



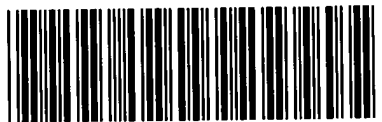
PARENT ACCOUNT

SC207758

Miller Homes Group Limited
Annual Report & Financial Statements

2022

THURSDAY



SCDHATCH
SCT 05/10/2023 #83
COMPANIES HOUSE

Group package accounts
for SC207758

Company number 10853907

Miller Homes is a respected national homebuilder with an established reputation for high-quality family homes. People are at the heart of everything we do. This begins with our employees, ensuring we create an exceptional workplace where they can thrive. Our partners are also key and we recognise the importance of building stronger relationships to ensure they too are supported. Together we strive to create quality new homes and connected communities that our customers can enjoy. Our aim is simple – to create superior value, long-term results and a more sustainable future.

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Find out more at

www.millerhomes.co.uk/corporate

Cover Picture: Regal View, Great Glen, East Midlands

Hello & Welcome

Dear Stakeholders,

I am delighted to report that we have delivered yet another strong set of results this year. As the year progressed we faced increasing economic and political challenges, which impacted on our market in the second half of the year.

Despite some of the external challenges we faced as a sector including rising energy costs that followed the war in Ukraine and several changes in Government leadership causing significant economic instability, we clearly demonstrated our continued resilience and agility, of which I am extremely proud.

I would like to take this opportunity to thank the senior management team for their excellent leadership and navigation of the various headwinds encountered and the combined effort of all employees, as well as our subcontractors, suppliers and other partners, for their continued support and drive to deliver for the business.

This year's Annual Report goes beyond sharing our financial results and has provided us with the opportunity to introduce our updated purpose statement for the business, which dovetails and complements the launch of our new ESG strategy.

Our purpose as a business is fundamental to our success and this year we undertook a review to refresh and refine our purpose in line with today's challenges and opportunities. We look forward to sharing the detail behind this later in the report and explaining how it defines our priorities and facilitates our business for future evolution and growth.

Thank you to all our stakeholders for your support and we look forward to working together in 2023.

Chris Endors
Chairman

At a glance

Financial highlights

Revenue

£1,169m +12%

Operating profit

£197m +2%

Adjusted operating profit*

£217m +7%

Adjusted operating margin**

18.6% -0.9%

Free cash flow**

£152m -13%

Return on capital employed (ROCE)**

35.4% +1.0%

Non-financial highlights

Completions

3,970 +3%

Consented landbank (plots)

13,914 -8%

HBF customer satisfaction

5-star unchanged

Waste diversion

98% +5.9%

Carbon intensity***

1.67 -5%

Investors in People accreditation

Platinum Gold

Pictures:

Top: Tudor Park, Shrewsbury, West Midlands

Bottom: Moving in day

* Operating profit as adjusted for a £20.6m exceptional fire safety charge.

** See page 17 for GAAP reconciliation.

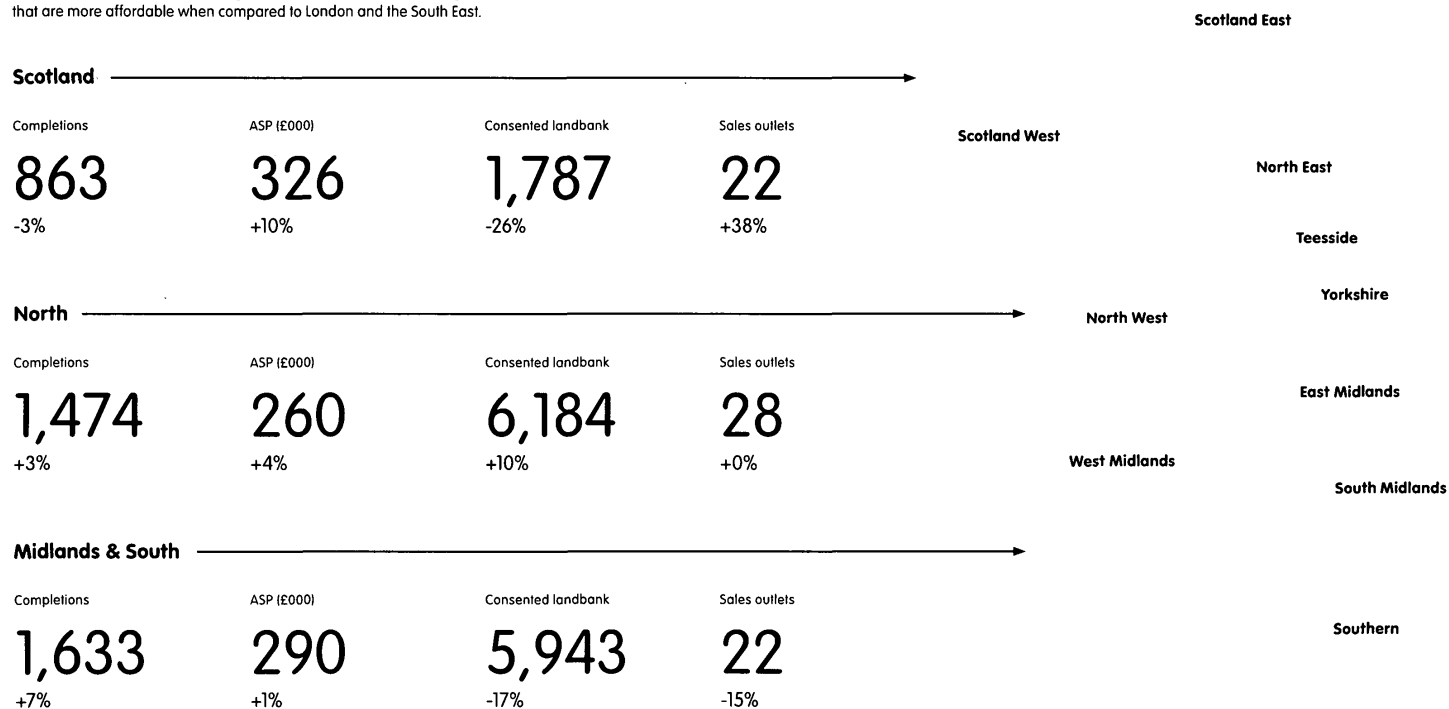
*** Tonnes of carbon equivalent (tCO₂e) per 100m² of homes built, excluding Walker Timber emissions.

At a glance continued

Regional focus

The Group is strategically positioned across ten regions with two in Scotland, four in the North of England and a further four across the Midlands and South of England.

We have a strong presence in sought-after suburban locations in regional markets that are more affordable when compared to London and the South East.



Our purpose in action

Purpose & Priorities

“To realise any vision, it takes a strong sense of purpose. Purpose helps crystallise priorities, facilitate business transformation, drive employee engagement and maintain greater customer satisfaction. It also helps navigate a more challenging and unpredictable environment.”

Stewart Lynes
Chief Executive Officer

Picture: Chalgrove Meadow, Oxford, Southern

Our purpose in action continued

Our purpose

Creating better places where people and planet prosper

Creating better places is what we aspire to do as a team each and every day.

We aim to achieve this in many ways, from carefully selecting land to building homes and communities where people want to live. In addition, we continually innovate to ensure we deliver an outstanding, in-person and digital customer experience.

We also invest in those who make this all happen – our people.

By following this approach, we aim to deliver what every stakeholder wants – a more prosperous and sustainable future for our business and the planet.

Our priorities

Places

Diversification & Desirability

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Planet

Today & Tomorrow

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People

Pride & Performance

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Prosper

Resilience & Robustness

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Our purpose in action

Places

Diversification & Desirability

Maintaining an adequate supply of owned, controlled and strategic land is vital, as is the timely receipt of planning consents. Together they ensure our growth aspirations can be fulfilled.

Balance is key, between the security of supply on the one hand and risk management and capital efficiency on the other.

We always aim to build our homes in desirable places where our customers want to live. This means providing good access to open space, amenities, transport connections, schools and workplaces.

Picture: Longwick Chase, Princes Risborough, Southern

Our purpose in action

Places continued

Meeting aspirations

There are around 90 sites in our owned landbank at any given time with a wide geographical spread across our ten regional businesses.

We have a significant strategic landbank, enhanced after the acquisition of Wallace Land in 2021. This enables us to control just under 40,000 plots at a discount to market value.

An important consideration of any land acquisition approval is the desirability of the site. Site location is assessed on its proximity to good local schools, high employment areas, transport links and open space, which we believe are key factors for customers.

We build a variety of homes from apartments through to five-bedroom detached homes, although we principally focus on three and four-bedroom homes, which account for over 70% of all private homes sold. The average size of our private homes is around 1,200 sq ft. Private homes account for approximately 75% of the homes we sell with the remaining 25% delivering much needed affordable homes that are sold to housing associations.

Our wide range of house types is honed to maximise efficiency and return on investment. It also ensures we can tailor our product mix on any development to the appropriate market segments. Extensive market research before land purchase informs not only our buying process but also the most desired, optimal product mix for our customers.

Case study: Spring Wood Park

Spring Wood Park is a large residential-led scheme of predominantly family housing in Bramhope, a highly desirable semi-rural suburb of North Leeds.

We secured an option agreement with the landowner and then worked closely with the local community and the planning authorities to incorporate their feedback in our development design.

In 2016 outline planning permission was obtained and by 2019, detailed permission was granted following which we acquired the site to deliver 319 dwellings, including 35% affordable housing and a local convenience store.

A strategy was devised to diversify our product offering which led to three points of sale or tenure.

In addition to homes being sold to private customers and affordable homes under the planning consent, a third route to market was created through an agreement to deliver 90 homes for Yorkshire Housing under shared ownership and rented tenures.

This has resulted in volumes from the development averaging over 100 homes in both 2021 and 2022.

Pictures:

Top: Spring Wood Park, Bramhope, Yorkshire

Bottom: The Jura, Spring Wood Park, Bramhope, Yorkshire

100+

homes per annum in both 2021 and 2022

Our purpose in action

People

Pride & Performance

At Miller Homes we always aim to do the right thing.

We take pride in our performance, that means putting our people at the heart of everything we do.

From ensuring their health, safety and welfare to delivering a five-star customer service, we encourage an inclusive, rewarding and collaborative workplace. We also recognise that our colleagues need the right training and development to continue to build their knowledge, skills and confidence.

In order to achieve all of this we want to ensure we create somewhere our people can thrive and perform.

Picture: Ian Thomson, Regional Land Director and Serena Wong, Land Manager, Yorkshire

Our purpose in action

People continued

People power

We encourage our teams to have pride in their performance by rewarding and giving them the skills to deliver.

We are very much committed to learning and development across our teams. Training is a key driver in creating a sustainable organisation; it contributes towards engagement, professional development, long-term retention and ultimately our ability to grow.

Within the past year, we have delivered an average of 2.9 training days per employee, and we aim to provide 4 training days to everyone by 2024.

Investors in People (IIP) is used as a performance benchmark within the business. We have held IIP Gold accreditation since 2013, and this year achieved Platinum status, a level only awarded to 6% of IIP accredited companies in the UK.

IIP is awarded to companies demonstrating high performance across various employee-focused assessment criteria, including the approach to leadership, support and development of staff.

Our commitment to our people has been further acknowledged this year, with 23 individuals promoted to Director level and 114 promotions across the Company. This is real recognition of the excellent internal talent within the business to support our future ambitions.

Case study: New Homes Quality Code

We pride ourselves in having a well-developed and industry-leading customer journey. Our objective is always to ensure the customer is at the heart of everything we do and to deliver a truly differentiated experience.

The New Homes Quality Code (NHQC) champions quality new homes and better consumer outcomes. Prior to the Code's introduction we had already heavily invested in digitising our delivery of information to customers and their communications with us in our My Miller Home app. The app also provides a place for customers to keep records of our meetings.

During 2022 we created several cross-team collaborative working groups to review our customer journey and ensure compliance with the Code; this became a catalyst and sparked further improvements to our service.

Individuals from across all business functions, from production, sales and customer service to our legal and IT teams, got involved. All employees, regardless of role, have carried out the training in order to understand the Code and how it relates to the business and our customers, whilst at the same time embedding it across our regional businesses.

We introduced the new Code to all homes sold from the 3 January 2023 while enhancing the journey process for existing customers too.

900+

number of people that have undertaken NHQC training

Pictures:

Top: Customers on a site visit with Site Manager

Below: Customers using the My Miller Home app

Our purpose in action

Planet

Today & Tomorrow

Our aim is to create places today for a better future tomorrow. We know the homes and communities we create positively impact the lives of those around us.

Minimising the environmental impact of our operations and supply chain, whilst at the same time reducing our homes' energy consumption, is a key aim of the Group.

We also seek to improve habitats, biodiversity and local environments across our developments.

Picture: Creating better places

Our purpose in action

Planet continued

Our journey to carbon reduction

Climate scientists have set out a need to reduce greenhouse gas emissions to prevent worst case scenario climate change. We want to be part of the solution, but we want to make sure that our approach to reducing carbon emissions is properly considered, to ensure that the promises and targets we set can and will be achieved.

We have set a target to reduce our Scope 1 and 2 greenhouse gas emissions by 80% by 2031. These emissions arise from the direct use of energy.

To begin delivering a reduction in Scope 1 and 2 climate changing emissions, we have secured a renewable electricity supply for the new homes we build and are aiming to secure 100% fully renewable energy electricity by 2024. We are looking at alternative sources of energy to power vehicles and sites, as well as projects to reduce and recycle packaging and overall reduce the amount of waste going to landfill.

Reaching net zero entails addressing emissions across the entire value chain, including Scope 3 or "indirect" emissions.

Scope 3 emissions are much larger in scale than Scope 1 and 2 emissions and are therefore highly material to reducing our impact on climate change. For this reason, an assessment of Scope 3 emissions is required before modelling of net zero proposals can be undertaken as well as to assess our disclosure requirements under the Task Force on Climate-Related Financial Disclosures (TCFD). During 2022 we undertook a detailed analysis and measurement of our Scope 3 emissions and will use this to inform our future net zero target.

The introduction of new building regulations in England this year will deliver 31% more carbon-efficient homes than at present and will have an impact on reducing our Scope 3 emissions.

Case study: Solar-powered cabins

In order to help reduce carbon emissions from our own operations we have begun deploying solar-backed generators on our sites. These generators utilise solar panels to capture solar energy which is then used to meet electrical demand and to top up a battery.

Whilst performance is expected to vary in line with daylight hours, some significant carbon and cost reductions have been seen to date and trials will be extended in 2023. Information from the trials and any operational issues that arise will be used to build a robust strategy on generator use. Cabin-mounted solar frames will also be deployed on trial sites in 2023 to assess their benefits.

80%

targeted reduction in scope 1 and 2 greenhouse gas emissions by 2031

Pictures:

Top: Bertha Park, Perth, Scotland East

Bottom: Showhome Garden, Winton View, Tranent, Scotland East

Our purpose in action

Prosper

Resilience & Robustness

In an ever-changing market, we are constantly responding to the needs of all our stakeholders.

At the same time, we are ensuring Miller Homes remains resilient for the long term.

Our priority is to maintain an agile business model with bespoke systems and processes that allow us to focus on adding value and prosperity to our employees, customers, supply chain partners, shareholders and the planet.

Picture: Montgomery Grange, Hampton Magna, West Midlands

Our purpose in action

Prosper continued

Remaining agile

Notwithstanding the 11 years of consecutive organic growth, only briefly broken in 2020 by the pandemic, we recognise that we operate in a cyclical sector.

Investing in high-quality land at or above the Group's minimum margin and ROCE targets, is a key plank to weathering any downturn and the Group has a demonstrable track record of sustainable margin delivery over that period, which has not been sacrificed for volume growth.

Access to real-time data is critical to making the right decisions and the Group's investment in digital systems ensures that trends can be quickly identified.

We believe our business model has a high degree of operational flexibility that enables us to respond quickly to changes in market conditions. This is best seen in the flexibility around the Group's two largest cash outflows of development and land spend.

As a developer of family homes, we align build progress to our sales rates. We are able to manage the speed of build due to our outsourced subcontractor model, which allows us to dictate production programmes whilst minimising fixed costs.

Land acquisitions are approved at Group level to ensure consistent acquisition diligence, and control the level of commitments. The strategic landbank brings not only margin benefit, but also optionally around the date of purchase, with commitment delayed until the point of purchase.

Case study: Humatica

During the year, we appointed specialist consultants as part of an initiative to review our culture, systems and processes across the business.

It is critical to ensure we have the right resource and framework to deliver our future strategy and growth plans and the external consultants helped validate this for us.

The feedback from Humatica acknowledged that the quality and ability of our digital systems were impressive and positioned us well for future growth.

In addition to a series of focus groups, a key element of their study included an anonymous employee survey, which delivered an impressive 85% response rate. Feedback reinforced the strength of our teams, systems and overall management effectiveness.

"The survey results indicate Miller Homes has a rare culture of high trust between different functions and teams.

We have seen that this drives strong collaboration and enables the business to meet the needs of customers, employees, suppliers and investors.

It is an impressive result."

Andros Payne
Managing Partner and Founder, Humatica

Pictures:

Top: The Hazelwood, Sonnet Gate, Prescot, North West
Bottom: Nichola Burns, Technical Director; David Brackley, Regional Operations Director; Leanne Feeley, Head of Sales; and Clare Noakes, Regional Sales Director, North West

85%

Humatica survey response rate

Business model

Structured and considered platform

At every step of the journey, we aim to add value.

