miller homes

Built for Growth

Miller Homes Annual Report 2014

the place to be®

Miller Homes has, over the last 80 years, established a tradition for building family homes in the most desirable locations. We have also developed a reputation for delivering sector-leading quality, sustainable developments and have been recognised for providing outstanding levels of customer service.

Our business at a glance

Miller Homes occupies a distinctive position in the UK housing market. Its selective regional landbank and strong track record in converting strategic land into operational sites means it is well placed to benefit from continued recovery in the housing market outside London and the South East of England.

Structure

The group has four divisions, including three operating divisions (Midlands & Southern England, North and Scotland) and a Strategic Land division.

Landbank

Scotland

26 sites
2,388 consented plots

North

37 sites
2,993 consented plots

Midlands & Southern England

35 sites
4,631 consented plots

Operational performance

Scotland

645 completions
£224,000 average selling price (ASP)

North

957 completions
£171,000 average selling price (ASP)

Midlands & Southern England

579 completions
£224,000 average selling price (ASP)

Key facts

Completions	Average selling price
2,181	**£200,000**
+6%	+10%

Landbank – consented plots	Landbank – strategic plots
10,012	**16,383**
+15%	-4%

Highlights of the year

Delivering growth in operating performance and land investment

The group achieved excellent results during 2014, doubling operating profit. Ongoing land investment ensures we are well placed for future profitable growth.

Revenue
£387.5m
+19%

Total housing completions (units)
2,181
+6%

Average selling price
£200,000
+10%

Consented landbank (owned and controlled plots)
10,012
+15%

Operating profit
£48.4m*
+111%

Profit before tax
£36.4m*
+428%

Customer recommend score
95%
-2%

Strategic landbank (plots)
16,383
-4%

* Includes exceptional profit of £3.9m.

Key story

Profitable growth

We experienced a 19% increase in revenue through a combination of volume growth and higher average selling price, the latter due to our strategy to acquire sites in more desirable locations with a focus on family housing. This, together with improved margins as we replace legacy land with newly acquired land, resulted in a doubling of operating profit.

More information: *Our performance* on pages 08-09

Key story

The Miller Difference

We continue to demonstrate our commitment to the highest standards of quality, innovation and service through 'the Miller Difference'. This is our business philosophy which puts the needs of our customers and our desire to delight them throughout the entire homebuying journey at the very heart of everything we do.

More information: *Our brand* on pages 12-13

Strategy

Growing output in the next five years

Strategic building blocks

#1 Investing in quality land

#2 Grow the number of completions with limited additional overheads

Our approach

#1

Enhance the quality of our landbank through the acquisition of land in desirable locations, driving up both average selling price (ASP) and sales rates.

Continue to trade through low margin land acquired prior to the 2008 downturn ("legacy land"), replacing this with open market purchases and land sourced from the strategic landbank.

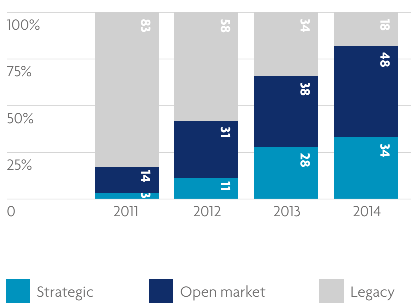
#2

Target growth from current level of 1,918 to 3,000 core and JV units over the medium term.

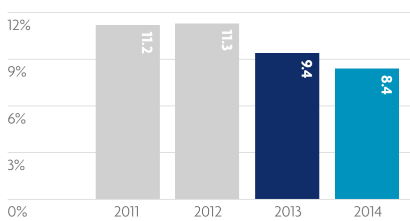
Growth will come from the replacement of low margin management contract units (263 units in 2014) and from within our existing regional network. Overhead recoveries will improve as a result.

Measuring progress

Improving owned landbank quality



Reducing overheads as a % of turnover

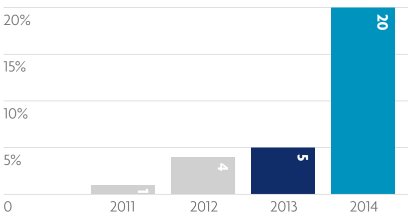


The strategy for Miller Homes is to grow output beyond 3,000 units per annum over the next three to five years, leveraging our strategic landbank. This additional volume will increase operating efficiency from our existing regional infrastructure, driving up operating margins and return on capital employed.

#3
Increase the proportion of completions sourced from strategic land

Increase sales from land secured from the strategic landbank such that it represents 30-40% of completions over the medium term.

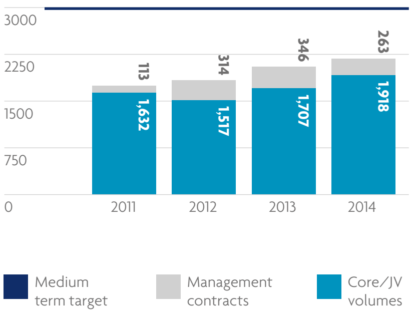
Increasing completions sourced from strategic land



#4
Focus on existing regional markets

Continue to operate across current regional businesses where long term sustainable growth can be achieved by leveraging existing expertise, local knowledge and infrastructure.

Growing volumes from existing regional markets (units)



#5
Collaborative corporate culture focussed on customer excellence, sustainable communities and safe work places

Maximise the trust and satisfaction of our customers, employees and local communities by the promotion of the ideals set out within our Miller Difference business philosophy.

Harnessing 'the Miller Difference'

Employee engagement: 84%

Recommend a friend: 95%

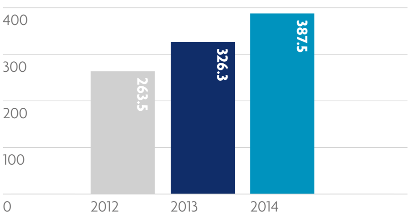
Accident incidence rates: 282 per 100,000 employees

More information: *KPIs* on pages 04-05

Key performance indicators

Measuring progress against objectives

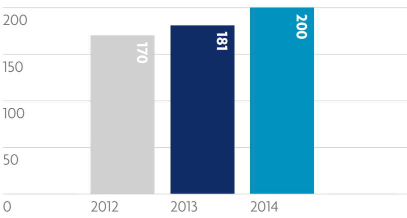
Revenue (£m)



Performance
Turnover increased by 19% in 2014 due to a combination of a 13% rise in core volumes and a 10% increase in ASP offset by lower land sale receipts.

Strategic significance
The group's strategy is to achieve its medium term volume target of 3,000 units per annum and combined with further improvements in ASP, this should lead to significant increases in turnover.

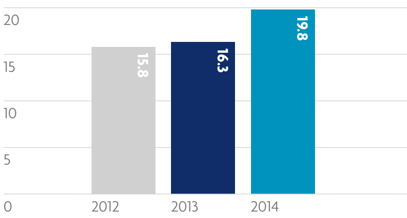
Average selling price (£000)



Performance
The 10% increase in ASP in 2014 is due to the continuing strategy of focussing on family housing in quality locations.

Strategic significance
The group believes it will see further increases in ASP through an increase in average product size and developing in more affluent locations as a greater proportion of completions are derived from more recently acquired land. This will be tempered by a higher proportion of affordable completions as new sites enter production.

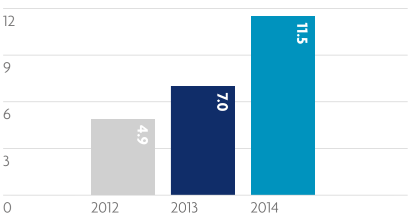
Gross margin (percentage)[1]



Performance
2014 saw a 350 basis points improvement in gross margin as the percentage of completions from low margin legacy land continued to reduce being replaced by higher margin recently acquired land.

Strategic significance
The group believes its gross margin will continue to increase as legacy land reduces and is replaced by either open market land (purchased at a minimum 22% gross margin) or strategic land which benefits further from in-built discounts to market value.

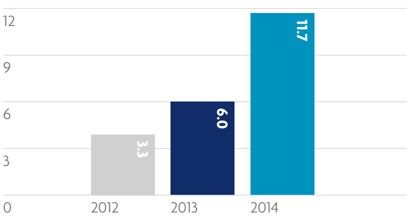
Operating margin (percentage)[1]



Performance
Improved overhead recoveries have led to a greater improvement in operating margin in comparison to gross margin.

Strategic significance
Our medium term target is to achieve operating margins of 18% through a combination of higher gross margins and improved overhead recoveries.

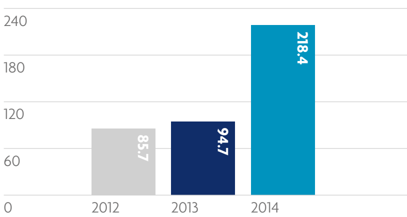
Return on capital employed (percentage)[1,2]



Performance
The increased operating profit in the year together with relatively static capital employed, generated significant ROCE improvement.

Strategic significance
The group has a medium term ROCE target of 20% as legacy land is replaced by land acquired at standard hurdle rates, which allied to volume growth will improve operating efficiencies.

Net asset value (£m)



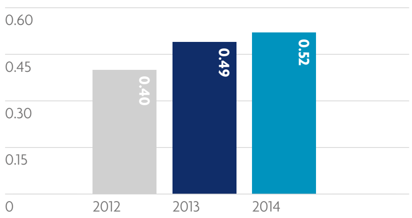
Performance
Operating profit in the year combined with the conversion of £100m of intercompany loans into share capital resulted in a significant increase in net asset value.

Strategic significance
The group's balance sheet was strengthened significantly during 2014 leaving it well positioned with lower gearing levels. Further profitable growth will lead to future increases in net asset value.

1. Excludes exceptional items.
2. Capital employed is the average of the opening and closing balances.

2014 was a year of significant progress with year-on-year outperformance delivered in the vast majority of our key performance indicators.

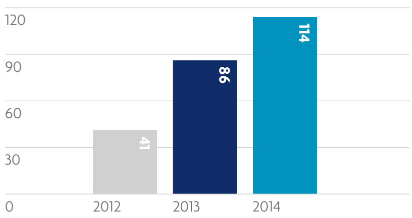
Private sales rate (per site/week)



Performance
The private sales rate improved in 2014 as the group benefited from the launch of new developments.

Strategic significance
The group believes that with the continuing benefit of future site launches its current sales rate can be improved in the medium term.

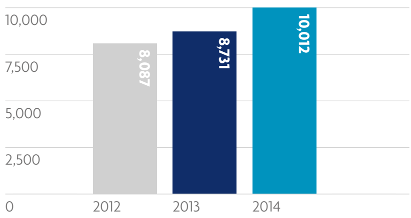
Forward sales (£m)



Performance
A 32% increase in forward sales during 2014 reflects a combination of a 19% increase in secured units and an 11% increase in ASP.

Strategic significance
The planned investment in land will result in additional sales outlets. This, combined with an increase in ASP, will see further increases in the forward order book, all of which will be managed in the context of prevailing market conditions.

