recognition of turnover. Where cash incentives are given, the full cash amount is deducted from turnover. Where properties are sold under a shared equity scheme, up to 25% of the value of the property is offered to the customer by way of an interest free loan. This loan is repayable either on the subsequent sale of the property or on a specified anniversary of the initial sale of the property or on such earlier date as the purchaser may choose to prepay the loan. In recognising the initial sale of the properties sold under shared equity schemes, the Group includes the relevant value in turnover and in debtors.

Profit recognition
Profits in respect of sales of properties, including land, are included in the accounts where legal completion has taken place by the end of the financial year. Profits in respect of long-term contracts are included where the contract outcome can be foreseen with reasonable certainty and are determined by reference to the valuation of work done less related costs of production. Provision is made for all foreseeable contract losses. Claims are recognised as income when certified or agreed in writing.

NOTES
(FORMING PART OF THE ACCOUNTS)

1. Accounting policies (continued)

Depreciation
Depreciation is provided to write off the cost less estimated residual value of tangible fixed assets using the straight-line method over the estimated useful lives of the assets concerned. The main annual rates in use are as follows:

Freehold properties	2 per cent
Vehicles	25 per cent
Computer hardware	33-100 per cent
Office equipment, furniture and fittings	10-20 per cent
Freehold land is not depreciated	

Share-based payments
The Company's share option programmes allow eligible employees to acquire shares. The fair value of awards granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to them. The fair value of the awards granted is measured using an option pricing model, taking into account the terms and conditions upon which the shares were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards that vest.

Stocks and work in progress
Stocks and work in progress are carried at the lower of cost and net realisable value. Contract work in progress is shown within debtors as amounts recoverable on contracts and is stated at cost incurred plus attributable profit, less amounts transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover. Where payments on account exceed the value of work certified at the balance sheet date this is shown as payments on account within creditors.

Taxation
The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences (including past trading losses) which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. In relation to the deferred tax asset, the directors have considered carefully the extent to which they believe it is more likely than not that suitable taxable profits will be available in the future against which carried forward tax losses can be utilised.

Foreign currencies
The net assets of overseas subsidiary and associated undertakings are translated into sterling at the rates of exchange ruling at the end of the financial year. Profit and loss accounts of those undertakings are translated into sterling at average rates ruling during the financial year. The resulting exchange differences are dealt with through reserves.

Leased assets
Expenditure on operating leases is charged to the profit and loss account as incurred.

Deferred income
Deferred income represents grant income received by the Group from the Housing and Communities Agency ('HCA') under the Government's Kickstart Initiative. This will be credited to the Profit and Loss account as the developments to which the relevant grants relate are completed and as conditions relating to the grants are fulfilled.

Pensions
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 total recognised gains and losses, actuarial gains and losses. The parent is a member of the scheme but as its share of the underlying assets and liabilities of the scheme are not separately identifiable on a consistent and reasonable basis it accounts for the scheme, as required by FRS 17, as if it were a defined contribution scheme. As a result the amount charged to the parent's profit and loss account represents the contributions payable to the scheme in respect of the accounting period. The scheme is closed to new entrants. The Group also operates defined contribution schemes. The assets of such schemes are held separately from those of the Group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting period.

2. Segmental analysis

TURNOVER	**2009 £M**	2008 £M
Housing	**331.3**	358.0
Property	**28.6**	57.9
Construction	**409.2**	622.1
Mining	**13.9**	8.6
	783.0	1,046.6

PROFIT/(LOSS) BEFORE INTEREST	**BEFORE EXCEPTIONAL ITEMS £M**	**EXCEPTIONAL ITEMS £M**	**2009 TOTAL £M**	BEFORE EXCEPTIONAL ITEMS £M	EXCEPTIONAL ITEMS £M	2008 TOTAL £M
Housing	**(14.4)**	**(5.8)**	**(20.2)**	(14.8)	(110.5)	(125.3)
Property	**13.1**	**(20.3)**	**(7.2)**	16.3	(16.9)	(0.6)
Construction	**16.9**	**(1.4)**	**15.5**	13.7	–	13.7
Mining	**0.5**	**–**	**0.5**	(0.3)	–	(0.3)
Group	**(3.0)**	**–**	**(3.0)**	–	(5.1)	(5.1)
	13.1	**(27.5)**	**(14.4)**	14.9	(132.5)	(117.6)
Net interest payable			**(58.0)**			(52.4)
Loss before tax			**(72.4)**			(170.0)

Share of turnover and operating (loss)/profit of joint ventures and associates included in the above:

	TURNOVER		OPERATING (LOSS)/PROFIT	
	2009 £M	2008 £M	**2009 £M**	2008 £M
Housing	**3.5**	3.4	**(0.3)**	(0.9)
Property	**4.4**	32.5	**(3.1)**	8.6
Mining	**13.8**	8.4	**0.8**	–
	21.7	44.3	**(2.6)**	7.7

Turnover above is external. Inter-segmental turnover amounted to £1.0m (2008: £1.0m) in Property and £0.1m (2008: £0.1m) in Construction, a total of £1.1m (2008: £1.1m).