Our inputs

People

The business directly supports around 4,000 people daily through a combination of c1,200 directly employed staff and c2,800 subcontractors. To achieve our strategic objectives, it is fundamental that we have committed and dedicated staff supported by skilled and loyal subcontractors.

Land

There are two principal sources of land. Strategic land accounts for around 30-35% of the owned landbank and is acquired at a discount to market value. The balance of the owned landbank comprises land which has a minimum of an outline planning consent and which is acquired on the open market.

Materials

To ensure high standards of build quality, economies of scale and brand consistency, around 90% of the cost of our homes is procured by our centralised procurement team from c100 national suppliers.

Relationships

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

Brand

As buying a home is likely to be the largest single purchase in our customers' lifetime, the Group's brand values and, ultimately, reputation are based on outstanding levels of build quality and customer service. In addition, we promote how we empower our customers with the ability to personalise their engagement with us and their homes.

What we do

Land

What we do

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

How we add value

We add value to land both pre and post purchase through innovative layouts and value engineering opportunities. Margins are further enhanced by promoting our strategic landbank which enables land to be acquired at a discount to market value. Strategic land provides the Group with the security of land supply and allows a more selective approach to purchasing land on the open market.

Planning, design and innovation

What we do

We work with local communities to design quality homes in sustainable developments resulting in successful planning outcomes. We use standard house types across the Group, with vernaculars tailored to suit the needs of a particular location. Our in-house design team developed these house types and accounted for 96% of 2022 private completions.

How we add value

Our developments add value to those communities where we build. This includes direct and indirect job creation, the provision of affordable homes, improvements to local road networks and the creation of new education and community facilities. Our house type portfolio provides flexible layouts which can be adapted to meet our customers' needs.

Procurement

What we do

The vast majority of house build materials are sourced from national suppliers by our central procurement team, ensuring brand consistency and quality across the Group.

How we add value

Centralising the purchases of key house build components ensures price optimisation from national suppliers. It enables supplier performance in respect of both quality and delivery times to be more effectively managed.

Business model continued

Customer service

What we do

Our in-house regional customer service teams ensure continued contact with customers once they have moved into their new homes. We provide quality new homes and excellent levels of customer service, with all key build stages independently inspected by the NHBC, the Group's sole warranty provider. This helps build trust between us, our customers and our site teams.

How we add value

We believe that excellent levels of customer service enhance the brand value of the Group, which assists both sales rates and selling prices. Our personalised customer experiences, digitally or in person, are award winning in our sector.

Sales

What we do

Our in-house development sales managers are based in our sales centres and focus on securing reservations and exchanging contracts before homes are built and completed. Increased use of digital marketing has allowed a more analytical and targeted approach to lead management and enables customers to reserve their homes and select optional upgrades online.

How we add value

We regularly adapt our sales platforms to ensure that we remain relevant and satisfy the demands of our customers. Examples of this include being the first major homebuilder to enable customers to reserve online and developing a sophisticated online optional upgrade configurator, allowing customers to personalise their homes. Both features are very popular with customers, and in 2022, 50% of customers initially reserved online and 90% of customers purchased optional upgrades at an average value of £10,200.

Production

What we do

Suitably qualified employees manage our construction sites with construction activities typically outsourced to local contractors, many of which have worked with the Group for many years. The use of standard house types not only provides cost certainty to the Group but, importantly, increases the familiarity of build to our construction teams.

How we add value

The Group has a well-defined quality assurance process which is further supported by reviews undertaken by the NHBC, which inspects the key build stages of every home constructed. Our build quality is measured by both the HBF Customer Satisfaction Survey and NHBC Construction Quality Reviews.

Our outputs

Customers

5-star

HBF 5-star rating for customer satisfaction

50%

online reservations

Shareholders

£117m

increase in net assets in 2022

£152m*

of free cash generated in 2022

Society

3,970

homes completed to support much needed housing across the UK

£103m

contribution to Government finances

People

93%

staff engagement survey

IIP Platinum

Investors in People Platinum accredited

* See page 17 for reconciliation.

Key performance indicators

Revenue (£m)

£1,169m

+12%

2022	1,169
2021	1,046
2020	665
2019	841
2018	747

Definition

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

Performance

Revenue increased by 12% in 2022 due mainly to a 4% increase in both core completions and ASP and, to a lesser extent, an increase in land sale revenues and the first full year of trading from Walker Timber (see note 3).

Average selling price (£000)

£286,500

+4%

2022	286
2021	275
2020	261
2019	249
2018	249

Definition

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

Performance

ASP increased by 4% to £286,500 (2021: £274,600). This reflected a 5% increase in the private ASP to £337,700 (2021: £320,200) and a 3% increase in the ASP of affordable homes to £143,600 (2021: £139,200). The improvement in ASP more than offset the impact of an increase in the proportion of affordable homes, which rose to 26% (2021: 25%) of core completions.

Adjusted gross margin (%)

24.2%

-0.8%

2022	24.2%
2021	25.0%
2020	23.6%
2019	25.0%
2018	25.7%

Definition

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

Performance

The reduction in 2022 was mainly driven by the impact of HPI/CPI, which, whilst margin dilutive, ultimately resulted in a higher gross profit per plot of £72,000 (2021: £69,300).

Adjusted operating margin (%)

18.6%

-0.9%

2022	18.6%
2021	19.5%
2020	17.3%
2019	20.0%
2018	20.2%

Definition

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

Performance

The reduction in 2022 principally reflects lower gross margins, as explained earlier.

Return on capital employed (%)

35.4%

+1.0%

2022	35.4%
2021	34.4%
2020	19.9%
2019	31.5%
2018	33.4%

Definition

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

Tangible capital employed of £631.2m (2021: £596.5m) represents net assets of £607.2m (2021: £490.1m) excluding loans and borrowings of £345m (2021: £402.4m), cash of £187.3m (2021: £161.0m), lease liabilities of £8.3m (2021: £7.0m), intangibles of £155.5m (2021: £155.5m) and deferred tax on intangibles of £13.5m (2021: £13.5m).

Performance

The increase in the year reflects a 7% increase in operating profit pre exceptional items, offset by an increase in average capital employed, which in turn is largely due to higher net inventory.

Free cash flow (£m)

£152m

-12%

2022	152
2021	175
2020	92
2019	84
2018	82

Definition

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

Performance

Free cash generation of £152m was down on the prior year figure of £175m. However, free cash generated in the year equated to an EBITDA conversion ratio of 76% (see page 31), which is higher than the Group's target of 50%. This was due to reduced land spend in the second half of the year.

Key performance indicators continued

Forward sales (£m)	Private sales rate (per site per week)	NF	Consented landbank (plots)	NF	Strategic landbank (plots)	NF	Customer satisfaction (%)	NF	Health and safety	NF
£481m	0.62		13,914		39,203		91%		504	
-28%	-27%		-8%		0%		-1%		-6%	
2022 481	2022 0.62		2022 13,914		2022 39,203		2022 91%		2022 504	
2021 665	2021 0.85		2021 15,169		2021 39,222		2021 92%		2021 535	
2020 560	2020 0.64		2020 14,667		2020 20,776		2020 93%		2020 454	
2019 328	2019 0.64		2019 13,633		2019 20,035		2019 93%		2019 473	
2018 292	2018 0.67		2018 12,524		2018 17,331		2018 91%		2018 484	
Definition This represents the value of new home reservations and contracts exchanged at each financial year end which are anticipated to result in core and joint venture completions in the following 12 month period. Performance Forward sales decreased by 28% to £481m (2021: £665m). The reduction in the year reflects a combination of an abnormally high opening position and a weakening sales market in the second half of the year. The 2022 year-end balance of £481m is still significantly ahead of the last pre-pandemic year in 2019 of £328m.	Definition This represents the number of reservations (net of cancellations) for private homes (including those sold via joint ventures) divided by the average number of sales outlets and further divided by the number of weeks in each financial year. Performance The private sales rate was down significantly in 2022 due primarily to market conditions in the second half of the year which led to a sales rate of 0.40 over this period. The full year sales rate of 0.62 is broadly in line with our experience in the pre-pandemic years.		Definition This represents land from the Group's owned and controlled landbanks. All land in the consented landbank benefits from at least an outline planning consent, or a resolution to grant planning consent. Performance The owned landbank fell by 11% to 10,724 plots (2021: 12,057 plots) following the curtailment of land purchases in the second half of the year in response to a more negative trading outlook. The controlled landbank increased slightly to 3,190 plots (2021: 3,112 plots), resulting in an overall consented landbank of 13,914 plots (2021: 15,169 plots), 8% down on last year.		Definition This represents land which the Group has secured via either an option to purchase at a future date or a promotion agreement triggered on receipt of an implementable planning consent. The land currently does not benefit from a planning consent, although it may have been allocated for residential development in the relevant local plan. Performance The strategic landbank was broadly unchanged at 39,203 plots (2021: 39,222 plots). The Group continued to invest in new opportunities, with 7 new options (1,164 plots) being added to the landbank during the year, which was partially offset by 840 plots being transferred to the consented landbank with the residual difference due to re-plans.		Definition This represents an external assessment performed by the National House Building Council (NHBC) on behalf of the Home Builders Federation (HBF), and measures our customers' overall satisfaction with both the quality of their new home and the service provided. Performance The Group continued to operate with high levels of customer satisfaction and in March 2022 was awarded the HBF five-star rating for customer satisfaction for the 11th time in the last 12 years.		Definition This represents the total number of accidents reportable (AIR) under RIDDOR as expressed by 100,000 employees and subcontractors. Performance There was a 6% improvement in the AIR score in the year with a strategy set for 2023 which is designed to drive further improvement.	

NF Denotes non-financial KPIs

Housing market review

Changing dynamics

Overview

2022 was a year of significant change in the housing market.

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

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

Economic and political landscape

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

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

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

Whilst these products were eventually re-launched, the publicity and headlines, as well as the additional mortgage costs, caused inertia and a lack of momentum in the market. Many prospective purchasers put on hold their decision to commit to buy or move.

With the November fiscal statement by the new Chancellor of the Exchequer, financial markets steadied and mortgage rates started 2023 around 1% lower than their peak in October 2022.

Consumer confidence

Consumer confidence is an important factor that underpins a well-functioning housing market. Although there were other factors at play in 2022 which all served to impact negatively on sentiment. These included significant political upheaval in the wake of three Prime Ministers in office in quick succession, mounting cost of living pressures and the worsening economic outlook. This was further compounded by the September mini-budget and the ensuing spike in interest rate forecasts.

As a result, consumer confidence fell to a record low of -49 in September, rising slightly in December to -42. In eight months of 2022, the index was at or below -40 for the first time in its 50 year history.

The number of mortgage applications declined towards the lows seen at the start of the pandemic. According to the Bank of England, approvals for house purchases in the UK, an indicator of future borrowing, dropped sharply

to 35,600 in December 2022 which compares to 72,200 in December 2021 and the lowest level of approvals since the early stage of the pandemic in May 2020.

House prices

All main indices reported a similar pattern in house prices during 2022.

The Halifax House Price Index highlighted rapid growth in the first six months of the year with the annual price increase reaching 12% by June. The summer months saw a plateau in prices followed by reductions from September, such that the index was 2% higher by the end of the year.

The trajectory of the Nationwide index was similar but not as extreme. This index showed annual price growth peaking at 5.6% in August before falling back, ending the year 2.8% higher than it started.

Picture: Longridge Farm, Bedlington, North East

Housing market review continued

House prices continued

The combination of house price increases seen since the start of the pandemic and higher mortgage costs in the second half of 2022 has led to affordability measures becoming more stretched. However, the stress test, a requirement for lenders to test borrowers' ability to service their mortgage at 3% over the standard variable rate, was withdrawn in August 2022. Thus making it easier for borrowers to meet mortgage lenders' affordability checks.

Affordability across the UK deteriorated as the cost of paying a typical mortgage as a share of take-home pay rose, finishing at a level not seen for over ten years. House price to earnings ratios reached a UK average of 6.6 but there is significant regional variation with London at 10.6 and the regions where we operate collectively tracking below the national average. The lowest Special Report, January 2023).

Government support for first-time buyers in the shape of Help to Buy had a deadline of 31 October 2022. Our exposure to this was limited, with Help to Buy reservations reduced to only 6% of our private reservations (2021: 15%). The industry was aware that the scheme was coming to an end, and we supported the industry-led Deposit Unlock 95% mortgage indemnity product. This product supports customers with a limited deposit.

Another announcement in the September mini budget was a change in Stamp Duty Land Tax thresholds in England increased from £125,000 to £250,000 and £300,000 to £425,000 for first-time buyers.

Government support

There was no change in Scotland. In the later autumn Statement, the new Chancellor confirmed that this tax measure from the September budget would remain until March 2025. Unlike the previous SDLT holidays, the initial impact on activity levels did not lead to a noticeable positive benefit in transaction levels.

Mortgage rates in December began to reduce steadily and in January 2023 have settled around the 4-5% mark, with some variable rates starting to fall into 3% territory.

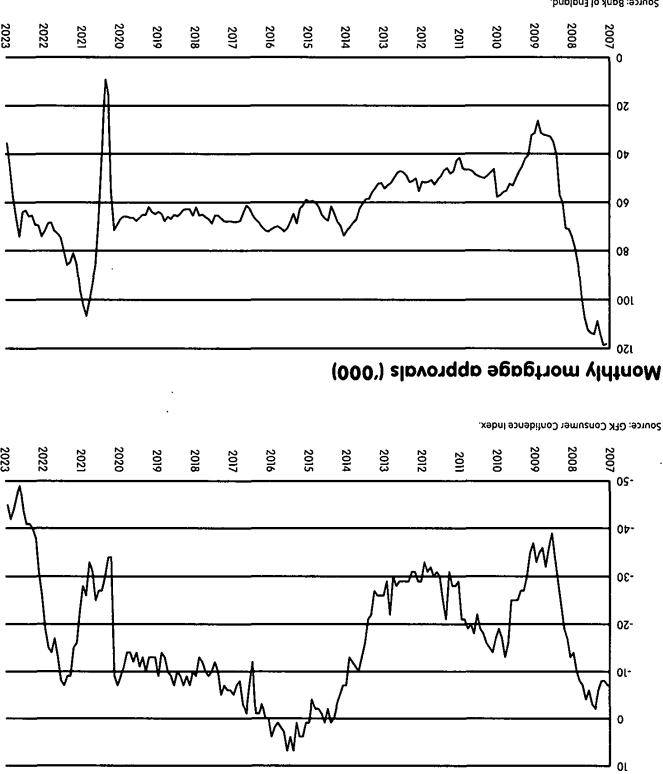
New build homes remain an increasingly popular option for lenders keen to support energy-efficient homes which is evident from an increase in the number of 'Green' mortgage products. Energy efficiency and lower bills are front of mind and key buying motivations for customers.

The average saving on energy bills of £2,600 on a new build home compared to an older, less efficient alternative demonstrates this point (HBF "Wait a Save" Report, 2022).

Interestingly, despite the higher mortgage costs over the last year, from a monthly affordability perspective, outright purchase still remains more favourable when compared to renting. In December 2022, Zoopla reported that overage rents reached £1,078 per month. This was a rise of over 12% in the year. Rental properties remain in low supply. Currently availability is 38% below the five year average and demand is 46% above average (Zoopla, January 2023).

Market trends as we enter 2023

UK consumer confidence



Chairman's statement

Managing market conditions

As demonstrated over the past few years, our disciplined and agile approach allows us to react nimbly to changing market conditions.

Introduction

At the beginning of April, having been Chief Executive of Miller Homes for 11 years, I transitioned into the role of Executive Chairman, to support the appointment of Stewart Lynes as CEO as part of my long-term succession planning. This completed at the beginning of 2023. I will now move to Non-Executive Chairman of the ultimate parent Company, Castle-Builder Topco Limited. I am delighted to lead the Group under our new owners and investors, Apollo.

Apollo is a high-growth asset manager with deep housing expertise, an impressive global platform, extensive resources and capital to help create value for all its stakeholders. I know Apollo is delighted and enthused to have acquired a quality business and to lend their help and expertise to scale the Group in the coming years.

On behalf of the Board, I would like to thank our former sponsors, Bridgepoint, for their support over the past four years.

From a trading perspective, this has been a year of two very defined halves.

Whilst we entered 2022 with a positive outlook and a healthy level of forward sales, the effect of abnormally high inflation, sharp increases in mortgage rates and political instability in the second half of the year all combined to have an understandable drag on the market, which is likely to have a more noticeable effect on our 2023 results.

However, despite some of the broader market turbulence, I am delighted to report that we have still delivered a very strong year's results. Turnover increased by 12% to £1,169m and pre-exceptional profit before interest and tax rose by 7% to £217m. Profit for the year was 9% higher at £125m. All are a record for the Group.

Chris Endsor
Chairman

“Despite some of the broader market turbulence, I am delighted to report that we have still delivered a very strong year's results.”

Strategy

The overall Group strategy is cascaded to our regional and central teams to ensure there is clarity at all levels within the business and is based upon selling predominantly family homes in UK regional markets where both demand and supply dynamics remain favourable when compared to London and the South East.