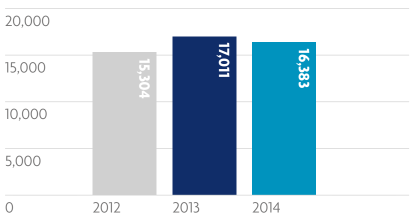
Consented landbank (plots)



Performance
Increased land investment and significant progress with the promotion of our strategic land interests resulted in a 15% increase in the consented landbank.

Strategic significance
Our strategy is to ensure continuity of supply which allows the group to have a selective approach to future land purchases. We plan to operate with a consented landbank of c.6 years' supply, of which 3-3.5 years is derived from the owned landbank with the balance from consented plots predominantly held under option.

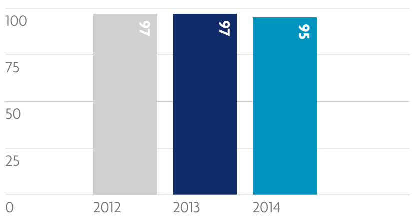
Strategic landbank (plots)



Performance
The strategic landbank fell by 4% during the year as sites were acquired or achieved a planning consent resulting in their transfer from the strategic to the consented landbank.

Strategic significance
The group's target is to hold c.15,000 plots under strategic option, of which an increasing proportion should achieve planning consents and thus transfer to the consented landbank. As a consequence, our non-consented strategic landbank may reduce, reflecting our success in achieving planning consents.

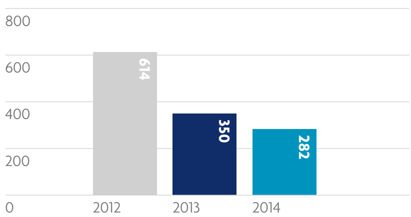
Customer satisfaction (percentage)



Performance
Despite the slight reduction in 2014, the group continues to achieve exceptionally high levels of customer satisfaction, amongst the best in the industry. The group also retained its 5 star rating under the Home Builders Federation New Homes Customer Satisfaction survey for the fourth consecutive year.

Strategic significance
The group firmly believes that exceptional levels of customer service are paramount to creating improvements in operating performance and ensuring sustainable returns to shareholders. Accordingly, it aspires to maintain or increase the current high levels of customer satisfaction.

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



Performance
The group achieved a 19% reduction in its key health and safety accident metric during 2014.

Strategic significance
Accident rates are at historic lows and the group has robust policies and procedures supported by a dedicated health and safety team. We will endeavour to ensure that accident rates are minimised going forward.

Going for growth: as we deliver our strategic objectives

2014 was a year in which Miller Homes celebrated its 80th anniversary and was one of significant progress for the group.

The key achievements were:

- Progression of our strategic plan, increasing both volumes and average selling price (ASP), which combined with the impact of newly acquired land has resulted in a doubling of operating profit.
- Increasing our land investment with £102m committed in the year together with a maturing of our strategic land options, resulting in our consented landbank increasing to over 10,000 plots, representing over five years' supply.
- Increasing the embedded margin in our owned landbank to a record 22.6%.
- Maintaining our commitment to customers and retaining our Home Builders Federation (HBF) 5 star status for customer satisfaction for the fourth year running.
- We continue to see the benefit of our strategy to develop long term supply chain partnerships.

The group's balance sheet was strengthened significantly during 2014 and against a backdrop of favourable market conditions, we are well positioned for further profitable growth.

Chris Endsor
Chief Executive

Housing market
conditions continue to remain favourable

Demand

Underlying demand for housing remained strong in both England and Scotland. In 2014, 118,760 new homes were completed in England, significantly below the target established by the Department for Communities and Local Government ("DCLG") in its February 2015 analysis of 2012-2022 household formations. The DCLG target over this period equates to 220,000 new homes per annum. As each year passes with the target not being achieved, it follows that the requirement for later years increases. By any measure, there is an under-supply of new homes to meet market demand.

During 2014, it was encouraging that the industry continued to receive support from government whilst at the same time tighter controls around mortgage lending were introduced. In April, the Mortgage Market Review was introduced by the Financial Conduct Authority which requires lenders to undertake more stringent tests of borrowers' ability to meet mortgage repayments. Initially it was thought that this would have an effect on new lending but this did not materialise and the rules were introduced with minimal impact. In June, the Financial Policy Committee of the Bank of England introduced a 15% cap on the number of mortgagors per lender borrowing more than 4.5x income. We have not witnessed any adverse impact from this lending cap as mortgages in excess of 4.5x income are more prevalent in London and the South-East. We welcome these steps and see them as facilitating a sustainable housing market.

Clearly, mortgage availability and affordability are important drivers for the new build sector. Gross mortgage lending in 2014 increased by 14% on the prior year. Importantly for the new build sector, mortgages with a loan to value in excess of 75% have continued to increase steadily whilst remaining significantly below 2007 highs. In relation to affordability, the house price to earnings ratio increased during 2014. It is recognised there is a wide disparity between London and the South-East and the other markets of both England and Scotland. The Halifax and the Office for National Statistics reported house price increases of 8.5% and 9.8% in 2014. However, this was heavily influenced by London and the South East, with the Halifax reporting annual increases of 16.0% and 10.8% respectively. As we have no presence in London and minimal representation in the South East, our areas of operation experienced lower and more sustainable price movements in 2014.

Land supply

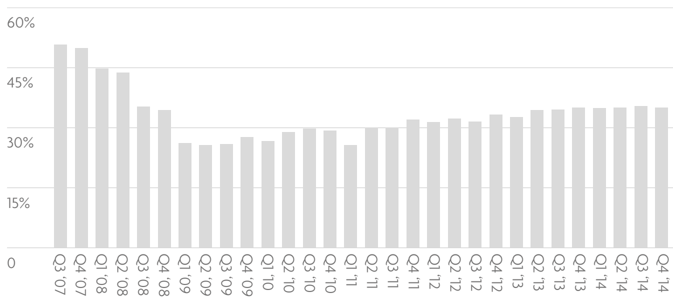
The availability of residential land has improved in recent years through a combination of a better planning environment and land owners feeling more confident in underlying values. In England this coincided with the introduction of the National Planning Policy Framework in March 2012, resulting in the planning environment being less challenging than it has been in recent years. The latest statistics show that planning approvals are running around 200,000 units per annum which is 60,000 units ahead of the industry low point in 2011. However, even with this increase, the current approval run-rate is still below DCLG's target demand of 220,000 new homes per annum.

We are experiencing a disciplined land market and are maintaining our hurdle rate of at least 22% gross margin (after sales and marketing costs) in all our areas of operation.

Supply of labour and materials

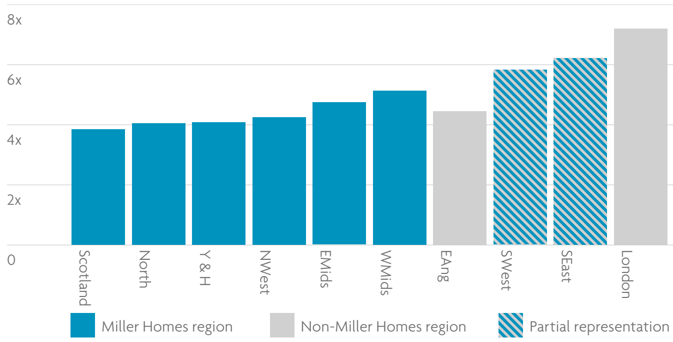
Certain parts of the supply chain experienced difficulties in meeting the heightened demands of the industry brought about by the sharp increase in housing output from the middle of 2013. These difficulties were most apparent with the supply of bricks and blocks. For a number of years, we have adopted a centralised approach to the procurement of our key materials. This ensures that the situation is closely managed with our key supply chain partners, ensuring that completions have been unaffected by material supply issues. Whilst certain sub-contractors have experienced labour issues, the long term relationships we have established with many local firms have ensured continuity of staff with the appropriate skills to deliver our required build programmes.

% Mortgages above 75% LTV (2007-2014)



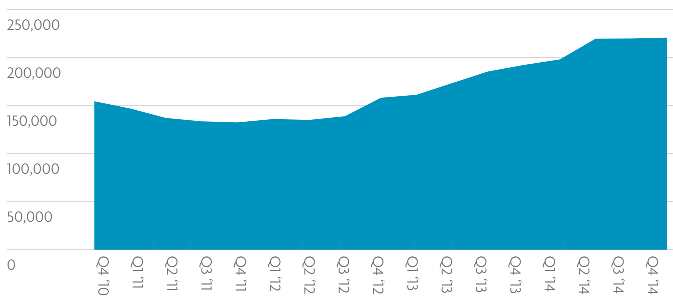
Source: Financial Conduct Authority.

House price/earnings by region (Quarter 4 2014)



Source: Halifax.

Planning permissions England and Wales



Source: Home Builders Federation.

Our performance
improved operating margin and ROCE

Our weekly private sales rate per average sales outlet increased by 6% which was impressive given that the prior year was influenced by the launch of Help to Buy. Our sales outlets averaged 64 (2013: 68). The reduction was due to strong performances on sites which were nearing completion, resulting in an earlier finish than anticipated. These sites have since been replaced by an increased number of new outlets and at the year end the number of sales outlets had risen to 70 (December 2013: 67).

Our cancellation rate for 2014 was 13% (2013: 12%). We did see a temporary increase in cancellations following the introduction of the Mortgage Market Review, otherwise cancellations remained consistent throughout the year.

Overall completions in 2014 were 2,181 (2013: 2,053) and are analysed below.

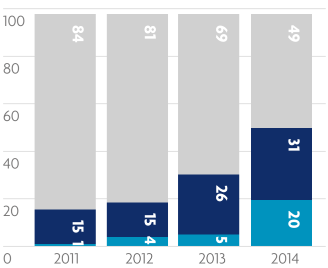
The 10% increase in private completions was due to improved sales rates in the year combined with a stronger order book as we entered 2014 in comparison to the prior year. There was a 38% increase in affordable completions to 231 (2013: 168).

This will be a continuing feature as new sites come on stream. Over the next five years, we expect affordable completions to represent c.20% of overall completions in comparison to 12% in 2014. Completions from management contracts are from several contracts entered into in 2010 and 2011 with the administrators of former housebuilders. The characteristics of these contracts are similar in that we undertake build and sales responsibilities in return for a management fee which is significantly lower than our standard hurdle rate. These contracts are in run-off with no plans for them to be replaced.

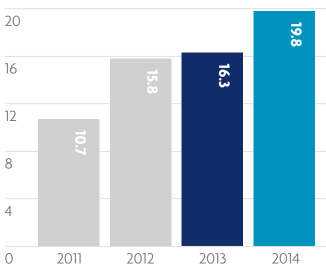
Our average selling price (ASP) increased by 10% from £181,000 in 2013 to £200,000 in 2014. This reflected a 13% increase in the private ASP from £191,000 to £215,000 predominantly due to the delivery of our strategy which has seen a focus on family housing in quality locations as well as modest house price inflation. Our affordable ASP fell from £96,000 in 2013 to £87,000 in 2014 largely due to an increased proportion of our affordable housing completions coming from our Northern division.

