

McCarthy & Stone
— Retirement living to the full —

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COMPANIES HOUSE

**Annual Report
and Accounts 2017**

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Our driving ambition
is to enrich the lives of our
customers so that they can
experience retirement
living to the full

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Images

- 1 Keetley Place, Moreton-in-Marsh
- 2 HBF award presentation
at Alder View, Scarborough

Contents



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Image
1 Lawson Grange, Wimslow

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McCarthy & Stone plc Annual Report and Accounts 1

Strategic and Operational Highlights

40 years

40 years since the opening of the first McCarthy & Stone retirement development at Waverley House, New Milton, in October 1977

75 sites added to the land bank

75 high-quality development sites added to the land bank (FY16: 65 sites). Total land bank of 9,967 plots (FY16: 10,186 plots), equivalent to 4.3 years' supply (FY16: 4.4 years' supply)

Access to the growing rental market

New strategic relationship with PFP Capital¹ allowing access to the growing rental market

Workflow on track

Workflow on track to support growth strategy and deliver c.80 new sales releases in FY18 (FY17: 52 sales releases)

Five Star rating

Awarded full Five Star rating for customer satisfaction by the Home Builders Federation ('HBF') for the twelfth consecutive year - the only UK housebuilder of any size or type to achieve this accolade

3,000 units medium-term

Sufficient land under control and operational platform now fully in place to deliver strategic objective of building and selling more than 3,000 units per annum over the medium-term

15 Quality Awards

15 Quality Awards (FY16: 10 awards), 7 Seals of Excellence (FY16: 2 Seals of Excellence) and 1 Regional Winner at the 2017 National House Building Council (NHBC) Pride in the Job awards underpinning exceptional build quality

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Image
The Laureates,
Killingham

¹ PFP Capital is a fund management business of Places for People

Financial Highlights



¹ Excluding commercial units

² See page 158 for glossary of terms

³ Underlying profit before tax has been reconciled within note 6 to the Consolidated Financial Statements

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Images

- 1 River View Court, West Bridgford
- 2 Churchmead Court, Hinckley

Our Business

Retirement living to the full

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We are the sector leader with more than a 70%¹ share of the owner-occupied retirement housing market

¹ Based on 4,778 registrations of cross tenure properties specifically designed for the elderly with the NHBC during 18 month period ended 30 June 2017, of which 3,684 were registered by McCarthy & Stone

Image
1 Bowes Lyon Court, Poundbury

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Customer satisfaction

Customer Satisfaction
In March 2017, we again received the full Five Star award for customer satisfaction for our products and services in the independent survey by the HBF and NHBC. We are the only housebuilder of any size or type to have achieved this accolade for twelve consecutive years. The HBF's yearly questionnaire is one of the largest customer surveys, totalling 52,290 purchasers of a new home in 2016. More than 90% of the 1,433 customers who completed the survey were happy to recommend us.

We are pleased that almost nine out of ten of our customers also feel that moving to one of our developments has improved their quality of life. As well as the general lifestyle we provide, this is testament to our sales approach and management services offering that ensures homeowners and their families are supported and guided through the purchasing process and receive all the support they need while living with us.

Our customers are looking to maintain their independence with private home ownership but also want companionship, a little more assistance with everyday tasks and the knowledge that support is on hand should it be needed. By providing well-designed and well-located housing with on-site support services, we are able to cater for a wide range of needs and help our customers live healthier and happier lives.

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Mr and Mrs Price recently left their life in Wales behind to move closer to their family in the West Midlands. Since moving to McCarthy & Stone's Algal Court Retirement Living development in Wolverhampton, there have been smiles all round as they spend more time seeing their grandchildren grow up.

Commenting on the decision to relocate, Mrs Price said, "We visited Algar Court with our son, daughter-in-law and grandchild and we immediately fell in love with the place. It is a beautiful home with a lovely garden. We are very happy to be moving to Algar Court and we are looking forward to settling in."

Our Business continued

Our 40th year

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2017 marks 40 years since the opening of McCarthy & Stone's first retirement development at Waverley House, New Milton, in October 1977. We are proud of our subsequent record of achievements and success, which gives us unrivalled expertise in this sector.

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McCarthy & Stone pioneered the retirement housing sector for homeowners after seeing a gap in the market, and we have since enriched the lives of tens of thousands of older people and their families. We have built and sold over 54,000 apartments across c.1,200 developments.