We have grown annual volumes organically over the last ten years by around 250%. Throughout this time, we have maintained discipline around land investment hurdle rates which has ensured that margins have not been compromised in delivering this growth.

Our existing ten region platform has capacity to deliver 6,000 units annually and compares to just under 4,000 units currently being delivered. We have the ambition to continue with our growth plans but at the same time we have a desire to maintain our track record of high-quality margins and earnings relative to our peers. Given the uncertainty in the market outlook in the second half of 2022, we were not confident that acquiring land at that time would generate the margins we desire. This led to a pause in land purchases which will have a temporary impact on our growth ambitions. However, we still believe in the long-term fundamentals of our markets and hence the merits of growing volumes towards our current 6,000 unit capacity over the medium term.

The key strategic pillars set out below have provided sustainable profitable growth for the Group for over ten years now. At its heart, our strategy is based on a selective approach to land acquisition upon which high-quality homes are built by our highly motivated and skilled employees. Strict criteria around land investment

and operational excellence have enabled us to generate significant and consistent levels of free cash generation.

The key strategic pillars are:

- invest in high-quality land at or above the Group's minimum hurdle rates, around 35% of which is higher-margin strategic land;
- build high-quality homes and provide high levels of customer service as evidenced by the independent NHBC Construction Quality Reviews (CQR) and HBF Customer Satisfaction Survey;
- engage a highly motivated and skilled workforce as confirmed by independent staff engagement surveys and investors in People reviews; and
- generate minimum 50% free cash flow through the cycle.

Our people

During the pandemic, our people demonstrated their resilience. Their resourcefulness was remarkable as we navigated through a global pandemic and Brexit.

This year we have been presented with different challenges to address and overcome. Once again, I have been impressed at the commitment, passion and innovation shown by our colleagues. We are keen to recognise and reward our internal talent as part of our succession planning. I am delighted to report that 114 employees were promoted during the year to roles of greater responsibility.

Pictures

Top: Julie Jackson, General Counsel and Company Secretary; Neil Gallwey, Regional Operations Director; and Chantelle McLinton, Sales Manager, Scotland East

Bottom: Kent Marshall, Mark Poole, Ben Harper, Lester Marshall, SHF National Winning Team at Regal View, Great O'Brien, East Midlands

Chairman's statement continued

“Only 6% of IIP-registered companies in the UK have received Platinum accreditation.”

Our people continued

That my successor as Chief Executive, Stewart Lynes, was also an internal appointment is no better testimony to this. I wish Stewart well in his new role, and with his ability and the support of his senior colleagues, I am sure he will make an outstanding contribution over his tenure.

A final highlight during the year of particular significance was the accreditation to Platinum by Investors in People (IIP). Only employers that demonstrate high performance across a range of employee-focused assessment criteria attain it. This includes the approach to leadership, support and development of staff.

Only 6% of all IIP-registered companies in the UK have received Platinum accreditation.

Health and financial wellbeing are extremely important to us, especially in tough times. This year we were aware of the disproportionate effect of the cost of living crisis on our staff and devised an innovative and tapered approach to salaries that prioritised lower paid members of the team.

Values, culture and purpose

Our values – People, Performance, Pride and Prospering – are a core part of our DNA, and are firmly embedded in everything we do. Together, as a senior management team, we have defined our culture and values and this is something I have been heavily invested in sponsoring internally over the years.

The senior management team recognises the importance of this and regularly invests time to engage with our people. Whether through staff roadshows or regional meetings, a senior presence is there to reinforce the positive can-do culture across the Company alongside our values.

Independent consultants Humatica verified this earlier in the year when it conducted an in-depth review of the business.

Strong employee focus and visible leadership were clear themes openly demonstrated internally among our people through the Humatica insights, as well as the recent IIP Platinum accreditation.

As major homebuilders, we never forget we're in a position of influence. The decisions we make not only affect our own people but, most significantly of all, impact communities and the environment.

In recognition of this, time was spent evolving our Company's purpose: creating better places where people and planet prosper.

We shall strive to embed its elements rigorously over the coming years.

Chairman's statement continued

Building safety

As part of the UK Government's approach to remediating buildings over 11 metres with potential fire safety issues in England, we signed the Developer Pledge on 5 April 2022 alongside the other major homebuilders.

We are a responsible developer, and whilst the Pledge only applies in England, we are working with stakeholders to review and address similar fire safety concerns in Scotland.

Our historic portfolio has limited exposure to high-rise buildings. However, we are committed to ensuring that any developments are remediated without cost to customers in terms of the Pledge.

At the end of 2021, a provision of £9.7m had been booked for all known cladding and fire safety issues at that time. This was in line with the scope of the Developer Pledge signed in April 2022, an initiative under which the major UK housebuilders have undertaken to remediate all life-critical fire safety issues. As a result of regulatory changes and the Self Remediation Contract entered into with the UK Government on 13 March 2023, several legacy properties have been identified with potential fire safety issues and an additional exceptional charge of £20.6m has been booked during the year.

Government policy

With five different appointments in just one year, it's been something of a spinning door at the Housing Minister's office during 2022 and it's been no less busy for the industry itself.

We are facing several regulatory changes, the first being the launch of the much-anticipated New Homes Quality Code (NHQC). We moved to the delivery of the Code from 3 January 2023.

There are also some significant enhancements in building regulations with the arrival of Parts L, F and O in 2022. The implementation of Part L will see a 31% improvement in carbon emission targets compared to 2013 regulations.

Our standard house types have been redesigned to accommodate the building regulation changes. Our in-house team have embarked on the necessary changes to meet the Future Homes and Buildings Standard, set to be published in 2024 and coming into effect in 2025. This will see an improvement of around 75% fewer carbon emissions than homes delivered under the 2013 regulations.

We are also actively engaged in a consultation on the Levelling Up and Regeneration Bill, the amendments to the National Planning Policy Framework and the evolution of National Planning Framework 4 (NPF4) in Scotland.

For England, revisions to planning have been proposed as part of the Levelling Up Bill, which will be of significance and, if adopted, will have a lasting impact on the functioning of the planning system and are likely to result in the overall delivery of fewer homes.

Nutrient neutrality is another challenge for housebuilders. This issue has impacted our business, in particular the Teesside region. However, the Levelling Up and Regeneration Bill will make improvements to sewage treatment works mandatory by 2030, and we embrace this wholeheartedly.

Outlook

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

We enter 2023 with lower forward sales than 2022, but a higher cash balance. We intend to maintain a disciplined approach to land purchases with a focus on site quality, capital efficiency and intake margin.

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

On behalf of the Board, I would like to thank everyone for their continued support and contribution to delivering this year's results.

Chris Endors
Chairman

Chief Executive Officer's statement

A year of two halves

Despite a more challenging second half of the year, our forward-selling strategy ensures we enter a period of uncertainty with a strong and resilient order book.

Introduction

As Chief Executive Officer, it gives me great pleasure to present this year's report, and I would like to take this opportunity to thank the Board, our employees and all stakeholders for their support during my first 12 months in the role.

May I also pass on my best wishes to Chris Endsor as Chairman and thank him for all his support over this period.

Performance overview

We entered the year with an abnormally high level of forward sales following strong customer demand in 2021, and this continued for much of the first half of 2022.

However, it was always anticipated that the sales market would normalise throughout 2022 and return to pre-pandemic levels.

Several factors led to persistent and increasing challenges, not least the war in Ukraine, which exacerbated cost of living pressures, combined with UK political instability and the September mini-budget leading to the third Prime Minister in just ten months.

These events created significant economic uncertainty, resulting in very different market conditions and consumer confidence in the year's second half.

We saw a noticeable adverse impact following the mini-budget in September. The sudden withdrawal of mortgage products, pending their re-pricing in the following weeks, resulted not just in heightened affordability issues at a time of increased cost of living pressures but also led to a sharp dip in consumer confidence.

Stewart Lynes
Chief Executive
Officer

"A more cautious and selective approach to land buying was adopted in the second half of the year in response to weakening sentiment, which was exacerbated by the September mini-budget."

Chief Executive Officer's statement continued

Performance overview continued

Our forward-selling strategy ensured we entered 2022 with a strong and resilient order book. This has provided a degree of protection to the weaker sales environment in the second half of the year.

It was, therefore, extremely satisfying to have delivered both a record number of completions and adjusted operating profit.

Sales performance

Overall completions were 3,970 (2021: 3,849), comprising core completions of 3,921 homes (2021: 3,775) and joint venture completions of 47 homes (2021: 74). This was achieved despite a reduction in the sales rate to 0.62 (2021: 0.85) which was primarily due to a weakening market in the second half year in part coinciding with the September mini-budget.

In 2022, 92% (2021: 84%) of all private reservations were made without recourse to either Help to Buy or part exchange. These accounted for 6% (2021: 15%) and 2% (2021: 1%), respectively.

As the year progressed, we saw a limited pick-up in part exchange activity. This led to our year part exchange stocks increasing to £3.2m (2021: £0.3m) which is still low by historical standards.

Sales pricing in the year followed the pattern in reservation levels. The high point was mid-summer when prices were approximately 9% ahead of 2021. Weaker conditions have since resulted in prices softening. However, they are still around 5% ahead of those at the start of the year.

After becoming the first homebuilder to introduce online reservations in 2017, demand for this facility grew significantly during the pandemic. It has continued to be popular with customers who enjoy its convenience and flexibility. During 2022, online reservations accounted for 50% of all reservations (2021: 49%).

Land

The Group's rigorous approach to land acquisition continues to deliver a strong land pipeline in our key regional markets where there is high demand for new homes.

The criteria for identifying suitable land to add to our portfolio focuses on the key considerations of edge of urban or suburban locations and proximity to good education establishments, areas of high employment and transport links.

The Group classifies its landholdings into consented and strategic land. Owned land is the more prominent element of the consented landbank, with the remainder coming from the controlled landbank. All land within the consented landbank benefits from a minimum of an outline planning consent.

An option or promotion agreement covers strategic land. We promote a site through the planning system to acquire at an average 15% discount to market value for options with promotions more typically being market tested.

The balance sheet value is, therefore, relatively low at £28.7m (2021: £27.5m) representing the cost of the initial agreements and subsequent planning promotion costs.

Pictures:

Top Left: Sales centre visit

Top Right: Customers: Barbara and Kimmy Egerton-Rowley, Roman Fields, Corbridge, North East

Bottom: Woodcross Gate, Normanby, Teesside

Chief Executive Officer's statement continued

Land continued

A more cautious and selective approach to land buying was adopted in the second half of the year in response to weakening sentiment which was exacerbated by the September mini-budget.

By the year's close, we acquired 3,008 plots, down on 5,475 plots in 2021. Consequently, our owned landbank fell to 10,724 plots (2021: 12,057 plots), with plots acquired being outweighed by unit completions.

The Group has a strong track record of converting and acquiring land from its strategic landbank as evidenced by 32% (2021: 33%) of the owned landbank having formerly been strategic land.

The owned landbank's average selling price (ASP) increased to £298,000 (2021: £283,000). This was due to a combination of factors, including a lower percentage of affordable homes in this year's landbank and a net increase in house prices over the last 12 months.

The average plot cost decreased marginally to £44,100 (2021: £44,900) and, as a percentage of ASP, it has fallen to 14.8% (2021: 15.9%).

Our preference is to acquire land with the benefit of a detailed planning permission and 84% (2021: 85%) of the year-end owned landbank had such a permission.

We continue to hold a strong strategic landbank relative to our size at 39,203 plots (2021: 39,222 plots).

Product and supply chain

Our central Procurement team worked with our 100 national suppliers to ensure a regular receipt of materials. At times, due to extended lead times, this required a collaborative approach, with advance orders being a key ingredient of continuity of supply.

Cost inflation in 2022 was around 10%. This was more heavily weighted towards materials than labour, given the energy content of many of our key products.

Looking ahead to 2023, through a combination of a likely normalisation in build activity and softening in general inflationary pressures, we see opportunities to mitigate cost pressures that persisted over the last 18 months and have several planned initiatives in this regard.

We have successfully integrated the Walker Timber business into the Group following its acquisition in December 2021. The first timber kits were delivered to our Scottish regions in March 2022.

By the year's fourth quarter, over 40% of the Walker Timber output was supplying the business. Looking ahead to next year, it is envisaged this will increase to over 60%.

We have advocated using standard house types for many years and in 2022, 96% of private completions were from our standard types. Our in-house Design team has re-configured our standard house types in England in anticipation of the Part L building regulation changes which have to be introduced by June 2023.

Chief Executive Officer's statement continued

Product and supply chain continued

Using standard house types enables the efficient provision of optional extras to customers, facilitated by our online options visualiser. This allows our customers to add personal touches to their homes. In 2022, 90% (2021: 84%) of customers personalised their homes spending on average £10,200 (2021: £8,700).

Build quality and customer service

Our five-star rating for customer satisfaction was retained for the 11th time in 12 years, scoring 91% (2021: 92%). At the end of 2022 we were rated 4.5 on Trustpilot, which put us in the top tier of scores for homebuilders.

In preparation for the launch of the New Homes Quality Code (NHQC) in January 2023, we conducted a detailed Company-wide review of our customer journey to ensure we continue providing excellent service levels.

The Group's build quality and customer service performance are measured yearly by the NHBC, the provider of our ten year warranty, through various external inspections and surveys at key build stages.

Over and above this, the NHBC also carries out an annual assessment of construction quality across a maximum of 38 build stages, known as Construction Quality Reviews (CQR). We are pleased that our CQR score in the year improved to 4.5 which compares to 4.3 in 2021. Another highlight in the year was that the number of sites that received the maximum score of 6 increased from 4 in 2021 to 24 in 2022.

Sustainable development

During 2022 we undertook a significant review of our sustainability activities, both in terms of our current focus and the impact of broader sustainability issues.

We have significantly upskilled our sustainability function, including appointing a new Head of Environmental Sustainability and creating a dedicated ESG Committee with cross-functional teams.

Our review identified several key areas of focus: climate change, biodiversity, social impact and affordability.

We continue to work with our partners, local communities and supply chain to tackle many complex and interconnected concerns.

Our commitment to the future is now embodied in our enhanced sustainability strategy – A Better Place.

Charitable giving

Supporting local causes within our communities remains a key regional focus for the Group and one we have continued to recognise and enhance this year with the launch of our Community Fund in late September.

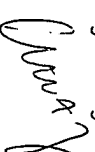
The fund will have more than £100,000 available annually to support local groups, sponsorships and good causes linked to wellbeing, sport or education that have a connection to the places where we work and build homes. Staff volunteers run the fund and are encouraged to learn more about the communities where we build.

The initial launch generated unprecedented interest, with over 400 applications.

We actively encourage our employees to get involved with charitable projects and support a variety of initiatives at both regional and national levels.

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

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



Stewart Lynes
Chief Executive Officer

Chief Financial Officer's review

Free cash flow generated increased to £152m

Operating performance

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

a full 12 months of external revenue from Walker Timber of £19.4m (2021: £1.7m).

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

Ian Murdoch
Chief Financial
Officer

Financial overview

	2022	2021
Total completions (no.)	3,970	3,849
Average selling price (ASP) (£000)	286	275
Revenue (£m)	1,169	1,046
Operating profit	197	193
Operating profit adjusted for exceptional items (£m)	217	204
Adjusted operating margin (%)	18.6	19.5
Net assets (£m)	607	490
ROCE (%)	35.4	34.4

“The year-end land inventory balance fell by 12% to £502.7m (2021: £569.5m) which is due primarily to a 11% decrease in the owned and unconditional landbank to 10,724 plots.”

Chief Financial Officer's review continued

Operating performance continued

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

Other operating income reflected management fee income earned on joint ventures and, to a lesser extent, the net profit on the re-sale of part exchange properties and increased slightly to £1.1m (2021: £1.0m). Administrative expenses fell marginally to £66.8m (2021: £67.0m). This largely reflected the inclusion of a £5.4m exceptional charge associated with a strategic review in the prior year. Excluding last year's exceptional item, administrative expenses have increased by £5.2m, of which £2.7m relates to the inclusion of a full year's charge for Walker Timber. As a percentage of revenue, administrative expenses have fallen to 5.7% (2021: 6.4%). The Group's share of joint venture profit fell to £0.5m (2021: £2.6m). This decline was reflected in a fall in completions, from joint ventures falling slightly to 49 units (2021: 74 units) as well as a change in the mix of completions, with a greater weighting from our Scotland division this year in comparison to last year which was more weighted to our Midlands & South division where ASPs are significantly higher.

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

Finance cost

The net finance cost decreased by £10.5m to £37.0m (2021: £47.5m) which reflected:

- a £22.7m reduced charge on the senior secured notes (inclusive of amortised deferred financing costs and non-utilisation fees) to £13.1m (2021: £35.8m) which reflected the repayment of the notes in March 2022; and
- a £0.9m increase in interest receivable to £1.6m (2021: £0.7m),

offset by:

- a £11.9m increase on interest due on shareholder loans to £18.3m (2021: £6.4m) following the March 2022 Group refinancing; and
- a £1.2m increase in imputed interest on land payables to £6.9m (2021: £5.7m).