	2014	2013	% Change
Private	1,665	1,516	+10%
Affordable	231	168	+38%
Core completions	1,896	1,684	+13%
Joint venture	22	23	-4%
Management contracts	263	346	-24%
Total completions	**2,181**	**2,053**	**+6%**

Core completions (percentage)



Gross margin (percentage)*



* Excluding exceptional items.

Work in progress at Linlithgow Brae, Linlithgow constructing a range of four and five bedroom stylish family homes.

	Private		Affordable		Total	
	Units	Value £m	Units	Value £m	Units	Value £m
Opening (*)	328	72.5	157	13.6	485	86.1
2014 reservations	1,713	381.4	296	29.3	2,009	410.7
2014 completions	(1,687)	(362.8)	(231)	(20.1)	(1,918)	(382.9)
Closing (*)	**354**	**91.1**	**222**	**22.8**	**576**	**113.9**

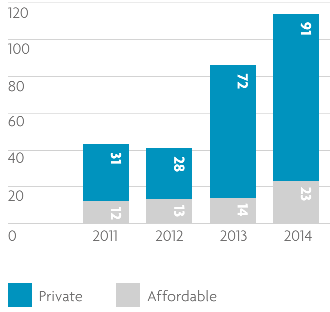
(*) Order book in respect of next year's anticipated core and joint venture completions.

We enter 2015 with a stronger order book than has been the case for a number of years. Order book volumes and value are ahead of 2014 by 19% and 32% respectively. The private ASP of the 2015 forward order book is 16% ahead of the prior year as we see the benefit of new site launches.

We have seen gross margins (excluding exceptional items) improving to 19.8% (2013: 16.3%). This improvement comes from a combination of modest house price inflation and a higher proportion of completions from more recently acquired land. In 2014, legacy sites accounted for 49% of core completions compared to 69% in 2013. Legacy sites typically have margins of 12% in comparison to margins of 22% for more recently acquired sites. It is also pleasing to report an increasing influence of sites acquired from our strategic landbank. These accounted for 20% of core completions compared to 5% in 2013. Strategic sites are secured under option with pre-negotiated discounts to market value, and accordingly are able to generate superior margins.

Administrative expenses as a percentage of turnover were 8.4% (2013: 9.4%) and continue to fall as we leverage our operating platform. This enabled the group to deliver significant growth in operating profits. Pre-exceptional items, operating profits were £44.5m up by £21.6m, an increase of 94% on the previous year. In turn, and notwithstanding the significant investment in land in the year, this contributed to further improvements in return on capital employed which increased to 11.7% at 31 December 2014 (2013: 6.0%).

Orderbook (£m)



Our landbank
increasing strategic conversion

The size and quality of our landbank continued to improve during 2014. Our consented landbank stands at 10,012 plots (2013: 8,731) representing an increase of 15%. The increase in estimated gross development value of the landbank is even greater at 22%. This reflects our strategy of investing in more affluent locations as legacy land is replaced with either open market purchases or land converted from our strategic landbank. The estimated gross development value of our consented landbank is £2.1bn (2013: £1.7bn).

During the year, we invested £101.8m in new land which represented 2,168 plots, of which 40% were converted from our strategic landbank. The average plot cost of our owned landbank is £38,000 (2013: £35,000). As a percentage of ASP, this represents 17.7% (2013: 18.0%) which is one of the lowest in the industry.

A number of factors are taken into account as part of the land acquisition process such as location, proximity to transport links, availability of schools and local demographics. Our key financial measures for determining land investment are gross margin and return on capital employed. In 2013, we increased our land acquisition hurdle rates to a minimum of 22% gross margin (after sales and marketing costs) and 25% return on capital employed. We are finding excellent land buying opportunities in all our areas of operation which are being delivered against our increased hurdle rates.

As we replenish our landbank and replace legacy land with either open market sites or with strategic land, the weighting of low margin legacy land in our owned landbank continues to reduce in significance. Legacy land accounted for 18% of the year end owned landbank (2013: 34%) whereas 49% of 2014's housing completions came from legacy sites.

We continue to seek deferred terms on land payments to maximise return on capital. Our land creditors at 31 December 2014 were £59.3m (2013: £37.8m) which we believe is sustainable in the medium term.

We hold a long strategic landbank of 16,383 plots (2013: 17,011 plots). The reduction in the year reflected the successful promotion of a number of sites, resulting in planning consents being secured and transferred to our consented landbank.

Our strategic land interests are managed by a dedicated and experienced land-buying team supported by in-house planning, technical and commercial expertise. 2014 was a busy year for our strategic land team with 858 plots (2013: 1,201) secured and delivered from our strategic landbank. Our pipeline is also strong with planning applications for 2,677 plots being made during 2014 (2013: 2,538) for sites which will be purchased in future years. At the end of 2014, our owned landbank comprised 34% of land derived from our strategic landbank.

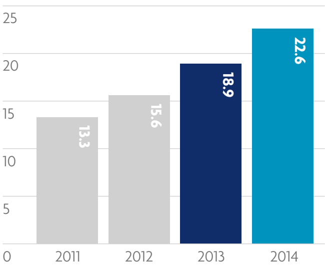
Consented landbank

	2014 Units	2014 GDV £m	2014 Margin %	2013 Units	2013 GDV £m	2013 Margin %
Owned*	5,995	1,291	22.6%	5,743	1,114	18.9%
Controlled	4,017	826	24.3%	2,988	624	22.0%
Total	**10,012**	**2,117**	**23.3%**	**8,731**	**1,738**	**20.0%**

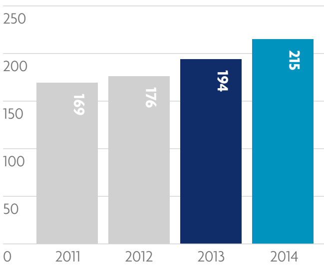
Owned landbank*

	2014	2013
Investment in the year (£m)	102	92
Carrying value (£m)	396	357
Land cost per plot (£000)	38	35

Embedded gross margin in owned landbank (percentage)



ASP in owned landbank (£000)



* Includes unconditionally contracted land.

The stunning interior of The Heriot show home at Polofields, Edinburgh.

Landbank case study

Polofields, Edinburgh

Polofields was acquired in February 2014 and is located in Colinton, an upmarket suburb of Edinburgh with unrivalled views of the Pentland Hills, yet only four miles from the city centre.

This was a long standing strategic site, our interest having been secured in 2002. The site was owned by the Ministry of Defence and was historically where the army played polo in Scotland.

We successfully promoted the site, working closely with the local planning authority, to achieve a sustainable and attractive development which meets the demands of customers and is also sympathetic to the local surroundings. The site was purchased on deferred terms and will deliver an exclusive development of 58 luxury five bedroom detached homes priced from £655,000 to £795,000.

The long awaited launch of Polofields saw exceptional levels of demand with nine homes sold before the show home opened. Each home is designed for modern living, fitted out with the latest features in contemporary home design and built to the highest specification to offer premier quality throughout, befitting this exceptional development.

Our brand
creating a strongly differentiated service and culture

At Miller Homes, we are acutely aware that a house is the single biggest purchase for the vast majority of our customers. This is at the heart of our business model, which is to build exceptional homes in sustainable communities that delight our customers.

In 2014, we created a brand philosophy, 'the Miller Difference', which defines both our approach and our commitment to customers, staff, our supply chain and the communities in which we operate.

Customer trust and satisfaction

We have developed the infrastructure to deliver on this commitment. This includes a dedicated website for customers to monitor build progress of their new home (mymillerhome.com), the ability to book a meeting with our sales advisors online and a Customer Relationship Management system to monitor customer enquiries post occupation. Our approach is designed to keep customers informed at every stage in the customer journey. However, infrastructure alone cannot deliver customer trust and satisfaction, and we have invested significantly in developing our people and our business culture to ensure that our customers remain delighted.

Underpinning all of this is the quality of our product, both in terms of the design and our high standards of workmanship. Our commitment to customers is substantiated by a suite of independently verified indicators including:

– 95% of customers would recommend Miller Homes to a friend; and
– a 5 star rating as measured by the HBF New Homes Customer Satisfaction survey for the last four years.

Sustainability and planning

Sustainable development has been an integral part of our business for a number of years. Within Miller Homes it takes many forms but ultimately it is about ensuring that we create a positive legacy in every community after each development has completed. Last year, we published our sustainability strategy which set out a number of targets. These are detailed in our Corporate Responsibility report on pages 20-23 and we are pleased that significant progress was made in 2014.

Health and safety

Our health and safety strategy is focussed on the safety of our employees, supply chain and the communities in which we operate. We have a dedicated helpline set up for each development under our Miller Respect scheme. This ensures any matters giving concern to the local community can be reported and actioned quickly.

Our health and safety performance continued the trend in recent years with another year of improvement. Our Accident Incident Rates fell by 19% from 350 to 282 incidents per 100,000 employees. In a year when building activity increased significantly on our sites, this performance is testimony to the diligent approach taken by our site teams and supply chain.

Employee engagement and satisfaction

We are a business which requires the support and commitment of both our employees and supply chain.

We have dedicated and professional staff who are highly valued. As the business has grown over the last year, we have taken the opportunity to select the best available people through internal promotion, from competitors and also from different sectors. The industry is experiencing well documented shortages in labour across all trades and disciplines. However, our open working environment, which is both challenging and rewarding, has facilitated both staff retention and recruitment where required.

Our last staff survey showed that we have a highly engaged workforce with 84% confirming they were positively engaged in the business. In addition, we continue to be accredited by Investors in People (IIP) at Gold level.

We are extremely grateful for the support and dedication of our employees and supply chain during the course of the year.

High quality standards

We are committed to building to the highest standards to meet not just building regulations but also the quality expectations of our customers. In 2014, 20 site managers (2013: 23) received recognition through the NHBC Pride in the Job Awards scheme. These awards recognise excellence in housebuilding and reflect a commitment to delivering high quality homes. Relative to the number of sites operated by Miller Homes, the number of awards received is one of the highest in the industry.

We have rigorous quality control procedures in place and every home we build will go through 34 individual stage inspections to ensure the quality of the finished product delights our purchasers. In 2014, 60% (2013: 42%) of the plots we completed were handed over without a single defect.

Innovation in design and technology

In 2014, we completed a review of our national housetype portfolio and all of those homes have been designed using Building Information Modelling (BIM). This allows us to work collaboratively with the supply chain on integrating building components more effectively which in turn delivers a more efficient construction process.

We have also developed our approach to three dimensional visualisation which has helped our design team to provide innovative solutions in terms of living space and effective use of materials. We are committed to a process of continuous improvement and seek feedback from the customers who buy our homes to assess how we could improve future designs and to ensure that internal specifications continue to meet their aspirations.