	2009 £M	2008 £M
Net assets (liabilities)		
Housing	**657.1**	774.9
Property	**297.7**	339.5
Construction	**(44.7)**	(91.4)
Mining	**40.2**	33.8
Group	**(11.7)**	(18.5)
	938.6	1,038.3
Net debt	**(882.9)**	(956.4)
	55.7	81.9

Share of net assets of joint ventures and associates included in the above:

Housing	**(0.4)**	2.6
Property	**39.8**	43.4
Mining	**39.1**	33.7
	78.5	79.7

NOTES
(FORMING PART OF THE ACCOUNTS)

3. Net interest expense

	2009 £M	2008 £M
Interest payable on bank loans and overdrafts	**(52.3)**	(48.7)
Amortisation of arrangement fees	**(5.9)**	(4.5)
Bank and other interest receivable	**2.6**	4.4
	(55.6)	(48.8)
Associates and joint ventures:		
Bank loan and overdraft interest	**(2.5)**	(5.0)
Bank interest receivable	**0.3**	0.5
	(2.2)	(4.5)
Other finance (expense)/income (note 5)	**(0.2)**	0.9
Net interest expense	**(58.0)**	(52.4)

4. Staff numbers and costs

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

	2009 NUMBER	2008 NUMBER
Housing	**674**	1,109
Property	**49**	83
Construction	**532**	671
Other	**54**	66
	1,309	1,929

At the year end 1,186 (2008: 1,471) people were employed by the Group.

The aggregate payroll costs of these persons were as follows:

	2009 £M	2008 £M
Wages and salaries	**57.6**	79.6
Social security costs	**6.0**	8.5
Other pension costs	**4.4**	5.2
	68.0	93.3

5. Pensions

The Group operates a defined benefit pension scheme. A full actuarial valuation was carried out at 1 July 2007 and updated, for FRS 17 purposes, to 31 December 2009 by a qualified independent actuary. Membership data is set out below:

	2009	2008
Number of active members	**80**	97
Annual pensionable payroll of active members (£m)	**5.1**	5.9
Number of deferred members	**763**	796
Number of pensioner members (including dependants)	**372**	335
Annual pension payroll (£m)	**2.7**	2.4

5. Pensions (continued)

The major assumptions used by the actuary were:

	2009	2008
Rate of increase in salaries	**3.3%**	4.6%
Rate of increase in pensions in payment and deferred pensions*	**3.3%**	3.1%
Discount rate	**5.8%**	6.5%
Inflation assumption	**3.3%**	3.1%

*On the excess over the Guaranteed Minimum Pension. Pensions which are guaranteed to increase at a rate of 3% per annum have been assumed to increase at 3%.

The assets in the scheme and the expected rates of return were:

	VALUE AT 31 DECEMBER 2009 £M	LONG-TERM RATE OF RETURN EXPECTED AT 31 DECEMBER 2008	VALUE AT 31 DECEMBER 2008 £M	LONG-TERM RATE OF RETURN EXPECTED AT 31 DECEMBER 2007
Equities	**44.8**	7.9%	44.9	7.9%
Bonds	**49.5**	5.7%	43.6	5.5%
Other	**0.1**	3.9%	0.9	4.4%
	94.4	6.3%	89.4	6.7%

The assumed average expectation of life for a member currently aged 65 is 18.3 years (2008: 20.6 years) for a male and 20.9 years (2008: 21.9 years) for a female. In 2010 the Group expects to contribute £0.2m to the scheme.

The following amounts were measured in accordance with the requirements of FRS 17:

	2009 £M	2008 £M
Total market value of assets	**94.4**	89.4
Present value of scheme liabilities	**(94.2)**	(97.2)
Surplus/(deficit) in the scheme	**0.2**	(7.8)
Related deferred tax liability	**(0.1)**	–
Net pension asset/(liability)	**0.1**	(7.8)

The movement in the pension scheme deficit (before deferred tax) is explained below:

	2009 £M	2008 £M
Opening pension scheme deficit	**(7.8)**	(0.8)
Pension cost	**(0.8)**	(0.1)
Employer contributions	**1.3**	4.9
Total gain/(loss) recognised in reserves	**7.5**	(11.8)
Closing pension scheme surplus/(deficit)	**0.2**	(7.8)

NOTES
(FORMING PART OF THE ACCOUNTS)

5. Pensions (continued)

The amounts charged to the profit and loss account are as follows:

	2009 £M	2008 £M
Current service cost	**0.6**	1.0
Past service cost	**–**	–
Charge to operating profit	**0.6**	1.0
Expected return on pension scheme assets	**(6.0)**	(7.1)
Interest on pension scheme liabilities	**6.2**	6.2
Charge/(credit) to financing	**0.2**	(0.9)
Charge to profit and loss account	**0.8**	0.1

