Miller Homes Limited

Annual report and financial statements

For the year ended 31 December 2015
Registered number SC255429

Contents

Strategic report

The directors present their annual report and audited accounts for the year ended 31 December 2015.

Principal activity

The principal activity of the company is housebuilding.

Strategic report

Market overview

Mortgage approvals are a transparent measure of activity in the housing market. The Council of Mortgage Lenders' current estimate for 2015 of the amount loaned by UK banks and building societies is £220 billion, an 8% rise on 2014 and the highest gross lending level since 2008.

Figures from the Halifax show that mortgage payments as a percentage of income remained consistent at 29% during 2015, considerably less than the peak in 2007 of 48%. This reduction is predominantly in areas outside of London. In our regional markets, levels are consistently below 30% and are below the long term UK average of 36%. The lending institutions continue to follow a responsible approach to lending, guided by The Mortgage Market Review initiated in 2014. This provides additional controls around consumers' ability to sustain their mortgage repayments over the longer term.

The Bank of England base rate remained unchanged throughout 2015 for the sixth successive year. An increasing number of mortgage products were made available during 2015 with gradual reductions in both mortgage rates and deposit values. Market commentators are currently predicting a rate rise is unlikely until the latter part of 2016 at the earliest, with increases being small and incremental. Government commitment in England to Help to Buy until 2021 and in Scotland to 2019, will continue to assist first time buyers and should in turn ripple out to the other segments of the market. Further support from the Help to Buy ISA, and the Starter Homes Initiative, which is expected to launch in the autumn of 2016, should lead to increased demand at the entry level of the market and stimulate greater activity.

Housing supply

Changes to the planning system in the last few years have had a positive effect on what was a fundamental constraint on the UK housing market. As a result of a more favourable planning environment, 243,000 permissions were granted in England in the 12 months to October 2015, the highest since 2008. 181,000 new homes were built in 2014-15 representing a 22% increase on the previous year but it is still short of the Department for Communities and Local Government's target of 220,000 homes per annum.

The NHBC reported that 2015 new build registrations hit an eight-year high, with 156,140 new homes registered in total. The NHBC also registered 75% more new homes in 2015 than in the peak of the downturn in 2009.

Consumer confidence

There is an inextricable link between consumer confidence and the health of the housing market. Consumer confidence has improved and customers are keen to take advantage of low mortgage rates and government incentive schemes.

The GfK UK consumer confidence index remained strong for all of 2015, its strongest performance since 2002. Confidence in the employment market has also improved consistently across 2015. The Office for National Statistics data showed the level of unemployment, based on the International Labour Organisation measure, falling below 1.75 million in the three months to the end of September 2015, for the first time since August 2008.

Strategic report *(continued)*

Performance

Operating profit increased by 95% to £77.9m (2014: £39.9m pre-exceptional items). Operational efficiencies resulted in a significant improvement in capital turn and accordingly our return on capital employed improved by 82% to 13.8% (2014: 7.6%).

The company's net assets rose by 14% to £457.6m (2014: £401.2m). We continued to invest significantly in land with an increase of 24% in 2015 whilst at the same time reducing net debt which fell to £131.2m (2014: £141.8m). There is a continued downward trajectory of gearing levels to 29% (2014: 35%).

Our private sales rate in 2015 improved by 13% to 0.59 net reservations per site per week with all divisional businesses recording double digit increases. The improvement in the sales rate was delivered against a backdrop of favourable market conditions but also a targeted approach to marketing, utilising sophisticated online lead management tools developed by the company. The investment in online technology has enabled marketing spend to be maintained at prior year levels whilst reservations have increased.

Sales outlets averaged 59 (2014: 57). This was lower than anticipated as some sites ended earlier than planned partly due to the increased sales rate. Importantly, our improved sales rate was achieved while reducing the use of incentives.

Help to Buy initiated reservations fell to 33% of sales which was anticipated in light of our increase in product size and ASP. Significantly, 70% of Help to Buy reservations were made by first time buyers demonstrating its importance in facilitating home ownership for this segment of the market. We continue to have a low exposure to the private investor market which accounts for less than 3% of 2015 reservations. Accordingly, we do not believe that tax changes to the buy to let sector will significantly impact the company. First time buyers accounted for 32% of all reservations, down slightly on 35% in 2014.

Overall completions in 2015 were 2,142 (2014: 1,950), of which core completions were 2,021 (2014: 1,687).