Outlook for 2015

In recent years, the homebuilding industry has enjoyed significant governmental support and witnessed regulation of the mortgage market. The combined effects of the NPPF, Help to Buy, the Mortgage Market Review and stamp duty reforms, all provide the platform for a sustainable recovery. We would expect this platform to remain largely unchanged following this year's UK General Election, as all main parties are committed to increasing housing supply.

The group is well positioned as it enters 2015. The forward order book is 33% higher at the end of April 2015 in comparison to the same period last year. This, together with a higher weighting of completions from more recently acquired land, will drive higher ASP and margins, both of which are reflected in the closing 2014 landbank.

We look forward to the year ahead, as we continue with our plans to grow the business.

◄ Our high standard of build and rigorous quality control procedures ensures our customers are delighted with their new home.

Finance Director's review

Profitable growth underpinned by a superior landbank

2014 saw significant growth in profits, supported by continued investment in land.

The key financial highlights were:

- Group revenue up 19% to £387.5m
- Gross margin up 21% to 19.8% (pre-exceptional items)
- Operating margin up 64% to 11.5% (pre-exceptional items)
- Greater utilisation of land creditors, increasing to £59.3m (2013: £37.8m)
- Return on capital employed up 95% to 11.7%
- Net assets up to a record £218.4m (2013: £94.7m)

The embedded margin in our owned landbank is at a record 22.6% and together with a strong opening order book and significantly reduced gearing, positions the group favourably for 2015.

Ian Murdoch

Ian Murdoch
Finance Director

Operating performance

Revenue increased by 19% to £387.5m (2013: £326.3m). This reflected a 24% increase in revenues from housing completions to £378.5m (2013: £305.4m) which was offset by a 57% decrease in other revenues to £9.0m (2013: £20.9m) due to lower land sales in the year.

The 24% growth in revenue from housing completions reflected a 13% increase in core completions to 1,896 (2013: 1,684) and a 10% increase in the average selling price (ASP). Higher sales rates resulted in completions of private units rising to 1,665 (2013: 1,516). The increase in affordable unit completions to 231 (2013: 168) is due to recently acquired sites having a higher allocation of affordable housing when compared to our older legacy sites. All our divisions experienced revenue growth.

The increase in ASP to £200,000 (2013: £181,000) was achieved despite an increase in the proportion of affordable completions which represented 12% (2013: 10%) of core completions. The private ASP increased to £215,000 (2013: £191,000) which was offset by a reduction in the ASP of affordable units to £87,000 (2013: £98,000) due to a higher proportion of completions in our North division where ASP is lower. The 13% rise in the private ASP reflected a 6% increase in property size as our strategy to focus on larger family housing continued to take effect, a greater proportion of completions from more recently acquired sites in more desirable locations together with modest levels of price inflation and lower use of incentives. Completions from legacy sites fell to 49% (2013: 69%) of overall core completions. The variance in ASP of legacy sites and newly acquired sites widened in 2014 as the impact of our land acquisition strategy formulated in 2012 takes effect.

The group participated in the Help to Buy schemes in both England and Scotland. These schemes accounted for 41% (2013: 20%) of private completions. The increase reflected a full year's completions in 2014 in comparison to 2013 which saw completions from the English scheme starting in May 2013 and completions from the Scottish scheme starting in December 2013. Going forward, the percentage of Help to Buy completions is likely to stabilise at c.30% due to a combination of increased product size and change in target customers and the financial constraints on the Help to Buy (Scotland) scheme.

Gross profit increased by 52% to £80.8m (2013: £53.1m), of which £3.9m was an exceptional credit arising from the release of prior year impairment provisions on legacy sites. The group reviews its landbank at regular intervals during the year. Due to an improvement in the forecast outturn performance of a number of sites, this resulted in a release of impairment provisions recorded in prior years. Gross margins (pre-exceptional items) increased by 350 basis points to 19.8% (2013: 16.3%). This reflected an increase in the proportion of completions from newly acquired land, an increase in the proportion of sales from sites sourced from our strategic land to 20% (2013: 5%) as well as the impact of reduced incentives and improved market conditions.

Overheads increased by 7% to £32.7m (2013: £30.6m). The growth in completions and ASP led to improved overhead recoveries. As a percentage of turnover, overheads have fallen to 8.4% (2013: 9.4%) which is likely to be a continuing trend as the group delivers on its strategy to reach optimal volumes under the current operating structure.

The improvement in gross profit combined with improved overhead recoveries resulted in operating profit (pre the exceptional credit of £3.9m) increasing by 94% to £44.5m (2013: £22.9m) representing a margin of 11.5% (2013: 7.0%). This is the group's highest operating profit since 2007.

Divisional analysis

	2014		2013	
	Completions	**ASP £000**	Completions	ASP £000
Scotland	487	224	386	217
North	858	171	774	143
Midlands & Southern England	551	224	524	212
Core completions	1,896	200	1,684	181
Joint ventures	22		23	
Management contracts	263		346	
Total completions	**2,181**		**2,053**	

Revenue by landtype

	2014			2013		
	Completions number	**ASP £000**	**Turnover £m**	Completions number	ASP £000	Turnover £m
Legacy	934	187	174.5	1,166	180	209.9
Recently acquired	962	212	204.0	518	184	95.5
	1,896	**200**	**378.5**	**1,684**	**181**	**305.4**

Finance Director's review continued

Finance cost
The group's net finance expense of £12.0m (2013: £16.0m) comprised interest payable on bank and intercompany loans of £11.9m (2013: £17.5m) and a net £0.1m fair value discount rate charge (2013: £1.5m credit). The reduction in bank and intercompany funding interest was due to lower debt levels during the year largely due to the capitalisation of £100m of intercompany loans in June 2014. The net fair value interest unwind reflects a notional interest charge in relation to deferred land payments of £2.7m (2013: £1.6m) and the pension deficit of £0.5m (2013: £nil). This was offset by interest receivable representing notional interest on the unwind of available for sale assets of £3.1m (2013: £3.1m).

Taxation
The tax credit in the year was £12.0m (2013: £2.1m). This arose from an increase in the group's deferred tax asset as the continued improvement in market conditions increased the prospects for the recovery of the group's historical tax losses. The group has now fully recognised all trading losses within its deferred tax asset which now stands at £78.1m (2013: £60.0m). Due to the availability of brought forward tax losses, the group anticipates that it will not have any significant tax payments over the next several years.

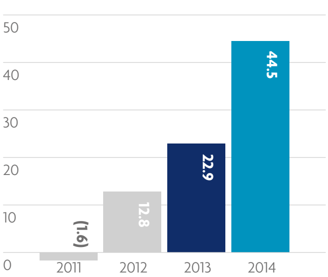
Cashflow and debt
The group's net debt fell to £157.9m (2013: £290.1m). This reduction in debt was due to operational cash generation in the year combined with the capitalisation of £100m of intercompany loans.

The group has historically been funded by its parent, The Miller Group, with the exception of specific project finance on several residential developments. In December 2014, the external bank loans held by The Miller Group were assigned to Miller Homes and simultaneously the intercompany loans due to The Miller Group were cancelled. There was no change to the overall indebtedness of Miller Homes as a result of this assignation.

Balance sheet
The group's net assets have increased significantly to £218.4m (2013: £94.7m) due to a combination of strong operational performance in the year and capitalisation of £100m of intercompany loans offset by the pension deficit now being reflected within the group accounts. Gearing has fallen to 72% (2013: 308%) and the capital structure provides a strong platform for further investment in land. Strong operational performance resulted in our return on capital employed increasing to 11.7% (2013: 6.0%), an improvement of 95%.

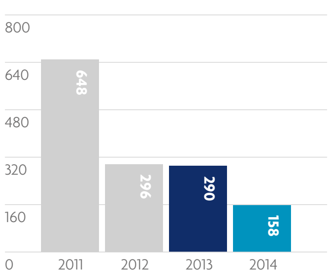
We continued to invest heavily in land which rose by 16% to £229.8m (2013: £198.4m). The number of plots in our owned landbank increased by 4% to

Operating profit (£m)*



* Excluding exceptional items.

Net debt (£m)



Lindley Park, near Huddersfield, combines the convenience of modern, urban living with a delightful rural environment.

5,995 (2013: 5,743). The increase in the gross development value of the landbank is more significant at 16% and reflects a rise in the projected landbank ASP to £215k (2013: £194k) as we continue with our strategy to acquire land in more desirable locations delivering higher average unit sizes. Consequently, as we improve the quality of our landbank, the average plot cost has increased to £38,000 (2013: £35,000) albeit land cost as a percentage of ASP has fallen to 17.7% (2013: 18.0%). The proportion of our landbank comprised of legacy land continues to reduce. Legacy land represented 18% (2013: 34%) of the owned landbank and compares with 49% of 2014 core completions. The combination of new site purchases and run-off of legacy sites has resulted in our embedded margin increasing to 22.6% (2013: 18.9%).

As the group positions itself for further volume growth in 2015, its investment in work in progress increased to £166.1m (2013: £158.5m). Work in progress is strictly controlled with approvals required to progress on-site construction at key build stages.

The level of impairment provisions continues to fall as the number of legacy plots in the owned landbank reduce. As at 31 December 2014, we held an impairment provision of £19.3m (2013: £42.2m).

Available for sale assets represents the group's investment in shared equity assets. This fell to £41.5m (2013: £43.1m), principally due to redemptions offset by the unwind of the fair value discount. The group prudently records its shared equity assets at a discount of 34% (2013: 36%) to nominal value.

Land creditors increased to £59.3m (2013: £37.8m), reflecting an increase in land purchases in the year as well as success on the part of land teams in negotiating deferred terms, a key focus as we seek to improve capital returns.

Pensions

The Miller Group has historically recognised the defined benefit pension scheme of its subsidiaries. The scheme was closed to new entrants in 1997 and to future accrual in 2010. Under a Flexible Apportionment Arrangement, the retirement benefit obligation was assigned to Miller Homes during the year. The pension deficit transferred (net of the related deferred tax asset) was £19.0m.

Since the transfer, there have been net actuarial losses of £5.1m which have been taken directly to reserves and a financing charge of £0.5m reflected in the income statement. This results in a year end deficit of £30.7m and related deferred tax asset of £6.1m which has been recognised in the group accounts. 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 £2.2m (2013: £1.7m).

Principal risks and uncertainties

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

Introduction

The group maintains a risk register and dashboard which is reviewed and updated at each Board meeting. These identify the most significant risks affecting the business and evaluate existing control techniques for effectiveness.