A reconciliation of actual to expected return on assets is given below:

	2009 £M	2008 £M
Expected return on scheme assets	**6.0**	7.1
Gain/(loss) on scheme assets	**8.7**	(24.6)
Actual return on scheme assets	**14.7**	(17.5)

The movement of scheme liabilities is set out below:

	2009 £M	2008 £M
Opening scheme liabilities	**97.2**	107.8
Service cost (excluding employee contributions)	**1.0**	1.6
Interest cost	**6.2**	6.2
Loss/(gain) on scheme liabilities	**1.2**	(12.8)
Actual benefit payments	**(11.4)**	(5.6)
Closing scheme liabilities	**94.2**	97.2

The movement of scheme assets is set out below:

	2009 £M	2008 £M
Opening scheme assets	**89.4**	107.0
Expected return on assets	**6.0**	7.1
Gain/(loss) on assets	**8.7**	(24.6)
Employer contributions	**1.3**	4.9
Employee contributions	**0.4**	0.6
Actual benefit payments	**(11.4)**	(5.6)
Closing scheme assets	**94.4**	89.4

5. Pensions (continued)

An analysis of the amounts recognised in the statement of total recognised gains and losses is as follows:

	2009 £M	2008 £M
Gain/(loss) on pension scheme assets	**8.7**	(24.6)
(Loss)/gain on the present value of scheme liabilities	**(1.2)**	12.8
Total actuarial gain/(loss) recognised	**7.5**	(11.8)
Cumulative gains and (losses) recognised	**(18.8)**	(26.3)

Historic information regarding the scheme is set out below:

	2009 £M	2008 £M	2007 £M	2006 £M	2005 £M
Scheme liabilities	**(94.2)**	(97.2)	(107.8)	(109.5)	(108.1)
Assets	**94.4**	89.4	107.0	95.2	82.6
Surplus/(deficit) (before deferred tax)	**0.2**	(7.8)	(0.8)	(14.3)	(25.5)
Experience gains and (losses) on scheme assets	**8.7**	(24.6)	(0.3)	(0.1)	7.5
Experience gains and (losses) on scheme liabilities	**1.9**	(0.6)	(0.9)	(1.3)	1.0

Defined contribution schemes

The Group also operates defined contribution schemes. The pension charge for the year represents contributions payable by the Group to the schemes (including death-in-service premiums) and amounted to £3.8m (2008: £4.2m).

6. Loss on ordinary activities before taxation

	2009 £M	2008 £M
This is stated after charging the following:		
Depreciation	**0.5**	2.0
Amortisation of goodwill	**–**	1.4
Operating lease rentals	**6.9**	10.6

	£000	£000
Auditors' remuneration:		
Audit of these accounts	**36**	32
Other services:		
Audit of subsidiaries accounts	**149**	180
Other services relating to taxation	**121**	167
Services relating to corporate finance transactions	**438**	634
All other services	**20**	82
Audit of joint ventures and accounts of other investments	**61**	62
	825	1157

7. Exceptional items

	2009 £M	2008 £M
Housing land and Property write-downs	**22.6**	101.6
Impairment of goodwill	**–**	19.8
Restructuring costs	**2.0**	6.2
Share transaction costs	**–**	4.9
Debt finance costs	**–**	3.5
Joint venture asset write-down	**2.9**	–
	27.5	136.0

NOTES
(FORMING PART OF THE ACCOUNTS)

8. Remuneration of directors

	2009 £M	2008 £M
Directors' emoluments:		
Salary and other benefits	**1.8**	1.8
Payment for restriction on transferability of shares	**–**	3.0
	1.8	4.8
Amounts receivable under Long-Term Incentive Plans	**–**	0.5
[illegible]	**1.8**	5.3

As noted in the Remuneration Report on page 33, the executive directors participate in various incentive plans. Bonuses payable in respect of annual schemes are disclosed in directors' emoluments whereas bonuses derived from plans which are longer term in nature are shown within amounts receivable under Long-Term Incentive Plans.

The aggregate of emoluments and amounts receivable under Long-Term Incentive Plans of the highest paid director was £613,000 (2008: £1,344,000). Retirement benefits are accruing to two (2008: two) executive directors under the defined benefit scheme and two (2008: two) under defined contribution schemes. Contributions to defined contribution pension schemes amounted to £113,000 (2008: £113,000).