Private completions increased by 19% to 1,734 (2014: 1,456) reflecting the improvement in sales rates in the year. Affordable completions increased by 24% to 287 (2014: 231) principally due to a greater weighting of affordable units from recently acquired sites. Completions from two management contracts continue to fall as these contracts are coming to an end. This is a lower margin business stream which was initiated in 2010 and 2011 with no plans for it to continue beyond the existing contracts.

Our strategy since 2012 has been to focus increasingly on larger family homes. At the same time, we continue to offer a wide product mix to ensure our developments have a broad appeal.

Our ASP increased by 16% to £228,000 (2014: £196,000). The private ASP increased by 17% from £213,000 to £249,000 due to the impact of our land strategy driven by unit size and location. Our private ASP of £249,000 has meant that we and our customers have benefited from the stamp duty changes in both England and Scotland which came into effect in 2015. Our affordable unit ASP increased from £87,000 to £103,000 largely due to an increased proportion of our affordable housing completions coming from our Midlands and South division.

Supply chain

For many years now we have adopted a proactive approach of engagement with our supply chain partners and believe that this has helped the business to mitigate the cost increases and labour shortages currently prevalent in the industry. We have long relationships with many of our subcontractors and we offer assistance by holding workshops on new and emerging legislation, particularly in relation to health and safety. In addition, we provide them with our pipeline of future developments to assist them in managing their business. Annual cost inflation in 2015 was manageable at around 4% and due to forward ordering, the effect on 2015 earnings was reduced further.

Strategic report *(continued)*

People

We have great people at Miller Homes who are enthusiastic, driven and committed. My senior colleagues and I are extremely proud to lead the business and would like to record our thanks to all the team at Miller and our supply chain partners during what was a busy and rewarding 2015.

We finalised a new employee development strategy in 2015 which amongst other things has seen the launch of several new training initiatives including both a Miller Sales and Production Academy. This will ensure that we train and nurture our sales and production teams to maintain our high standards of customer service and build quality, at a time of increased activity levels in the sector.

Customer service

In 2005 we took the decision to be the first national housebuilder to publish our customer service results. Consequently, commitment to outstanding levels of customer service is embedded within the business. We are delighted that independent research, undertaken by In-House, indicates that 94% of our customers would recommend us.

Safety, health and environment

As levels of construction activity increase, it reinforces the need to have robust and effective safety, health and environmental procedures. We have a dedicated team of seven SHE professionals, who report to our SHE director. We arranged and delivered a combination of internal and external SHE training during 2015 which included facilitated workshops with over 350 subcontractors attending. I was delighted that one of our Scotland site managers Kris Aitchison, won a NHBC Regional Health and Safety award in the large builder category. During the year, our reportable incidents per 100,000 employees were 339 (2014: 282). It should be noted that the prior year score was an historical low for the Group.

Landbank

Selecting the right sites in the right locations is fundamental and we have experienced regionally based land teams to identify land that will meet our criteria. Whilst site selection and land valuation activities are undertaken regionally, procedures are in place to ensure land viabilities are performed to a consistent level across the Group. All site purchases are ultimately approved by the Board following a site visit by the Chief Executive prior to acquisition.

Our key financial hurdles for acquiring land are gross margin and ROCE which are a minimum of 22% (after sales and marketing costs) and 25% respectively. In addition to strict financial criteria, a number of factors are taken into account as part of the land acquisition process, such as location, proximity to transport links, availability of good local schools, employment and local demographics. The central authorisation of land acquisitions ensures a consistency of approach across the Group whilst still varying the product size and vernacular to meet the needs of the particular location.

Our preference is to enter into conditional contracts and purchase sites after receipt of a detailed planning consent. In 2015, 91% of our plots were purchased on this basis with the remainder purchased with the benefit of an outline planning consent. In terms of the year end owned landbank, 92% has a detailed planning consent with the balance having an outline consent.

Strategic report *(continued)*

Landbank *(continued)*

We categorise our landbank as follows:

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

Consented landbank

We increased our consented landbank by 16% to 11,452 plots (2014: 9,846 plots). This represents 5.7 years' supply based on 2015 completions. The gross development value of the consented landbank has increased by 24% which reflects both an increase in plot numbers and higher ASP. The number of sites purchased in 2015 was 28 and compares to 20 sites in 2014. In total, we have 94 sites in the consented landbank at the year end. All site acquisitions met our minimum financial hurdle rates and are forecast to generate an average gross margin and ROCE of 24% and 30% respectively.