Risk	Risk description	Controls and mitigation
Economic conditions, mortgage supply and rates	Demand for new homes is inextricably linked to consumer confidence which amongst other things is impacted by employment prospects, disposable incomes and the availability and cost of higher loan to value mortgages.	Land acquisition process considers local employment and affordability. Sales rates and prices are monitored on a weekly basis informing decision making. Close relationships are maintained with mortgage lenders and government agencies to ensure that we are involved in all products and initiatives aimed at the new build sector. Sites are valued on a monthly basis with impairment reviews undertaken as part of the quarterly forecasting process.
Supply chain	The ability to procure sufficient materials and labour to ensure homes can be completed in line with our build programmes and at costs which protect our site margins.	All key materials are negotiated centrally by our Procurement Director. National deals are in place, and this ensures cost certainty over the short term. The most significant recent supply chain issues related to the availability of bricks and blocks. Close dialogue is maintained with our key supply chain partners. Orders are placed sufficiently far in advance to cater for elongated lead times. Sub-contract labour is managed at a regional level reflecting the nature of the main trades. Many of our sub-contractor relationships are well established which mitigates the impact of labour and skill shortages as industry output increases.
Land availability	The ability to secure the quantum of land in the appropriate locations and hurdle rates to ensure the group's growth plans are delivered.	The Chief Executive visits all sites prior to acquisition to ensure that a consistent approach to land acquisition is taken across the business and each site fits within our overall land strategy. There are established land acquisition hurdle rates of 22% gross margin and 25% ROCE which also underpin the business plan. All land acquisitions are scrutinised and approved by the Chief Executive, Finance Director, Legal Director and Divisional Managing Director.
Funding	The group requires access to adequate financial resources in order to meets its existing commitments and provide a platform for future growth.	The group has committed bank facilities through to February 2017. Cash is managed by a combination of short term and medium term forecasts. Business plans are updated on an annual basis and supported by sensitivity analysis.

Risk	Risk description	Controls and mitigation
Pensions	The group assumed responsibility for The Miller Group Defined Benefit Scheme during 2014. The scheme was closed to new entrants in 1997 and to future accrual in 2010. The deficit could fluctuate due to increased longevity assumptions or reduced bond yields.	The Board has agreed a deficit repair plan with trustees in conjunction with a joint investment strategy. An investment committee comprising management and trustees monitors changes to market conditions and responds accordingly.
Staff retention	It is important that we retain and attract high calibre employees in order to deliver on all aspects of our strategy.	The group has a comprehensive HR strategy that addresses all aspects of reward, retention and talent development, as well as performance management. Succession plans are in place for middle and senior management. Staff briefings are conducted on a semi-annual basis with staff engagement surveys undertaken bi-annually.
Safety, health and environmental (SHE)	Breaches of SHE legislation can result in workplace injuries, environmental damage or physical damage to property. This could result in financial penalties, reputational damage and delays to site related activities.	There is an in-house SHE team all of whom are professionally qualified. The team is managed independently from our operational businesses under the guidance of a SHE Director who in turn reports directly to the Chief Executive. The Board has an approved SHE strategy with progress monitored regularly during the year. Site operations are subject to monthly audits and SHE awareness 'toolbox' talks are regularly communicated.
Planning	The timely progression of planning consents is important to the group in that the majority of site purchases and ultimately site starts are dependent on detailed or full planning consents being obtained. In addition, the attainment of planning consents will also unlock the significant value in the group's strategic landbank.	The group has a dedicated strategic land team which monitors planning policy at a regional and national level. The group seeks to acquire land with the benefit of an implementable planning consent.
IT	A prolonged system outage of operational systems, including our website, which affects operational targets of the business and our reputation within a consumer environment.	The group undertakes an annual security review which includes penetration testing, action and review cycles. Full backup and system recovery is in place as part of the wider Disaster Recovery plan, and this is tested annually. System changes during business critical times are limited to emergency only to minimise any potential downtime in these periods.

Building a better place together

For Miller Homes, being sustainable means safeguarding the long term future of the world around us by preserving the physical environment, creating communities that flourish and building homes for generations to come.

By doing this and helping our customers, employees and partners in their efforts to be more sustainable too we are aiming to make where we live and where we work 'A Better Place'.

We recognise the need to tackle the social and environmental issues facing our business but our strategy and approach means we see this as a better way of doing business.

Our sustainability strategy is called 'A Better Place' and defines our vision for becoming a more sustainable business. It was developed following a fundamental review of the needs and concerns of a wide range of our stakeholders and focuses on the key issues identified during that process, but with an emphasis on those with greatest importance to the group. These are: Product, Processes, People and Partners. We set objectives against short, medium and long term targets which are measured against a set of key performance indicators reported upon annually.

Product

Housebuilding uses natural resources so we look at ways of doing this responsibly to minimise the impact and deliver sustainable homes. We have continued with our commitment to build on brownfield land and last year 64% of our developments were on previously built sites.

We use Building Information Modelling (BIM) for the design of all our standard house types. This is a collaborative approach which improves efficiency in the design and build process, it reduces waste and 3D modelling allows us to better assess how the home layout will function once built.

▲
Employee development
We provide opportunities for our employees to enhance their skills and knowledge through training, development and continuous improvement.

▶
Summer of Sport
Greencroft Netball Club in County Durham was one of the winners of our Summer of Sport campaign, designed to help promote health and wellbeing in the community.

All of our homes are fitted with Smart meters and water saving devices and in the last two years we have seen a 13% drop in the designed water consumption in our homes. In 2014, we invited 913 of our new customers to provide feedback on their experience of living in a Miller home. 73% of respondents said there was nothing more we could have done to improve their living experience.

In 2014 we retained our HBF 5 star rating for customer satisfaction. This is an endorsement of our aim to combine high quality, sustainable homes with excellent customer service.

Processes

Energy, water, waste, biodiversity, flood risk, pollution and climate change must be managed and mitigated through the process of building homes and we have chosen to follow and have met the standards required of the externally accredited ISO 14001 Environmental Management System which emphasises excellence over compliance.

As an example, we further developed our approach to waste management and each site is individually committed to waste stream segregation. We work with our supply chain to drive improvements, and during the year we recycled almost 17,000 pallets, equating to 450 tonnes of timber. In 2014, 93% of all our construction waste was diverted away from landfill and we achieved a 7% reduction in the overall quantity of construction waste for each home built. For the third year in a row, all our timber construction materials have been sourced sustainably.

Effective management of energy use is important to both our business and to our customers. We worked with E.on during the year to improve energy use and its cost impact during construction and, as a result, new measures will be introduced in 2015.

In 2014 we launched specific websites for the communities where we are making planning applications. These provide site specific information and a portal to enable contact and communication. We recognise that we need to engage with the community with early contact and cooperation assisting the planning process.

Engagement with the community continues when we are on site and we operate a scheme called Miller Respect which provides a call centre facility to allow the community and our customers to make us aware of any concern they might have in relation to our development activities. This underpins our commitment to safety, health and environment matters. In 2014, 74% of calls received were responded to in 24 hours against a target of 70%.

Performance analysis – Product

2014	Measure	2013	Progress
71%	% of customers who believe Miller Homes is addressing sustainability issues appropriately	58%	↑
95%	proportion of customers who would recommend Miller Homes to their best friend	97%	↓
64%	Net Promoter Rating[1]	63%	↑
5-Star	we achieved the highest rating for customer satisfaction in the Home Builders Federation (HBF) national survey	5-Star	–
1:3	ratio of NHBC Pride in the Job Quality Awards to the number of live outlets	1:3	–
64%	% of units sold built on previously used brownfield land	76%	↓
96%	% of developments within 500m of a public transport node	96%	–
44%	% of development sites with cycle storage provided to some/all units	43%	↑
9%	% of developments using renewable energy technology	8%	↑
68%	% of sites with sustainable drainage systems (SuDS)	73%	↓
100%	% of homes sold fitted with Smart gas and electricity meters	100%	–

1. Net Promoter scores range from -100 to +100 and are a measure of the extent to which customers would be willing to recommend Miller Homes. They are calculated by subtracting the number of Detractors, i.e. those scoring 1 to 6 (on a 1-10 scale) from the number of Promoters (those scoring 9 or 10).

Performance analysis – Processes

2014	Measure	2013	Progress
17,981	tonnes of construction waste diverted from landfill	17,032	↑
93%	proportion of construction waste recycled or reused	94%	↓
9.2	tonnes of construction waste per equivalent build unit	9.8	↑
306	quantity of site preparation waste generated ('000t)	381	↑
1,589	Miller Homes' electricity consumption per equivalent build unit (kWh)	1,630	↑
2.2	GHG Scope 1 & 2 carbon emissions per equivalent build unit (tCO_2)[1]	2.4	↑
56%	proportion of sites using an ecology specialist to identify biodiversity issues and mitigation actions (%)	52%	↑
33.6	Miller Homes' water consumption per equivalent build unit (m^3)	41.6	↑
33.9	average score from sites participating in the Considerate Constructors Scheme	35.3	↓
583	litres of diesel used on Miller Homes sites ('000ltr)	721	↑

1. Greenhouse Gas (GHG) emissions are widely accounted for using the guidance defined by the Greenhouse Gas Protocol, This protocol categorises carbon emissions into three types.

Corporate responsibility continued

People

Our success is based on our highly skilled and dedicated employees. The group has achieved Investors in People Gold Award for its commitment to providing opportunities for our staff for personal growth through training, development and continuous improvement.

Health and safety is of paramount importance and the culture of health and safety is extended throughout our business; on site, in the office, with sub-contractors and employees. We have an ongoing training programme for health and safety matters which was successfully extended to sub-contractors throughout 2014 with positive engagement and feedback. We remain accredited under the independently audited OHSAS 18001 which is a health and safety management system.

Our reportable incident rate has significantly reduced over the last four years which reflects the culture of safety embedded in the business. In 2014 we saw a 19% fall in our reportable incident rate from 350 to 282 per 100,000 employees. This is our best performance on record.

We promote excellence in health and safety and recognise ingenuity and innovation on site through an internal award scheme for site managers. In addition, as an endorsement of the quality of our staff, 20 site managers were given prestigious NHBC Pride in the Job Awards in 2014; one award for every three sites we build and the highest ratio for any large category housebuilder.

A wide range of well-being initiatives are available to all employees including a Ride2Work scheme. 28% of employees participated in the private healthcare programme and one in three employees undertook mobile health screening assessments.

Performance analysis – People

2014	Measure	2013	Progress
282	number of reportable incidents per 100,000 employees (including sub-contractors)	350	↑
703	total number of employees	668	↑
32%	% of female employees	33%	↓
14%	females as % of managers & directors	15%	↓
99%	% of eligible employees with performance development review during the year	98%	↑
2.4	average number of training days provided per employee	2.4	–
19%	employee turnover rate	19%	–
111	average vehicle CO_2 emissions from approved fleet list	113	↑

▲
Welcoming wildlife
Children from Sarisbury Green pre-school in Fareham, Hampshire enjoyed taking part in our Welcoming Wildlife campaign, organised in conjunction with the RSPB.

▲
Sustainable living
96% of our developments are within 500m of a public transport node.

Partners

We work in partnership with our suppliers, sub-contractors, local authorities and consultants to build long term working relationships. The group has a longstanding commitment to sustainable sourcing and in 2014 introduced a new supplier code of conduct, 'Working Together'. This raises the bar in terms of what we expect from suppliers and allows us to drive change. Furthermore, it allows us to recognise those companies that are able to adopt our ethos and practice a better way of doing business.

