

Miller Homes Limited

Annual report and financial statements

For the year ended 31 December 2019

Registered number SC255429



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Strategic report

Business review

2019 was a highly eventful year with three Brexit deadlines being set and missed and an unplanned General Election, all of which were very much at the forefront of our customers' minds. The housing sector is one which traditionally benefits from consumer confidence and a positive macro-economic background, both of which were in short supply in 2019. Against this backdrop, the company is extremely satisfied to report a strong set of results, whilst, at the same time, retaining its HBF 5 star customer satisfaction rating for the eighth year out of nine, achieving a 94% employee engagement score and retaining its IIP gold status.

There was little in the way of new housing legislation enacted during the year. The new UK Government has confirmed that it remains committed to delivering at least another million homes in the next five years, making further progress towards its target of 300,000 new homes a year by the mid-2020s. This is to be achieved by the continued use of Help to Buy through to 2023, tackling inefficiencies in the planning system and through the introduction of the First Home Scheme, under which homes will be sold at a 30 per cent discount to local first-time buyers. A new market in long-term fixed rate mortgages, requiring only 5% deposits is also proposed. In addition, the other main initiatives are improvements in carbon reduction over the medium-term and increased regulation around build quality and customer satisfaction.

Performance

Revenue for the 12 months to 31 December 2019 was 11% ahead at £816.0 million (2018: £732.4 million). This reflected a 10% increase in core completions to 3,182 units (2018: 2,894 units). Increased outlet numbers resulted in completions of private units rising by 7% to 2,520 (2018: 2,362). Affordable unit completions increased to 662 (2018: 532).

ASP increased slightly to £253,000 (2018: £250,000) reflecting a 3% increase in private ASP to £289,000 (2018: £282,000) and a 6% increase in affordable ASP to £114,000 (2018: £108,000) offset by an increase in the proportion of affordable homes to 21% (2018: 18%).

Gross profit increased by 9% to £206.3 million (2018: £188.5 million) despite a reduction in gross margin to 25.3% (2018: 25.7%). The increased gross profit has resulted in a 13% increase in operating profit to £160.8 million (2018: £141.9 million). Operating margin increased to 19.7% (2018: 19.4%).

Underlying ROCE (excluding deferred tax and shared equity loans) was 27.2% (2018: 25.9%) notwithstanding substantial land investment.

There continued to be sufficient land opportunities in our target markets during the year which met our financial criteria and investment in new land increased to £227 million (2018: £201 million). Importantly, land investment continued to be undertaken in a disciplined way without compromising margins or capital returns. This resulted in the consented land bank increasing to 13,557 plots (2018: 12,302 plots). All owned land with a detailed planning permission is being developed.

Outlook

We have left behind an eventful but nonetheless highly successful 2019 and entered the new year with a record order book and a strong balance sheet which has allowed us to withstand the unprecedented events arising from the Covid 19 outbreak. We are still monitoring the ongoing uncertainty with regards to the UK's exit from the EU. We have a clear strategic focus on mainstream regional housing markets and a management team intent on investing in our people, all of which is under a culture of ensuring we delight our customers and add value to all our stakeholders.

Strategic report (continued)

Stakeholder engagement

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

| | |
|---|---|
| <p>Shareholders</p> <ul style="list-style-type: none"> • Executive directors meet with shareholders at Board meetings 10 times each year • Shareholder directors visit regional offices and are encouraged to make site visits • Regional management teams presents directly to the Board including the shareholder directors and Chairman • An annual strategy update is presented to the shareholder directors and Chairman • The CEO, CFO and COO meet with shareholders | <p>What that means</p> <p>There are numerous opportunities for our shareholders and Chairman to engage with the executive directors and staff in the regional business. Board meetings are held in our regional offices and shareholder directors are encouraged to visit sites, leading to transparent governance and two-way communication with greater understanding of both shareholder and business needs.</p> |
| <p>Employees</p> <ul style="list-style-type: none"> • Employee focus groups, forums and regular briefing sessions on business updates across all offices • Annual regional roadshows with presentations from executive and regional directors • New training initiatives, including management training programme and mental health awareness • Improved internal communication via enhanced intranet | <p>What that means</p> <p>There has been a visible increase during 2019 in opportunities to both listen to and engage with employees. We have implemented a number of employee suggestions over the last 12 months with particular emphasis on improved communication across all regional businesses which have helped to maintain industry leading employee engagement scores.</p> |
| <p>Customers</p> <ul style="list-style-type: none"> • My Miller Home app allows two-way communication with customers • 5 star rating in HBF customer satisfaction • Site manager app for defect capture and resolution • Director sign off that homes are ready for customers • Improved process for customer choices and options • Customer feedback on showhome designs | <p>What that means</p> <p>How we engage with our customers is an evolving process and we are focused on meeting our targets on continued improvement in customer satisfaction as evidenced by the HBF 5 star rating in eight of the last nine years. We continue to listen to our customers and what they want from the home buying process and the finished home. We contact our customers at 7, 14 and 28 days after purchase to ensure they remain delighted.</p> |