We invested £126m in land in 2015, our highest level since 2007. We are successfully trading through our legacy land which now represents 10% (2014: 17%) of the owned landbank. Accordingly, the embedded margin in our owned landbank has continued to grow and stands at 23.8% at the year end. This compares to less than 18% at 2007 and differentiates this cycle from the previous one.

Strategic landbank

We hold a strategic landbank of 16,153 plots (2014: 16,383 plots) which is large relative to our annual output. In 2015, we obtained planning consents on circa 2,200 plots resulting in their transfer to the consented landbank. We are constantly replenishing the strategic landbank and added circa 2,000 plots during the course of the year.

We have a rigorous process to determine which sites are optioned into the strategic landbank based upon site size, discount to open market value, location and planning prospects. Similar to the acquisition of short term land, strategic options are ultimately approved by the Board. We consider smaller sites to be both more desirable in terms of planning and promotion prospects and improving capital return. Our average site size is 270 plots with 71% located in the Midlands and Southern division. At the end of the year, we had submitted 16 planning applications (2,709 plots) with planning authorities for which a decision is awaited.

Outlook

Our strong sales rate in 2015 has resulted in further improvements in the forward order book.

Our order book at 8 March 2016 was 15% ahead of 2015 and we are 50% forward sold for the current year (2015: 48%).

We continue to operate in a sector where the fundamental drivers of supply and demand are favourable and which is underpinned by both government support and increasing appetite from mortgage lenders. The prospects for an interest rate increase in 2016 are receding, however, in the event this occurs the financial discipline instilled by the lenders since the introduction of the Mortgage Market Review suggests that gradual incremental rate rises can be managed.

Strategic report *(continued)*

Principal risks and uncertainties

Risk	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 mortgages, particularly at higher loan to values.	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 utilise all available products and are involved in those initiatives aimed at the new build sector. Sites are valued on a monthly basis with carrying values assessed as part of the quarterly forecasting process.
Supply chain The ability to procure sufficient materials and labour to ensure homes can be completed to our high standard, 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 and continuity of supply. The most significant supply chain issue relates to the availability and cost of sub-contract labour. The management of sub-contractors is undertaken at a regional level. Many of our subcontractor relationships are well established and long standing which mitigates the impact of labour and skill shortages as industry output increases. In addition, we undertake tendering to maintain price competition.
Land availability The ability to secure the quantum of land in the appropriate locations and at hurdle rates to ensure the company's growth plan is delivered.	There are established land acquisition hurdle rates of 22% gross margin and 25% ROCE which also underpin the strategic plan. The Chief Executive visits all sites prior to acquisition to ensure a consistent approach to land acquisition is taken across the business and each site fits within our overall land strategy. All land acquisitions are scrutinised and approved by the Executive Board.

Strategic report *(continued)*

Risk	Mitigation
Funding The company requires access to adequate financial resources in order to meet its existing commitments and to deliver its strategic plan.	The company entered into new five year committed bank facilities in June 2015 which provide it with the ability to deliver the growth reflected within the updated strategic plan. Cash is managed by a combination of short term and medium term forecasts. Business plans are updated on an annual basis and supported by sensitivity analysis.
Staff retention It is important that we retain and attract high calibre employees in order to deliver on all aspects of our strategy.	The company 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 to both staff and subcontractors.
Planning The timely progression of planning consents is important to the company 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 company's strategic landbank.	The company has a dedicated strategic land team which monitors planning policy at a regional and national level. The company seeks to acquire land with the benefit of an implementable planning consent.

Strategic report *(continued)*

Risk	Mitigation
Pensions The company's defined benefit scheme was closed to new entrants in 1997 and to future accrual in 2010. The deficit could fluctuate due to increased longevity assumptions, reduced bond yields or changes in asset values.	The company has agreed a deficit repair plan with trustees in conjunction with a joint investment strategy. Management and trustees monitor changes to market conditions and respond accordingly.
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 company 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.

<u>Key performance indicators</u>

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

	2015	**2014**	**Movement (%)**
Total housing sales (units)	2,142	1,950	9.8
PBIT (£m)	77.9	39.9*	95.0
Consented landbank (plots)	11,452	9,846	16.3
Embedded margin (%)	23.8	22.7	+110bps
Strategic landbank (plots)	16,153	16,383	(1.4)
Customer care – recommend a friend (%)	94.0	95.0	-100bps
SHE (Accident Incident rate / 100,000 persons)	339	282	20.2

* Pre-exceptional items

Julie M Jackson
Company Secretary
25 April 2016

Miller House
2 Lochside View
Edinburgh
EH12 9DH

Directors' report

Result for the year

The results for the year are set out in the Income statement on page 12. The profit for the year to 31 December 2015 is £57.3m (2014: £45.8m). No dividends were paid during the year (2014: £nil).