For more information on our partnership with RVS and how to donate to the campaign, please visit www.mccarthyandstone.co.uk/rvs

To celebrate our 40th anniversary, we have partnered with the Royal Voluntary Service (RVS) for 2017, which also has a long history of supporting older people. Our staff have raised more than £200,000 for this worthy cause during 2017 via a wide range of activities from dragon boat races and charity balls to parachute jumps in Dubai. We intend to continue this fundraising into FY18.

We would like to thank our dedicated employees, as well as our homeowners and our suppliers who have helped us reach this milestone.

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DID YOU
KNOW?

54,000

We have built and sold over 54,000 apartments across more than c.1,200 developments.

Our awards

Our position as the UK's leading retirement housebuilder and our ambition to enrich the lives of our customers and homeowners are further evidenced by the awards that we have won

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The only housebuilder to receive the full Five Star rating from the HBF for 12 consecutive years

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2016 Management Today - Featured in the list of Britain's Most Admired Companies

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HBFI/Housebuilder awards - Best Retirement Scheme for Ramsay Grange and Lyle Court in Edinburgh, and Best Customer Satisfaction Initiative

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2017 ARMA ACE awards - Highly Commended for On-Site House Manager of the Year

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Pride in the job - 15 site managers won the coveted Pride in the Job Award from the NHBC, a 50% increase on last year. In addition, 7 site managers won Seals of Excellence and 1 Regional Winner

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Building Safety Group ('BSG') awards - Three national awards, including the Innovation Award

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WhatHouse? awards - Bronze in the Best Retirement Scheme category for Constance Place, Knebworth

Images

1 Oak Grange, Hartford

2 Housebuilder Awards: L.R. David Bridges, Group Marketing & Customer Experience Director with the South East regional team receiving the Housebuilder Award from actor James Nesbitt

Chairman's Statement

On track to deliver our medium-term growth objective

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John White, Group Non-Executive Chairman

Revenue

£660.9m

(FY16: £635.9m)

Dividend, pence per share

5.4 pence

(FY16, 4.5 pence)

I am pleased to present our second set of full year results since re-joining the London Stock Exchange in November 2015. The Group delivered a solid performance this year notwithstanding the headwinds experienced as a result of increased political and economic uncertainty. Revenue increased to a record £661m (FY16: £636m) and the Group continued to capitalise on the attractive demographic opportunity and structural shortage of supply of retirement housing in the UK. As previously announced, trading in the first six months of FY17 was constrained by the lower forward order book brought into the year impacted by the market uncertainty following the EU Referendum. Trading in the second half of FY17 saw an improvement due to an increased weighting of completions from newer higher margin sites, reflecting the quality and location of the developments McCarthy & Stone is now bringing to market.

Profit Before Tax reduced from £93m in FY16 to £92m in FY17 with Underlying Profit Before Tax reducing from £105m in FY16 to £94m in FY17. This reduction in profitability was mainly driven by the age and mix of units sold, increased

incentive costs, build cost increases offset by pricing improvements, some additional land renegotiation costs as we repositioned our land bank in the face of more challenging market conditions and our continued investment in regional operational infrastructure to support our growth strategy

The Group remains the UK's leading retirement housebuilder with a greater than 70% share of the owner-occupied market. Our strength of brand and continual striving for operational excellence ensures that we can continue to deliver solid results in a challenging market without any support from the Government Help To Buy scheme. We have a strong and experienced management team that is focused on delivering the Group's strategic objectives, a high-quality land bank, a robust balance sheet and the necessary operational expertise and infrastructure in place to deliver our medium-term growth strategy of building and selling more than 3,000 units per annum.

We continue to lead the housebuilding sector on customer satisfaction. We are the only housebuilder of any size or type to have received the full Five Star rating in the Home Builders Federation customer satisfaction survey for twelve consecutive years, in which more than 90% of our customers would recommend us to a friend.

Outlook

The improvement of forward sales experienced throughout the year has continued into FY18 with total forward sales including legal completions since 1 September 2017 standing at £277m at 10 November 2017 (FY17: £250m).

Economic and political environment

The underlying housing market continues to be supported by low interest rates, good mortgage availability and low levels of unemployment. The market for retirement housing also remains highly attractive, underpinned by strong demand, albeit the secondary market was impacted by political and economic uncertainty. Research by the Department for Communities and Local Government ('DCLG') recognises that around 74% of household growth in the UK to 2039 is expected to come from those aged 65 and over¹ and McCarthy & Stone remains uniquely placed to capitalise on this unprecedented demographic opportunity in which demand continues to dramatically exceed supply.