Strategic report (continued)

| | |
|--|--|
| <p>Supply chain</p> <ul style="list-style-type: none"> • "Working together" tender guide for suppliers • Long-term collaborative partnerships • Supplier Code of Conduct • Regular face-to-face meetings with suppliers including reporting feedback from site management teams • Meetings with contractors take place prior to work commencing on site | <p>What that means</p> <p>We have developed strong relationships with our suppliers and contractors leading to informed dialogue on design, cost increases and supply issues. Suppliers in turn have certainty on volumes and revenues.</p> |
| <p>Local communities & the environment</p> <ul style="list-style-type: none"> • Engage through public meetings • Miller Respect, a dedicated phone line per site for neighbours and the community to report concerns • Planning consultations • Visits to local schools • Support for local and national charities • Volunteering is encouraged | <p>What that means</p> <p>Neighbours and the wider local community understand what we are trying to achieve, which improves the planning process and minimises concerns over our developments and encourages direct communication with site. Delivery of attractive and considered developments which minimise the impact on the environment while delivering essential amenities such as schools and infrastructure.</p> |
| <p>Banks & funders</p> <p>Quarterly results published on our website, provide all interested parties including bondholders and relationship banks, with access to regular financial information</p> <ul style="list-style-type: none"> • Quarterly result calls enabling dialogue with the CEO, CFO and bondholders • Regular contact between the CFO and key relationship banks in the Revolving Credit Facility (RCF) • Regular meetings with the main UK lending institutions | <p>What that means</p> <p>We are committed to reporting our results on a quarterly basis to enable the Group's bondholders and RCF banks to receive timely and transparent financial information to assist them in their decision making. This is further supported by regular meetings. We believe that this approach, allied to our business performance, has resulted in excellent lender relationships.</p> |

Principal risks and uncertainties

| Risk | Mitigation |
|---|--|
| <p>Economic conditions, mortgage supply and rates</p> <p>Demand and prices for new homes are inextricably linked to consumer confidence which amongst other things is impacted by employment prospects, disposable incomes and the availability and cost of mortgages, particularly at higher loan to values. Changes to the Help to Buy scheme and the manner in which the UK leaves the EU could also impact on this risk.</p> | <p>Sales rates and prices are monitored on a weekly basis informing timely decision making. Sale rates fell moderately in 2019 but remain higher than average.</p> <p>Land acquisition process considers local employment, incomes and affordability which in turn is informed by current trading experience. Employment levels remain high.</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. Mortgage availability remains good.</p> |

Strategic report (continued)

| Risk | Mitigation |
|---|--|
| <p><i>Availability of materials and subcontractors</i></p> <p>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> | <p>77% of housebuild materials are negotiated by the central procurement team. National deals are in place, ensuring cost certainty over a fixed period and continuity of supply. All materials, with the exception of timber products, ceramic tiles, garage doors, and electrical appliances are manufactured in the UK.</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. The level of EU subcontract labour is estimated at c5-10%. A detailed supply chain review was finalised in 2019 to ascertain preparedness in the event of no Brexit trade deal being agreed.</p> |
| <p><i>Land availability</i></p> <p>The ability to secure the quantum of consented and strategic land in the appropriate locations and on terms which enable the company's business plan to be delivered.</p> | <p>Established land acquisition hurdle rates for gross margin and ROCE exist which also underpin the strategic plan. The replacement rate was 1.5 times 2019 output at rates in excess of both gross margin and ROCE hurdles.</p> <p>The Chief Executive visits all sites prior to acquisition to ensure a consistent approach to land acquisition is taken across the business and each site fits within the overall land strategy. All land acquisitions and new strategic land options are approved by the Executive Board.</p> <p>The company has dedicated regional land teams for both current and strategic land. Regional success rates are reviewed at company level to ensure sufficient bids and to review reasons why bids are not accepted.</p> |
| <p><i>Government regulation</i></p> <p>The company must remain abreast of emerging government legislation and ensure it is implemented within the necessary timescales.</p> | <p>We participate in industry working groups to shape new legislation and understand the government's perspective. There was limited impact in 2019 but build quality and carbon reduction targets are expected in 2020.</p> |

Strategic report (continued)

| Risk | Mitigation |
|---|---|
| <p>Attract and retain employees In a sector with skills shortages, it is important that the company retains and attracts high calibre employees in order to deliver on all aspects of the strategy.</p> | <p>The company's HR strategy addresses all aspects of reward, retention, training and development, as well as performance management. 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>The company is committed to the Home Building Skills Pledge which champions diversity and inclusion and promotes the industry as inclusive and progressive, attracting employees to a positive career in homebuilding. During the year headcount increased by 11% and we launched flexible working, a management development program and training for our sales and production teams.</p> |
| <p>Availability of finance The company requires access to adequate financial resources in order to meet its existing commitments and to deliver its strategic plan.</p> | <p>Cash is managed by a combination of weekly and quarterly forecasts. The Strategic plan covers a 5 year period, is updated annually and is supported by sensitivity analysis as a basis for longer term investment decisions.</p> <p>Key to managing cash and liquidity is the timing of new land investment and development spend. The uncommitted nature of strategic land purchases and the company's subcontractor model provides significant flexibility to manage both land and development spend in the event of a sales downturn.</p> <p>The Group's secured notes do not have any financial covenants. The company's cash balance is £140m at the year end, which is supplemented by an undrawn £130m revolving credit facility (subsequently increased to £151m). Stress testing is performed annually.</p> |
| <p>Safety, health and environmental (SHE) Breaches of SHE legislation can result in workplace injuries, environmental damage or physical damage to property. This could result in financial penalties, reputational damage and delays to site related activities.</p> | <p>There is a 12 strong in-house SHE team all of whom are professionally qualified. The team is managed independently from our operational businesses under the guidance of our SHE Director who in turn reports directly to the Chief Executive.</p> <p>The company has an approved SHE strategy with progress monitored regularly at Board level. Site operations are subject to monthly audits and SHE awareness tool-box talks are communicated to both staff and subcontractors. Our AIR score fell by 2% in 2019 but is higher than target. Mental health training was provided to 400 employees and 100 mental health first aiders appointed.</p> |