Taxation

The tax charge in the year was £34.6m (2021: £30.6m), which comprised £35.5m (2021: £27.5m) of corporation tax (including £4.8m of Residential Developer Property Tax) and a £0.9m credit (2021: £3.1m charge) for deferred tax. The Group has a deferred tax liability at the year end of £4.8m (2021: £9.9m), with the movement mainly due to the increase in the provision for fire safety works. At the year end, the main elements are liabilities of £13.5m in respect of the intangible brand asset and £2.9m in respect of retirement benefit surplus, offset by a £11.6m asset in respect of other temporary differences.

The total contribution to the UK and Scottish Government's finances in 2022, directly through taxes borne by the Group itself and indirectly by payroll and other taxes we collect on behalf of both Governments, was £103.1m (2021: £114.0m) as set out below.

The total amount of tax is significantly greater than the tax charge shown in our accounts and is an indication of our wider financial contribution to the UK economy. The Group is committed to maintaining its status with HMRC as a low-risk business. The Group's tax strategy can be found on its website and is based on an open, transparent and collaborative approach with

HMRC, with a low tolerance towards tax risk and undertaking not to engage in artificial tax arrangements.

Cash flow and debt

The Group continued to generate significant levels of cash. Free cash flow in the year was £151.6m (2021: £175.2m) which equated to a cash conversion from EBITDA ratio of 76% (2021: 90%). This is higher than the three year average of c50% during the pre-pandemic years of 2017 to 2019, as a result of reduced levels of land spend following the actions taken in the second half of the year.

Contribution to Government finances

	2022 £m	2021 £m
Tax paid by the Group		
UK corporation tax	27.6	26.9
Stamp duty	6.8	11.7
Employer's National Insurance	9.5	6.4
Apprentice levy	0.4	0.3
Non-domestic rates and council tax	0.8	1.1
Section 75 and 106 agreements	25.7	43.7
	70.8	90.1
Tax collected and paid over by the Group		
PAYE and employees' National Insurance	24.9	17.0
Construction industry scheme	7.4	6.9
Total	103.1	114.0

Chief Financial Officer's review continued

Cash flow and debt continued

The Group has a cash balance of £187.3m. New financing was put in place during the year following the acquisition of the Group by Castle-Builder Topco Limited. This resulted in the £404.0m 5.5% senior secured notes being repaid and replaced with an intercompany loan.

The refinancing occurred at Miller Homes Group (Finco) PLC ("Finco"), a subsidiary of Castle-Builder Topco Limited, and consisted of the following new notes:

- £425m 7.0% senior secured notes due 2029; and
- €465m Euribor plus 5.5% senior secured floating rate notes due 2028.

Currency swap contracts were entered into by Finco on completion of the refinancing in May 2022, the effect of which was that the floating rate notes have been fully converted to sterling at a rate of £1.19. Accounting standards dictate that the floating rate notes require to be converted at the exchange rate prevailing at the year end of £1.13 with the swap contract recognised separately as an asset. Net indebtedness of Finco is £599.8m, and comprises the following items:

- £425.0m 7.0% senior secured notes due 2029;
- £412.3m senior secured floating rate notes due 2028 (converted at a year-end closing rate of £1.13); and
- lease liabilities of £8.3m,

offset by:

- a cash balance of £189.8m;
- a swap contract asset of £19.7m; and
- deferred financing costs of £36.3m.

In addition, the Group has access to a £180m revolving credit facility (RCF). There are no financial covenants in relation to either the senior secured notes or the RCF. The drawn balance on the RCF is limited to 50% of net inventory.

Balance sheet

A high-quality landbank substantially underpins the Group's balance sheet. The Group's net assets increased by 24% to £607.2m (2021: £490.1m). Tangible capital employed increased by £34.7m to £631.2m (2021: £596.5m). Net inventory represents statutory inventory net of land payables and increased by 3% to £772.4m (2021: £747.1m). This reflected an increase in inventories to £868.9m (2021: £891.4m) offset by a significant reduction in land payables to £96.5m (2021: £144.3m).

The year-end land inventory balance fell by 12% to £502.7m (2021: £569.5m) which is due primarily to a 11% decrease in the owned and unconditional landbank to 10,724 plots (2021: 12,057 plots) and a marginal decrease in the average plot cost to £44,100 (2021: £44,900). As a percentage of ASP, the plot cost is lower than last year at 14.8% (2021: 15.9%). Work in progress has increased by 13% to £363.0m (2021: £321.6m). This reflects a combination of annual build cost inflation and increased construction activity in the year in anticipation of new customer handover processes in 2023. Despite the higher level of work in progress, the number of completed stock units, excluding show homes, remained low at 36 (2021: 7). Part exchange inventories have increased to £3.2m (2021: £0.3m) from last year's historical low as this incentive started to be used again in the second half of the year as market conditions softened.

EBITDA to free cash flow reconciliation

	2022 £m	2021 £m
Operating profit	196.7	192.7
Depreciation	3.1	2.4
EBITDA	199.8	195.1
Net land investment lower than/(in excess of) cost of sales	5.4	(48.2)
Development spend (in excess of)/less than cost of sales	(43.2)	11.1
Change in working capital	(3.9)	0.5
Cash flows from JVs (not included in EBITDA)	(8.4)	6.2
Shared equity loan receivables	1.1	2.4
Other	0.8	8.1
Free cash flow	151.6	175.2
Conversion ratio	76%	90%
Net land spend (included in cost of sales)	160.5	171.1
Net land spend (lower than)/in excess of cost of sales	(5.4)	48.2
Free cash flow pre net land spend	306.7	394.5

Land payables represent creditors due in respect of land acquired on deferred terms and occasionally where contracts have been exchanged and the conditions have been satisfied. Land payables have fallen to £96.5m (2021: £144.3m), reflecting the highly selective approach to land purchases in the year's second half. The amount payable in the next 12 months similarly fell to £79.3m (2021: £85.3m). Land contracts which have been exchanged and where the conditions have yet to be satisfied represent off-balance sheet contractual obligations to make certain payments if the conditions were satisfied. The estimated value of these contracts is £29.6m (2021: £52.9m).

Shared equity loan receivables represent the Group's investment in shared equity loans issued from 2008 to 2013. Redemptions in the year resulted in the investment in these assets falling to £3.5m (2021: £4.6m). The Group prudently carries its shared equity assets at fair value with a provision of £6.7m (2021: £7.2m) being held against the initial carrying value of £10.2m (2021: £11.8m).

Pensions

The defined benefit scheme was closed to new entrants in 1997 and to future accrual in 2010. The scheme's surplus increased to £8.2m

Chief Financial Officer's review continued

Pensions continued

(2021: £7.2m), which reflected contributions of £13.0m and interest income of £0.2m offset by an actuarial loss of £12.2m. This was driven by a combination of higher inflation, revised mortality assumptions and the net effect of the significant increase in discount rates and corporate bond yields on the scheme's assets and liabilities.

The strategy agreed with trustees is to hedge around 70% of interest rate risk largely through investing in gilts and to a lesser extent gilt derivatives. No further contributions are payable whilst the scheme remains in surplus on the technical provisions basis, assuming a discount rate of gilts plus 0.25%. At the year end, the surplus under this measure was £2m.

Pension arrangements for the Group's employees are now provided through a defined contribution scheme with the annual cost reflected in the income statement amounting to £4.0m (2021: £3.6m).

Risk management

The Board maintains a risk register to identify and manage key business risks. Under IFRS 9, the Group is required to disclose the main risks associated with its financial instruments, namely credit risk, liquidity risk and market risk. These are set out in note 22 of the financial statements. In addition to the adequacy of financial resources, the key financial risks are the valuation of inventory, retirement benefit obligations, provisions and intangible assets, as set out in note 26.

Ian Murdoch
Chief Financial Officer

Pictures:

Top Left: Stewart Lymes, Chief Executive Officer and Ian Murdoch, Chief Financial Officer

Top Right: Sarah Miller, Development Sales Manager, Woodcross Gate, Teesside and customers in sales centre

Below: Lapwing Brae, Dunfermline, Scotland East

Stakeholder engagement

Building relationships

Overview

The aim of Section 172 of the Companies Act is to promote the success of the company as a whole for the benefit of all stakeholders. Our key stakeholders are our shareholders, employees, customers, supply chain partners, communities and lastly the Group's banks and funders. We strive to develop and maintain strong relationships with all our stakeholders to ensure we understand their needs and concerns. Engaging with stakeholders encourages positive relationships which impact policies, processes, procedures and ultimately the way we conduct our business.

The importance of giving due consideration to our stakeholders is not new to us and this part of the report serves as our Section 172 statement.

It sets out how we engage with key stakeholders that are material to the Group's long-term success. These are our employees, customers, shareholders, supply chain, subcontractors, local communities, banks and funders.

The following pages describe the engagement process in more detail.

Employees

How we engage

- Intranet provides employees with news stories and updates on a regular/weekly basis
- Employee roadshows with presentations from Executive and Regional Directors
- Fortnightly senior management team meetings introduced to cascade key messages
- A new learning and development (L&D) strategy based on user requirements following focused working groups and business-wide survey

What that means

Staff have increased dialogue with management.

Senior management is more accessible and available through new technologies.

Structured L&D programmes are more useable which has driven attendance.

Customers

How we engage

- Regular independent surveys of customer experience
- Surveys to obtain customer feedback on specific topics
- My Miller Home app allows two-way communication

What that means

We have developed new ways of engaging with our customers through digital means and increased real-time meetings and contact time for us and for customers.

We launched a new customer journey during the year to improve the customer experience.

We continued to listen to customers is what they wanted from the home-buying process and can adapt accordingly, for example more options and choices.

Stakeholder engagement continued

Shareholders

How we engage

- Executive Directors meet with shareholders at formal Board meetings four times each year
- Weekly telephone calls with shareholders and monthly operational calls
- Shareholders receive presentations from other members of the senior team
- Shareholders provided with weekly operational dashboards

What that means

During the year, we established new communication channels with investor shareholders following the acquisition of the business by Apollo in March 2022.

Formal Board meetings have been reduced in favour of weekly virtual meetings between shareholders and the executive team.

Shareholders have real-time information to allow speedy informed decision making.

Supply chain

How we engage

- Long-term collaborative partnerships
- Supplier Code of Conduct
- Regular meetings with suppliers to report feedback
- Meetings with contractors take place before work commences on site

What that means

Regular dialogue with our supply chain means it has full transparency of our plans to support our production targets and that we understand its concerns.

The strength of our long-standing relationships, the high levels of engagement, and the visibility we provide to our key suppliers allow us to ensure continuity of supply with negligible disruption to volume delivery.

Local communities

How we engage

- Through virtual public meetings
- Miller Respect, a dedicated phone line in each site for neighbours and the community to report concerns
- Support for local and national charities
- Staff-led community funding

What that means

We have established dedicated websites for public consultation with a "live chat" option. This improved the planning process, minimised concerns and encouraged direct communication with our site teams.

In 2022 we launched the Miller Homes Community Fund, a staff-led charity scheme of more than £100,000 p.a. supporting local community organisations that promote education, sport, wellbeing or the environment.

Funding decisions are made locally by regionally based employees.

Banks and funders

How we engage

- Quarterly results published on our website provide all interested parties, including bondholders and relationship banks, with access to regular financial information
- Quarterly result calls enable dialogue with the CEO, CFO and bondholders
- Regular contact between the CFO and key relationship banks

What that means

New funding was put in place during 2022 by other Group entities, cementing previous relationships. New relationships have been established with our bondholders, rating agencies and banks supporting our RCF.

It was a difficult market for raising new bond debt due to wider economic conditions, but our existing relationships and reputation enabled the placing of £425m of fixed rate notes and €465m of floating rate notes by Finco in 2022.

Principal risks and uncertainties

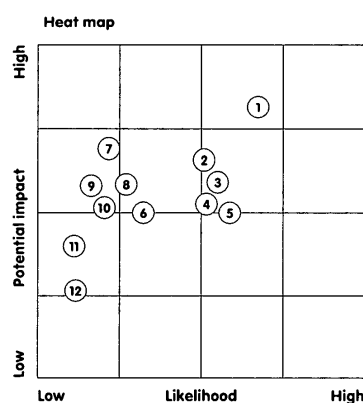
The Board is committed to identifying, evaluating and managing the principal risks to enable the Group to deliver its strategic objectives.

Approach to identifying and managing risk

There is a defined approach to identifying and managing our key business risks. The Group has a Risk Committee which meets four times per annum at which the Group Risk Register is reviewed and updated. The Risk Committee reports to the Executive Committee and in turn the Group Risk Register is submitted to the Audit Committee.

Overview of principal risks

The heat map below illustrates our principal residual risks from an impact and likelihood perspective. A description of each risk, including controls, mitigating actions and a commentary on developments in 2022, is set out on pages 35 to 38.



Risks

- ① Economic conditions, mortgage supply and rates
- ② Land availability
- ③ Availability and cost of materials and subcontractors
- ④ Government regulation
- ⑤ Fire safety
- ⑥ Safety, health and environment
- ⑦ Reputation
- ⑧ Attract and retain employees
- ⑨ Availability of finance
- ⑩ IT
- ⑪ Fraud
- ⑫ Pensions

▲ Increased — No change ▼ Decreased

Risk	Description	Controls and mitigation	2022 commentary and change in the year	Change
① Economic conditions, mortgage supply and rates	Demand and selling prices for new homes are inextricably linked to consumer confidence which, amongst other things, is impacted by employment prospects, disposable incomes and the availability and cost of mortgages, particularly at higher loan to value.	<p>Sales rates, cancellation levels, visitor levels, leads and prices are monitored on a weekly basis informing timely decision making.</p> <p>Our land acquisition diligence considers local employment, income levels and affordability which in turn is informed by current trading experience.</p> <p>Close relationships are maintained with mortgage lenders and government agencies to ensure that we utilise all available products and are involved in initiatives aimed at the new build sector.</p>	<p>The UK economy slowed in 2022 due to the impact of cost of living pressures and rising interest rates. Mortgage rates, which were already increasing in line with interest rate rises, increased more sharply in September 2022 following the mini-budget and the sudden rise in government gilts.</p> <p>House prices continued to rise during the first half of the year but gave back some of this increase in the second half of the year, still ending the year ahead of the starting position. Sales rates declined in the second half of 2022 and more particularly the final quarter.</p>	▲

Principal risks and uncertainties continued

▲ Increased ■ No change ▼ Decreased

Risk	Description	Controls and mitigation	2022 commentary and change in the year	Change
2 Land availability	The ability to secure the quantum of consented and strategic land in the appropriate locations and on terms which enable the Group's business plan to be delivered.	<p>Established land acquisition hurdle rates for gross margin and ROCE exist which underpin our strategic plan.</p> <p>The Group has dedicated regionally based land teams for both current and strategic land. Regional land bid success rates are reviewed at Group level to critically review the level of bids, together with the reasons for unsuccessful offers.</p> <p>The Chief Executive visits all sites prior to acquisition to ensure each site fits within the Group's land strategy and all land acquisitions and new strategic land options are approved by the Executive Board.</p>	<p>Land purchases were curtailed during the second half of the year in light of political uncertainty and a deteriorating economic outlook.</p> <p>The Group added 3,008 plots to the owned landbank which was around 25% less than what was consumed in the year.</p> <p>The Group's consented landbank of 13,914 plots has decreased by 8% and land payables have fallen to £97m (2021: £144m).</p> <p>The Group continues to hold a significant strategic landbank of over 39,000 plots.</p>	■
3 Availability and cost of materials and subcontractors	The ability to procure sufficient materials and skilled labour to ensure build quality standards are maintained, build programmes are delivered and homes are built cost effectively.	<p>Around 90% of house build materials are negotiated by the central procurement team. This ensures cost certainty over a fixed period and continuity of supply with lead times monitored.</p> <p>Competencies are assessed to ensure both the appropriate quality and reliability of supply with feedback received from our construction team via a supplier assessment app developed by our in-house IT team.</p> <p>Subcontractors are managed at a regional level. Many of our subcontractor relationships are well established and long standing which mitigates the impact of labour and skill shortages as industry output increases.</p> <p>Our policy is to tender to maintain price competition, with higher-value orders requiring the approval of Regional Managing Directors.</p>	<p>The sharp rebound in construction activity following the pandemic has led to increased lead times on certain commodities. This continued to be carefully managed by our regional construction teams and central procurement team and ultimately our construction output was in line with that achieved in 2021 and ahead of pre-pandemic levels in 2019.</p> <p>Cost inflation during 2022 was around 10% with it more heavily weighted towards materials than labour. A cost mitigation strategy has been devised for 2023.</p>	▲
4 Government regulation	The ability to ensure that the Group remains aware of emerging government legislation and it is implemented within the necessary timescales.	The Group understands the importance of gaining an understanding of likely new legislation at as early a stage as possible. We strive to participate in industry working groups to both shape new legislation and understand the perspective of government. This is a multi-disciplinary approach with the key functions in recent years being legal, technical, production and customer service.	<p>There have been some significant regulatory changes during the year. The key changes are:</p> <ol style="list-style-type: none"> 1 fire safety legislation, which is discussed as a separate risk item below, including an additional 4% corporation tax rate for the sector which took effect from 1 April 2022; and 2 nitrate neutrality legislation which impacts housing development in certain regions in England. <p>Proposed amendments announced by the Government in December 2022 to the National Planning Policy Framework include changes to local housing numbers and the need for local authorities to maintain a plan for a five year housing supply.</p>	▲