Dividend

The Group's solid performance this year has enabled the Directors to propose a final dividend of 3.6 pence per share. This follows the interim dividend of 1.8 pence per share, giving a total dividend for the year of 5.4 pence per share (FY16: 4.5 pence per share pro-rated for period since listing), which represents 20% growth on the FY16 dividend and is in line with our progressive dividend policy as stated at the time of our Initial Public Offering (IPO).

Board changes

There were a number of Board changes during the year.

On 6 January 2017, we were pleased to announce the appointment of Rowan Baker as the Group's Chief Financial Officer. Rowan was previously Group Financial Controller and has worked for the Group since January 2012. She took over the role from Nick Maddock whose resignation was announced on 11 October 2016.

On 1 June 2017, we announced the appointment of John Tonkiss as the Group's Chief Operating Officer. This role has been created to help drive the Group's growth strategy. A key part of the role will be overseeing the continued development of the Group's nine regional operations across the UK. John joined McCarthy & Stone in 2014 and was previously the Group's National Operations Director.

In addition to this, John Carter joined the Board on 1 October 2017. John is currently Chief Executive of Travis Perkins plc, which owns many of the building industry's most popular brands and spans the trade, home improvement and DIY markets. John joined Travis Perkins in 1978 and held a number of senior strategic roles within the business before being appointed as Chief Executive in 2014.

Finally, on 9 November 2017 we were pleased to announce the appointment of Paul Lester CBE as a Non-Executive Director and Chairman Designate. He will join the Board on 3 January 2018 and, subject to his election by shareholders, will take over from me as Chairman at the conclusion of the Company's next Annual General Meeting ('AGM') in January 2018. Paul is currently Chairman of Essentra plc and Forterra plc and was formerly a director of Invensys plc. Previously, he was Group Managing Director of Balfour Beatty plc before becoming Chief Executive.

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DID YOU KNOW?

3,000

Our medium-term strategic target is to build and sell 3,000 units per annum

Image: 1 Birch Court, Morriston

of support services company VT Group plc in 2002. Paul was also Chairman of John Laing Infrastructure Fund until September this year.

We are very pleased that Paul will be joining the McCarthy & Stone Board and succeeding me as Chairman. McCarthy & Stone is a great business and I am proud to have served on the Board during a transformational period for the Company, culminating in its successful IPO in 2015. While market uncertainty following recent political events has acted as a stern test for our business model, I am pleased that our high-quality product and excellent team led by Clive Fenton have proved McCarthy & Stone's resilience.

The Company remains uniquely-placed to capitalise on the substantial growth opportunity in retirement housing, driven by a rapidly ageing population, and the team can look to the future with confidence. The Group has made solid progress towards achieving its strategic objectives this year and my thanks go to all employees, the management team and my fellow Board members for the significant contribution they have made.

John White
Group Non-Executive Chairman
13 November 2017



¹ The Department for Communities and Local Government (DCLG) household projections: England (July 2016)

Our Market

Attractive demographic opportunity

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There is a structural shortage of suitable housing options for older people and more retirement housing is needed for the UK's rapidly ageing population

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Images

- 1 Chestnut Court, Bridlington
- 2 Homeowners at Elm Tree Court, Huntingdon

Our market

The UK population stands at its highest ever at 65.6m¹ and continues to get older. There are currently 11.8m¹ people aged 65 or over, rising to 17.3m² by 2037 - a 47% increase. For those aged 85 or over, the increase will be larger, from 1.6m¹ to 3.0m² by 2037, an increase of 88%. This will place increasing pressure on the housing system and care providers. The DCLG estimates that 74% of all household growth to 2039 will come from purchases made by older people³.

Structural shortage of supply

There also remains a structural shortage in the supply of specialist housing for older people. Just 4,778⁴ registrations of retirement properties were made with the NHBC during the 18 month period ended 30 June 2017, and there have only ever been c 157,000⁵ units of owner-occupied retirement housing built in the UK to date. Property consultancy Knight Frank estimates that the UK is building just c 5,500 units of retirement housing across all tenures each year, and yet the sector has the capacity to grow to c 30,000 units per annum⁶.

This undersupply is in part due to the very high barriers to entry in this sector, meaning few providers operate at scale. As a result, we continue to maintain our c 70% share of the owner-occupied retirement housing market⁷.

This is set against the backdrop of a wider housing shortage. In total, 153,370⁷ new homes were started in England during 2016 (a 5% increase year-on-year), although estimates suggest that up to 300,000 new homes are needed per year⁸, creating a yearly shortfall of half this amount.