9. Taxation

	2009 £M	2008 £M
Corporation tax:		
Current year	**–**	13.7
Prior years	**3.1**	13.6
Share of joint ventures tax	**0.2**	(1.3)
	3.3	26.0
Deferred tax (note 14)	**35.0**	(5.5)
[illegible]	**38.3**	20.5

The corporation tax credit for the year of £3.3m (2008: £26m) is less than the standard rate of corporation tax of 28% (2008: 28.5%). The differences are explained below:

	2009 £M	2008 £M
Current year tax reconciliation		
Loss on ordinary activities before tax	**(72.4)**	(170.0)
Current tax at 28% (2008: 28.5%)	**20.3**	48.5
Effects of:		
Timing differences in respect of which deferred tax is provided	**(18.9)**	–
Timing differences in respect of which deferred tax is not provided	**–**	(33.8)
Permanent differences	**(1.2)**	(2.3)
Adjustments to prior year corporation tax provision	**3.1**	13.6
	(17.0)	(22.5)
Total corporation tax credit	**3.3**	26.0

10. Dividends

	2009 £M	2008 £M
Ordinary shares:		
Prior year second interim	–	7.7
	–	7.7

11. Tangible assets

Group

	FREEHOLD LAND AND BUILDINGS £M	PLANT, EQUIPMENT AND VEHICLES £M	TOTAL £M
Cost:			
At beginning of year	14.8	7.2	22.0
Additions at cost	–	**0.1**	**0.1**
Disposals	–	**(1.1)**	**(1.1)**
At end of year	**14.8**	**6.2**	**21.0**
Depreciation:			
At beginning of year	3.2	5.9	9.1
Charge for year	–	**0.5**	**0.5**
Disposals	–	**(1.0)**	**(1.0)**
At end of year	**3.2**	**5.4**	**8.6**
Net book value:			
31 December 2009	**11.6**	**0.8**	**12.4**
31 December 2008	11.6	1.3	12.9

NOTES
(FORMING PART OF THE ACCOUNTS)

12. Investments

	GROUP		COMPANY	
	2009 £M	2008 £M	**2009 £M**	2008 £M
Investment in joint ventures	**78.2**	79.3	**11.8**	11.4
Other investments:				
Investments in subsidiaries	**–**	–	**15.9**	15.9
Investments in associates	**0.4**	0.4	**–**	–
Loans	**8.9**	8.5	**–**	–
	9.3	8.9	**15.9**	15.9
Total investments	**87.5**	88.2	**27.7**	27.3

Joint ventures

	GROUP £M	**COMPANY £M**
At beginning of year	79.3	11.4
Additions	**0.6**	**–**
Share of profits less losses	**(4.6)**	**(0.8)**
Dividends received	**(4.3)**	**–**
Loans	**6.2**	**1.2**
Exchange movement	**1.0**	**–**
At end of year	**78.2**	**11.8**

The total of the Group's loss before taxation from interests in associates and joint ventures is £4.8m (2008: profit of £8.9m).

The amounts included in net assets in respect of joint ventures comprise the following:

	2009 £M	2008 £M
Share of assets:		
Share of fixed assets	**59.3**	68.5
Share of current assets	**134.0**	141.0
	193.3	209.5
Share of liabilities:		
Due within one year	**(135.5)**	(144.2)
Due after one year	**(66.7)**	(60.1)
	(202.2)	(204.3)
Loans provided to joint ventures	**87.1**	74.1
Share of net assets	**78.2**	79.3

12. Investments (continued)

Other investments

Group

	ASSOCIATES £M	LOANS £M	TOTAL £M
At beginning of year	0.4	8.5	8.9
New loans	–	**0.4**	**0.4**
At end of year	**0.4**	**8.9**	**9.3**

Company

	SUBSIDIARIES £M
At beginning and end of year	**15.9**

13. Stocks and work in progress

Group

	2009 £M	2008 £M
Land and development work in progress:		
Residential developments	**644.9**	845.0
Commercial developments	**253.7**	283.7
	898.6	1,128.7

NOTES
(FORMING PART OF THE ACCOUNTS)

14. Debtors

Due within one year

	GROUP		COMPANY	
	2009 £M	2008 £M	**2009 £M**	2008 £M
Trade debtors	**5.3**	3.4	**–**	0.2
Amounts recoverable on contracts	**35.3**	64.2	**–**	–
Amounts owed by associates and joint ventures	**8.4**	9.2	**–**	–
Other debtors	**5.7**	14.7	**0.2**	0.4
Prepayments and accrued income	**2.2**	4.0	**–**	1.0
Corporation tax recoverable	**0.8**	6.6	**0.4**	7.0
	57.7	102.1	**0.6**	8.6

Due after more than one year

	GROUP		COMPANY	
	2009 £M	2008 £M	**2009 £M**	2008 £M
Trade debtors	**35.6**	6.2	**–**	–
Deferred tax (see below)	**35.0**	–	**0.4**	–
Amounts owed by subsidiary undertakings	**–**	–	**679.2**	610.1
	70.6	6.2	**679.6**	610.1

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

Deferred tax

	GROUP		COMPANY	
	2009 £M	2008 £M	**2009 £M**	2008 £M
At beginning of year	–	5.2	–	2.0
Credit/(charge) to profit and loss account	**35.0**	(5.2)	**0.4**	(2.0)
At end of year	**35.0**	–	**0.4**	–

The elements of the deferred tax balance are as follows:

	2009 £M	2008 £M	**2009 £M**	2008 £M
Difference between accumulated depreciation and capital allowances	**0.6**	0.5	**0.1**	–
Trading losses	**47.5**	33.8	**–**	–
Other timing differences	**1.9**	3.7	**0.3**	1.4
	50.0	38.0	**0.4**	1.4
Less recognised in the year	**(35.0)**	–	**(0.4)**	–
Unrecognised deferred tax	**15.0**	38.0	**–**	1.4

The directors believe the Group will in due course be able to utilise the majority of the tax losses accumulated at 31 December 2009. However, they have adopted a prudent approach and only partially recognised the Deferred tax asset.