Strategic report (continued)

| Risk | Mitigation |
|--|---|
| <p>IT</p> <p>Data breaches could result in both financial and reputational damage and a prolonged system outage of operational systems, including our website, which affects operational targets of the business.</p> | <p>Quarterly security reviews are performed by external consultants. The company endeavours to use the latest software versions to reduce the risk of successful cyber-attacks.</p> <p>Full backup and system recovery is in place as part of the wider Disaster Recovery plan which is tested annually.</p> <p>System enhancements during business critical times are limited to emergency only changes to minimise any potential downtime in these periods.</p> |
| <p>Pensions</p> <p>The company's defined benefit scheme was closed to new entrants in 1997 and to future accrual in 2010. The deficit could fluctuate due to increased longevity assumptions, reduced bond yields or changes in asset values.</p> | <p>The 30 June 2019 triennial valuation has been prepared and Trustee discussions are at an advanced stage. Changes to the investment strategy were made in 2019 to reduce volatility and increase the liability hedge to 65%. The £3.5m increase in the deficit reflects a reduction in bond yields and has been mitigated by the hedge.</p> |

Covid-19

The company is closely monitoring the ongoing Covid-19 pandemic. The company's priorities in dealing with the exceptional circumstances posed by Covid-19 are to ensure the safety of our employees, subcontractors and customers.

Since reopening, our construction sites are operating in accordance with the charters agreed between the industry and the relevant government guidance on social distancing and protective measures. The company is keeping abreast of guidance as it evolves.

Strategic report (continued)

Key performance indicators

Selected financial and non-financial indicators which relate to our key business objectives which are documented within our Strategic report are presented here.

| | | 2019 | 2018 | Movement |
|--|-------|--------|--------|----------|
| Core completions (units) | | 3,182 | 2,894 | +10.0% |
| ASP (£000) | (i) | 253 | 250 | +1.2% |
| Gross margin % | (ii) | 25.3 | 25.7 | -40bps |
| Operating margin % | (iii) | 19.7 | 19.4 | +30bps |
| Underlying ROCE (%) | (iv) | 27.2 | 25.9 | +130bps |
| Consented landbank (plots) | (v) | 13,557 | 12,302 | +10.2% |
| Customer satisfaction (%) | (vi) | 93 | 91 | +2.2% |
| SHE (Accident Incident rate / 100,000 persons) | (vii) | 473 | 484 | -2.3% |

- (i) This represents revenues from new home sales divided by the number of core completions. It measures movements in revenues per plot caused by either house price inflation or mix changes.
- (ii) This represents gross profit divided by revenue. It measures the company's underlying profitability before administrative expenses.
- (iii) This represents operating profit divided by revenue. It measures the company's underlying profitability after administrative expenses.
- (iv) This represents operating profit, adjusted for any profit or loss recorded in respect of shared equity loan receivables, expressed as a percentage of average underlying capital employed. Average underlying capital employed is the average of the opening and closing balances of underlying capital employed. Underlying capital employed is the sum of net debt and net assets excluding deferred tax and shared equity loan receivables.
- (v) This represents owned and controlled landbank. Owned land is where title has been acquired or if purchase is by way of conditional contract, the conditions have been satisfied. Controlled land is where an option has been secured or where a conditional contract is yet to be satisfied.
- (vi) This represents an external assessment, performed by the NHBC, which measures overall satisfaction of our customers in respect of both the quality of their new home and the service provided.
- (vii) This represents the total number of accidents reportable under RIDDOR as expressed per 100,000 employees and subcontractors.

By order of the Board

Julie Jackson

Julie M Jackson
Company Secretary
22 September 2020

Miller House
2 Lochside View
Edinburgh
EH12 9DH

Directors' report

The directors of Miller Homes Limited have pleasure in presenting their report and audited financial statements for the year ended 31 December 2019.

Principal activity

The principal activity of the company is housebuilding.

Business review

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

Result for the year

The results for the year are set out in the Income statement on page 13. The profit for the year to 31 December 2019 is £131.6 million (2018: £111.0 million). During the year a dividend of £150m was paid (2018: £nil).

Going concern

The directors have prepared cashflow forecasts, which take into account reasonable sensitivities, in order to assess the future funding requirements of the company and its committed finance facilities. After making appropriate enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing their report and financial statements.

Directors

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

Christopher J Endsor
Ian Murdoch
Julie M Jackson
Stewart Lynes (appointed 1 November 2019)

Employees

As a growing business, it is imperative that the company attracts and retains the best people. It is recognised that the culture of the business is extremely important to attract high calibre individuals. Equal opportunities and diversity is promoted throughout the business to ensure that all employees are treated in a non-discriminatory manner at all stages of their employment, including recruitment and selection, rewards, training and career development. The Equality and Diversity policy ensures that all employees are treated equally and fairly with no discrimination in respect of age, disability, religious belief, sexual orientation, race, colour, marital status, political belief or nationality. Female employees represented 31% (2018: 30%) of total employees and 25% (2018: 21%) of directors and senior management.

The company's objective is to attract and retain the best people and ensure they are recognised and rewarded for their contribution. It is committed to engaging with staff across the business and undertakes annual roadshows in each regional business. This is an open forum which provides an opportunity for staff to be more informed on business performance and medium term objectives. Importantly, it allows each area of the business to understand their contribution and sets expectations for the forthcoming year. Staff engagement is monitored using external independent assessments which are undertaken on a triennial basis. The latest employee survey showed 94% staff engagement.