Downsizing

There are also a significant number of older people looking to downsize. Research by YouGov for McCarthy & Stone in 2017 found that 38% of older people are looking to move to a smaller property, and an additional 10% would be encouraged to move with a stamp duty exemption, equalling 48% - a rise of 4% from the prior year⁹.

Demand driven by strong fundamentals

UK population:

65.6m people¹

Of which **11.8m**
are 65 years old or over¹

Of which 29%, or **3.4m**
have equity of £250k-£500k¹⁰



Of which 38%, or
c.1.3m
are considering downsizing⁹
- our target demographic¹¹

Compares with just
c. 157k
owner occupied retirement
properties built in the UK⁵

With a 47% predicted increase
in those aged 65 or over by 2037²

¹ Office for National Statistics (ONS), Overview of the UK population (July 2017)

² ONS, 2017 (2016 based) population projections

³ Department for Communities and Local Government (DCLG), 2014-based household projections: England, 2014-2039

⁴ Based on 4,778 registrations of cross-tenure properties specifically designed for the elderly with the NHBC during 18 month period ended 30 June 2017, of which 3,684 were registered to McCarthy & Stone

⁵ EAC data based on owner-occupied retirement housing (2017)

⁶ Knight Frank, Retirement Housing, 2016

⁷ DCLG, 2017, Housing starts hit 9-year high

⁸ The House of Lords Economic Affairs select committee 2016, England needs to build 300,000 homes a year

⁹ YouGov, 2017, research provided by YouGov for McCarthy & Stone

¹⁰ ONS, total housing wealth by region and age group (2013)

¹¹ Our target demographic group is discussed further in 'Our Products and Our Lifestyle' on pages 16-25

Government support

Positively, the Government continues to seek ways to encourage the retirement housing sector. The Housing White Paper, 'Fixing our broken housing market,' published in February 2017, recognises that offering older people a better choice of accommodation helps them to live independently for

longer and reduces costs to the health and social care system. It also notes that helping older people to move at the right time and in the right way improves their quality of life and frees up more homes for other buyers including those much needed for families.

Housing White Paper in summary

The White Paper contained a number of positive proposals for our business:

- A general commitment to explore ways to stimulate the market to deliver new homes for older people - recognising that this sector is worth supporting
- A new statutory duty on the DCLG Secretary of State to produce planning guidance for local authorities on meeting the housing needs of older people
- For the first time, it is now official Government policy to look at incentives to help older homeowners move

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Other positive measures included

- Clear drive to support housebuilding
- Strengthening the presumption in favour of developing brownfield land
- Greater support for small 'windfall' sites
- Support for higher density development in urban locations well served by public transport
- More pressure on local authorities to meet their housing targets

Image

Chief Executive Officer, Cive Fenton, and Secretary of State for the Department of Communities and Local Government, the Rt Hon Sajid Javid MP, with homeowners at Bilberry Place, Braintree

DID YOU
KNOW?

160,000

Since the 1970s, there have been an average of 160,000 new homes built each year in England. We need to build c.225,000 to c.275,000 or more homes per year to keep up with population growth and start to tackle years of under supply.

¹ 'Fixing our broken housing market', Department for Communities and Local Government, 7 February 2017

Our Products

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Three unique housing options,
catering exclusively for older people

We offer well-designed apartments
in stunning locations, where every
detail has been carefully thought
through with our customers'
needs in mind, from access to local
amenities to internal layouts and
fixtures and fittings, and combined
with just the right level of service

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Images

1 Darroch Gate, Bialigowrie

2 Howes Lyons Court, Poundbury

Retirement Living

For more info see pages 18-19

Independence with peace of mind

- Minimum age 60
- Typical number of apartments per site 30-50
- FY17 completions 1,722 (75% of total completions in the year), (FY16 1,511, 66%)
- Land bank 5,684 units (57% of total land bank at the year end), (FY16 6,303 units, 62%)
- House manager and shared facilities, including homeowners' lounge and guest suite

Retirement Living Plus (previously Assisted Living)

For more info see pages 20-21

A retirement apartment you own with flexible care and support

- Minimum age 70
- Typical number of apartments per site 50-70
- FY17 completions 479 (21% of total completions in the year), (FY16 697, 30%)
- Land bank 3,598 units (36% of total land bank at the year end), (FY16 3,094 units, 30%)
- Similar services to Retirement Living, but also includes full estate management team, restaurant or bistro, domestic support and flexible care packages, among other facilities and services

Lifestyle Living (previously Ortus Homes)