15. Creditors: amounts falling due within one year

	GROUP		COMPANY	
	2009 £M	2008 £M	**2009 £M**	2008 £M
Bank loans (secured)	**174.4**	86.7	**-**	-
Bank loans (unsecured)	**50.0**	–	**50.0**	–
Bank overdrafts (unsecured)	**-**	24.1	**-**	9.3
Payments received on account	**19.2**	31.4	**-**	-
Trade creditors	**100.0**	156.3	**0.6**	0.4
Land creditors	**6.1**	26.0	**-**	–
Amounts owed to subsidiary undertakings	**-**	–	**74.2**	74.0
Other taxes and social security	**2.1**	2.2	**2.1**	2.1
Other creditors	**17.2**	15.0	**1.4**	1.3
Accruals and deferred income	**40.7**	51.2	**15.8**	12.7
	409.7	392.9	**144.1**	99.8

16. Creditors: amounts falling due after more than one year

	GROUP		COMPANY	
	2009 £M	2008 £M	**2009 £M**	2008 £M
Bank loans (secured)	**143.8**	263.4	**-**	–
Working capital facility (unsecured)	**19.3**	–	**46.5**	–
Bank loans (unsecured)	**472.5**	582.2	**450.0**	582.2
Other loans (secured)	**13.5**	14.6	**-**	–
Accruals and deferred income	**15.2**	–	**9.4**	–
Land creditors	**6.5**	9.7	**-**	–
Other creditors	**0.3**	0.2	**-**	–
	671.1	870.1	**505.9**	582.2

Analysis of debt:

Debt secured against specific assets:				
In one year or less	**174.4**	86.7	**-**	-
Between one and two years	**39.9**	138.0	**-**	-
Between two and five years	**116.0**	140.0	**-**	-
Greater than five years	**1.4**	–	**-**	-
	331.7	364.7	**-**	-
Unsecured debt:				
In one year or less	**50.0**	24.1	**50.0**	9.3
Between one and two years	**80.0**	–	**80.0**	–
Between two and five years	**430.8**	582.2	**435.5**	582.2
Unamortised finance costs	**(19.0)**	–	**(19.0)**	–
	541.8	606.3	**546.5**	591.5
Total debt	**873.5**	971.0	**546.5**	591.5

Secured bank loans are held within Special Purpose Vehicles with no direct recourse to the Group.

NOTES
(FORMING PART OF THE ACCOUNTS)

17. Share capital

	2009 £M	2008 £M
Authorised: 47,500,000 ordinary shares of 10p each	**4.7**	4.7

Allotted, called up and fully paid: 20,250,000 ordinary shares of 10p each	**2.0**	2.0

18. Reserves

Group

	SHARE PREMIUM £M	CAPITAL REDEMPTION RESERVE £M	PROFIT AND LOSS ACCOUNT £M
At beginning of year	3.5	0.5	75.9
Loss for year	–	–	**(34.1)**
Movement in own shares held	–	–	**0.1**
Actuarial gain on pension scheme	–	–	**7.5**
Share-based payments	–	–	**0.3**
At end of year	**3.5**	**0.5**	**49.7**

Company

	SHARE PREMIUM £M	CAPITAL REDEMPTION RESERVE £M	PROFIT AND LOSS ACCOUNT £M
At beginning of year	3.5	0.5	61.0
Loss for year	–	–	**(9.2)**
Movement in own shares held	–	–	**0.1**
At end of year	**3.5**	**0.5**	**51.9**

The Company's Employee Benefit Trust holds 2,623,000 (2008: 2,731,000) ordinary shares of the Company. These shares were acquired in order to satisfy obligations under the Group's share award schemes. The purchase of these shares was funded by bank borrowings. The borrowings are included in the Group and Company balance sheets, and are guaranteed by The Miller Group Limited and major subsidiary companies. The dividend rights in respect of these shares have been waived. All costs of administering the Trust have been charged to the profit and loss account as they arise.

19. Reconciliation of movements in shareholders' funds

	GROUP £M	COMPANY £M
Loss after taxation for the financial year	**(34.1)**	(9.2)
Movement in own shares held	**0.1**	0.1
Actuarial gain on pension scheme	**7.5**	–
Share-based payments	**0.3**	–
Net decrease in shareholders' funds	**(26.2)**	(9.1)
Opening shareholders' funds	**81.9**	67.0
Closing shareholders' funds	**55.7**	57.9

20. Contingent liabilities

The Group and Company 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 by Group and joint venture companies. A small number of interest shortfall guarantees have been given by the Group in relation to bank finance provided to joint ventures and subsidiaries. No guarantees have been called during the year (2008: none).