Directors' report (continued)

Corporate responsibility

The company's ethos is not only to build high quality homes but to do so safely and ethically in a manner which respects the local environment and the rights and dignity of all people with whom we engage, including our customers, employees, sub-contractors, local residents and other stakeholders. Established human rights policies are in place to ensure compliance with areas such as diversity, whistleblowing and the requirements of the Modern Slavery Act 2015. The company is also committed to the highest standards of ethical conduct and integrity in its business activities. The company believes that a zero tolerance approach to bribery will deliver reputational benefits and maintain our established reputation with customers, suppliers and sub-contractors.

Supplier payment policy

It is company 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.

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 company'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 company'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

Julie M Jackson
Company Secretary
22 September 2020

Miller House
2 Lochside View
Edinburgh
EH12 9DH

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the 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 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Miller Homes Limited

Opinion

Opinion

We have audited the financial statements of Miller Homes Limited ("the company") for the year ended 31 December 2019 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Financial Position 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 company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework* and
- 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 company 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 company or to cease its operations, and as they have concluded that 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 its 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").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Other information

The directors are responsible for the other information, which comprises the Strategic report and the Directors' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

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

- we have not identified material misstatements in the other information;
- in our opinion the information given in the Strategic report and the Directors' report 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.

Independent auditor's report to the members of Miller Homes Limited (continued)

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 10, 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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



Bruce Marks (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St Vincent Street, Glasgow, G2 5AS
23 September 2020

Income statement

for the year ended 31 December 2019

| | Note | 2019 £m | 2018 £m |
|-------------------------------|-------------|--------------------|--------------------|
| Revenue | 3 | 816.0 | 732.4 |
| Cost of sales | | (609.7) | (543.9) |
| Gross profit | | 206.3 | 188.5 |
| Other operating income | | 1.4 | 1.9 |
| Administrative expenses | | (46.9) | (48.5) |
| Operating profit | | 160.8 | 141.9 |
| Finance costs | 6 | (13.8) | (21.3) |
| Finance income | 7 | 7.5 | 9.0 |
| Net finance costs | | (6.3) | (12.3) |
| Profit before taxation | 2 | 154.5 | 129.6 |
| Income taxes | 8 | (22.9) | (18.6) |
| Profit for the year | | 131.6 | 111.0 |

The result for the financial year has been derived from continuing activities.

The notes on pages 16 to 36 form part of these financial statements.

Statement of comprehensive income

for the year ended 31 December 2019

| | 2019 £m | 2018 £m |
|---|--------------|--------------|
| Profit for the year | 131.6 | 111.0 |
| Items that will not be reclassified to profit and loss: | | |
| Actuarial loss on retirement benefit obligations | (7.9) | (1.4) |
| Deferred tax on actuarial loss | 1.4 | 0.3 |
| Total comprehensive income for the year | 125.1 | 109.9 |

Statement of changes in equity

for the year ended 31 December 2019

| | Share capital £m | Retained earnings £m | Total £m |
|--|------------------------|----------------------------|--------------|
| Balance at 31 December 2017 | 338.7 | 288.0 | 626.7 |
| Profit for the year | - | 111.0 | 111.0 |
| Actuarial loss on retirement benefit obligations (net of deferred tax) | - | (1.1) | (1.1) |
| Balance at 31 December 2018 | 338.7 | 397.9 | 736.6 |
| Profit for the year | - | 131.6 | 131.6 |
| Actuarial loss on retirement benefit obligations (net of deferred tax) | - | (6.5) | (6.5) |
| Dividend paid | - | (150.0) | (150.0) |
| Balance at 31 December 2019 | 338.7 | 373.0 | 711.7 |

The notes on pages 16 to 36 form part of these financial statements.

Statement of financial position
at 31 December 2019

| | Note | 2019 £m | 2018 £m |
|--|-------------|--------------------|--------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 1.4 | 1.3 |
| Right-of-use assets | 17 | 8.2 | - |
| Shared equity loan receivables | 10 | 8.9 | 13.7 |
| Deferred tax | 11 | 14.3 | 24.7 |
| | | 32.8 | 39.7 |
| Current assets | | | |
| Inventories | 12 | 825.6 | 724.2 |
| Trade and other receivables | 13 | 120.0 | 257.8 |
| Cash and cash equivalents | | 139.6 | 97.9 |
| | | 1,085.2 | 1,079.9 |
| Total assets | | 1,118.0 | 1,119.6 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Interest bearing loans and borrowings | 15 | (69.5) | (63.3) |
| Trade and other payables | 14 | (44.6) | (45.2) |
| Lease liabilities | 17 | (6.4) | - |
| Retirement benefit obligations | 21 | (16.5) | (13.0) |
| Provisions and deferred income | 16 | (2.6) | (3.0) |
| | | (139.6) | (124.5) |
| Current liabilities | | | |
| Trade and other payables | 14 | (264.6) | (258.5) |
| Lease liabilities | 17 | (2.1) | - |
| | | (266.7) | (258.5) |
| Total liabilities | | (406.3) | (383.0) |
| Net assets | | 711.7 | 736.6 |
| Equity | | | |
| Share capital | 18 | 338.7 | 338.7 |
| Retained earnings | | 373.0 | 397.9 |
| Total equity attributable to owners of the parent | | 711.7 | 736.6 |

The notes on pages 16 to 36 form part of these financial statements.

These accounts were approved by the board of directors on 22 September 2020 and were signed on its behalf by:

Ian Murdoch
Ian Murdoch
Director

Notes

(forming part of the financial statements)

1. Accounting policies

Basis of preparation

Miller Homes Limited is a company incorporated and domiciled in the UK. The registered address is Miller House, 2 Lochside View, Edinburgh, EH12 9DH.