For more info see pages 22-23

Downsize for your leisure years

- Minimum age 55
- Typical number of apartments per site 20-40
- FY17 completions 101 (4% of total completions in the year), (FY16 88, 4%)
- Land bank 685 units (7% of total land bank at the year end), (FY16 789 units, 8%)
- Visiting house manager

Graphic removed

Our Products

Retirement Living

Independence
with peace
of mind

Graphic removed

Our Retirement Living developments provide high-quality apartments for homeowners aged 60 and over

Key features

- For those aged 60+
- On-site house manager
- Homeowners' lounge
- Guest suite
- Extensive landscaped grounds
- Lifetime Homes Standard¹
- Typically 30-50 apartments

Apartments feature one or two bedrooms, spacious lounges, fitted kitchens, lifts to all floors, level access, extra storage, en-suite bathrooms and, typically, private outside space in the form of balconies, terraces or patios. Every aspect is specifically designed with our customers in mind, from the slip-resistant flooring in the bathrooms, and the lever taps for easier operation, to the electric plug sockets at waist height.

In addition, the developments have camera-door entry and a 24-hour emergency call system with pendant alarms. They also feature a large amount of communal space to help build companionship, including a shared lounge, guest suite to accommodate visiting family and friends, and landscaped grounds.

Our site-based house managers provide help and assistance for homeowners and are responsible for the day-to-day running of each development.

¹ The Lifetime Homes Standard is a series of sixteen design criteria intended to make homes more easily adaptable for lifetime use at minimal cost

36

New Retirement Living developments sales released in FY17 (FY16: 49)

1,722

Units sold in FY17 (FY16: 1,511)

c.57%

Of land bank (FY16: 62%)

Image

¹ Elm Tree Court, Huntingdon

Graphic removed

Case study

Our Retirement Living developments are designed to meet the needs of our customers aged 60 and over. They are designed to be easy to live in, with a focus on accessibility and safety. The developments are designed to be easy to live in, with a focus on accessibility and safety. The developments are designed to be easy to live in, with a focus on accessibility and safety.

Mr and Mrs Towers
Chairman and Managing Director

Our Products

Retirement Living Plus

A retirement
apartment you
own with flexible
care and support

Graphic removed

Our Retirement Living Plus developments (previously Assisted Living) are designed exclusively for customers aged 70 and over

Key features

- For those aged 70+
- Estate manager and on-site team
- Homeowners' lounge
- Restaurant/bistro, well-being suite
- Wheelchair Accessibility Standards
- CQC¹ registered, 24-hour support
- Typically 50-70 apartments

Our Retirement Living Plus developments offer a retirement apartment with management services, domestic assistance and personal care. It is an attractive alternative for people seeking additional support whilst maintaining their independence.

Developments are similar to Retirement Living but have a number of additional features, including a full table-service restaurant or bistro with meals freshly prepared on-site, a function room, laundry, and secure mobility scooter store room.

There is also a dedicated estate management team on-site 24 hours a day, 365 days a year, which is led by the estate manager. They provide extra support if and when it is needed, whether it is shopping, cleaning or more care services. Tailored and flexible care and support packages mean homeowners only pay for the additional help they use.

Graphic removed

¹ See page 158 for glossary of terms

12

New Retirement Living Plus developments sales released in FY17 (FY16: 10)

479

Units sold in FY17 (FY16: 697)

c.36%

Of land bank (FY16: 30%)

Image

¹ See page 158 for glossary of terms

Case study

Rowena Hampton, a 70-year-old retired teacher, moved into a Retirement Living Plus development in 2016. She was looking for a place to live where she could have the support and services she needed to live independently. She was particularly interested in the on-site restaurant and the 24-hour support team.

Rowena moved into a Retirement Living Plus development in 2016. She was looking for a place to live where she could have the support and services she needed to live independently. She was particularly interested in the on-site restaurant and the 24-hour support team.

Rowena Hampton

Retirement Living Plus development

Our Products

Lifestyle Living

Downsize for
your leisure
years

Graphic removed

Lifestyle Living (previously Ortus Homes) is our product for customers aged 55 and over

Key features

- For those aged 55+
- High-quality, low-maintenance
- Prestigious locations, 2/3 bedrooms
- Increased space and car parking
- Open-plan living
- Visiting manager on-call
- Typically 20-40 apartments

Lifestyle Living is our product for customers aged 55 and over looking to downsize into modern, high-quality and low-maintenance apartments in prestigious locations. Developments typically have fewer, but larger, apartments than our other core products, with more car parking.