Directors

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

Christopher J Endsor
Ian Murdoch
Julie M Jackson
Garry McDonald
Steve Birch
David Birchall
Darren Jones
Stewart Lynes
Donald Borland (resigned 25 February 2016)

Employees

Miller Homes is committed to ensuring equality of opportunity for all employees regardless of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation (referred to as 'Protected Characteristics'). This applies to recruitment, promotion, transfer, training, benefits, facilities, procedures and all terms and conditions of employment. Our aim is to provide support and encouragement to all of our employees to help them achieve their full potential.

We are therefore determined to have a working environment which is free from any form of discrimination, harassment or bullying.

The company recognises that appropriate employee engagement is critical to the long term success of the company. It utilises a comprehensive employee engagement programme, delivered through an on-line engagement survey, with the aim of creating a strong, shared culture.

As at 31 December 2015 the company had 719 employees.

Political and charitable contributions

The company made £40,000 of charitable donations during the year and did not incur any political expenditure.

Directors' report *(continued)*

Disclosure of information to auditor

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

Auditor

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

On behalf of the Board

Julie M Jackson
Company Secretary
25 April 2016

Miller House
2 Lochside View
Edinburgh
EH12 9DH

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

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

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

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

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

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

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

We have audited the financial statements of Miller Homes Limited for the year ended 31 December 2015 set out on pages 12 to 33. The financial reporting framework that has been applied in their preparation 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 11, 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 an 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 company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

28 April 2016

Hugh Harvie (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG

Income statement
for the year ended 31 December 2015

	Note	2015 £m	2014 £m
Revenue	1	**470.1**	339.3
Cost of sales – normal		**(362.6)**	(271.9)
– exceptional		**-**	2.1
Gross profit		**107.5**	69.5
Administrative expenses		**(29.6)**	(27.5)
Operating profit		**77.9**	42.0
Finance costs	5	**(18.2)**	(9.0)
Finance income	6	**10.1**	3.2
Net finance costs		**(8.1)**	(5.8)
Profit on ordinary activities before taxation	2	**69.8**	36.2
Income taxes	7	**(12.5)**	9.6
Profit for the financial year		**57.3**	45.8

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

The notes on pages 15 to 33 form part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2015

	2015	2014
	£m	£m
Profit for the year	**57.3**	45.8
Items that will not be reclassified to profit and loss:		
Change in fair value of financial instruments	**(0.2)**	-
Change in fair value of available for sale financial assets	**-**	(0.6)
Actuarial loss on retirement benefit obligations	**(0.9)**	(6.5)
Deferred tax on actuarial loss	**0.2**	1.4
Total comprehensive income for the year	**56.4**	40.1

Statement of changes in equity
for the year ended 31 December 2015

	Share capital £m	**Retained earnings £m**	**Total £m**
Balance at 31 December 2013	200.0	41.4	241.4
Profit for the year	-	45.8	45.8
Change in fair value of available for sale financial assets	-	(0.6)	(0.6)
Increase in share capital	138.7	-	138.7
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	338.7	62.5	401.2
Profit for the year	-	57.3	57.3
Change in fair value of financial instruments	-	(0.2)	(0.2)
Actuarial loss on retirement benefit obligations (net of deferred tax)	-	(0.7)	(0.7)
Balance at 31 December 2015	**338.7**	**118.9**	**457.6**

The notes on pages 15 to 33 form part of these financial statements.

Statement of financial position
at 31 December 2015

	Note	**2015** **£m**	2014 £m
Assets			
Non-current assets			
Property, plant and equipment	8	**0.2**	0.2
Available for sale financial assets	9	**34.2**	41.5
Deferred tax	10	**63.2**	75.7
		97.6	117.4
Current assets			
Inventories	11	**415.9**	382.7
Trade and other receivables	12	**264.3**	225.7
Cash and cash equivalents		**7.3**	29.0
		687.5	637.4
Total assets		**785.1**	754.8
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings	14	**(138.5)**	(148.3)
Trade and other payables	13	**(12.5)**	(22.3)
Retirement benefit obligations	21	**(29.7)**	(30.7)
Provisions and deferred income	15	**(4.4)**	(1.4)
		(185.1)	(202.7)
Current liabilities			
Interest bearing loans and borrowings	14	**-**	(22.5)
Trade and other payables	13	**(142.4)**	(128.4)
		(142.4)	(150.9)
Total liabilities		**(327.5)**	(353.6)
Net assets		**457.6**	401.2
Equity			
Share capital	16	**338.7**	338.7
Retained earnings		**118.9**	62.5
Total equity attributable to owners of the parent		**457.6**	401.2

The notes on pages 15 to 33 form part of these financial statements.