Principal risks and uncertainties continued

▲ Increased ■ No change ▼ Decreased

Risk	Description	Controls and mitigation	2022 commentary and change in the year	Change
5 Fire safety	The risk associated with properties above 11 metres built by the Group or companies subsequently acquired by the Group within the last 30 years which will require to be remediated under the Building Safety Act.	<p>The Group has built a relatively low number of properties above 11 metres.</p> <p>Specialists have been appointed to assess the limited number of properties which are thought to be affected by this legislation and they have also provided assumptions and estimates for the remediation provisions which have been recorded in the financial statements.</p>	At the end of 2021, a provision of £9.7m had been booked for all known cladding and fire safety issues at that time based on the scope of the Developer Pledge signed in April 2022, an initiative under which the major UK homebuilders have undertaken to remediate all life-critical safety issues in England. The Building Safety Act and the scope of the self remediation terms contract have expanded homebuilders' liability to include legacy buildings, changes in scope under Scottish Government remediation terms (yet to be signed) and the legacy buildings inclusion meant that an exceptional charge of £20.6m is included in the current year financial statements.	▲
6 Safety, health and environment (SHE)	Breaches of SHE legislation can result in workplace injuries, environmental damage or physical damage to property. This could result in financial penalties, reputational damage and delays to site related activities.	<p>The in-house SHE team consists of 13 qualified professionals. The team is managed independently from our operational businesses under the guidance of our SHE Director who in turn reports directly to the Chief Executive.</p> <p>The Group has a dedicated SHE Committee with cross-disciplinary attendance which monitors, among other things, the progress against the annual SHE strategy.</p> <p>Site operations are subject to monthly audits and SHE awareness toolbox talks are regularly communicated to both staff and subcontractors.</p> <p>Our internal awards initiative recognises and rewards the importance of SHE across the business.</p> <p>Protection of the environment during construction is built into our operating methods as we see increasing focus on conservation and the enhancement of the natural environment.</p>	<p>ISO 45001 and 14001 accreditations were maintained during the year.</p> <p>Drugs and Alcohol Policy procedures were refreshed and supported by training sessions at all levels.</p> <p>The development of SHE incident reporting and inspection apps has simplified administration, generated greater visibility of live situations and speed to close outstanding actions.</p> <p>Short online training sessions (SHE Bytes) have been introduced to address certain topics across teams.</p>	■
7 Reputation	This risk covers the reputational risk arising from the acts or decisions taken by the Group and the wider housebuilding sector.	<p>Reputational risk is considered by various Executive sub-committees including the Safety, Health and Environment (SHE) and Quality Committees.</p> <p>Regular consultation with HBF and participation in industry working groups.</p>	In anticipation of the launch of our participation in the New Homes Quality Code in 2023, new processes were launched to update handover procedures of homes to customers. Training of all staff was undertaken to ensure compliance with the new Code.	■
8 Attract and retain employees	It is important that the Group retains and attracts high-calibre and diverse employees in order to deliver on all aspects of our strategy.	<p>The Group's HR strategy is focused on all aspects of reward, retention, training and development, as well as performance management.</p> <p>The Group has committed to the Home Building Skills Pledge. This champions diversity and inclusion and promotes the industry as inclusive and progressive, attracting employees to a positive career in homebuilding.</p> <p>Staff roadshows, led by the Chief Executive, are undertaken annually. Staff engagement surveys and an independent review by Investors in People are undertaken on a triennial basis.</p> <p>Succession planning programme for all Regional and Group Director positions is supplemented by a leadership development programme.</p>	<p>A tapered approach to annual pay awards was implemented which was well received by staff at all levels across the Group.</p> <p>The Investors in People assessment resulted in the Group being awarded Platinum status for the first time, a level awarded to only 6% of companies in the UK.</p> <p>Initiatives in the year included the launch of a Financial Wellbeing Hub, an updated online induction module including mental health awareness and diversity and inclusion workshops.</p>	■

Principal risks and uncertainties continued

▲ Increased ■ No change ▼ Decreased

Risk	Description	Controls and mitigation	2022 commentary and change in the year	Change
9 Availability of finance	The Group requires access to adequate financial resources in order to meet its existing commitments and to deliver its strategic plan.	<p>Cash is managed by a combination of weekly and quarterly forecasts. The strategic plan covers a five year period and is updated at least annually and supported by sensitivity analysis to provide a basis for longer-term investment decisions.</p> <p>Additional sensitivity scenarios are prepared to stress test the Group's cash flows.</p> <p>The secured notes do not have any financial covenants. The only financial condition is that the drawn balance of the revolving credit facility (RCF) is limited to 50% of net inventory.</p>	The Group's cash balance at 31 December 2022 was £187m, further supplemented by a £180m RCF that remained undrawn (other than in respect of an outstanding avalised promissory note of £10m related to deferred payments on a land acquisition and a working capital facility for an aggregate amount of £0.4m).	■
10 IT	The key IT risks relate to data breaches and system outages (including our website) which could result in both financial and reputational damage. In addition, to maximise business performance it is important to have access to all critical systems regardless of their place of work.	<p>The greatest IT risk relates to a cyber event and/or a security breach. An annual cyber security plan is approved by the Risk Committee. The Group strives to ensure the latest software is installed for its critical systems to protect against the latest detected vulnerabilities, and facilitates access to these systems for staff who are becoming increasingly mobile. In addition, software is deployed to support threat detection, compliance and security incident management.</p> <p>Security reviews are performed by external consultants throughout the year.</p> <p>Full back-up and system recovery is in place as part of the wider Disaster Recovery Plan, and again this is tested annually.</p>	<p>We continued to invest in IT during the year with some critical systems being transferred to the cloud, thus improving resilience against cyber threats. A new third-party consultant was appointed to test our cyber security systems.</p> <p>We also ran a cyber awareness campaign and held General Data Protection Regulation (GDPR) training with relevant staff.</p>	▲
11 Fraud	The risk associated with fraudulent activity.	<p>The Group has a Risk Committee which has a specific remit for reviewing our approach.</p> <p>The greatest fraud risks are regarded as customer fraud/adherence to anti-money laundering legislation, attempts to divert supplier payments and on-site theft of materials.</p>	We continued to be vigilant to fraud attempts and adapted our procedures in some areas during the year.	■
12 Pensions	The Group's defined benefit scheme was closed to new entrants in 1997 and to future accrual in 2010. The deficit could fluctuate due to changes in longevity assumptions, bond yields or asset values.	Investment strategy agreed with scheme trustees to reduce volatility in the asset base. This is regularly reviewed in light of market conditions.	There was significant dialogue with trustees during the year, particularly in relation to the scheme's investment strategy and the fast paced developments around LDI in light of the sudden spike in gilts shortly after the September mini-budget. At the year end, the scheme had around 70% of its liabilities hedged with around 60% of this being in the form of physical gilts or corporate bonds.	■

Measuring our impact

Impact & Influence

At Miller Homes, we understand that building homes impacts the world around us and uses natural resources.

We want to create better places with positive outcomes for the environment, our communities and economic prosperity.

We want to transition to more sustainable methods of construction and the delivery of developments that can both mitigate and adapt to climate change.

It is important that we focus on and prioritise the issues that matter most to us and our stakeholders.

During 2022 we established an ESG Committee to review our challenges and set ourselves targets for improvement which are relevant to our business.

We have already been working hard to understand how our new purpose – Creating better places where people and planet prosper – will drive our approach to sustainability and how it will shape people's lives and impact the environment. It also forms a key part of our refreshed strategy, A Better Place, which we will launch in early 2023.

Places

Creating communities

Better places

We want to go beyond just building homes. We want to help create communities with the right infrastructure in place to support local needs for years to come.

This means providing good access to open spaces, amenities, transport connections, schools and workplaces.

The homes we build will always be in desirable places where our customers want to live.

Quality homes

Our customers deserve homes that are built to the highest standards and are a quality product. In 2022, NHBC Construction Quality Reviews (CQR) were undertaken on 89 development sites.

The CQR scores have seen significant improvement with figures increasing from 4.3 in 2021 to 4.5 in 2022. We have also received 24 sites achieving scores at excellent, compared to only four in the previous year.

Pictures:

Top: Hawkhead, Paisley, Scotland West

Below: Jo Slott, Head of Environmental Sustainability

Affordable housing

A lack of affordable housing is one of the biggest challenges facing people across the UK.

We can play a part in addressing this problem by increasing the supply of new housing and making our homes affordable to a greater number and a wider range of people.

We want to ensure that our customers can afford a home in the area they want to live. We have made that possible by providing homes at price points that are accessible to first-time buyers and families with a need for more space.

We participated in the Government's affordable housing programmes, as well as partnering with housing associations and others to deliver 1,034 (2021: 952) affordable homes; this equates to 26% of our completions during the year (2021: 25%).

Local nature

We recognise the positive impact of nature on wellbeing and the value of biodiversity.

As part of our commitment to natural environments and healthy spaces, we want all our developments to deliver a positive biodiversity net gain whilst delivering beautiful, healthy and nature-rich spaces for our communities.

Healthy communities

Supporting our communities is a key focus for the Group.

Last year we set up a Community Fund. This is a Group-wide initiative with annual funding allocated across all regions in the business to support local community projects and organisations.

This is employee led with decisions being made locally by staff who are encouraged to find out more about their local communities.

There has been overwhelming support and interest in the Miller Community Fund, both among our employees and the local communities in which we live and work. We are delighted to have made a difference to a wide range of groups and projects.

In addition, we actively encourage our employees to get involved with charitable projects and support a variety of initiatives at both regional and national levels.

In 2022 we contributed £103,000 to charitable organisations through various initiatives, as well as £55,000 to the Community Fund.

Measuring our impact continued

Picture: Lisa Callaghan and Angela Allen, Development Sales Managers, Scotland East; Kim Harris and Gail McNaig; Home Start, recent beneficiary of the Community Fund

People

Thriving teams

Safety first

We have stringent systems to manage our health and safety risk and continually review and improve our processes. Every year we refresh and revise our strategy to improve our safety, health and environmental (SHE) performance. In 2022 our strategy focused on reducing our accident incident rate (AIR) through several key actions:

- improving the education and contribution of our contractors and their SHE consultants in accident prevention through training and engagement meetings;
- monitoring site start meetings to ensure good communication of requirements; and
- targeting specific areas for attention and improvement, including underperforming sites and contractors and selected regional topics.

Health and wellbeing

This year we continued to focus on the wellbeing of our people and to ensure their health and safety.

We have expanded our wellbeing programme to include financial wellbeing, as well as our ongoing physical and mental health programmes.

As part of this approach, we were aware of the disproportionate effect of adverse changes in the cost of living on our staff. Consequently, we adopted a different approach to salary reviews this year, with higher percentage increases awarded from the bottom up.

Following feedback from staff, the Group launched We Care, a tailored package of wellbeing initiatives including 24/7 online GP access, a mental health support service and a get-fit programme.

Engaged employees

We understand the importance of investing in people, and we're proud that our most recent employee engagement score is 93%. We believe we have the right culture to drive engagement that delivers performance.

Diversity and inclusion

We see diversity as an opportunity to truly embrace our colleagues' backgrounds and perspectives. It is essential to respect and value differences and ensure everyone who works with us feels included.

Gender equality remains an issue for the housebuilding sector, and we recognise that we must play our part in making the industry a more attractive career choice for women.

In 2022, we set out a five year strategy to increase the number of females into the business, particularly at entry level.

The first steps in achieving this goal were to increase awareness across the whole business and examine the barriers leading to under-representation. Educating managers and those who make decisions is critical to driving a culture change.

In 2022 our gender statistics showed female employees represented 31% (2021: 30%) of total employees and 19% of Directors and senior management (2021: 23%).

Future skills and training

In 2022 our new learning and development strategy was implemented with a target to improve the number of training days per employee to four days per annum.

In 2022 the Group carried out over 20,000 hours of training, resulting in 2.9 days per employee, which is an improvement of 56% on 2021.

We have 57 employees on Early Talent programmes throughout the Group, equating to 5% of our workforce. This reinforces our commitment to encouraging young people to start a career within the homebuilding industry and tackling the skills shortage within the sector.

Happy customers

Satisfaction

We understand delivering high levels of customer satisfaction drives and motivates us.

It enhances the reputation of our business and reduces the costs associated with any remedial rectifying work.

The Board and the Group management team regularly review customer satisfaction scores as independently reported and consider ways to improve them.

In 2023 we achieved a recommended score of 91% in the Home Builders Federation (HBF) eight week survey, equating to a five-star rating.

This makes it 11 out of the last 12 years where we have achieved a 5-star rating.

Measuring our impact continued

Planet

Responsibly built

Energy and carbon

In 2021 we committed to a carbon reduction target to reduce our Scope 1 and 2 emissions by 80% by 2031.

In 2021 we purchased timber manufacturing company, Walker Timber, and our operational carbon emissions increased as a result. During 2022 we also worked hard to improve our datasets, finding some further emissions as a result, but enhancing our data robustness. For this reason, our energy use and emissions increased overall in 2022. However, renewable electricity tariffs purchased reduced the impact of these changes and resulted in a slight drop in emissions per build unit overall.

Our overall emissions and intensity measure are shown below. Since a significant amount of our electricity use in 2022 was from renewable sources, we have reported both market and location based emissions in line with the Greenhouse Gas Protocol.

Location based carbon emissions	Emissions (tCO ₂ e)	
	2022	2021
Scope 1	6,989	5,118
Scope 2	1,093	1,277
Total	8,082	6,395
Miller Homes intensity measure (tCO ₂ e per 100 sq m)	1.85	1.74

Market based carbon emissions	Emissions (tCO ₂ e)	
	2022	2021
Scope 1	6,989	5,118
Scope 2	381	1,277
Total	7,370	6,395
Miller Homes intensity measure (tCO ₂ e per 100 sq m)	1.67	1.74

As Miller Homes and Walker Timber have very different production outputs, we have also begun tracking a new intensity measure of tonnes of carbon per £100k turnover. This will allow us to measure and track the carbon intensity of our Group as a whole going forward. This intensity measure for 2022 is shown below.

Group intensity measure (Miller Homes and Walker Timber)	Emissions (tCO ₂ e)
	2022
Location based reporting (tCO ₂ e per £100k revenue)	0.69
Market based reporting (tCO ₂ e per £100k revenue)	0.63

Activities underway to reduce our emissions include trials of solar generators and other technology to reduce diesel use during construction phases.

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

Picture: Minerva Heights, Chichester, Southern

During the year we completed our first baseline assessment of our Scope 3 carbon emissions. Completing this assessment has helped us identify focus areas for carbon reduction.

In 2023 we will use our Scope 3 assessment findings to model potential pathways and timescales to reach net zero carbon emissions.

Timber

In 2022 all of our Group supply of wholly timber products, such as roof trusses and joists, staircases, timber cassettes, and beams, were supplied by companies which hold chain of custody certification from either the Programme for the Endorsement of Forest Certification (PEFC), the Forest Stewardship Council (FSC) or both of these standards of sustainable timber certification. All of our kitchens are fully FSC certified and in 2022 we were able to offer customers our first fully recycled timber kitchens.

All products supplied by our timber frame manufacturing company Walker Timber carry chain of custody certification from the PEFC, including those supplied to Miller Homes.

In 2023 we will be working closely with all suppliers, merchants and contractors to improve line item identification of sustainably sourced timber on invoices and payment requests. This will allow us to improve the robustness of our audit processes over time.

Waste

We have targets for recycling rates of at least 75% across our business by 2025, with a goal of 85% recycling by 2030.

By 2025 our target is to divert at least 98% of our waste from landfill and incineration processes where no energy recovery takes place, and we are aiming for 100% by 2030. In 2022, we achieved our targeted diversion rate and will continue to press for further improvements.

Measuring our impact continued

Planet continued

Responsibly built continued

Waste continued

Our Yorkshire region carried out a pilot project in 2022 to understand how much waste per unit can be reduced through better on-site engagement and identified subcontractors that would work to our standards.

The pilot has produced our two lowest-ever waste per unit measures to date. We plan to replicate this approach across the business to set further targets and to drive down waste per EBU and associated costs.

- Our Group recycling rate in 2022 was 81%.
- Our diversion from landfill rate was 98%.
- We produced 31,914 tonnes of waste.
- Our waste per 100m² of build was 7.9 tonnes.

Energy efficiency

More than 70% of the carbon emissions from a new home arise from using energy when the home is lived in.

Our energy-efficient designs help to reduce energy consumption through key features such as insulation, glazing and air tightness.

In 2022 we developed new designs to comply with the requirements of the new Part L of the building regulations. These new designs will deliver carbon reductions of around 31% in all new homes.

As well as the home's design, we help customers reduce their costs and carbon impact by supplying energy-efficient appliances. We have also worked with our supplier to make two ranges available which are made from 100% recycled timber, allowing our customers to select a more sustainable option.

Enhancing communities

In 2022, we delivered £26m of support to the communities we have developed, including a variety of local services, from education, healthcare, open spaces and biodiversity enhancements to highway and public transport improvements.

More than £7m went into improving education facilities for our communities.

We have also designed some significant biodiversity enhancements, for example at Cleve Wood, Thornbury which opened its show home this year, we provided 2.8 hectares of woodland area planting and over 2km of tree belt to link habitats on site. Grassland, allotments, a pond, nest boxes and dark foraging corridors for bats will also be created or maintained.