Due to our relationship with national suppliers we were able to manage availability issues of key materials, particularly bricks and blocks, ensuring uninterrupted supply throughout 2014.

We recognise the importance of working with local companies and the increase in homebuilding activity has seen a 17% rise in the number of sub-contractors working on our sites. We ask all our sub-contractors to commit to being certificated under the SMAS Worksafe scheme and the average level of compliance during 2014 was 90.8%.

In 2014 the group became a signatory to the Prompt Payment Code where we are committed to paying our suppliers on time, promptly and dealing fairly with any disputes. In the second half of 2014 we engaged with our divisional supply chain to understand how easy it was for them to conduct business with the group. In terms of overall satisfaction, nine out of 10 suppliers expressed high levels of satisfaction with us.

We fund a broad range of local authority services and facilities through contributions under planning agreements with local authorities. These fund affordable homes, education, transport and other community initiatives and amounted to £9.1m in 2014.

Performance analysis – Partners

2014	Measure	2013	Progress
16,767	number of pallets recycled and reused through the Scott Pallets recovery system	7,362	↑
1,788	the number of local sub-contractors we have working on our live developments	1,528	↑
73	the number of tier 1 suppliers with whom we have formal national supply agreement	65	↑
45	number of suppliers assessed under the Miller Homes Supplier Code of Conduct	NM[1]	↑
100%	proportion of timber construction materials sustainably sourced	100%	–
94%	% of employees (including sub-contractors) with CSCS cards	93%	↑
91%	% of sub-contractors SMAS Worksafe certified	93%	↓

1. NM; KPI not measured in 2013 and not possible therefore to provide a performance progress indicator for this measure.

▲
Charity champions
Employees in our North Division raised £33,174 in just seven months for Martin House Children's Hospice in Boston Spa, Wetherby.

Directors' Report

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 December 2014.

Principal activities
The principal business conducted by the group was residential housebuilding.

Business review
The operations of the group and its principal risks and uncertainties and relevant key performance indicators are reviewed in detail in the Strategic Report.

Results and dividends
The group profit after taxation for the financial year amounted to £48.4 million (2013: £9.0 million). No dividend will be paid.

Going concern
The group's business activities, together with factors likely to affect its future development and performance are set out in the Strategic Report. The financial position of the group, its cashflows and details of its borrowing facilities are described in the Finance Director's Review on pages 14 to 17. The directors have prepared cashflow forecasts, which take into account reasonable sensitivities, in order to assess the future funding requirements of the group, its committed bank facilities and its compliance with banking covenants.

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

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

Keith M Miller (resigned on 31 March 2015)
Christopher J Endsor
Ian Murdoch
Julie M Jackson
Donald W Borland (appointed on 24 November 2014)
Richard Hodsden (resigned on 4 December 2014)

Employees
The directors' report in relation to employees is shown on page 22.

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

Contributions
Charitable donations are made by the group's parent undertaking. Accordingly, neither the company nor the group made any charitable donations during the year and nor did they incur any political expenditure.

Disclosure of information to auditor
The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the group's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself 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
30 April 2015

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

Financial statements and accounting records

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

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

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

– select suitable accounting policies and then apply them consistently;
– make judgements and estimates that are reasonable and prudent;
– state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Directors' responsibility statement

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

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

Independent Auditor's Report to the Members of Miller Homes Holdings Limited

We have audited the financial statements of Miller Homes Holdings Limited for the year ended 31 December 2014 set out on pages 27 to 48. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express our opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2014 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

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

KPMG LLP
Saltire Court
20 Castle Terrace Edinburgh
EH1 2EG
United Kingdom
30 April 2015

Consolidated income statement
for the year ended 31 December 2014

	Note	2014 £m	2013 £m
Revenue	1	387.5	326.3
Cost of sales		(310.6)	(273.2)
Exceptional cost of sales	2	3.9	–
Gross profit		80.8	53.1
Administrative expenses		(32.7)	(30.6)
Group operating profit		48.1	22.5
Share of profit in joint ventures		0.3	0.4
Operating profit	2	48.4	22.9
Financial costs	5	(15.1)	(19.1)
Financial income	6	3.1	3.1
Net financing costs		(12.0)	(16.0)
Profit before taxation		36.4	6.9
Income tax credit	7	12.0	2.1
Profit for the year		48.4	9.0

The notes on pages 31 to 48 form part of the Financial Statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2014

	2014 £m	2013 £m
Profit for the year	48.4	9.0
Items that will not be reclassified to profit and loss:		
Change in fair value of available for sale financial assets	(0.6)	–
Actuarial loss on retirement benefit obligations	(6.5)	–
Deferred tax on actuarial loss	1.4	–
Total comprehensive income for the year attributable to owners of the parent	42.7	9.0

Consolidated statement of changes in equity
for the year ended 31 December 2014

	Share capital £m	Retained earnings £m	Total £m
Balance at 31 December 2012	25.0	60.7	85.7
Profit for the year	–	9.0	9.0
Balance at 31 December 2013	25.0	69.7	94.7
Profit for the year	–	48.4	48.4
Change in fair value of available for sale financial assets	–	(0.6)	(0.6)
Increase in share capital	100.0	–	100.0
Transfer of retirement benefit obligations	–	(19.0)	(19.0)
Actuarial loss on retirement benefit obligations (net of deferred tax)	–	(5.1)	(5.1)
Balance at 31 December 2014	125.0	93.4	218.4

Company statement of changes in equity
for the year ended 31 December 2014

	Share capital £m	Retained earnings £m	Total £m
Balance at 31 December 2012	25.0	48.7	73.7
Loss for the year	–	(9.9)	(9.9)
Balance at 31 December 2013	25.0	38.8	63.8
Loss for the year	–	(5.0)	(5.0)
Increase in share capital	100.0	–	100.0
Balance at 31 December 2014	125.0	33.8	158.8

The notes on pages 31 to 48 form part of the Financial Statements.

Consolidated statement of financial position
for the year ended 31 December 2014

	Note	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Assets					
Non-current assets					
Property, plant and equipment	9	**0.2**	0.2	**–**	–
Investments	10	**4.6**	4.6	**353.6**	219.2
Available for sale financial assets	11	**41.5**	43.1	**–**	–
Deferred tax	12	**78.1**	60.0	**–**	–
		124.4	107.9	**353.6**	219.2
Current assets					
Inventories	13	**406.4**	361.1	**–**	–
Trade and other receivables	14	**17.0**	17.0	**0.1**	0.8
Cash and cash equivalents		**29.5**	32.8	**–**	0.1
		452.9	410.9	**0.1**	0.9
Total assets		**577.3**	518.8	**353.7**	220.1
Liabilities					
Non-current liabilities					
Interest bearing loans and borrowings	16	**(158.6)**	(31.9)	**–**	–
Trade and other payables	15	**(22.3)**	(18.6)	**–**	–
Retirement benefit obligations	27	**(30.7)**	–	**–**	–
Deferred income	17	**(0.1)**	(0.1)	**–**	–
		(211.7)	(50.6)	**–**	–
Current liabilities					
Interest bearing loans and borrowings	16	**(28.8)**	(291.0)	**–**	–
Trade and other payables	15	**(118.4)**	(82.5)	**(194.9)**	(156.3)
		(147.2)	(373.5)	**(194.9)**	(156.3)
Total liabilities		**(358.9)**	(424.1)	**(194.9)**	(156.3)
Net assets		**218.4**	94.7	**158.8**	63.8
Equity					
Share capital	18	**125.0**	25.0	**125.0**	25.0
Retained earnings		**93.4**	69.7	**33.8**	38.8
Total equity attributable to owners of the parent		**218.4**	94.7	**158.8**	63.8

The notes on pages 31 to 48 form part of the Financial Statements.

These Financial Statements were approved by the Board of Directors on 30 April 2015 and were signed on its behalf by:

Chris Endsor
Chief Executive

Ian Murdoch
Finance Director

Consolidated cash flow statement
for the year ended 31 December 2014

	Note	2014 £m	2013 £m
Cash flows from operating activities			
Profit for the year		48.4	9.0
Depreciation		0.1	0.1
Amortisation of land option costs		0.7	0.7
Financial income		(3.1)	(3.1)
Financial expense		15.1	19.1
Share of post tax profits from joint ventures		(0.3)	(0.4)
Taxation		(12.0)	(2.1)
Operating profit before changes in working capital		48.9	23.3
Working capital movements:			
Decrease in trade and other receivables		4.2	2.0
Increase in inventories		(49.8)	(31.0)
Increase in trade and other payables		40.9	26.9
Cash generated from operations		44.2	21.2
Interest paid		(12.2)	(17.5)
Net cash inflow from operating activities		32.0	3.7
Cash flows from investing activities			
Acquisition of property, plant and equipment		(0.1)	(0.1)
Movement in loan with joint ventures		0.3	2.4
Net cash inflow from investing activities		0.2	2.3
Cash flows from financing activities			
Increase/(decrease) in bank borrowings and overdraft	21	155.5	(19.7)
Increase in other long term borrowings	21	–	10.3
(Decrease)/increase in loans from parent company	21	(191.0)	25.0
Net cash (outflow)/inflow from financing activities		(35.5)	15.6
Net (decrease)/increase in cash and cash equivalents	21	(3.3)	21.6
Cash and cash equivalents at beginning of year	21	32.8	11.2
Cash and cash equivalents at end of year		29.5	32.8

The notes on pages 31 to 48 form part of the Financial Statements.

Notes
(forming part of the financial statements)

1. Accounting policies

Basis of preparation
The group financial statements have been prepared and approved by the directors in accordance with IFRSs as adopted by the EU ("Adopted IFRSs"). The accounting policies set out below have, unless otherwise stated, been applied consistently in the financial statements. The parent company financial statements have been prepared and approved by the directors in accordance with applicable law and the Accounts Standards including FRS 101 Reduced Disclosure Framework.

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

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

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

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

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

New accounting Standards Effective in 2014
Presentation of items of other comprehensive income
As a result of the amendments to IAS 1, the group has presented items in its consolidated statement of comprehensive income, to present separately items that would be reclassified to profit or loss from those that would never be. There is no impact on comparative information.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements. IFRS 13 replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. The group has adopted this for the first time in the year ended 31 December 2014.

Revenue and profit recognition
Revenue represents the amounts (excluding value added tax) derived from the sale of new houses, build contracts and land. Revenue from house sales represents the selling price for the unit, net of any cash incentives, and is recognised on legal completion and receipt of cash. The incentives offered to customers affect the recognition of revenue. Where cash incentives are given, the full cash amount is deducted from revenue. Profit is recognised on a plot by plot basis, by reference to the margin forecast across the related development site. Sales incentives also include group shared equity schemes which are accounted for as available for sale financial assets. Revenue is recognised at the initial fair value of the available for sale financial asset as described above. Revenue from build contracts is recognised in line with the stage of completion. Revenue from land sales is recognised on legal completion.