These accounts were approved by the board of directors on 25 April 2016 and were signed on its behalf by:

Ian Murdoch.

Ian Murdoch
Director

Christopher J Endsor
Director

Notes
(forming part of the financial statements)

1. Accounting policies

Basis of preparation

Miller Homes Limited is a company incorporated and domiciled in the UK.

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

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

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

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

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

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

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

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

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

Measurement convention

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

Notes *(continued)*

1. Accounting policies *(continued)*

Going concern

The directors have prepared cashflow forecasts, which take into account reasonable sensitivities, in order to assess the future funding requirements of the company, its committed bank facilities and its compliance with banking covenants.

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

New accounting standards effective in 2015

IFRS 12 'Disclosure of Interests in Other Entities' has been adopted. This standard requires additional disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities.

The standards and interpretations that are applicable for the first time in the company's financial statements for the year ended 31 December 2015 have no effect on these financial statements.

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 per completion basis, by reference to the margin forecast across the development. Sales incentives also include 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 company has disclosed additional information in respect of exceptional items on the face of the income statement in order to aid understanding of the company'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.

Notes *(continued)*

1. Accounting policies *(continued)*

Net finance costs

Finance costs comprise interest payable on bank loans and amounts owed to group undertakings, the unwinding of the discount from nominal to present day value of trade payables on extended terms (land payables) and interest on retirement benefit obligations. Finance income represents the unwinding of the discount to present day value of available for sale financial assets (see note 6) and interest on intercompany loans. Interest income and interest payable is recognised in the income statement on an accruals basis.

Income taxes

Tax on the profit or loss for the period 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.

Notes *(continued)*

1. Accounting policies *(continued)*

Inventories

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

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

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

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 9. 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 period.

Trade and other receivables

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

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

Cash and cash equivalents

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

Trade and other payables

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

Interest-bearing borrowings

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

Notes *(continued)*

1. Accounting policies *(continued)*

Pensions

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

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

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 company'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 company 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 company financial statements, no additional numeric disclosures are necessary.

Impact of standards and interpretations in issue but not yet effective

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

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

Notes *(continued)*

2. Profit on ordinary activities before taxation

This is stated after charging / (crediting) the following:			**2015 £m**	2014 £m
Depreciation			**0.1**	0.1
Operating lease rentals	-	land and buildings	**1.3**	1.2
	-	other	**1.2**	1.2
Exceptional items:				
Writeback of land and work in progress			**-**	(2.1)

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.

Auditor's remuneration:	**£000**	£000
Audit of these financial statements	**67**	67
Audit of financial statements of fellow subsidiary undertakings	**23**	-
Other services relating to taxation	**30**	24
All other services	**81**	-

3. Staff numbers and costs

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

	2015 Number	2014 Number
Production	**258**	249
Sales	**97**	99
Administration	**329**	290
	684	638

The aggregate payroll costs of these persons were as follows:

	2015 £m	2014 £m
Wages and salaries	**36.2**	30.7
Social security costs	**4.0**	3.2
Pension costs	**2.2**	2.2
	42.4	36.1

Notes *(continued)*

4. Remuneration of directors

	2015 £m	2014 £m
Salary and other benefits	**1.7**	1.6
Annual bonus	**1.6**	1.3
Other pension costs	**0.3**	0.2
	3.6	3.1

Retirement benefits are accruing to 8 (2014: 8) directors under money purchase schemes.

The aggregate of emoluments, bonus and amounts receivable under long-term incentive schemes of the highest paid director was £827,000 (2014: £659,000), and contributions were paid by the company to his money purchase pension scheme of £74,000 (2014: £54,000) during the year.

The company participates in a long term incentive scheme which rewards directors for performance over a period of greater than one year. Performance conditions are aligned to the growth in value of the company. At the year end the estimated value of the expected entitlements was £694,000 (2014: £nil). There is uncertainty over when this amount will ultimately be paid, which, in the opinion of the directors will be in the region of three years from the balance sheet date. Directors also participate in an annual bonus scheme. Amounts payable in respect of the annual scheme are shown within directors emoluments. Amounts derived from plans that are longer term in nature are shown within long terms incentive schemes.