21. Commitments

The Group has commitments under non-cancellable operating leases to make payments in the next 12 months as follows:

	2009 LAND AND BUILDINGS £M	**2009 OTHER £M**	2008 LAND AND BUILDINGS £M	2008 OTHER £M
Leases expiring:				
Within one year	**0.2**	**0.3**	0.6	0.6
Between two and five years	**1.3**	**1.1**	0.9	1.7
Outwith five years	**1.4**	**–**	1.6	–
[illegible]	**2.9**	**1.4**	3.1	2.3

NOTES
(FORMING PART OF THE ACCOUNTS)

22. Share-based payments

Details of provisional awards outstanding at the year end under the Group's share schemes are given below:

	NUMBER '000	EXERCISE PRICES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	MAXIMUM TERM
Performance Share Plan ('PSP')	322	£nil	6 months	40 months
Savings related share option schemes	295	£1.60-£16.50	30 months	5 years

Details of conditions attaching to share schemes are given in the Remuneration Report.

The number and weighted average exercise price of share options and other awards are as follows:

	NUMBER ('000)		WEIGHTED AVERAGE EXERCISE PRICE	
	2009	2008	**2009**	2008
At beginning of year	1,016	2,390	£3.68	£5.81
Granted	**103**	135	**£1.60**	£8.75
Forfeited	**(123)**	(303)	**£13.62**	£6.74
Lapsed	**(356)**	–	**£0.51**	–
Exercised	**(23)**	(1,206)	**£nil**	£7.70
At end of year	**617**	1,016	**£3.32**	£3.68
Exercisable at end of year	**81**	2		

The weighted average share price at the date of exercise of share options exercised during the year was £1.60 (2008: £14).

The fair value of these awards at the grant date was calculated using the Black-Scholes model.
The key assumptions made in the model are as follows:

DATE OF GRANT	**SRSOS 1 SEPTEMBER 2009**	PSP 1 MAY 2008	SRSOS 1 SEPTEMBER 2008
Share price at date of grant	**£1.60**	£14	£14
Exercise price	**£1.60**	£nil	£14
Risk free interest rate	**1.5%**	5.00%	5.00%
Expected volatility	**40%-52%**	22%	20%-22%
Term of the option (months)	**36 or 60**	40	36 or 60
Expected dividend growth	**0%**	15%	0%
Fair value of option	**63p-69p**	£12.40	£3.09 or £4.08

The expected volatility is based on historical volatility of the Company's share price over the last three to five years.
The total charge recognised in respect of share-based payment transactions was £0.3m (2008: credit of £0.5m) of which £0.3m (2008: credit of £0.6m) related to equity-settled transactions and a charge of £nil (2008: £0.1m) related to cash-settled transactions.

23. Notes to the cash flow statement

	2009 £M	2008 £M
Returns on investments and servicing of finance		
Interest received	**3.2**	1.8
Interest paid	**(64.4)**	(56.4)
Net cash outflow from returns on investments and servicing of finance	**(61.2)**	(54.6)
Capital expenditure and financial investment		
Purchase of fixed assets	**(0.5)**	(2.8)
Sale of fixed assets	**0.1**	0.3
Net cash outflow from capital expenditure and financial investment	**(0.4)**	(2.5)
Acquisitions and disposals		
Net investment in joint ventures and associates	**(7.8)**	12.4
Net cash (outflow)/inflow from acquisitions and disposals	**(7.8)**	12.4
Financing		
Capital element of finance lease repayments	**-**	(0.1)
Sale/(purchase) of own shares	**0.1**	(84.6)
Repayment of loans	**(75.4)**	(13.3)
New loans received	**1.7**	287.6
Net cash (outflow)/inflow from financing	**(73.6)**	189.6

NOTES
(FORMING PART OF THE ACCOUNTS)

24. Analysis of changes in net debt

	AT BEGINNING OF YEAR £M	CASH FLOWS £M	NON-CASH MOVEMENTS £M	AT END OF YEAR £M
Cash at bank and in hand	14.6	(5.0)	–	9.6
Overdrafts	(24.1)	4.8	–	(19.3)
	(9.5)	(0.2)	–	(9.7)
Debt due within one year	(86.7)	86.7	(224.4)	(224.4)
Debt due after one year	(860.2)	(13.0)	224.4	(648.8)
	(956.4)	73.5	–	(882.9)

25. Related-party transactions

Group

	2009 £M	2008 £M
Sales and management fees to joint ventures and associated undertakings on normal trading terms	0.2	0.6

Details of balances outstanding with joint ventures and associates at the year end are given in note 14.