These financial statements were prepared in accordance with FRS 101 *Reduced Disclosure Framework*.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The company's intermediate parent undertaking, Miller Homes Group Holdings plc includes the company in its consolidated financial statements. The consolidated financial statements of Miller Homes Group Holdings plc are prepared in accordance with IFRSs and are available to the public and may be obtained from the Registrar of Companies, Companies House, 4th Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9FF.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a cash flow statement and related notes;
- certain disclosures regarding revenue;
- disclosures in respect of related party transactions;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs; and
- an additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy.

As the consolidated financial statements of Miller Homes Group Holdings plc include the equivalent disclosures, the company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- The disclosures required by IFRS 7 *Financial Instrument Disclosures*:

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking.

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.

Notes (continued)

1. Accounting policies (continued)

Going concern

The financial statements have been prepared on a going concern basis which the directors believe to be appropriate, notwithstanding the significant challenges posed by the current global COVID-19 crisis, for the following reasons.

At the year end, the company had net assets of £711.7m and net current assets of £818.5m. It manages its day to day and medium term funding requirements through cash balances and intercompany loans from its intermediate parent company. These cash balances are forecast to provide sufficient liquidity to finance seasonal cash flows in the ordinary course of business.

The global COVID-19 coronavirus pandemic is impacting all businesses. As a result of the pandemic, the nature of the company's business is such that in the next twelve months, there is expected to be increased unpredictability in cash flows. The directors have prepared projected cash flow information for the twelve months from the date of approval of these financial statements. These forecasts have also modelled plausible downside scenarios including varying lengths of lockdown, house price reductions and sales rates. In addition, the Group has negotiated additional facilities with its banks and considers that no further facilities will be required to enable the company to continue to meet its financial obligations as they fall due during the next 12 months.

Based on the above, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

New accounting standards effective in 2019

The impact from standards and interpretations that are applicable for the first time in the company's financial statements for the year ended 31 December 2019 are explained in note 23.

Revenue and profit recognition

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

Net finance costs

Finance costs comprise interest payable on amounts owed to intercompany undertakings and the unwinding of the discount from nominal to present day value of trade payables on extended terms (land payables), retirement benefit obligations and lease liabilities. Finance income comprises interest receivable on intercompany loans and the unwinding of the discount from nominal to present day value of trade receivables on extended terms (land receivables). Interest income and interest payable is recognised in the income statement on an accruals basis.

Notes (continued)

1. Accounting policies (continued)

Income taxes

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

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

Leases

During the year, the company adopted IFRS 16 'Leases' using the modified retrospective approach allowed under the standard. Comparative information has not been restated and continues to be reported under IAS 17 'Leases' and IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. The details of the current and prior years accounting policies are disclosed separately below. Further information on the adoption and initial application of IFRS 16 can be found in Note 17 and Note 23.

Policy applicable from 1 January 2019:

For contracts entered into on or after 1 January 2019, the company 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 company assessment includes whether:

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

At the commencement of a lease, the company 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 company'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 company 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 Company 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 remeasurements of the lease liability. Depreciation is calculated on a straight-line basis over the length of the lease.

Notes (continued)

1. Accounting policies (continued)

Leases (continued)

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

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

Policy applicable prior to 1 January 2019:

Rentals payable under operating leases were charged to the income statement on a straight-line basis over the term of the relevant lease.

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

Property, plant and equipment

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

Plant and equipment: 3 to 10 years

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

Inventories

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

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

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

Shared equity loan receivables

Receivables on extended terms granted as part of a sales transaction are secured by way of a legal charge on the relevant property, categorised as shared equity loan receivables and are stated at fair value as described in note 10. Gains and losses arising from changes in fair value are recognised directly in the income statement.

Notes *(continued)*

1. Accounting policies *(continued)*

Trade and other receivables

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

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

Cash and cash equivalents

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

Trade and other payables

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

Interest-bearing borrowings

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

Retirement benefit obligations

The company 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 company in an independently administered fund. The amount charged to the income statement represents the contributions payable to the scheme in respect of the accounting period.

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

Dividends on shares presented within total equity

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

Notes (continued)

1. Accounting policies (continued)

Segmental reporting

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

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

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

Impact of standards and interpretations in issue but not yet effective

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

2. Profit before taxation

This is stated after charging the following:

| | 2019 £m | 2018 £m |
|---|-------------|-------------|
| Depreciation on owned assets | 0.6 | 0.4 |
| Right-of-use asset depreciation | 2.4 | - |
| | <u>3.0</u> | <u>0.4</u> |
| Operating lease rentals | - | 1.3 |
| - land and buildings | - | 1.2 |
| - other | - | - |
| | <u>-</u> | <u>-</u> |
| <i>Auditor's remuneration:</i> | <u>£000</u> | <u>£000</u> |
| Audit of these financial statements | 90 | 90 |
| Audit of financial statements of fellow subsidiary undertakings | - | 3 |
| Other services relating to taxation | 12 | 48 |
| All other services | <u>84</u> | <u>7</u> |

Notes (continued)

3. Revenue and other operating income

Revenue

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

Major product lines:

| | 2019 £m | 2018 £m |
|-------------------|--------------|--------------|
| Sale of new homes | 804.5 | 722.9 |
| Land sales | 11.0 | 8.5 |
| Other revenue | 0.5 | 1.0 |
| | <u>816.0</u> | <u>732.4</u> |