At our Earls Grange development near Telford, we will incorporate a recreational lake, allotments, tree and hedgerow planting, and 200 nest boxes for bird species identified during the site's ecological appraisal. Hedgehog and invertebrate refuges, and 50 bat boxes for young and hibernating bats will also be included.

Board of Directors

Meet the leadership team

Our Directors bring together exceptional experience and expertise. They are committed to practising and promoting good governance and delivering higher, more sustainable performance.

Key

- Castle-Builder Topco Limited Director (Main Board)
- Miller Homes Group Limited Director



Chris Endors Chairman

Chris joined the Group in 2000, following the acquisition of Birch Group, where he was a founder and Group Managing Director. He has held several senior positions within the Group and was appointed Chief Executive in 2011 and Executive Chairman in 2022 before moving to Chairman of the Holding Company Board in 2023. Chris has over 40 years of industry experience, having trained and qualified as a quantity surveyor. He's also a Fellow of the Chartered Institute of Building. Chris has always been deeply interested in land strategy and people's career development within Miller Homes. He has been fundamental in embedding Company values and a positive organisational culture.



Stewart Lynes Chief Executive Officer

Stewart joined the Group in 2008. He was promoted to Managing Director for Scotland in 2013 before expanding his role in 2018 and assuming responsibility for the North of England division. In 2019, Stewart was promoted to Chief Operating Officer and then to Chief Executive in 2022. Stewart is a qualified quantity surveyor with 19 years of experience in the sector.



Ian Murdoch Chief Financial Officer

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



Julie Jackson General Counsel and Company Secretary

Julie is qualified as a solicitor to practice in both Scotland and England. She joined the Miller Group in 2003, having worked in private practice for 14 years specialising in property development and investment. Julie has held various senior positions with Miller and was appointed General Counsel in 2009 and Company Secretary in 2016. Julie has responsibility for all legal, governance and compliance, including ESG, matters and chairs the land directors' meetings on a national basis as well as the Quality and ESG Committees.

Board of Directors continued

Key

- Castle-Builder Topco Limited Director (Main Board)
- Miller Homes Group Limited Director

● Stephen Stone Non-Executive Director

Stephen has been in the homebuilding industry for over 40 years. He recently co-founded Flint Housing, a private provider of affordable and shared-ownership homes in England. Stephen was the CEO of Crest Nicholson from 2005 to 2018. He was Chairman of the board for Keepmoat from 2019 to 2021. Stephen also serves as a Non-Executive Director on the boards of Miller Homes, the HBF, Ilke Homes, the NHBC and Orbit Group. He is a chartered architect and a member of the RIBA.

● Alexander Humphreys Non-Executive Director

Alex is a Partner at Apollo based in London. Before joining Apollo in 2008, he was at Goldman Sachs in the Financial Institutions Investment Banking team. In addition to his involvement with Miller Homes, Alex serves or has served on the board of directors of Amissima, Aspen, Athora, Catalina Holdings, Haydock Finance, Latecoere, Lumileds and Tranquilidade.

● Peter Sinensky Non-Executive Director

Peter is a Partner at Apollo in the Private Equity business based in New York. Before joining Apollo in 2011, he was at J.P. Morgan in the Mergers and Acquisitions Investment Banking team. In addition to his involvement with Miller Homes, Peter serves or has served on the board of directors of The New Home, Novolex, OneMain Holdings, Lumileds, Vacuumshmelze and Vectra.

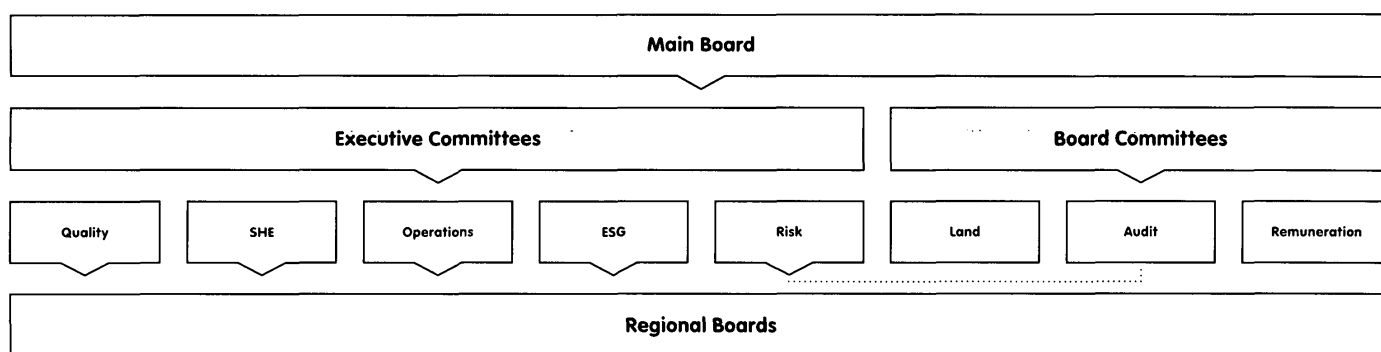
● Edward Jones Non-Executive Director

Ed is a Partner at Apollo in the Real Assets business based in London. Before joining Apollo in 2010, he was at Citi in the Real Estate Private Equity team and at AEW Europe/Curzon Global Partners in the investment team. In addition to his involvement with Miller Homes, Ed serves on the board of directors of Apollo Credit Management, Atlantic Leaf Properties and Lapithus Management and sits on the Apollo European Core Plus investment committee.

● Rajesh Jegadeesh Non-Executive Director

Rajesh is a Principal on the Private Equity team at Apollo based in London. Since joining Apollo, Rajesh has been involved in various transactions, including Sazka, Miller Homes, Double Eagle III, Vistra (Ika TXU), General Electric EFS, CPV Fairview and Caledonia Power. Before joining Apollo, Rajesh was in the Mergers and Acquisitions Group at Lazard, based in New York.

Corporate governance report



Board of Directors

The Board of Directors is responsible for the business' management, direction and performance. The Directors of the Company are Chief Executive Officer, Stewart Lynes; Chief Financial Officer, Ian Murdoch; and General Counsel and Company Secretary, Julie Jackson. The corporate governance of Castle-Builder Topco Limited covers Miller Homes Group Limited, therefore, further details are presented below.

Main Board

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

The Board has executive representation from the three Directors of Miller Homes Group Limited, as listed above.

* Directors representing Apollo.

The Non-Executive Investor Directors* on the Board are featured on page 44. Stephen Stone, an experienced former CEO and Chairman in the housing industry, is also a Non-Executive member of the main Board.

The Group considers these individuals to possess the necessary experience and detailed industry knowledge to discharge their duties as Directors. This Board formally meets four times a year but also has separate meetings on both strategy and to hear presentations directly from other operational and functional Directors within the business. Monthly operational updates take place via virtual meetings with all Directors present.

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

The main Board is considered to have oversight of the Company and is responsible for its long-term success.

It sets the long-term strategic aims and objectives, structure, key management decisions, financial reporting, as well as approval of both significant capital expenditure and land acquisition over a certain level.

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

The Board Committees held at this level comprise:

Land Approval Committee

The Land Approval Committee has delegated authority to approve land acquisitions above a certain value or higher risk acquisitions based on the planning status.

The Committee comprises the Chairman, the Chief Executive Officer, Stephen Stone and at least two Investor Directors. This Committee meets as necessary, dictated by business needs.

Remuneration Committee

The Remuneration Committee meets three times per annum or as needed by the requirements of the business.

Alexander Humphreys chairs this meeting. Recommendations are made to the main Board on all aspects of the remuneration, benefits and employment conditions.

The Committee comprises its Chair, Stephen Stone, and an additional Investor Director, with Executive Directors invited to attend.

Corporate governance report continued

Main Board continued

Audit Committee

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

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

Executive Committee

Following the Company's acquisition by Apollo in 2022, the Directors took the opportunity to carry out an organisational restructure of the Group to reflect the growth in the size of the business and best practices.

A new framework has been implemented where sub-committees support the Board and the Executive Committee, focusing on the business' strategic and operational aspects.

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

The Executive Committee meets monthly and receives reports from the separate sub-committees (see structure chart). The Executive Committee is responsible for the implementation of the strategy set by the main Board and for promoting the long-term success of the Group.

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

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

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

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

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

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

A detailed analysis of the risks is provided on pages 35 to 38.

Apollo

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

Through its investment activity across a fully integrated platform, it serves its clients' retirement income and financial return needs and offers innovative capital solutions to businesses.

As of 30 September 2021, Apollo had approximately \$481 billion in assets under management.

Picture: Exploring new places

Directors' report

The Directors of Miller Homes Group Limited (previously Miller BP Limited) have pleasure in presenting their report and the audited financial statements for the year ended 31 December 2022.

Principal activities

The Company is a holding company. The principal business of the Group is residential housebuilding.

Business review and results

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

The Group profit after taxation for the financial year amounted to £125.1m (2021: £114.6m). No dividend will be paid.

Going concern

The Directors have prepared cash flow forecasts, which take into account reasonable sensitivities, in order to assess the future funding requirements of the Group and its committed finance facilities. After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and the financial statements.

Directors

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

- Stewart Lynes;
- Ian Murdoch;
- Julie Jackson;
- Chris Endors (resigned 25 January 2023);
- John White (resigned 31 March 2022);
- Patrick Fox (resigned 31 March 2022); and
- Jamie Wyatt (resigned 31 March 2022).

Control

From 31 March 2022 onwards the Company was ultimately controlled by Apollo Global Management Inc. Prior to this the Company was ultimately controlled by Bridgepoint through BEV Nominees Limited, as nominee for the funds managed by Bridgepoint Advisers Limited.

Corporate governance

The Directors recognise the importance of good corporate governance and operate on a basis which reflects the size, risks and complexities of the business, in accordance with its values as described below.

Employees

It is recognised that the culture of the business is extremely important to attract high calibre individuals. Equal opportunities and diversity are promoted throughout the business to ensure that all employees are treated in a non-discriminatory manner at all stages of their employment, including recruitment and selection, rewards, training and career development. The Equality and Diversity Policy ensures that all employees are treated equally and fairly with no discrimination in respect of age, disability, religious belief, sexual orientation, race, colour, marital status, political belief or nationality. Female employees represented 31% (2021: 30%) of total employees and 19% (2021: 23%) of Directors and senior management.

Supplier Payment Policy

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

Guidelines for disclosure and transparency in private equity

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

Disclosure of information to auditor

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

Auditor

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

By order of the Board



Julie Jackson
Company Secretary
27 March 2023

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

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

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

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

- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements state whether they have been prepared in accordance with UK adopted International Accounting Standards;

- for the parent Company financial statements state, whether applicable UK accounting standards have been followed, subject to any material departures disclosed or explained in the financial statements;
 - assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
 - use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.
- The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.
- Under applicable law and regulations, the Directors are also responsible for reporting a Strategic report and a Directors' report that comply with that law and those regulations.

Picture: Cleave Wood, Thornbury, West Midlands

Independent auditor's report

to the members of Miller Homes Group Limited

Opinion

We have audited the financial statements of Miller Homes Group Limited ("the Company") for the year ended 31 December 2022 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, company statement of changes in equity, statements of financial position, consolidated cash flow statement and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

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

Our conclusions based on this work:

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

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

Independent auditor's report continued

to the members of Miller Homes Group Limited

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

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

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

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

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 48, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report continued

to the members of Miller Homes Group Limited

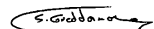
Auditor's responsibilities

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

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

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

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



Slim Gueddana (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
28 March 2023

Miller Homes Group Limited

Consolidated income statement

for the year ended 31 December 2022

	Note	Pre exceptional items 2022 £m	Exceptional items (note 2) 2022 £m	Total 2022 £m	Pre exceptional items 2021 £m	Exceptional items (note 2) 2021 £m	Total 2021 £m
Revenue	3	1,169.0	—	1,169.0	1,045.8	—	1,045.8
Cost of sales		(886.5)	(20.6)	(907.1)	(784.2)	(5.5)	(789.7)
Gross profit		282.5	(20.6)	261.9	261.6	(5.5)	256.1
Administrative expenses		(66.8)	—	(66.8)	(61.6)	(5.4)	(67.0)
Other operating income	3	1.1	—	1.1	1.0	—	1.0
Group operating profit		216.8	(20.6)	196.2	201.0	(10.9)	190.1
Share of profit in joint ventures	12	0.5	—	0.5	2.6	—	2.6
Operating profit	2	217.3	(20.6)	196.7	203.6	(10.9)	192.7
Finance costs	6	(38.6)	—	(38.6)	(48.2)	—	(48.2)
Finance income	7	1.6	—	1.6	0.7	—	0.7
Net finance costs		(37.0)	—	(37.0)	(47.5)	—	(47.5)
Profit before taxation		180.3	(20.6)	159.7	156.1	(10.9)	145.2
Income taxes	8	(40.6)	6.0	(34.6)	(32.7)	2.1	(30.6)
Profit for the year		139.7	(14.6)	125.1	123.4	(8.8)	114.6

The notes on pages 57 to 77 form part of these financial statements.

Miller Homes Group Limited

Consolidated statement of comprehensive income

for the year ended 31 December 2022

	2022 £m	2021 £m
Profit for the year	125.1	114.6
<i>Items that will not be reclassified to profit or loss:</i>		
Actuarial (loss)/gain on retirement benefit obligations	(12.2)	4.5
Deferred tax on actuarial loss/gain	4.2	(1.6)
Total comprehensive income for the year attributable to owners of the parent	117.1	117.5

Consolidated statement of changes in equity

for the year ended 31 December 2022

	Share capital £m	Share premium £m	Retained earnings £m	Total £m
Balance at 31 December 2020	0.1	150.9	221.6	372.6
Profit for the year	—	—	114.6	114.6
Actuarial gain on retirement benefit obligations (net of deferred tax)	—	—	2.9	2.9
Balance at 31 December 2021	0.1	150.9	339.1	490.1
Profit for the year	—	—	125.1	125.1
Actuarial loss on retirement benefit obligations (net of deferred tax)	—	—	(8.0)	(8.0)
Balance at 31 December 2022	0.1	150.9	456.2	607.2

Company statement of changes in equity

for the year ended 31 December 2022

The Company recorded no changes in any part of equity in either the current or prior year. Profit for the Company is £nil (2021: £nil).

The notes on pages 57 to 77 form part of these financial statements.

Miller Homes Group Limited

Statements of financial position

as at 31 December 2022

		Group		Company	
		2022 £m	2021 £m	2022 £m	2021 £m
Note					
Non-current assets					
Intangible assets	10	155.5	155.5	—	—
Property, plant and equipment	11	7.9	6.5	—	—
Right-of-use assets	20	7.9	6.7	—	—
Investments	12	12.4	4.1	151.0	151.0
Shared equity loan receivables	13	3.5	4.6	—	—
Retirement benefit surplus	29	8.2	7.2	—	—
		195.4	184.6	151.0	151.0
Current assets					
Inventories	14	868.9	891.4	—	—
Trade and other receivables	15	39.3	32.0	—	—
Cash and cash equivalents	24	187.3	161.0	—	—
		1,095.5	1,084.4	—	—
Total assets		1,290.9	1,269.0	151.0	151.0

	Note	Group		Company	
		2022 £m	2021 £m	2022 £m	2021 £m
Non-current liabilities					
Loans and borrowings	18	(345.0)	(402.4)	—	—
Trade and other payables	16	(17.2)	(59.0)	—	—
Lease liabilities	20	(5.8)	(5.1)	—	—
Deferred tax	17	(4.8)	(9.9)	—	—
Provisions	19	(33.1)	(12.8)	—	—
		(405.9)	(489.2)	—	—
Current liabilities					
Trade and other payables	16	(275.3)	(287.8)	(6.0)	(6.0)
Lease liabilities	20	(2.5)	(1.9)	—	—
		(277.8)	(289.7)	(6.0)	(6.0)
Total liabilities		(683.7)	(778.9)	(6.0)	(6.0)
Net assets		607.2	490.1	145.0	145.0
Equity					
Share capital	21	0.1	0.1	0.1	0.1
Share premium		150.9	150.9	150.9	150.9
Retained earnings		456.2	339.1	(6.0)	(6.0)
Total equity attributable to owners of the parent		607.2	490.1	145.0	145.0

The notes on pages 57 to 77 form part of these financial statements. These financial statements were approved by the Board of Directors on 27 March 2023 and were signed on its behalf by:

Ian Murdoch. *[Signature]*

Ian Murdoch **Stewart Lynes**
Director **Director**

Miller Homes Group Limited

Consolidated cash flow statement

for the year ended 31 December 2022

	Note	2022 £m	2021 £m
Cash flows from operating activities			
Profit for the period		125.1	114.6
<i>Adjustments for:</i>			
Provisions		20.6	5.5
Depreciation		3.1	2.4
Finance income		(1.6)	(0.7)
Finance cost		38.6	48.2
Share of post tax profit from joint ventures		(0.5)	(2.6)
Taxation		34.6	30.6
Operating profit excluding non cash items and before changes in working capital		219.9	198.0
Working capital movements:			
Movement in trade and other receivables		(6.5)	(9.7)
Movement in inventories		14.2	(66.9)
Movement in trade and other payables		(68.2)	80.3
Cash generated from operations		159.4	201.7
Interest paid		(15.7)	(26.3)
Corporation tax paid		(27.6)	(26.9)
Net cash inflow from operating activities		116.1	148.5

	Note	2022 £m	2021 £m
Cash flows from investing activities			
Acquisition of Wallace Land		—	(17.2)
Acquisition of Walker Timber		—	(18.1)
Acquisition of property, plant and equipment		(2.2)	(0.6)
Movement in (loans to)/distributions from joint ventures		(7.8)	8.8
Net cash outflow from investing activities		(10.0)	(27.1)
Cash flows from financing activities			
Lease payments	24	(2.5)	(1.9)
Repayment of senior secured notes	24	(404.0)	(51.0)
Loan from/(paid to) parent Group undertakings	24	326.7	(150.9)
Net cash outflow from financing activities		(79.8)	(203.8)
Net increase/(decrease) in cash and cash equivalents	24	26.3	(82.4)
Cash acquired with Wallace Land		—	0.6
Cash and cash equivalents at beginning of year		161.0	242.8
Cash and cash equivalents at end of year	24	187.3	161.0

The notes on pages 57 to 77 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Miller Homes Group Limited (the "Company") is a private company incorporated, domiciled and registered in England in the United Kingdom. The registered number is 10853907 and the registered address is 2 Centro Place, Pride Park, Derby DE24 8RF.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent Company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the Directors in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs").