5. Finance costs

	2015 £m	2014 £m
Interest payable on bank loans and overdrafts	**12.7**	0.3
Interest payable on amounts owed to ultimate parent undertaking	**1.5**	5.5
Imputed interest on land payable on deferred terms	**2.9**	2.7
Finance costs related to retirement benefit obligations	**1.1**	0.5
	18.2	9.0

6. Finance income

	2015 £m	2014 £m
Interest receivable on amounts due from immediate parent undertaking	**7.7**	-
Imputed interest on available for sale financial assets	**2.4**	3.2
	10.1	3.2

Notes *(continued)*

7. Income taxes

	2015	2014
	£m	£m
Current tax expense:		
Total current tax	**0.2**	-
Deferred tax (charge) / credit:		
Origination and reversal of timing differences	**(10.1)**	(0.3)
Recognition of tax losses in current year	**-**	9.9
Impact of change in tax rate	**(2.6)**	-
Total deferred tax	**(12.7)**	9.6
Tax (charge) / credit for the year	**(12.5)**	9.6

Reconciliation of effective tax rate:

	2015	2014
	£m	£m
Profit before tax	**69.8**	36.2
Tax using the UK Corporate tax rate (see below)	**(14.1)**	(7.8)
Effects of:		
Impact of change in tax rate	**(2.5)**	0.5
Recognition of previously unrecognised deferred tax	**-**	15.9
Group relief received for nil consideration	**1.5**	-
Adjustments in respect of prior years	**2.2**	-
Non-taxable income	**1.3**	1.1
Expenses not deductible for tax purposes	**(0.9)**	(0.1)
Total (charge) / credit for the year	**(12.5)**	9.6

Current tax has been charged at 20.25% (2014: 21.50%) 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. It will reduce to 19% from 1 April 2017.

The future tax rate of 19% (2014: 20%) is applied to deferred tax.

Notes *(continued)*

8. Property, plant and equipment

	£m
Cost:	
At 1 January 2014	1.3
Additions	0.1
At 31 December 2014	1.4
Additions	0.1
At 31 December 2015	**1.5**
Accumulated depreciation:	
At 1 January 2014	1.1
Charge for the year	0.1
At 31 December 2014	1.2
Charge for the year	0.1
At 31 December 2015	**1.3**
Net book value	
At 31 December 2015	**0.2**
At 31 December 2014	0.2

9. Available for sale financial assets

	2015 £m	2014 £m
At start of year	**41.5**	43.1
Redemptions	**(9.7)**	(4.2)
Change in fair value taken through other comprehensive income	**-**	(0.6)
Imputed interest	**2.4**	3.2
At end of year	**34.2**	41.5

Notes *(continued)*

9. Available for sale financial assets *(continued)*

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. These are secured by way of a second ranking legal charge on the related property. The assets are recorded at fair value, being the estimated future amount receivable by the company, discounted to present day values. The fair value of anticipated cash receipts takes into account the directors' view of future house price movements, the expected timing of receipts, and the likelihood that a purchaser defaults on repayment. The directors review the future anticipated receipts from the assets at the end of each financial reporting period. The difference between the anticipated future receipt and the initial fair value is credited over the estimated deferred term to finance income (see note 6), with the financial asset increasing to its full expected cash settlement value on the receipt date. Credit risk, which the directors currently consider to be mitigated through holding a second legal charge over the assets, is accounted for in determining fair values and appropriate discount factors are applied. The directors review the financial assets for impairment at each balance sheet date. There were no indicators of impairment at 31 December 2015 (2014: nil). None of the financial assets are past their due dates (2014: £nil), and the directors expect an average maturity profile of between 5 and 10 years from the balance sheet date.

10. Deferred tax

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

	Trading losses £m	Retirement benefit obligations £m	Capital allowances £m	Other temporary differences £m	Total £m
At 1 January 2014	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 (charge) / credit	9.9	-	0.1	(0.4)	9.6
As at 31 December 2014	**68.6**	**6.1**	**0.6**	**0.4**	**75.7**
Other comprehensive income credit	-	0.2	-	-	0.2
Income statement (charge) / credit	(11.9)	(0.6)	(0.2)	-	(12.7)
As at 31 December 2015	**56.7**	**5.7**	**0.4**	**0.4**	**63.2**

Notes *(continued)*

10. Deferred tax *(continued)*

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

11. Inventories

	2015	2014
	£m	£m
Land	**260.9**	221.8
Work in progress	**146.7**	154.2
Part exchange properties	**8.3**	6.7
	415.9	382.7

Land and work in progress recognised as cost of sales in the year amounted to £357.1m (2014: £266.8m). The write-down of stocks to net realisable value amounted to £0.5m (2014: £2.7m). The reversal of write-downs amounted to £0.3m (2014: £4.8m). The write-down and reversal are included in cost of sales.