They are intelligently and attractively designed to future-proof later living. Features are incorporated discreetly to achieve an ageless design and developments typically feature an enhanced lobby area and an open-plan feel, with fewer shared facilities. Each apartment has two or three bedrooms, a fully fitted kitchen and bathroom, plus an en-suite bathroom and a walk-in wardrobe.

As homeowners tend to be more independent, developments have a visiting manager who is also on-call.

Bungalows

As part of our Lifestyle Living range, we will shortly deliver our first 100% bungalow development of 30 units at Wymondham, Norfolk, with construction starting in FY18.

There is a growing need for low-maintenance and well-situated bungalows among the older population and the appropriateness of this form of housing in later life is well-proven. The supply of bungalows in the UK has also been in steady decline, with only 2,210¹ new bungalows registered with the NHBC in 2016, in comparison to 26,408¹ in 1986. The particular shortage of bungalows and other houses for older people means they are likely to attract a premium compared to standard housing.

As of 31 August 2017, we had 222 bungalows in our land bank.

¹ NHBC, *New Home Statistics Review 2016*

4

New Lifestyle Living developments sales released in FY17 (FY16: 5)

101

Units sold in FY17 (FY16: 88)

c.7%

Of land bank (FY16: 8%)

Graphic removed

Case study

For the first time in 10 years, McCarthy & Stone has been named as the preferred supplier for the development of 100% bungalows in the UK. The company has been awarded the contract to build 30 bungalows in Wymondham, Norfolk, with construction starting in FY18.

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Martin and Marion Irving
Wymondham, Norfolk

Image

1. *Open House Construction*

Our Lifestyle

Management and Care Services

Providing peace
of mind that we
will look after our
customers and
their properties

Graphic removed

Our in-house management and care services are a key part of how we seek to enrich our homeowners' lives

Reliable and cost-effective management and maintenance services are important to our homeowners. Our team provides homeowners with peace of mind that we will support them and look after their properties over the long term. This is a key part of how we seek to enrich our homeowners' lives.

Providing an in-house management services solution allows us to establish a unique relationship with our customers, providing personal and efficient services that not only help them, but also support the point of sale and allow us to deliver industry-leading standards of customer satisfaction. It also links together our expertise in housebuilding and property management.

Our property management business provides property management, support and care services across our two development products, Retirement Living and Retirement Living Plus. They also provide property management services to our Lifestyle Living developments.

Each Retirement Living development typically has a dedicated House Manager on-site, five days a week during working hours managing the day-to-day running of the development whilst also helping to facilitate various social activities. Each Lifestyle Living development has a visiting Manager who is in charge of all aspects of property maintenance.

YourLife Management Services ('YLM') is owned 50/50 by MSMS and Somerset Care Group, a leading not-for-profit care provider. It provides management services, domestic assistance, catering, personal care and additional support in our Retirement Living Plus developments. Each development is run by an Estate Manager who leads a team of staff members to deliver these services, 24 hours a day, 365 days a year.

c.14,600
Homeowners (FY16: 12,000+)

312
Developments under management (FY16: 264)

c.10,860
Additional care and domestic hours per month (FY16: c.8,400)

Graphic removed

Case study

Don and Brenda Rhodes moved into their new Retirement Living Plus development in 2015. They were looking for a reliable and cost-effective management and maintenance service to support them and look after their properties over the long term. This was a key part of how they sought to enrich their lives.

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Don and Brenda Rhodes moved into their new Retirement Living Plus development in 2015. They were looking for a reliable and cost-effective management and maintenance service to support them and look after their properties over the long term. This was a key part of how they sought to enrich their lives.

Don and Brenda Rhodes
Homeowners, Retirement Living Plus

Chief Executive's Statement

Operational Review



Clive Fenton, Group Chief Executive Officer

"Momentum is rebuilding, underpinned by sound foundations. Workflow is in place to support delivery of 3,000 units per annum"

Average selling price

£273k

(FY16: £264k)

Build activity commenced on

73 sites

(FY16: 54)

Land bank equivalent

4.3 years

(FY16: 4.4 years)

Our results

The Group delivered solid progress in its first full year of trading since re-joining the Main Market of the London Stock Exchange in November 2015. Trading improved consistently throughout the year notwithstanding the increased uncertainty in the secondary market following the General Election in June 2017, and the Group made good progress in rebuilding its forward order book and progressing its workflow.