26. Investments

The principal investments at 31 December 2009 were:

	PRINCIPAL ACTIVITIES	COUNTRY OF REGISTRATION	SHARE CAPITAL %
Subsidiary undertakings:			
Miller Homes Holdings Limited	Residential Development	Scotland	100
Miller Homes Limited	Residential Development	Scotland	100
Miller Developments Holdings Limited	Property Development	England	100
Miller Holdings International Limited	Property Development	Scotland	100
Miller Developments Limited	Property Development	Scotland	100
Miller Corporate Holdings Limited	Construction	Scotland	100
Miller Construction (UK) Limited	Construction	Scotland	100
Joint ventures:			
New Edinburgh Limited	Property Development	Scotland	50
Ringsted Outlet Center P/S	Property Development	Denmark	50
Omega Warrington Limited	Property Development	England	50
New Outlet Center KFT	Property Development	Hungary	50
Miller Birch partnership	Property Development	England	50
Edinburgh Quay Limited	Property Development	Scotland	51
City Road Basin Limited	Property Development	England	51
Arena Central Developments LLP	Property Development	England	50
Alverca	Property Development	Portugal	50
Ffos-y-fran Limited partnership	Mining	England	50
Investments:			
Barking & Havering LIFT Holdings Limited	Healthcare Services Provider	England	30
Leeds LIFT Limited	Healthcare Services Provider	England	30
Emblem Schools Holdings Limited	Education Services Provider	Scotland	30
Leicester BSF Holdings Company Ltd	Education Services Provider	England	40
E4i Schools Limited	Education Services Provider	Scotland	41

FIVE-YEAR FINANCIAL SUMMARY

	2009 £M	2008 £M	2007 £M	2006 £M	2005 £M
Turnover: Group and share of joint ventures	**783.0**	1,046.6	1,309.2	1,230.3	892.8
Profit before interest and exceptional items	**13.1**	14.9	127.7	123.5	96.0
Exceptional items	**(27.5)**	(132.5)	1.6	5.5	10.9
(Loss)/profit before taxation	**(72.4)**	(170.0)	81.2	87.2	75.5
Shareholders' funds	**55.7**	81.9	335.6	292.4	229.3
Dividend per ordinary share	**-**	–	58.4p	53.1p	38.8p
Net asset value per ordinary share	**£2.75**	£4.04	£14.92	£13.00	£10.19

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75 YEARS OF THE MILLER GROUP

OUR BUSINESS IS BUILT FOR THE FUTURE, UPON THE STRONG FOUNDATIONS OF KNOWLEDGE AND EXPERTISE ACCUMULATED OVER OUR 75 YEAR HISTORY

The Group has experienced a wide and varied journey over the past 75 years centred around its core businesses of Housing, Construction and Property.

Our Housing expertise has been applied to building more than 75,000 houses from the Shetland Islands to the Isle of Wight. We have played a major role regenerating large parts of some of Britain's major cities including The Gorbals and Castlemilk in Glasgow; Allerton Bywater, near Leeds; and pioneered new settlements across southern England including Chatham in Kent.

Our Construction expertise has covered building, civils and open cast coal. We have completed many landmark buildings for clients with household names. These include: City of Edinburgh Council headquarters, Carlton Gate; Festival Square and Sheraton Hotel, Edinburgh; Celtic Park, Glasgow; and the Skye Bridge, the first Private Finance Project in Britain.

Furthermore, our flexibility was demonstrated in World War II when the business was completely reorientated to support the war effort. This was the origin of our opencast coal business started by redeploying our Construction skills. More recently, we were involved in rebuilding part of the Falkland Islands in the 1980s.

Finally, the international theme has continued with our Commercial Property business applying its retail skills in successfully developing projects in Denmark, Germany, Hungary, Bulgaria, Romania and Portugal.

A summary of the Group's key milestones is detailed inside:

THE MILLER GROUP
1934-2009

CELEBRATING OUR 75 YEAR HISTORY

OUR PAST
ROOTS AND HERITAGE HAVE BEEN IMPORTANT IN INFLUENCING THE SHAPE OF THE BUSINESS. FROM HUMBLE BEGINNINGS 75 YEARS AGO AS AN EDINBURGH HOUSEBUILDER, MILLER HAS ALWAYS HAD A CLEAR AND ASPIRATIONAL VISION. WE ARE NOW THE UK'S LARGEST PRIVATELY OWNED HOUSEBUILDING, PROPERTY DEVELOPMENT AND CONSTRUCTION BUSINESS.

01 03 05 08

02 04 06 07

1934-39

1934
James Miller & Partners founded in Edinburgh by three brothers: James, John and Lawrence.
See picture 01

1934
First house built in Edinburgh. The company was producing 578 units per year alone in Edinburgh.
See picture 02

1939
Miller expands into England. A partnership is formed with L J Speight of Newbury to operate on projects associated with war damage.

1940-69

1942
James Miller & Partners commissioned by the Ministry of Works to commence opencast mining at Wintersett, Yorkshire.
See picture 03

1948
Miller acquires the balancing interest in L J Speight and moves into Suffolk Street, London, focusing on general contracting in the post-war years.