Exceptional items
As permitted by IAS 1 "Presentation of financial statements", the group has disclosed additional information in respect of exceptional items on the face of the income statement in order to aid understanding of the group's financial performance. An item is treated as exceptional if it is considered that by virtue of its nature, scale or incidence and being of such significance that separate disclosure is required for the financial statements to be properly understood.

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

Investments in subsidiaries
Investments in subsidiaries are measured at cost less impairment. Investments in joint ventures and associates are accounted for using the equity method of accounting.

Notes
(forming part of the financial statements)
continued

1. Accounting policies (continued)

Net financial costs
Financial costs comprise interest payable on bank loans and amounts owed to group undertakings, the unwinding of the discount to nominal value of trade payables on extended terms (land payables) and interest on retirement benefit obligations. Financial income comprises interest receivable on funds invested and the unwinding of the discount to present day value of available for sale financial assets (see note 6). Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

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

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

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

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

Plant and equipment:	3 to 10 years

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

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

Inventories
Inventories are stated at the lower of cost and net realisable value. Net realisable value in relation to land and housing inventories 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 financial expense in the income statement over the period to payment.

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

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

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

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

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

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

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

Deferred income
Deferred income represents grant income received from the Homes and Communities Agency under the Kickstart Initiative. This is credited to the income statement as the respective developments to which the grants relate are completed and as the conditions relating to the grants are fulfilled.

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

Segmental reporting
The Board regularly reviews the group's performance and balance sheet position for its entire operations, which are entirely based in the UK, and receives financial information for the UK as a whole. As a consequence the group has one reportable segment which is UK housebuilding.

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 has been included in the Strategic Report. The Board does not, however, consider these categories to be separate reportable segments as they review the entire operations as a whole when assessing performance and making decisions about the allocation of resources.

Impact of standards and interpretations in issue but not yet effective
The following adopted IFRSs have been issued but have not been applied these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 Financial Instruments
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Share based payments (Amendments to IFRS 2)
- Operating segments (Amendments to IFRS 8)
- Related party disclosures (Amendments to IAS 24)
- Fair value measurement (Amendments to IFRS 13)

2. Operating profit

Operating profit is stated after charging/(crediting) the following:

	2014 £m	2013 £m
Depreciation	**0.1**	0.1
Operating lease rentals		
– land and buildings	**1.2**	1.5
– other	**1.2**	1.1
Exceptional items:		
Writeback of land and work in progress	**(3.9)**	–

The exceptional writeback reflects the partial release of provisions made in earlier years to writedown land and work in progress to its estimated net realisable value.

	2014 £000	2013 £000
Auditor's remuneration:		
Audit of the group's annual accounts	**5**	5
Audit of financial statements of subsidiaries pursuant to legislation	**90**	88
Other services relating to taxation	**24**	36

Notes
(forming part of the financial statements)
continued

3. Staff numbers and costs
The average number of persons employed by the group, including directors, during the year, analysed by category, was as follows:

	2014 Number	2013 Number
Production	249	217
Sales	99	103
Administration	290	272
	638	592

The aggregate payroll costs of these persons were as follows:

	2014 £m	2013 £m
Wages and salaries	30.7	28.0
Social security costs	3.2	2.9
Pension costs	2.2	1.7
	36.1	32.6

4. Remuneration of key management
Key management comprises eight members of the Executive Management Team, which includes the Executive Directors of the Board as they are considered to have the authority and responsibility for planning, directing and controlling the activities of the group. Key management remuneration, including directors, comprised:

	2014 £m	2013 £m
Emoluments	1.6	1.6
Amounts receivable under long-term bonus arrangements	1.3	1.2
Other pension costs	0.3	0.2
	3.2	3.0

Retirement benefits are accruing to eight (2013: eight) members of key management under money purchase schemes.

Directors' remuneration comprised:

	2014 £m	2013 £m
Emoluments	0.6	0.6
Amounts receivable under long-term bonus arrangements	0.7	0.4
Other pension costs	0.1	0.1
	1.4	1.1

Retirement benefits are accruing to the three (2013: three) directors under money purchase schemes.

The aggregate of emoluments, bonus and amounts receivable under long-term incentive schemes of the highest paid director was £659,000 (2013: £490,000) and contributions were paid by the group to his money purchase pension scheme of £54,000 (2013: £46,000).

5. Financial costs

	2014 £m	2013 £m
Interest payable on bank loans and overdrafts	1.5	1.8
Interest payable on amounts owed to fellow subsidiary companies	10.4	15.7
Effective interest on land payable on deferred terms	2.7	1.6
Finance costs related to employee benefits	0.5	–
	15.1	19.1

6. Financial income

	2014 £m	2013 £m
Effective interest on available for sale financial assets	3.1	3.1

7. Income taxes

	2014 £m	2013 £m
Current tax expense:		
Total current tax	–	–
Deferred tax credit:		
Origination and reversal of temporary differences	(0.3)	–
Recognition of tax losses in current year	12.3	11.2
Impact of reduction in tax rate	–	(9.1)
Total deferred tax (note 12)	12.0	2.1
Tax credit for the year	12.0	2.1

Tax credit for the year excludes share of tax on joint ventures.

Reconciliation of effective tax rate:

	2014 £m	2013 £m
Profit before tax	36.4	6.9
Tax using the UK Corporate tax rate (see below)	(7.8)	(1.6)
Effects of:		
Impact of change in tax rate	0.5	(9.1)
Recognition of previously unrecognised deferred tax	19.9	11.2
Utilisation of prior year tax losses not recognised	–	1.5
Current year losses for which no deferred tax asset is recognised	(0.7)	–
Adjustments in respect of prior years	–	0.1
Adjustments in respect of joint ventures	0.1	–
Total credit for the year	12.0	2.1

Current tax has been charged at 21.5% (2013: 23.25%) in the reconciliation above. The corporate tax rate from 1 April 2013 of 23% reduced to 21% from 1 April 2014 and to 20% from 1 April 2015.

The future tax rate of 20% (2013: 20%) is applied to deferred tax.

Notes
(forming part of the financial statements)
continued

8. Dividends
There were no distributions to equity shareholders in the year ended 31 December 2014 (2013: £nil).

9. Property, plant and equipment

Cost	Plant and equipment £m
At 31 December 2012	1.2
Additions	0.1
At 31 December 2013	1.3
Additions	0.1
At 31 December 2014	**1.4**

Accumulated depreciation	£m
At 31 December 2012	1.0
Charge for the year	0.1
At 31 December 2013	1.1
Charge for the year	0.1
At 31 December 2014	**1.2**

Net book value	
At 31 December 2013	0.2
At 31 December 2014	**0.2**

10. Investments

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Investment in joint ventures	**4.6**	4.6	**3.5**	3.8
Investment in subsidiaries	**–**	–	**350.1**	215.4
	4.6	4.6	**353.6**	219.2

	2014 £m	2013 £m	**2014 £m**	2013 £m
Joint ventures:				
At beginning of year	**4.6**	5.0	**3.8**	2.8
Share of profits	**0.3**	0.4	**–**	–
Adjustment to prior year losses	**–**	1.6	**–**	–
Movement in shareholder loans	**(0.3)**	(2.4)	**(0.3)**	1.0
At end of year	**4.6**	4.6	**3.5**	3.8

Subsidiaries	Company	
	2014 £m	2013 £m
At beginning of year	**215.4**	214.5
Additions	**138.7**	0.9
Disposals	**(4.0)**	–
At end of year	**350.1**	215.4

The total of the group's profit before taxation from interests in joint ventures and associates is £0.6m (2013: £0.4m).

The group has an interest in one joint venture, St Andrews Brae Limited, in which it holds 50% of the ordinary share capital. St Andrews Brae Limited is incorporated in the UK and its principal activity is that of residential housebuilding.

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

	Group	
	2014 £m	2013 £m
Current assets	**4.7**	6.4
Non-current liabilities	**–**	(1.3)
Current liabilities	**(5.5)**	(6.2)
Loans provided to joint ventures	**5.4**	5.7
	4.6	4.6

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

	2014 £m	2013 £m
Income	**4.4**	3.3
Expenses	**(4.1)**	(2.9)
	0.3	0.4

Included within liabilities due within one year is interest due on shareholder loans of £0.2m (2013: £0.2m) in relation to which there is a corresponding debtor balance within other receivables.

Notes
(forming part of the financial statements)
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10. Investments (continued)
The subsidiary undertakings that are significant to the group and traded during the year are set out below.

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

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

11. Available for sale financial assets

	Group	
	2014 £m	2013 £m
At start of year	**43.1**	42.5
Additions	**–**	0.9
Redemptions	**(4.1)**	(3.4)
Change in fair value taken through other comprehensive income	**(0.6)**	–
Imputed interest	**3.1**	3.1
At end of year	**41.5**	43.1

Available for sale financial assets 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. 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 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 year. The difference between the anticipated future receipt and the initial fair value is credited over the estimated deferred term to financial income (see note 6), with the financial asset increasing to its full expected cash settlement value on the receipt date. Credit risk, which the directors currently consider to be mitigated through holding a second legal charge over the assets, is accounted for in determining fair values and appropriate discount factors are applied. The directors review the financial assets for impairment at each balance sheet date. There were no indicators of impairment at 31 December 2014 (2013: £nil). None of the financial assets are past their due dates (2013: £nil) and the directors expect an average maturity profile of between 5 and 10 years from the balance sheet date.

12. Deferred tax

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

	Trading losses £m	Retirement benefit obligations £m	Capital allowances £m	Other temporary differences £m	Total £m
At 31 December 2012	56.4	–	0.5	1.0	57.9
Income statement credit/(charge)	2.3	–	–	(0.2)	2.1
At 31 December 2013	58.7	–	0.5	0.8	60.0
Transfer from fellow subsidiary	–	4.7	–	–	4.7
Other comprehensive income credit	–	1.4	–	–	1.4
Income statement credit/(charge)	12.3	–	0.1	(0.4)	12.0
At 31 December 2014	**71.0**	**6.1**	**0.6**	**0.4**	**78.1**

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

The group has fully recognised its deferred tax asset. As at 31 December 2013 the group had unrecognised deferred tax of £20.1m in respect of accumulated losses.

13. Inventories

	Group	
	2014 £m	2013 £m
Land	**229.8**	198.4
Work in progress	**166.1**	158.5
Part exchange properties	**7.4**	2.3
Land option costs	**3.1**	1.9
At end of year	**406.4**	361.1

Land and work in progress recognised as cost of sales in the year to 31 December 2014 amounted to £303.3m (2013: £267.0m). The write-down of stocks to net realisable value in the year to 31 December 2014 amounted to £2.4m (2013: £2.9m). The reversal of write-downs in the year to 31 December 2014 amounted to £6.3m (2013: £3.5m). The write-down and reversal are included in cost of sales.