Contract balances

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

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

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

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

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

| | 2021 £m | 2022 £m | 2023 onwards £m |
|--|-------------|-------------|-----------------------|
| | <u>40.5</u> | <u>22.2</u> | <u>3.6</u> |

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

Other operating income

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

Notes (continued)

4. Staff numbers and costs

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

| | 2019 £m | 2018 £m |
|----------------|--------------|------------|
| Production | 435 | 396 |
| Sales | 136 | 108 |
| Administration | 438 | 406 |
| | 1,009 | 910 |

The aggregate payroll costs of these persons were as follows:

| | 2019 £m | 2018 £m |
|-----------------------|-------------|-------------|
| Wages and salaries | 55.4 | 52.1 |
| Social security costs | 6.0 | 5.7 |
| Pension costs | 3.1 | 3.4 |
| | 64.5 | 61.2 |

5. Remuneration of directors

| | 2019 £m | 2018 £m |
|---------------------------|------------|------------|
| Salary and other benefits | 1.2 | 1.0 |
| Annual bonus | 0.4 | 0.8 |
| | 1.6 | 1.8 |

Retirement benefits are accruing to 3 (2018: 3) directors under money purchase schemes.

The aggregate of emoluments, bonus and amounts receivable under long-term incentive schemes of the highest paid director was £718,000 (2018: £921,000), and contributions were paid by the company to his money purchase pension scheme of £10,000 (2018: £10,000) during the year.

6. Finance costs

| | 2019 £m | 2018 £m |
|---|-------------|-------------|
| Interest payable on amounts owed to intermediary parent undertaking | 6.3 | 12.8 |
| Imputed interest on land payable on deferred terms | 6.8 | 8.0 |
| Finance costs related to retirement benefit obligations | 0.3 | 0.5 |
| Imputed interest on lease liabilities | 0.4 | - |
| | 13.8 | 21.3 |

Notes (continued)

7. Finance income

| | 2019 £m | 2018 £m |
|--|------------|------------|
| Interest receivable on amounts due from immediate parent undertaking | 7.0 | 7.7 |
| Imputed interest on land sales on deferred terms | - | 0.6 |
| Other | 0.5 | 0.7 |
| | <u>7.5</u> | <u>9.0</u> |

8. Income taxes

| | 2019 £m | 2018 £m |
|---|----------------------|----------------------|
| Current tax charge: | | |
| Current year | (10.9) | (7.9) |
| Prior years | (0.2) | (1.1) |
| Total current tax | <u>(11.1)</u> | <u>(9.0)</u> |
| Deferred tax charge: | | |
| Current year | (11.8) | (10.9) |
| Prior years | - | 1.3 |
| Total deferred tax | <u>(11.8)</u> | <u>(9.6)</u> |
| Tax charge for the year | <u>(22.9)</u> | <u>(18.6)</u> |
| Reconciliation of effective tax rate: | | |
| | 2019 £m | 2018 £m |
| Profit before tax | 154.5 | 129.6 |
| Tax using the UK Corporate tax rate (see below) | <u>(29.4)</u> | <u>(24.6)</u> |
| Effects of: | | |
| Group relief received for nil consideration | 6.7 | 5.9 |
| Adjustments in respect of prior years | (0.2) | 0.2 |
| Permanent differences | - | (0.1) |
| Total charge for the year | <u>(22.9)</u> | <u>(18.6)</u> |

Current tax has been charged at 19% (2018: 19%) in the reconciliation above.

At the balance sheet date the corporate tax rate was enacted to reduce to 17% from 1 April 2020.

A corporate tax rate of 19% (2018: 19%) is applied to deferred tax, except for temporary differences expected to reverse after the 17% rate becomes effective.

Notes (continued)

9. Property, plant and equipment

| | <u>£m</u> |
|----------------------------------|-------------------|
| <i>Cost:</i> | |
| At 1 January 2018 | 1.9 |
| Additions | <u>1.0</u> |
| At 31 December 2018 | 2.9 |
| Additions | <u>0.7</u> |
| At 31 December 2019 | <u>3.6</u> |
| <i>Accumulated depreciation:</i> | |
| At 1 January 2018 | 1.2 |
| Charge for the year | <u>0.4</u> |
| At 31 December 2018 | 1.6 |
| Charge for the year | <u>0.6</u> |
| At 31 December 2019 | <u>2.2</u> |
| <i>Net book value</i> | |
| At 31 December 2019 | <u>1.4</u> |
| At 31 December 2018 | <u>1.3</u> |

10. Shared equity loan receivables

| | <u>2019 £m</u> | <u>2018 £m</u> |
|---|--------------------|--------------------|
| At start of year | 13.7 | 21.3 |
| Redemptions (net of fair value movements) | <u>(4.8)</u> | <u>(7.6)</u> |
| At end of year | <u>8.9</u> | <u>13.7</u> |

Notes (continued)

10. Shared equity loan receivables (continued)

Shared equity loan receivables comprise loans which were granted as part of sales transactions under the company's Miway scheme and the HCA HomeBuy Direct and FirstBuy shared equity schemes. These 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 company, 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 reporting period. Credit risk, which the directors currently consider to be mitigated through holding a second legal charge over the assets, is accounted for in determining fair values and appropriate discount factors are applied. The directors review the financial assets for impairment at each balance sheet date. The directors expect an average maturity profile of between 5 and 10 years from the balance sheet date.