Revenue increased by 4% to £661m (FY16: £636m) primarily driven by an increase in average selling prices from £264k to £273k, reflecting a continuing improvement in sales mix and quality of sites. Legal completions were slightly ahead of prior year levels at 2,302 (FY16: 2,296) despite a weakened forward order book brought into the year and a lower level of just 49 first occupations during the year (FY16: 69). This year's volumes benefited from accelerated off-plan sales rates which improved to 53% (FY16: 50%) and the bulk sale of

126 apartments to PfP Capital as part of a new strategic relationship allowing us to access the growing rental market

Consistent with previous guidance, underlying operating profit decreased by 10% to £96m (FY16: £107m) at a gross profit margin of 20% (FY16: 21%), an underlying operating profit margin of 15% (FY16: 17%) and an operating profit of £94m (FY16: £95m). The reduction in profitability was mainly driven by the age and mix of units sold, increased incentive costs, build cost increases offset by pricing improvements, some additional land renegotiation costs as we repositioned our land bank in the face of more challenging market conditions and our continued investment in regional operational infrastructure to support our growth strategy.

PfP Capital

Over the course of the financial year, we sought to diversify and enhance our business model by developing a strategic relationship with PFP Capital. This represents an exciting new opportunity to access the growing rental market and has the potential to improve capital turn¹ and enable land investment in new, previously untapped locations. This strategic relationship resulted in the sale of 126 apartments (included within the total legal completions of 2,302) across 27 sites to be held within a specialist retirement Private Rental Sector (PRS) Fund being established and managed by PFP Capital, the fund management business of Places for People. The apartments will be offered for private open market rent. PFP Capital aims to grow its assets under management from £150m to more than £750m over the short to medium-term by acquiring residential units and we are well placed to provide them with access to the retirement housing sector. We intend to develop this relationship further over the coming financial year.

Investment and growth strategy

We continue to pursue our strategy of creating an efficient and scalable business, capable of building and selling more than 3,000 units per annum over the medium-term. There is significant demand for our products and we are confident that we have put in place all the necessary elements that will enable us to achieve our planned growth. We have a respected brand with 40 years' experience, a high-quality land bank, a strong balance sheet with a robust capital structure and the necessary organisational capability and platform. Our experienced management team is focused on achieving this goal.

Market demand

The structural imbalance between supply and demand within the housing market continues to provide us with an exceptional market opportunity. Despite the recent growth in housebuilding activity, there remains a significant and growing shortage of housing supply in the UK. This imbalance is particularly acute in the market for retirement housing, and McCarthy & Stone stands alone among the national housebuilders as the only one that focuses entirely on this market.

During four decades as the retirement housing market leader, the Group has formulated a tailored approach to sales, site acquisition, design, securing detailed planning consents and construction that mainstream housebuilders have been unable to replicate. We also ensure that our customers receive the highest standards of ongoing support through our management services offering. The high barriers to entry in our market ensure that we maintain a unique position as the only housebuilder capable of meeting the nationwide need for high-quality specialist housing for the growing number of older people who are looking to move to properties more suited to their needs and lifestyle.

Land bank

In total, c.£472m (FY16: £468m) was invested in land and build during the year. We added a further 75 high-quality sites with attractive embedded margins into the land bank (FY16: 65), equivalent to c.3,164 additional plots (FY16: c.2,614), with terms agreed on a further c.1,355 plots (FY16: c.1,700 plots) in line with our normal land buying model. The land was secured with a high level of optionality.

At the year end, our land bank stood at 9,967 plots (FY16: 10,186), equivalent to 4.3 years' supply, of which 2.6 years had detailed planning consent. As a result, the Group now has sufficient land under control to deliver all targeted sales to FY20.

We secured 64 detailed planning consents (FY16: 60) and started build on 66 additional sites (FY16: 42). There is detailed planning in place for 100% of FY18 planned first occupations and 71% of FY19 planned first occupations.

The market for land remains benign and competition for our typical brownfield sites remains highly fragmented. Our business continues to maintain operational focus and discipline in the assessment of our land purchases to ensure that returns continue to flow to our shareholders.

Graphic removed

DID YOU
KNOW?

£127k

Our build initiative has identified savings to the value of £127,000 per development.

Image

¹ Humphrey Court, Stafford

¹ See page 158 for glossary of terms

Chief Executive's Statement continued

Graphic removed

Operational infrastructure and capability

Our newer regional offices established in North London, South West, East Midlands and North West continued to drive the momentum of their workflows during the year. We have high-calibre senior management teams in place, combining McCarthy & Stone experience with volume mainstream housebuilder operational expertise.

Having established these new offices, we have now commenced the roll-out of a new 'Divisional' operational structure, to manage our nine regions. The three Divisions, under John Tonkiss, our Chief Operating Officer, will each consist of three established regions.