12. Trade and other receivables

	2015	2014
	£m	£m
Trade receivables	**2.6**	2.2
Amounts recoverable on contracts	**7.2**	6.4
Amounts owed by intermediary parent undertaking	**9.9**	0.3
Amounts owed by immediate parent undertaking	**211.3**	194.8
Amounts owed by fellow subsidiary undertakings	**25.4**	13.7
Prepayments and accrued income	**1.6**	1.5
Other receivables	**6.3**	6.8
	264.3	225.7

13. Trade and other payables: current

	2015	2014
	£m	£m
Trade payables	**48.2**	48.3
Amounts owed to fellow subsidiary undertakings	**13.0**	11.3
Other payables	**8.5**	8.2
Land payables	**47.8**	37.0
Accruals and deferred income	**24.9**	23.6
	142.4	128.4

Notes *(continued)*

13. Trade and other payables: non-current

	2015 £m	2014 £m
Land payables (see below)	**12.5**	22.3

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

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

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

	Balance £m	Total contracted cash payment £m	Due less than 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m
As at 31 December 2015	**60.3**	**63.5**	**47.8**	**14.0**	**1.7**
As at 31 December 2014	59.3	63.1	37.0	21.3	4.8

14. Interest bearing loans and borrowings: non-current

	2015 £m	2014 £m
Bank loans (secured)	**117.0**	148.3
Long term borrowings	**21.5**	-
	138.5	148.3

Long term borrowings relate to loan notes provided by certain shareholders of The Miller Group (UK) Limited. The full amount is payable in 2 – 5 years.

Interest bearing loans and borrowings: current

	2015 £m	2014 £m
Bank loans (secured)	**-**	22.5

Notes *(continued)*

14. Interest bearing loans and borrowings *(continued)*

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

	2015 £m	2014 £m
Analysis of debt:		
Bank loans due within 1 year	-	22.5
Bank loans due 1-2 years	**5.0**	7.5
Bank loans due 2-5 years	**112.0**	140.8

The company's secured bank loans comprise the core senior debt facilities available to Miller Homes. The company's core senior debt facilities are subject to floating interest rates based on LIBOR. The term loan of £110 million is fully drawn and is repayable by June 2020 in instalments which commence 30 December 2017. £20m of the £100m revolving credit facility was drawn at the year end – this facility matures June 2020.

15. Provisions and deferred income

	Property £m	**Other £m**	**Total £m**
At start of year	1.2	0.2	1.4
Released during the year	-	(0.1)	(0.1)
Created in the year	1.4	1.7	3.1
At end of year	**2.6**	**1.8**	**4.4**

The opening balances held within provision have been re-allocated from accruals and other payables, which the directors consider to be a more accurate reflection of the nature of the balances held.

The property provision covers the shortfall on commercial leases, rates and related service charges to the end of the onerous lease and the estimated costs to make good dilapidations on occupied properties. Other provisions represent legal and constructive obligations of the company. These are expected to be utilised over the next three years.

16. Share capital

	2015 £m	2014 £m
Allotted, called up and fully paid:		
338,728,000 (2014: 338,728,000) ordinary shares of £1 each	**338.7**	338.7

Notes *(continued)*

17. Commitments

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

	2015 Land and buildings £m	**2015 Other £m**	2014 Land and buildings £m	2014 Other £m
Leases expiring:				
Within one year	**1.1**	**1.1**	1.0	1.1
Between two and five years	**3.3**	**1.7**	3.2	1.1
Greater than five years	**1.8**	**-**	2.3	-

18. Contingent liabilities

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

The company, along with certain fellow subsidiaries is a joint guarantor of the group's bank facilities.

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

19. Accounting estimates and judgements

Carrying value of inventories

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

The company has established internal controls that are designed to ensure an effective assessment is made of inventory carrying values and the costs to complete developments. The company reviews 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 2015, the company has recognised a deferred tax asset of £63.2m, of which £56.7m 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 company and hence recovery of the asset. The future profitability of the company is dependent upon a variety of factors, some of which are influenced by macroeconomic conditions.