14. Trade and other receivables: current

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Trade receivables	**2.3**	3.3	**–**	–
Amounts recoverable on contracts	**6.4**	7.6	**–**	–
Amounts owed by fellow subsidiary companies	**0.3**	0.1	**–**	0.7
Other receivables	**6.5**	3.9	**0.1**	0.1
Prepayments and accrued income	**1.5**	2.1	**–**	–
	17.0	17.0	**0.1**	0.8

Notes
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15. Trade and other payables: current

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Trade payables	47.5	34.8	–	–
Amounts owed to fellow subsidiary companies	–	3.3	194.8	156.3
Other payables	9.3	4.6	–	–
Land payables (see below)	37.0	19.2	–	–
Accruals and deferred income	24.6	20.6	0.1	–
	118.4	82.5	194.9	156.3

Trade and other payables: non-current

	Group 2014 £m	Group 2013 £m
Land payables (see below)	22.3	18.6

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

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

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

	Balance £m	Total contracted cash payment £m	Due less than 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m
As at 31 December 2013	37.8	40.5	19.2	16.4	4.9
As at 31 December 2014	59.3	63.1	37.0	21.3	4.8

16. Interest bearing loans and other borrowings: current

	Group 2014 £m	Group 2013 £m
Bank loans (secured)	28.8	–
Loans from fellow subsidiary companies	–	291.0
	28.8	291.0

Interest bearing loans and other borrowings: non-current

	Group 2014 £m	Group 2013 £m
Bank loans (secured)	148.3	21.6
Long term borrowings	10.3	10.3
	158.6	31.9

Bank loans

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

	2014 £m	2013 £m
Analysis of debt:		
Bank loans due within 1 year	28.8	–
Bank loans due 1-2 years	7.5	21.6
Bank loans due 2-5 years	140.8	–
	177.1	21.6

Long term borrowings

Long term borrowings relate to the group's interest in Telford NHT (2011) LLP, an entity established to provide residential property for rental purposes. The full amount is payable in 2-5 years.

Loans from fellow subsidiary companies

The contractual, undiscounted maturity profile of the group's loans from fellow subsidiary companies as follows:

	2014 £m	2013 £m
Loans due within 1 year	–	291.0

17. Deferred income

	Group 2014 £m	Group 2013 £m
At start of year	0.1	1.1
Grants released to the income statement during the year	–	(1.0)
At end of year	0.1	0.1

The purpose of the grant funding received from the Homes and Communities Agency was to assist with the commencement of new, or the re-launch of stalled developments. Repayment of the grants (either in part or in full) is possible under certain circumstances and in the event that any repayment appears likely, provision is made for the estimated liability.

Notes
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18. Share capital

	2014 £m	2013 £m
Allotted, called up and fully paid		
125,000,000 (2013: 25,000,000) ordinary shares of £1 each	125.0	25.0

During the year loans of £100m due to the immediate parent company were converted into ordinary share capital.

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

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

	2014 £m	2013 £m
Financial assets measured at fair value:		
Available for sale financial assets	41.5	43.1
Financial assets not measured at fair value:		
Trade and other receivables	17.0	17.0
Cash and cash equivalents	29.5	32.8
Financial liabilities not measured at fair value:		
Trade and other payables (excluding land payables)	81.4	63.3
Land payables	59.3	37.8
Bank and other loans	187.4	31.9
Loans from fellow subsidiary companies	–	291.0

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

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

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Available for sale financial assets				
As at 31 December 2013	–	–	43.1	43.1
As at 31 December 2014	–	–	41.5	41.5

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

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

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

The group has £41.5m (2013: £43.1m) of available for sale financial assets which exposes it to credit risk although this asset is spread over a large number of properties. As such, the group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The maximum exposure to credit risk at 31 December 2014 is represented by the carrying amount of each financial asset.

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

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

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.

Interest rate risk
Interest rate risk reflects the group's exposure to interest rates in the market. The group's secured bank loans are subject to floating interest rates based on LIBOR.

For the 12 months ended 31 December 2014 it is estimated that an increase of 1% in interest rates applying would increase the group's net financial costs by £2.3m (2013: £3.4m).

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

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

Management of cash and cash equivalents and net debt
The management of cash and net debt remains a principal focus of the directors, together with the monitoring of compliance with loan covenants, and the opportunity to service and repay debt. The directors have considered the forecasts of future profitability and cash generation and consider that these forecasts support the going concern assertion.

Notes
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20. Reconciliation of net cash flow to net debt

	2014 £m	2013 £m
(Decrease)/increase in net cash and cash equivalents	(3.3)	21.6
(Increase)/decrease in bank loans	(155.5)	19.7
Increase in long term borrowings	–	(10.3)
Decrease/(increase) in loans from fellow subsidiary companies as a result of cash movements	191.0	(25.0)
Decrease in loans from fellow subsidiary companies as a result of non cash movements	100.0	–
Movement in net cash in year	132.2	6.0
Net debt at beginning of year	(290.1)	(296.1)
Net debt at end of year	**(157.9)**	(290.1)

21. Analysis of net debt

	31 Dec 2013 £m	Cash flow £m	Non cash items £m	31 Dec 2014 £m
Cash and cash equivalents	32.8	(3.3)	–	29.5
Bank loans	(21.6)	(155.5)	–	(177.1)
Long term borrowings	(10.3)	–	–	(10.3)
Loans from fellow subsidiary companies	(291.0)	191.0	100.0	–
Net debt	(290.1)	32.2	100.0	**(157.9)**

Non cash items in notes 20 and 21 refer to intercompany loan waivers by the parent company in the form of an increase in share capital in 2014.

During the year the remaining loan to the parent company was settled by the assignment of the parent company's term loan to the group.

22. Commitments

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

	31 December 2014		31 December 2013	
	Land & Buildings £m	Other £m	Land & Buildings £m	Other £m
Lease expiring:				
Within one year	1.0	1.1	1.2	1.3
Between two and five years	3.2	1.1	3.9	1.3
Greater than five years	2.3	–	2.1	–

23. Contingent liabilities

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

The group's bank has security by way of a debenture over the whole assets and undertakings of the company.

24. Accounting estimates and judgements

Carrying value of inventories

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

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

Recognition of deferred tax asset

As at 31 December 2014, the group has recognised a deferred tax asset of £78.1m, of which £71m relates to trading losses that are available to offset trading profits in future years. The judgement to recognise the deferred tax asset is dependent upon an assessment made by the directors in relation to the future profitability of the group and hence recovery of the asset. The future profitability of the group is dependent upon a variety of factors, some of which are influenced by macroeconomic conditions.

Carrying value of available for sale assets

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

25. Related party transactions

Disclosures related to the remuneration of key personnel as defined in IAS24 'Related Party Disclosures' are given in note 4. There is no difference between transactions with key management personnel of the group.

	2014 £m	2013 £m
Amounts owed by joint ventures in respect of outstanding loans and other outstanding payables	**5.4**	5.7
Amounts owed by associates in respect of loans and other outstanding payables	**0.3**	0.3
Amounts owed to Miller Group Holdings (UK) Limited in respect of outstanding loans	**–**	(291.0)
Amounts owed to Miller Group Holdings (UK) Limited in respect other outstanding payables	**–**	(3.3)
Amounts owed by TMGL Holdings Limited in respect of outstanding receivables	**0.3**	–
Transactions between the group and Miller Group Holdings (UK) Limited in respect of interest charges on loans repayable	**10.4**	15.7
Amounts owed by fellow subsidiary undertakings of The Miller Group (UK) Limited in respect of rent and office management	**–**	0.1
Transactions between the group and fellow subsidiary undertakings of The Miller Group (UK) Limited in respect of land purchases, construction services and rent and office management	**0.3**	7.1
Services provided by the group to fellow subsidiary undertakings of The Miller Group (UK) Limited in respect of administrative services	**0.2**	–

Notes
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26. Ultimate parent company
At 31 December 2014, the company was a subsidiary undertaking of The Miller Group (UK) Limited, which is the ultimate parent company registered in Scotland and incorporated in the United Kingdom.

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

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

27. Retirement benefit obligations
The group operates defined contribution and defined benefit pension schemes.

Defined contribution schemes

	2014 £m	2013 £m
Contributions during the year		
Group defined contribution schemes consolidated income statement charge	2.2	1.7

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

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

Principal actuarial assumptions	2014
Weighted average assumptions to determine benefit obligations	
Discount rate	3.7%
Rate of price inflation (RPI)	3.0%
Weighted average assumptions to determine net cost	
Discount rate	4.6%
Rate of pension increases	3.2%
Rate of price inflation (RPI)	3.3%

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

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

Assumptions	
Retired member aged 65 (male life expectancy at age 65)	21.7 years
Non-retired member aged 40 (male life expectancy at age 65)	22.9 years

The base mortality assumptions are based upon the S1NA mortality tables. Allowance for future increases in life expectancy is made with an annual rate of improvement in mortality of 0.75% assumed.

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

Assumptions	Change in assumption	Increase in Scheme liabilities
Discount rate	Decrease by 0.1%	£2.5m (1.7%)
Rate of inflation	Increase by 0.1%	£2m (1.4%)
Life expectancy	Increase to 1% pa improvement	£2m (1.4%)

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

	2014 £m
Interest cost	3.0
Interest income	(2.5)
Total pension cost recognised in financial costs in the consolidated income statement	**0.5**
Total pension cost recognised in the consolidated income statement	**0.5**

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

	2014 £m
Return on scheme assets excluding interest income	(4.9)
Actuarial loss arising from changes in the assumptions underlying the present value of benefit obligations	11.4
Total pension cost recognised in the consolidated statement of comprehensive income	**6.5**

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

	2014 £m
Present value of funded obligations	147.7
Fair value of scheme assets	(117.0)
Recognised liability for defined benefit obligations	**30.7**

	2014 £m
Liability for defined benefit obligations at start of year	–
Transfer of scheme	23.7
Expense recognised in the consolidated income statement	0.5
Amounts recognised in the group statement of comprehensive income	6.5
Liability for defined benefit obligations at end of year	**30.7**

A deferred tax asset of £6.1m has been recognised in relation to the pension liability (note 12).

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

	2014 £m
Present value of defined benefit obligations at start of year	–
Transfer of scheme	136.0
Interest cost	3.0
Actuarial loss	11.4
Benefits paid from scheme	(2.7)
Present value of defined benefit obligations at end of year	**147.7**

Notes
(forming part of the financial statements)
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27. Retirement benefit obligations (continued)

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

	2014 £m
Fair value of scheme assets at start of year	–
Transfer of scheme	112.3
Interest income	2.5
Actuarial gain on scheme assets	4.9
Benefits paid from scheme	(2.7)
Fair value of scheme assets at end of year	**117.0**

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

	Percentage of Scheme assets
Equity securities	47.3%
Debt securities	52.4%
Other	0.3%
Total	**100.0%**

Funding

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004. This, together with the documents issued by the Pensions Regulator and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension plans in the UK. The funding of the 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 2013, by a qualified independent actuary, showed a deficit of £29.5m.

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 group will pay deficit contributions of £33m over the recovery period of 11 years. The expected employer contribution to the Scheme in the year ending 31 December 2015 is £2.5m.

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