11. Deferred tax

The following are the deferred tax assets recognised by the company and the movements thereon during the current and prior year:

| | Trading losses £m | Retirement benefit obligations £m | Capital allowances £m | Other temporary differences £m | Total £m |
|--------------------------------------|-------------------------|--|-----------------------------|---|-------------|
| At 1 January 2018 | 27.1 | 3.9 | 0.3 | 2.7 | 34.0 |
| Other comprehensive income credit | - | 0.3 | - | - | 0.3 |
| Income statement charge | (7.3) | (1.9) | (0.1) | (0.3) | (9.6) |
| As at 31 December 2018 | 19.8 | 2.3 | 0.2 | 2.4 | 24.7 |
| Other comprehensive income credit | - | 1.4 | - | - | 1.4 |
| Income statement charge | (11.7) | (0.7) | - | 0.6 | (11.8) |
| As at 31 December 2019 | 8.1 | 3.0 | 0.2 | 3.0 | 14.3 |

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

Notes (continued)

12. Inventories

| | 2019 £m | 2018 £m |
|--------------------------|--------------|--------------|
| Land | 514.6 | 440.7 |
| Work in progress | 290.4 | 267.5 |
| Part exchange properties | 20.6 | 16.0 |
| | 825.6 | 724.2 |

Land and work in progress recognised as cost of sales in the year amounted to £613.4m (2018: £548.9m). The write-down of stocks to net realisable value amounted to £0.2m (2018: £1.2m). The write-down and reversal are included in cost of sales.

13. Trade and other receivables

| | 2019 £m | 2018 £m |
|---|--------------|--------------|
| Trade receivables | 6.1 | 6.2 |
| Amounts recoverable on contracts | 1.3 | 2.7 |
| Amounts owed by intermediate parent undertaking | 18.7 | - |
| Amounts owed by immediate parent undertaking | 74.8 | 227.4 |
| Amounts owed by fellow subsidiary undertakings | 7.3 | 11.1 |
| Prepayments and accrued income | 1.5 | 1.6 |
| Other receivables | 10.3 | 8.8 |
| | 120.0 | 257.8 |

14. Trade and other payables: current

| | 2019 £m | 2018 £m |
|---|--------------|--------------|
| Trade payables | 85.0 | 89.6 |
| Amounts owed to intermediate parent undertaking | - | 6.0 |
| Amounts owed to fellow subsidiary undertakings | 17.3 | 14.7 |
| Corporation tax | 7.7 | 5.2 |
| Other payables | 15.7 | 14.7 |
| Land payables | 107.4 | 98.3 |
| Accruals and deferred income | 31.5 | 30.0 |
| | 264.6 | 258.5 |

Notes (continued)

14. Trade and other payables: non-current

| | 2019 £m | 2018 £m |
|---------------------------|-------------|-------------|
| Land payables (see below) | <u>44.6</u> | <u>45.2</u> |

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

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

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

| | Balance £m | Total contracted cash payment £m | Due less than 1 year £m | Due between 1 and 2 years £m | Due between 2 and 5 years £m |
|-------------------|---------------|--|----------------------------------|--|---------------------------------------|
| As at 31 Dec 2019 | <u>152.0</u> | <u>161.6</u> | <u>107.4</u> | <u>25.5</u> | <u>28.7</u> |
| As at 31 Dec 2018 | 143.5 | 150.9 | 98.3 | 36.1 | 16.5 |

15. Interest bearing loans and borrowings: non-current

| | 2019 £m | 2018 £m |
|--------------------|-------------|-------------|
| Intercompany loans | <u>69.5</u> | <u>63.3</u> |

The intercompany loan is payable to Miller Homes Group Holdings plc in 2027.

16. Provisions and deferred income

| | Property £m | Other £m | Total £m |
|-------------------------------|----------------|-------------|-------------|
| At start of year | 1.5 | 1.5 | 3.0 |
| Transfer to lease liabilities | (0.3) | - | (0.3) |
| Utilised during the year | (0.4) | (0.1) | (0.5) |
| Created during the year | 0.4 | - | 0.4 |
| At end of year | <u>1.2</u> | <u>1.4</u> | <u>2.6</u> |

The property provision covers the estimated costs to make good dilapidations on occupied properties. Other provisions represent legal and constructive obligations. The remaining provisions are expected to be utilised over the next three years.

Notes (continued)

17. Leases

The company adopted IFRS 16 with an initial application date of 1 January 2019. The company applied the modified retrospective approach and comparative information has not been presented. Further information on the adoption of IFRS 16 can be found in note 23.

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

Right-of-use assets

| | Office premises £m | Equipment £m | Total £m |
|-----------------------|--------------------------|-----------------|-------------|
| At start of year | 6.3 | 2.6 | 8.9 |
| Additions | 0.5 | 1.2 | 1.7 |
| Depreciation | (1.0) | (1.4) | (2.4) |
| At end of year | 5.8 | 2.4 | 8.2 |

Lease liabilities

| | Office premises £m | Equipment £m | Total £m |
|-----------------------|--------------------------|-----------------|-------------|
| At start of year | 6.6 | 2.6 | 9.2 |
| Additions | 0.5 | 1.2 | 1.7 |
| Lease payments | (1.3) | (1.5) | (2.8) |
| Imputed interest | 0.2 | 0.2 | 0.4 |
| At end of year | 6.0 | 2.5 | 8.5 |
| Maturity: | | | |
| Current | 1.0 | 1.1 | 2.1 |
| Non-current | 5.0 | 1.4 | 6.4 |

18. Share capital

| | 2019 £m | 2018 £m |
|--|--------------|--------------|
| Allotted, called up and fully paid: | | |
| 338,728,000 (2018: 338,728,000) ordinary shares of £1 each | 338.7 | 338.7 |

Notes *(continued)*

19. Contingent liabilities

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

The company, along with certain fellow subsidiaries is a joint guarantor of the group's revolving credit facility and senior secured notes.