The parent Company financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework'. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Accounting Standards, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:

- a cash flow statement and related notes;
- comparative period reconciliations;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of key management personnel; and
- disclosures of transactions with a management entity that provides key management personnel services to the Company.

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 26.

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

1.1 Measurement convention

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

1.2 Basis of consolidation

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

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

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

1.3 Going concern

Despite some of the external challenges we faced as a sector including rising energy costs following the war in Ukraine and several changes in Government leadership causing significant economic instability, the Group has remained profitable and cash generative. The consolidated balance sheet as at 31 December 2022 shows net assets of £607.2m and cash of £187.3m.

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

These projections take into account the changes to the funding facilities available to the Group following its acquisition on 31 March 2022 by Castle UK Bidco Limited. As part of the transaction the existing £404m of senior secured notes were repaid and replaced by intergroup loans due to parent company, whose term reflects the funding of €465m floating rate notes and £425m fixed notes which was put in place by the parent company and which mature in 2028 and 2029 respectively. The previous revolving credit facility has also been replaced by a new £180m revolving credit facility, which is committed until 30 September 2027.

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

Notes continued

(forming part of the financial statements)

1 Accounting policies continued

1.4 Jointly controlled entities (equity accounted investees)

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

1.5 Non-derivative financial instruments

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

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost less allowances for impairment and expected credit losses. Contract work in progress is shown within trade and other receivables as amounts recoverable on contracts and is stated at cost incurred plus attributable profit, less amounts transferred to the income statement, after deducting foreseeable losses and payments on account not matched with revenue. Where payments on account exceed the value of work certified at the balance sheet date this is shown within trade and other payables.

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability

based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

1.6 Intangible assets

Goodwill

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

Other intangible assets

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

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

Amortisation

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

- Brand value: indefinite life

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

1.7 Investments in subsidiaries

Investments in subsidiaries are measured at cost less impairment.

1.8 Property, plant and equipment

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

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

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

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

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

Notes continued

(forming part of the financial statements)

1 Accounting policies continued

1.9 Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

1.10 Inventories

Inventories including land options and promotion agreements are stated at the lower of cost and net realisable value. Net realisable value in relation to land and work in progress is assessed by taking account of estimated selling price less all estimated costs of completion. The net realisable value provision is closely monitored for adequacy at each balance sheet date. Any change to the provision is charged to cost of sales. Land purchased on deferred payment terms is recorded at fair value. Any difference between fair value and the amount which will ultimately be paid is charged as a finance cost in the income statement over the deferral period.

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

1.11 Shared equity loan receivables

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

1.12 Impairment excluding inventories and deferred tax assets

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

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

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

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

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

Notes continued

(forming part of the financial statements)

1 Accounting policies continued

1.13 Employee benefits

Defined contribution plans

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

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

Defined benefit plans

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

Short-term benefits

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

1.14 Provisions

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

1.15 Revenue and profit recognition

Revenue principally represents the amounts (excluding value added tax) derived from the sale of new homes, affordable housing contracts, land and timber kits. Revenue from new home sales represents the selling price for the home, net of any cash incentives, and is recognised on legal completion and receipt of cash. Profit is recognised on a per completion basis, by reference to the remaining margin forecast across the development (see note 26).

Revenue from affordable housing contracts is recognised, either in line with the stage of completion, determined by an independently verified valuation or on physical completion depending upon contract terms. Revenue from land sales is recognised on legal completion. Timber kit revenue is recognised on the supply of goods or by reference to the stage of completion if the contract includes erection.

1.16 Expenses

Leases

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

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

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

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

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

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

Notes continued

(forming part of the financial statements)

1 Accounting policies continued

1.16 Expenses continued

Leases continued

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

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

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

Finance income and cost

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

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

1.17 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.18 Segmental reporting

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

- national supply agreements are in place for key inputs including materials;
- debt is raised centrally and the cost of capital is the same at each division; and
- sales demand at each division is subject to the same macroeconomic factors, such as mortgage availability and Government policy.

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

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

1.19 Adopted IFRS not yet applied

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

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

1.20 Exceptional items

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

Notes continued

(forming part of the financial statements)

2 Operating profit

Operating profit is stated after charging the following:

	2022 £m	2021 £m
Depreciation		
Depreciation on owned assets	0.8	0.6
Right-of-use asset depreciation	2.3	1.8
	3.1	2.4
Exceptional items		
Legacy fire safety costs (charged to cost of sales)	20.6	5.5
Strategic review costs (charged to administrative expenses)	—	5.4
	20.6	10.9

In the current year exceptional items represent expected fire safety costs in relation to a small number of legacy high rise apartment scheme developments. In the prior year exceptional items represented fire safety costs together with costs incurred by the Group in relation to its future strategic direction.

	2022 £000	2021 £000
Auditor's remuneration		
Audit of the Group's financial statements	41	12
Audit of financial statements of subsidiaries and joint ventures pursuant to legislation	241	275
Other services relating to taxation	2	1
All other services	—	35

3 Revenue and other operating income

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

	2022 £m	2021 £m
Major product lines		
Sale of new homes	1,123.3	1,036.4
Land sales	26.3	7.7
Timber kit and related activities	19.4	1.7
	1,169.0	1,045.8
Timing of revenue recognition		
Products transferred at a point in time	1,023.1	930.4
Products transferred over time (see note 1.15)	145.9	115.4
	1,169.0	1,045.8

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

	2022 £m	2021 £m
Receivables included in trade receivables	14.4	11.3
Receivables included in amounts recoverable on contracts	—	1.3
Payables included within other creditors	(20.2)	(24.4)

Amounts included in trade receivables relate to work billed but not paid on housing association and timber kit contracts. Amounts recoverable on contracts represent amounts receivable but not yet billed at the year end. Amounts included within other creditors represent customer deposits and advance consideration received from customers on housing association contracts. The amount of £24.4m shown within other creditors last year was included in revenue in the current year.

Notes continued

(forming part of the financial statements)

3 Revenue and other operating income continued

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

	2024 £m	2025 £m	2026 £m	2027 onwards £m
Unsatisfied performance obligations	53.9	15.8	2.6	0.2

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

Other operating income

Other operating income includes the profit or loss on the sale of part exchange properties and management fees from joint ventures. Part exchange properties costing £4.8m (2021: £9.7m) were acquired and part exchange properties with a value of £2.0m (2021: £16.8m) were sold.

4 Staff numbers and costs

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

	2022	2021
Production	550	441
Sales	170	156
Administration	543	466
	1,263	1,063

Of the increase in headcount, 112 relates to Walker Timber.

The aggregate payroll costs of these persons were as follows:

	2022 £m	2021 £m
Wages and salaries	76.0	69.8
Social security costs	9.0	7.9
Pension costs	4.0	3.6
	89.0	81.3

5 Remuneration of key management personnel

The ten (2021: eight) members of key management comprise the Executive Board Directors, the divisional Managing Directors and the Human Resources Director as they are considered to have the authority and responsibility for planning, directing and controlling the activities of the Group. Retirement benefits accrued to nine (2021: eight) members of key management under money purchase schemes. Key management remuneration, including Directors, comprised:

	2022 £m	2021 £m
Salary and other benefits	2.8	2.4
Annual bonus	2.6	3.0
Other pension costs	0.1	0.1
	5.5	5.5

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

	2022 £m	2021 £m
Salary and other benefits	1.6	1.6
Annual bonus	0.9	1.8
	2.5	3.4

The aggregate emoluments of the highest paid Director were £819,000 (2021: £1,192,000) and contributions of £4,000 (2021: £4,000) were paid to a money purchase scheme on his behalf. Retirement benefits are accruing to three (2021: four) Directors under money purchase schemes.

Notes continued

(forming part of the financial statements)

6 Finance costs

	2022 £m	2021 £m
Interest payable on senior secured notes, loans and overdrafts	13.1	35.8
Interest payable on shareholder loan	18.3	6.4
Imputed interest on land payables on deferred terms	6.9	5.7
Imputed interest on lease liabilities	0.3	0.3
	38.6	48.2

7 Finance income

	2022 £m	2021 £m
Imputed interest on land sale receivables	0.7	0.3
Finance income related to retirement benefit obligations	0.2	—
Interest on loans to joint ventures	0.4	0.1
Other interest	0.3	0.3
	1.6	0.7

8 Income taxes

	2022 £m	2021 £m
Current tax charge		
Current year	(35.5)	(27.8)
Prior years	—	0.3
	(35.5)	(27.5)
Deferred tax credit/(charge)		
Current year	0.7	(3.1)
Prior years	0.2	—
	0.9	(3.1)
Total tax charge	(34.6)	(30.6)
Reconciliation of effective tax rate		
Profit before tax	159.7	145.2
Tax using the UK corporate tax rate of 19%	(30.3)	(27.6)
Effects of:		
Residential Property Developer Tax	(4.8)	—
Permanent differences	(0.1)	(1.3)
Change of rate	0.3	(2.5)
Adjustment in respect of prior years	0.2	0.3
Adjustment in respect of joint ventures	0.1	0.5
Total charge for the year	(34.6)	(30.6)

The corporate tax rate will increase to 25% from 1 April 2023, excluding the additional rate of 4% in respect of Residential Property Developer Tax ('RPDT'). A rate of 25% or 29% is applied to deferred tax, depending upon whether temporary differences are expected to reverse.

Notes continued

(forming part of the financial statements)

9 Dividends

There were no dividends to equity shareholders in the year ended 31 December 2022 (2021: £nil).

10 Intangible assets

	Group		Total £m
	Goodwill £m	Brand value £m	
Cost and net book value			
Balance at 31 December 2020	92.2	54.0	146.2
Additions (note 30)	9.3	—	9.3
Balance at 31 December 2021	101.5	54.0	155.5
Additions	—	—	—
Balance at 31 December 2022	101.5	54.0	155.5

Amortisation and impairment

Intangible assets are deemed to have an indefinite economic life and therefore are not amortised. Their carrying values are tested for impairment at least annually. The latest impairment review was performed at 31 December 2022. The recoverable amount is determined using a "value in use" calculation with key assumptions being discount rate, sales rates, selling prices, growth rate and projected gross margin. A pre-tax discount rate of 15.4% is used reflecting the Group's risk adjusted WACC. Other assumptions are based upon expectations of future performance, which have been informed by past experience, but include an allowance for a reduction in sales rates, selling prices and gross margin in the earlier years of the forecast. The values used are consistent with the Group's forecasts for 2023–28 after which a terminal growth rate of 2% has been applied. The Directors believe these assumptions are appropriate and sensitivity analysis indicates that changes in the key assumptions including a higher discount rate and a lower terminal growth rate would maintain a reasonable amount of headroom over the carrying value.

11 Property, plant and equipment

	Group\$		Total £m
	Property £m	Plant and equipment £m	
Cost			
Balance at 31 December 2020	—	4.3	4.3
Additions	—	0.6	0.6
Acquisitions	4.5	2.6	7.1
Balance at 31 December 2021	4.5	7.5	12.0
Additions	0.3	1.9	2.2
Balance at 31 December 2022	4.8	9.4	14.2
Accumulated depreciation			
Balance at 31 December 2020	—	2.8	2.8
Acquisitions	—	2.1	2.1
Charge for the year	—	0.6	0.6
Balance at 31 December 2021	—	5.5	5.5
Charge for the year	0.1	0.7	0.8
Balance at 31 December 2022	0.1	6.2	6.3
Net book value			
Balance at 31 December 2022	4.7	3.2	7.9
Balance at 31 December 2021	4.5	2.0	6.5

Notes continued

(forming part of the financial statements)

12 Investments

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Investment in joint ventures	12.4	4.1	—	—
Investment in subsidiaries	—	—	151.0	151.0
	12.4	4.1	151.0	151.0

	Group	
	2022 £m	2021 £m
Investment in joint ventures		
At start of year	4.1	10.3
Share of profits	0.5	2.6
Distributions	(2.5)	(8.0)
Movement in shareholder loans	10.3	(0.8)
At end of year	12.4	4.1

Investments are tested for impairment using a similar methodology to that applied to intangible assets (see note 10).

Joint ventures

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

	2022 £m	2021 £m
Current assets	3.7	6.4
Current liabilities	(5.1)	(5.8)
Loans provided to joint ventures	13.8	3.5
	12.4	4.1

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

	2022 £m	2021 £m
Income	8.0	14.5
Expenses	(7.4)	(11.3)
	0.6	3.2

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

Subsidiary undertakings	Nature of business
Miller Homes Holdings Limited	Residential housebuilding
Miller Homes Limited	Residential housebuilding
Walker Timber Limited	Timber kit supply and erection

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

Notes continued

(forming part of the financial statements)

13 Shared equity loan receivables

	Group	
	2022 £m	2021 £m
At start of year	4.6	7.0
Redemptions (net of fair value movements)	(1.1)	(2.4)
At end of year	3.5	4.6

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

14 Inventories

	Group	
	2022 £m	2021 £m
Land	502.7	569.5
Work in progress	363.0	321.6
Part exchange properties	3.2	0.3
	868.9	891.4

Land and work in progress recognised as cost of sales amounted to £876.9m (2021: £796.8m).
The write-down of stocks to net realisable value in the year amounted to £nil (2021: £0.4m).

15 Trade and other receivables

	Group	
	2022 £m	2021 £m
Trade receivables	33.4	23.0
Amounts recoverable on contracts	—	1.3
Other receivables	3.3	5.6
Prepayments and accrued income	2.6	2.1
	39.3	32.0

Notes continued

(forming part of the financial statements)

16 Trade and other payables

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Current				
Trade payables	114.9	112.2	—	—
Other payables	24.7	30.8	—	—
Land payables	79.3	85.3	—	—
Corporation tax	9.1	1.2	—	—
Accruals and deferred income	47.3	58.3	—	—
Amounts owed to subsidiary	—	—	6.0	6.0
	275.3	287.8	6.0	6.0
			Group	
			2022 £m	2021 £m
Non-current				
Land payables			17.2	59.0

The Group undertakes land purchases on deferred terms. The deferred creditor is recorded at fair value, being the price paid for the land discounted to the present day value. The difference between the nominal and initial fair value is amortised over the deferred period and charged to finance costs, increasing the land creditor to its full cash settlement value on the payment date. The maturity profile of the total contracted cash payments in respect of land creditors is as follows:

	Balance £m	Total contracted cash payment £m	Due less than one year £m	Due between one and two years £m	Due between two and five years £m
At 31 December 2022	96.5	108.2	79.3	11.1	17.8
At 31 December 2021	144.3	153.5	85.3	55.2	13.0

17 Deferred tax

	Group					
	Trading losses £m	Retirement benefit surplus £m	Capital allowances £m	Other temporary differences £m	Other intangibles £m	Total £m
At 31 December 2020	2.5	2.7	0.1	2.7	(10.3)	(2.3)
Acquisitions	—	—	—	(2.9)	—	(2.9)
Other comprehensive income charge	—	(1.6)	—	—	—	(1.6)
Income statement charge	(2.5)	(3.6)	—	6.2	(3.2)	(3.1)
At 31 December 2021	—	(2.5)	0.1	6.0	(13.5)	(9.9)
Other comprehensive income credit	—	4.2	—	—	—	4.2
Income statement (charge)/credit	—	(4.6)	0.2	5.3	—	0.9
At 31 December 2022	—	(2.9)	0.3	11.3	(13.5)	(4.8)

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

Notes continued

(forming part of the financial statements)

18 Interest-bearing loans and other borrowings

	Group	
	2022 £m	2021 £m
Non-current		
Senior secured notes (net of deferred financing costs)	—	402.4
Shareholder loan	345.0	—
	345.0	402.4
Senior secured notes		
	Group	
	2022 £m	2021 £m
Analysis of debt		
Fixed notes at 5.5% due 2024	—	404.0
Deferred financing costs	—	(1.6)
	—	402.4

The senior secured notes were repaid during the year. They were secured by a debenture and floating charge over the assets of its subsidiary, Miller Homes Group Holdings plc, and a pledge over the shares of certain of its principal subsidiaries.