1955
After post-war restrictions, private housebuilding recommences in Britain. Miller operating from Southampton, Reading and Chatham. 1,000 houses completed in both Southampton and Reading between 1955-60.

1961
Formation of Miller Bros & Buckley Ltd, an offshoot of James Miller & Partners Ltd based in Hayes, Middlesex.

1964
Sir James Miller appointed Lord Mayor of London (Lord Provost of Edinburgh in 1950s).
See picture 04

1967
Miller Bros & Buckley commence operations in the Caribbean, constructing a hotel for Holiday Inns of America in Barbados. The business was involved in the Caribbean over a 10-year period into the late 70s.

1970

1970
James Miller appointed Chairman and Managing Director.
See picture 06

1972
Miller Homes celebrate the handover of the 1,000th house at its Chatham development.

1976
Firth and Toft Construction villages in Shetland completed to support BP in bringing oil on stream at Sullom Voe Oil Terminal.
See picture 07

1979
Miller Mining acquires opencast mine in Indiana, USA.

1980

1984
Miller Developments started the creation of the new financial district in Edinburgh with the completion of the Sheraton Hotel and the Capital House office development at Festival Square.

1986
Miller Construction completes post-war reconstruction project in the Falkland Islands.

OUR PRESENT

THIS YEAR HAS PRESENTED CHALLENGES WITH TESTING MARKET CONDITIONS AND A DIFFICULT ECONOMIC ENVIRONMENT. OUR DIVERSE BUSINESS MODEL, EXPERIENCED MANAGEMENT, STRONG CLIENT BASE AND BRAND SET US APART.

OUR FUTURE

THROUGH THE YEARS WE HAVE ALWAYS ADAPTED TO DIFFERENT CHALLENGES. OUR STRATEGY FOR THE FUTURE IS NO DIFFERENT. WE HAVE A LEAN BUSINESS READY TO SEIZE AND CAPITALISE ON TOMORROW'S OPPORTUNITIES.

09

11

14

10

12

13

15

1990

2000

1991
Phase One – landscaping and road works – commenced at Edinburgh Park, Scotland's largest business park at 3m sq ft. This is a pioneering public and private sector partnership between The Miller Group and the City of Edinburgh Council.
See picture 09

1992
Miller Construction acquires Condor projects. Construction working overseas to deliver medical facilities in Russia and Malaysia in joint venture with local partners.
See picture 05

1994
Keith Miller appointed Chief Executive of The Miller Group Limited.
See picture 08

1995
Skye Bridge completed, the UK's first PFI project. A joint venture led by Miller.
See picture 11

1998
Miller Developments form JV with Sonae Imobiliaria, Portugal's leading developer and shopping centre manager, to develop retail parks across Portugal with its first project at Sintra, just outside Lisbon, the first non-food retail park in Portugal.

1998
Eurolink – a joint venture of Miller Civil Engineering and partners Dumez GTM and Beton und Monierbau GMBH of Austria are awarded two Channel Tunnel Rail Link contracts – North Downs Tunnel (£410m), the largest tunnel ever built in the UK, and Medway Bridge (£350m). Miller Construction is at the forefront of healthcare provision in Scotland with major projects at Ninewells Hospital, Dundee, Western General Hospital, Edinburgh and Beatson Oncology Unit, Glasgow. Total construction value £120m.

2000-4
Delivery of the Edinburgh, Glasgow and Fife Schools PPP projects, £500m of construction involving 50 schools over a 5-year period. In the last 30 years Miller Construction has completed some 160 schools projects across the whole of the UK.

2000-5
Implementation of revised corporate strategy to focus on asset businesses and dispose of heavy contracting operations. Acquisition of Birch, Cussins, Crest (Yorkshire operations) Lynch, and Fairclough Homes for £350m. Miller Homes is now sixth largest UK housebuilder by volume.

2002
Disposal of Civil Engineering and contract mining operations.

2007
Miller Homes records its highest ever sale at Graysmill in Edinburgh for £1.2m.
See picture 10

2007
Miller Developments now operating in 7 European countries – Denmark, Germany, Hungary, Bulgaria, Romania, Spain, Portugal.
See picture 14

2008
Miller Homes named 'Housebuilder of the Year' by both Building and 'What House?' magazines.

2009
The Miller Group appoints Sir Brian Stewart, CBE, Chairman.
See picture 15

2009
Miller Construction completes its largest single project, Union Square in Aberdeen at £120m.
See picture 12

Community involvement
Miller has always had an active involvement in the community and in sport. Over the years the company has provided substantial financial support for a yacht to develop team leadership in youths (The Malcolm Miller) and sponsored, at a very early stage in their development, some major sporting stars of the future. These include Robin Cousins (skating), Shirley Robertson (yachting) and more recently, triple Olympic gold medallist, Sir Chris Hoy (cycling), where the company was his first major sponsor.
See picture 13

www.miller.co.uk

www.millerhomes.co.uk
www.construction.miller.co.uk
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