The group's lenders have security by way of a debenture, including a floating charge, over the assets of the group and a pledge over the shares of the company.

20. Accounting estimates and judgements

Carrying value of inventories

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

The company 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 company reviews the carrying value of its inventories on a quarterly basis with these reviews performed on a site by site basis using forecast sales prices and anticipated costs to complete based on a combination of the specific trading conditions of each site in addition to future anticipated general market conditions. Net realisable value represents the estimated selling price of units less all estimated costs of completion, including an appropriate allocation of overheads.

Notes (continued)

21. Retirement benefit obligations

The company operates defined contribution and defined benefit pension schemes.

Defined contribution schemes

| | 2019 £m | 2018 £m |
|--|------------|------------|
| <i>Contributions during the year</i> | | |
| Company defined contribution schemes income statement charge | 3.1 | 2.6 |

Defined benefit scheme

Miller Homes Limited is the principal employer of The Miller Group Limited pension scheme. This is a defined benefit scheme which is closed to future accrual.

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

Principal actuarial assumptions

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

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

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

Life expectancy

| | 2019 |
|---|------------|
| Retired member aged 65 (male life expectancy at age 65) | 21.8 years |
| Non-retired member aged 45 (male life expectancy at age 65) | 23.1 years |

The base mortality assumptions are based upon the S2PA mortality tables. Allowance for future increases in life expectancy is made with an annual rate of improvement in mortality of 1.0% assumed.

Notes (continued)

21. Retirement benefit obligations (continued)

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

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

The amounts recognised in the income statement were as follows:

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

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

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

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

| | 2019 £m | 2018 £m |
|---|------------|------------|
| Present value of defined benefit obligations | 165.8 | 152.3 |
| Fair value of scheme assets | (149.3) | (139.3) |
| Recognised liability for defined benefit obligations | 16.5 | 13.0 |
| | 2019 £m | 2018 £m |
| Liability for defined benefit obligations at start of year | 13.0 | 21.7 |
| Contributions | (4.7) | (11.3) |
| Expense recognised in the income statement | 0.3 | 1.2 |
| Amounts recognised in the statement of comprehensive income | 7.9 | 1.4 |
| Liability for defined benefit obligations at end of year | 16.5 | 13.0 |

Notes (continued)

21. Retirement benefit obligations (continued)

A deferred tax asset of £3.0m (2018: £2.3m) has been recognised in relation to the retirement benefit obligation (note 11).

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

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

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

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

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

| | Percentage of Scheme assets |
|-------------------------|-----------------------------------|
| Equity type investments | 31.6% |
| Debt securities | 67.8% |
| Other | 0.6% |
| Total | 100.0% |

Notes (continued)

21. Retirement benefit obligations (continued)

Funding

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

In line with the requirements noted above the actuarial valuation is agreed between the company 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 company will pay deficit contributions of £45m over the recovery period of 10 years. The expected employer contribution to the scheme in the year ending 31 December 2020 is £4.8m.

22. Dividends

| | 2019 £m | 2018 £m |
|--|--------------|------------|
| Dividend: 44.28p (2018: £nil) per ordinary share of £1.00 each | <u>150.0</u> | <u>-</u> |

The final dividend of £150m was approved by the directors on 30 October 2019.

23. Adoption of new accounting standards

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

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

Definition of a lease

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

The company as a lessee

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

Notes (continued)

23. Adoption of new accounting standards (continued)

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

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

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

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

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

Impact on the financial statements

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

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

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

Notes (continued)

23. Adoption of new accounting standards (continued)

| | Buildings £m | Other £m | Total £m |
|---|-----------------|-------------|-------------|
| Operating lease commitment reported at 31 December 2018 | 7.4 | 3.4 | 10.8 |
| Effect of discount to NPV of lease payments | (0.8) | (0.2) | (1.0) |
| Other * | - | (0.6) | (0.6) |
| At end of year | 6.6 | 2.6 | 9.2 |

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

24. Immediate and ultimate parent company

The company's immediate parent company is Miller Homes Holdings Limited and its ultimate parent company is Miller Homes Group Limited. Both companies are incorporated in Great Britain.

The largest group in which the results of this company are consolidated is that headed by Miller Homes Group Limited. The smallest group in which the results of this company are consolidated is that headed by Miller Homes Group Holdings plc. The consolidated financial statement of these groups are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.

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

25. Related party transactions

| | 2019 £m | 2018 £m |
|---|------------|------------|
| Amounts owed to Miller Homes Limited in respect of development services provided | 4.6 | 5.3 |
| Amounts owed by Miller Homes Limited in respect of tax losses claimed | 0.1 | - |
| Transactions between Miller Homes Limited and related parties in respect of development services provided | 27.1 | 28.9 |
| Transactions between Miller Homes Limited and related parties in respect of management fees | 1.3 | 1.8 |

26. Post balance sheet events

In response to the ongoing Covid-19 pandemic, with the safety of our employees, customers and subcontractors at the forefront of our minds and following revised government guidelines of 23 March 2020, our construction sites, sales centres and offices closed at that time. We re-started construction activities on 11 May in England on a phased basis and our Scottish sites followed on 15 June. Our construction sites in England and Scotland are operating in accordance with the charters agreed between the industry and the UK and Scottish governments respectively which provide guidance on social distancing and protective measures. The company is continuing to monitor the situation closely for further developments and any potential impacts on operations.