Notes *(continued)*

19. Accounting estimates and judgements

Carrying value of available for sale assets

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

20. Immediate and ultimate parent company

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

The largest group in which the results of this company are consolidated is that headed by The Miller Group (UK) Limited. The smallest group in which the results of this company are consolidated is that headed by Miller Homes Holdings Limited. The consolidated financial statement of these groups are available to the public and may be obtained from the Registrar of Companies, Companies House, 4th Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9FF.

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.

21. Retirement benefit obligations

The company operates defined contribution and defined benefit pension schemes.

Defined contributions schemes

	2015 **£m**	2014 £m
Contributions during the year		
Company defined contribution schemes income statement charge	**2.2**	2.2

Notes *(continued)*

21. Retirement benefit obligations *(continued)*

Defined benefit scheme

Under a deed of participation, substitution, amendment and apportionment, Miller Homes Limited 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

	2015	2014
Weighted average assumptions to determine benefit obligations		
Discount rate	**3.9%**	3.7%
Rate of price inflation (RPI)	**3.1%**	3.0%
Weighted average assumptions to determine net cost		
Discount rate	**3.7%**	4.6%
Rate of pension increases	**2.9%**	3.2%
Rate of price inflation (RPI)	**3.0%**	3.3%

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

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

Assumptions

	2015
Retired member aged 65 (life expectancy at age 65)	21.8 years
Non-retired member aged 40 (life expectancy at age 65)	23.1 years

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

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:	**Change in assumption**	**Movement in scheme liabilities**
Discount rate	Decrease by 0.1%	£2.3m (1.7%) increase
	Increase by 0.1%	£2.2m (1.6%) decrease
Rate of inflation	Increase by 0.1%	£1.5m (1.0%) increase
	Decrease by 0.1%	£1.4m (1.0%) decrease
Life expectancy	Minus one year age adjustments	£4.4m (3.1%)

Notes *(continued)*

21. Retirement benefit obligations *(continued)*

The amounts recognised in the income statement were as follows:

	2015	2014
	£m	£m
Interest cost	**5.3**	3.0
Interest income	**(4.2)**	(2.5)
Total pension cost recognised in finance costs in the income statement	**1.1**	0.5
Total pension cost recognised in the income statement	**1.1**	0.5

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

	2015	2014
	£m	£m
Return on scheme assets excluding interest income	**3.3**	(4.9)
Actuarial (gain) / loss arising from changes in the assumptions underlying the present value of benefit obligations	**(2.4)**	11.4
Total pension cost recognised in the statement of comprehensive income	**0.9**	6.5

The amount included in the balance sheet arising from obligations in respect of the scheme is as follows:

	2015	2014
	£m	£m
Present value of funded obligations	**143.3**	147.7
Fair value of scheme assets	**(113.6)**	(117.0)
Recognised liability for defined benefit obligations	**29.7**	30.7

Notes *(continued)*

21. Retirement benefit obligations *(continued)*

	2015 £m	2014 £m
Liability for defined benefit obligations at start of year	**30.7**	-
Transfer of the scheme	**-**	23.7
Contributions	**(3.0)**	-
Expense recognised in the income statement	**1.1**	0.5
Amount recognised in the statement of comprehensive income	**0.9**	6.5
Liability for defined benefit obligations at end of year	**29.7**	30.7

A deferred tax asset of £5.7m (2014: £6.1m) has been recognised in the balance sheet in relation to the pension liability (note 10).

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

	2015 £m	2014 £m
Present value of defined benefit obligations at start of year	**147.7**	-
Transfer of scheme	**-**	136.0
Interest cost	**5.3**	3.0
Actuarial (gain) / loss	**(2.4)**	11.4
Benefits paid from scheme	**(7.3)**	(2.7)
Present value of defined benefit obligations at end of year	**143.3**	147.7

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

	2015 £m	2014 £m
Fair value of scheme assets at start of year	**117.0**	-
Transfer of scheme	**-**	112.3
Contributions	**3.0**	-
Interest income	**4.2**	2.5
Actuarial (loss) / gain on scheme assets	**(3.3)**	4.9
Benefits paid from scheme	**(7.3)**	(2.7)
Fair value of scheme assets at end of year	**113.6**	117.0

Notes *(continued)*

21. Retirement benefit obligations *(continued)*

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

	Percent of Scheme assets
Equity type investments	49.2%
Debt securities	50.5%
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 company 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 2016 is £3.0m.

21. Related parties

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, associates and joint ventures and the effective percentage of equity owned as at 31 December 2015 are disclosed below.

Limited liability partnerships (33.33%):
Telford NHT 2011 LLP

Telford NHT 2011 Limited is incorporated in the United Kingdom and engaged in housebuilding and associated activities.