Shareholder loan

The shareholder loan represents the net amount due to parent companies and arises from the repayment of debt by the parent companies and the payment of interest on behalf of the parent companies. The loan is repayable in May 2029. Interest is charged at 7% per annum.

19 Provisions

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

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

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

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

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

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

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

Notes continued

(forming part of the financial statements)

20 Leases

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

	Group		
	Office premises £m	Equipment £m	Total £m
Right-of-use assets			
At 31 December 2020	5.0	1.6	6.6
Acquisitions	—	0.5	0.5
Additions	0.5	0.9	1.4
Depreciation	(1.0)	(0.8)	(1.8)
At 31 December 2021	4.5	2.2	6.7
Additions	0.2	3.3	3.5
Depreciation	(1.0)	(1.3)	(2.3)
At 31 December 2022	3.7	4.2	7.9
	Group		
	Office premises £m	Equipment £m	Total £m
Lease liabilities			
At 31 December 2020	5.1	1.6	6.7
Acquisitions	—	0.5	0.5
Additions	0.5	0.9	1.4
Lease payments	(1.1)	(0.8)	(1.9)
Imputed interest	0.2	0.1	0.3
At 31 December 2021	4.7	2.3	7.0
Additions	0.2	3.3	3.5
Lease payments	(1.1)	(1.4)	(2.5)
Imputed interest	0.1	0.2	0.3
At 31 December 2022	3.9	4.4	8.3

	2022 £m	2021 £m
Maturity		
Current	2.5	1.9
Non-current	5.8	5.1

The total cash outflow for leases during the year was £2.5m (2021: £1.9m), including £0.3m (2021: £0.3m) of interest.

21 Share capital

	2022 £	2021 £
Allotted, called up and fully paid		
875,000 A ordinary shares of 1 pence each	8,750	8,750
61,250 B1 ordinary shares of 50 pence each	30,625	30,625
63,750 B2 ordinary shares of 1 pence each	637	637
150,000,000 priority shares of 0.01 pence each	15,000	15,000
	55,012	55,012

A ordinary shares have one vote per share. B1 ordinary shares have such number of votes as represents 5% of the total votes cast up to a maximum of 20% in aggregate in respect of B1 ordinary shares as one class.

Priority shares have no right to participate in any distribution but the Company may decide to distribute available profits up to an amount equal to the priority amount (of 10% p.a. compounding) at the time of distribution. The Company may determine to distribute available profits to the holders of A and B ordinary shares which rank pari passu as if the same constituted one class of share.

On a return of capital the surplus assets after the payment of liabilities shall be first applied to pay to each holder of priority shares the subscription amount and secondly the Priority amount with each priority share ranking pari passu. The balance will be distributed to A and B ordinary shares pari passu as if the same constituted one class of share according to the number of shares held.

Notes continued

(forming part of the financial statements)

22 Financial instruments

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

Measurement of fair values

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

	2022 £m	2021 £m
Financial assets measured at fair value		
Shared equity loan receivables	3.5	4.6
Financial assets not measured at fair value		
Trade and other receivables	39.3	32.0
Cash and cash equivalents	187.3	161.0
Financial liabilities not measured at fair value		
Trade and other payables (excluding land payables)	196.0	202.5
Land payables	96.5	144.3
Interest-bearing loans and other borrowings	345.0	402.4
Lease liabilities	8.3	7.0

There is no difference between the fair value and carrying value of the Company's financial liabilities of £6m that are not measured at fair value.

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

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

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Shared equity loan receivables				
At 31 December 2022	—	—	3.5	3.5
At 31 December 2021	—	—	4.6	4.6

Valuation technique for shared equity loan receivables

The fair value is determined by considering the expected payment profile using the discounted present value of expected future cash flows. The major unobservable inputs include the expected timing of redemption payments, management's estimates of the market value of the properties and of the appropriate risk adjusted discount rate to determine present value of the cash flows. A discount rate of 8.3% (2021: 8.3%) has been applied. The estimated fair value would increase if the risk adjusted discount rate was reduced, and the fair value would also be impacted by any change in the estimate of the timing of redemption receipts. There are a number of uncertainties inherent in such estimates, which would impact on the carrying value of shared equity loan receivables.

Notes continued

(forming part of the financial statements)

22 Financial instruments continued

Financial risk

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

(i) Credit risk

The Group's exposure to credit risk is limited by the fact that the Group generally receives cash at the point of legal completion of its sales. There are certain categories of revenue where this is not the case, for instance housing association revenues, timber frame contracts and land sales where management considers that the ratings of these various debtors are good and therefore credit risk is low. The Group has £3.5m (2021: £4.6m) of shared equity loan receivables which exposes it to credit risk although this asset is spread over a large number of properties. As such, the Group has no significant concentration of credit risk, with exposure spread over a large number of counter-parties and customers.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The day to day working capital requirements of the Group are provided through cash on balance sheet and a revolving credit facility which is committed until 2027. The Group manages its funding requirements by monitoring cash flows against forecast requirements on a weekly basis.

(iii) Market risk

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

Capital management

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

Management of cash and cash equivalents and net debt

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

23 Reconciliation of net cash flow to net debt

	2022 £m	2021 £m
Movement in cash and cash equivalents	26.3	(82.4)
Cash in Wallace Land at acquisition	—	0.6
Movement in senior secured notes	402.4	41.3
Increase in shareholder loan	(345.0)	—
Movement in lease liabilities	(1.3)	(0.3)
Repayment of long-term borrowings	—	144.5
Movement in net debt in year	82.4	103.7
Net debt at beginning of year	(248.4)	(352.1)
Net debt at end of year	(166.0)	(248.4)

24 Analysis of net debt

	At start of year £m	Cash flow £m	Non-cash movement £m	At end of year £m
Cash and cash equivalents	161.0	26.3	—	187.3
Lease liabilities	(7.0)	2.5	(3.8)	(8.3)
Senior secured notes	(402.4)	404.0	(1.6)	—
Net external debt	(248.4)	432.8	(5.4)	179.0
Shareholder loan	—	(326.7)	(18.3)	(345.0)
Net debt	(248.4)	106.1	(23.7)	(166.0)

The prior year figures have been adjusted to include lease liabilities within net debt.

Notes continued

(forming part of the financial statements)

25 Contingent liabilities

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

26 Accounting estimates and judgements

Carrying value of inventories and cost of sales

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

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

Retirement benefit obligations

The value of the defined benefit plan liabilities is determined by using various long-term actuarial assumptions, including future rates of inflation, growth, yields, returns on investments and mortality rates. As actual changes in inflation, growth, yields and investment returns may differ from those assumed, this is a key source of estimation uncertainty within the financial statements. Changes in these assumptions over time and differences to the actual outcome will be reflected in the statement of comprehensive income. Note 29 details the main assumptions in accounting for the Group's defined benefit pension scheme along with sensitivities of the liabilities to changes in these assumptions.

Intangible assets

Intangible assets are deemed to have an indefinite economic life and are tested for impairment as described in note 10.

Provisions

Provisions include the cost of remedial work on a number of legacy properties. As explained in note 19 the ultimate cost of remediation is uncertain.

27 Related party transactions

	2022 £m	2021 £m
Amounts due to parent undertakings	(345.0)	—
Amounts owed by joint ventures	13.8	3.5
Repayment of Group debt by parent undertaking	375.0	—
Payment of interest on behalf of parent undertaking	(45.7)	—
Interest payable to parent undertakings	18.3	—
Payment of fees on behalf of parent undertaking	(2.4)	—
Interest receivable on loans to joint ventures	0.4	0.3
Monitoring fee payable to previous owner	(0.1)	(0.3)

A loan of £79,000, made to a Director in a prior year, was repaid during the year.

28 Controlling party

At 31 December 2022, the Company was a subsidiary undertaking of Castle UK Bidco Limited, which has its registered office address at 2 Centro Place, Pride Park, Derby, United Kingdom DE24 8RF. The ultimate parent Company is AP Castle Holdings SCSp, which has its registered office address at 7 Rue de la Chapelle, L-1325, Luxembourg.

The largest group in which the results of the Company are consolidated is that headed by Castle-Builder Topco Limited, which has its registered office at PO Box 536, 13-14 Esplanade, St Helier, Jersey JE4 5UR. The consolidated financial statements of this group are not available to the public.

The smallest group in which the results of the Company are consolidated is that headed by Miller Homes Group (Finco) plc, which has its registered office at 2 Centro Place, Derby DE24 8RF. The consolidated financial statements of this group are available from Companies House, Crown Way, Cardiff CF14 3UZ.

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

Notes continued

(forming part of the financial statements)

29 Retirement benefit surplus

The Group operates defined contribution and defined benefit pension schemes.

Defined contribution schemes

	2022 £m	2021 £m
Group defined contribution schemes consolidated income statement charge	4.0	3.6

Defined benefit scheme

Miller Homes Limited, the Group's main trading subsidiary, is the principal employer of The Miller Group Limited pension scheme. This is a defined benefit scheme which is closed to future accrual. The assets of the scheme have been calculated at net asset value or fair (bid) value using the latest available prices. The liabilities of the scheme have been calculated at the balance sheet date by rolling forward the June 2022 funding liability and restating it using the following assumptions:

Principal actuarial assumptions

	2022	2021
Weighted average assumptions to determine benefit obligations		
Discount rate	4.80%	1.85%
Rate of price inflation (RPI)	3.45%	3.60%
Weighted average assumptions to determine net cost		
Discount rate	1.85%	1.30%
Rate of price inflation (RPI)	3.60%	3.60%
Rate of price inflation (CPI)	2.85%	2.90%

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

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

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

The base mortality assumptions are based upon the CMI 2021 model with a 2020 and 2021 weighting parameter of 10%. Allowance for future increases in life expectancy is made with an annual rate of improvement in mortality of 1.25% assumed.

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

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

The main risks facing the scheme are a decrease in corporate bond yields and higher than expected inflation, which would increase the scheme's defined benefit obligations. The scheme manages these risks by investing in assets that provide a hedge against interest rate and inflation movements.

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

	2022 £m	2021 £m
Interest cost	3.1	2.2
Interest income	(3.3)	(2.2)
Total recognised in finance costs in the consolidated income statement	(0.2)	—

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

	2022 £m	2021 £m
Return on scheme assets excluding interest income	(59.9)	2.9
Actuarial gain arising from changes in assumptions	56.6	3.9
Experience adjustment	(7.6)	—
Demographic assumptions	(1.3)	(2.3)
Total pension (cost)/credit recognised in the consolidated statement of comprehensive income	(12.2)	4.5

Notes continued

(forming part of the financial statements)

29 Retirement benefit surplus continued

Principal actuarial assumptions continued

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

	2022 £m	2021 £m
Present value of funded obligations	(117.9)	(170.3)
Fair value of scheme assets	126.1	177.5
	8.2	7.2
	2022 £m	2021 £m
Surplus/(liability) at start of year	7.2	(13.8)
Contributions	13.0	16.5
Income recognised in the consolidated income statement	0.2	—
Amounts recognised in the consolidated statement of comprehensive income	(12.2)	4.5
Surplus at end of year	8.2	7.2

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

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

	2022 £m	2021 £m
Present value of defined benefit obligations at start of year	(170.3)	(176.1)
Interest cost	(3.1)	(2.2)
Benefits paid from scheme	7.8	6.4
Actuarial gain arising from changes in assumptions	56.6	3.9
Experience adjustment	(7.6)	—
Demographic assumptions	(1.3)	(2.3)
Present value of defined benefit obligations at end of year	(117.9)	(170.3)

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

	2022 £m	2021 £m
Fair value of scheme assets at start of year	177.5	162.3
Contributions	13.0	16.5
Interest income	3.3	2.2
Actuarial (loss)/gain on scheme assets	(59.9)	2.9
Benefits paid from scheme	(7.8)	(6.4)
Fair value of scheme assets at end of year	126.1	177.5

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

	2022	2021
Equity investments	—	15.4%
Debt type securities and unleveraged gilts*	92.1%	61.1%
Liability driven investments	6.5%	17.9%
Cash	1.4%	5.6%
Total	100.0%	100.0%

* Of which 54.7% is valued at a quoted market price in an active market.

Funding

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

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

Notes continued

(forming part of the financial statements)

30 Acquisition of businesses in prior year

Acquisition of Wallace Land Investment and Management Limited

In May 2021 the Group acquired 100% of the issued share capital of Wallace Land Investment and Management Limited for £17.2m, satisfied in cash. The nature of the business is that it is involved in the promotion of land over the medium term and the loss of £0.4m in 2021 reflected additional administrative costs principally associated with employees who joined the Group.

The acquisition had the following effect on the Group's assets and liabilities:

Values recognised on acquisition	£m
Inventories	18.9
Debtors	0.6
Cash and cash equivalents	0.6
Corporation tax creditor	(0.1)
Deferred tax	(2.8)
Net identifiable assets and liabilities	17.2
Consideration paid (cash)	17.2
Goodwill on acquisition	—

Acquisition of Walker Timber Limited

On 1 December 2021 the Group acquired 100% of the issued share capital of Walker Timber Limited (WTL) for £13.5m plus deferred consideration, determined by net assets at completion, estimated at £1.4m. In addition the Group acquired the property occupied by WTL from another subsidiary of the selling group. In 2021 WTL generated revenue of £1.7m and contributed £0.1m to profit for the year.

The acquisition had the following effect on the Group's assets and liabilities:

Values recognised on acquisition (provisional)	£m
Fixed assets	5.0
Debtors	3.4
Inventories	5.5
Creditors	(3.5)
Corporation tax creditor	(0.3)
Net identifiable assets and liabilities	10.1
Consideration paid (cash)	13.5
Deferred consideration	1.4
Purchase of property	4.5
Total consideration	19.4
Goodwill on acquisition	9.3

Had both businesses been acquired on 1 January 2021, the 2021 revenue of the combined Group would have been £1,066.0m and the 2021 profit for the year would have been £117.7m.

Goodwill reflects the assembled workforce, management team and future growth prospects of the business.

Notes continued

(forming part of the financial statements)

31 Group companies

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, associates and joint ventures and the effective percentage of equity owned as at 31 December 2022 are disclosed below. All companies are incorporated in the United Kingdom, engaged in housebuilding and associated activities and are owned directly by Miller Homes Holdings Limited unless indicated as follows:

Fully owned subsidiaries

Trading

Miller Homes Holdings Limited (x) – A
Miller Homes Limited – A
Miller Residential Development Services Limited* – A
Miller Homes Group Holdings Limited (viii) – B
Walker Timber Limited – A

Dormant

Birch Limited – B
Birch Commercial Limited (ii) – B
Birch Homes Limited (ii) – B
Cussins Homes (Yorks) Limited – B
Highfields Developments Limited – B
FHL Nominee (No1) Ltd – B
James Miller & Partners Limited – A
Lemington Estates Limited – B
MHL (Mancos) Limited – A
Miller (Cobblers Hall) Limited – B
Miller (Telford North) Limited – A
Miller East Kilbride Limited – A
Miller Airdrie Limited – B
Miller Fullwood Limited – B
Miller Gadsby (Burton Albion) Limited – B
Miller Homes (Yorkshire) Limited – A
Miller Homes Cambridge Limited – B
Miller Homes Cambuslang Limited – A
Miller Homes City Quay Limited – B
Miller Homes Special Projects Portfolio Limited – A

Miller (Eccles) Limited (iii) – B
Miller Homes Two Limited – A
Miller Midco 1 Limited (xi) – B
Miller Midco 2 Limited (ix) – B
Miller Maidenhead Limited – B
Miller Residential (Northern) Limited – B
Miller Homes St Neots Limited – A
Fairclough Homes Limited – B
Viewton Properties Limited – B
MF Development Company UK Limited – B
MF Development Funding Company UK Limited (iii) – B
Miller Fairclough UK Limited (iv) – B
CDC2020 Limited (v) – B
Fairclough Homes Group Limited (v) – B
MF Strategic Land Limited (v) – B
Miller Fairclough Management Services Limited (v) – B
Miller Belmont Limited – A
Land & City Properties (Bollington) Limited – A
L Williams & Co Limited – B
Lowland Plaid Limited – D
Miller (Telford South) Limited (ii) – A
Miller Framwellgate Limited – B
Wallace Land and Investments Limited* (vii) – A

Joint ventures (all 50%)

Trading

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

Dormant

Mount Park Developments Limited (vi) – A
Perth Land and Estates Limited (vi) – A
College Street Residential Developments Limited (vi) – A
Lancefield Quay Limited – A
Miller Gadsby (Burton Albion) Limited – B
Scotmid-Miller (Great Junction Street) Limited – A
St Andrews Brae Developments Limited – E
Iliad Miller (No 2) Limited (vi) – A
Iliad Miller Limited (vi) – A
Miller Wates (Wallingford) Limited – B
Miller Wates (Bracklesham) Limited – B
Miller Wates (Didcot) Limited – B
Canniesburn Limited – C

Associates (45%) (trading)

New Laurieston (Glasgow) Limited – A

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

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

* The following subsidiaries are exempt from audit under Section 479A of the Companies Act 2006:

Miller Residential Development Services Limited (SC207758); and
Wallace Land and Investments Limited (SC362683).