This operational structure is similar to many national volume housebuilders and will provide the framework to run an efficient business at scale. Our existing nine regions will be clustered into: a North Division, covering Scotland, the North West and North East; a Central Division, covering East Midlands, West Midlands and South West; and a South Division, covering North London, South East and Southern. We expect to fill

all the new positions from internal candidates. The establishment of these new divisions will complete the platform required to deliver our planned operational growth.

Strategic initiatives

Our continued focus on achieving operational excellence by accelerating our working capital cycle has allowed us to deliver further improvement in our three key strategic initiatives: improving sales rates, reducing time taken between securing land and starting build and implementing build programme efficiencies.

Sales initiative

The sales initiative, launched in FY15, sets out to consistently deliver off-plan reservations of 50% or more by the date of first occupation, and then to reserve out all remaining units within an average 12 month period.

Our sales initiative continued to make good progress during the year. The main focus has been on enhancing the early part of the customer journey via website improvements and the development of early relationships with enquirers prior

DID YOU
KNOW?

53%

We achieved an average of 53% off-plan sales rate from the 49 sites that first occupied in FY17.

Image

1. Swift House, Maidenhead

“Workflow on track to support growth strategy and deliver c.80 new sales releases and more than 65 first occupations in FY18”

to site sales launches. New relationship management teams are now in place in all regions and are working well. These improvements have contributed to an increase in the off-plan sales rate to 53% (FY16: 50%) from the 49 sites (FY16: 69) that first occupied in FY17.

A number of sites achieved significantly more than 53% of the off-plan sales rate, for example Jameson Gate, Portobello, Edinburgh which sold 100% off-plan. A further five sites sold more than 80% of apartments off-plan. It is particularly pleasing that we have been able to achieve these accelerated sales rates in a challenging market whilst also improving pricing.

The Group continued to be impacted by the challenging secondary housing market with the average time to sell out slightly higher than in the prior year. This average now stands at 19 months (FY16: 18 months) for all sites sold out during FY17.

During FY17, we worked closely with our third-party part-exchange providers to improve the terms of the part-exchange offering. In addition, we successfully piloted an in-house part-exchange scheme on 163 transactions in which dependent properties are temporarily taken onto our own balance sheet pending onward sale. This resulted in a cost saving of c. £1m in relation to the 49 properties re-sold during FY17, when compared to the costs associated with using third-party part-exchange providers. As at 31 August 2017, we held 114 properties on the balance sheet at a net carrying value of £31.9m.

Development initiative

Our development initiative, also launched in FY15, aims to reduce the time taken between securing land and build start. This involved the implementation of a number of process improvements with particular focus on ‘ways of working’, the planning process and increased standardisation. This enables the business to bring forward profitable developments, accelerate growth plans and improve capital turn. The initiative is now embedded in all regions and is beginning to produce positive results.

A number of changes designed to accelerate this cycle were implemented during the year. In particular, we have focused on local consultations within the planning process and implemented our new Datum tool to support product

and design standardisation and value engineering. Our target for reducing the time taken between land exchange and starting build is 16 months for standard sites achieving a first time detailed planning consent. During FY17, we saved an average of four weeks per scheme, with the total time taken from land exchange to build start averaging c.18.1 months (FY16: c.19.1 months).

During the year, a Product Approval Group (‘PAG’) was established to enhance our product offering and identify and resolve persistent issues. The PAG is made up of senior management team members with representatives from Sales and Marketing, Management Services, Development, Construction, Procurement, Customer Services, and Health & Safety. The PAG meets regularly to achieve greater standardisation across the Group, optimise product selection and improve design.

Build initiative

The build initiative, launched in FY15, continued to drive improvements to the build process during the year, to accelerate build timescales, reduce build costs and enhance margins. Specific focus has been placed on supply chain management to maximise savings as well as driving towards longer term benefits via the increased use of modern methods of construction. The Group’s framework of critical controls introduced last year is now fully embedded across all our regions and is driving improvements to build cycle times and budgets. This initiative has delivered a c. four week (FY16: c. three week) time saving from build start to first occupation and has identified savings opportunities to the value of £127k per development in relation to materials and labour which will help to mitigate the impact of build cost inflation.

Our product ranges

During the year we repositioned our product branding in order to capitalise on our existing strong McCarthy & Stone brand recognition. This will now be used in a unified way across our three products: our Assisted Living product has been rebranded Retirement Living Plus and our Ortus Homes product has been rebranded as Lifestyle Living. This also allows us to optimise our marketing spend and create consistency across our product names. As part of our Lifestyle Living range, we will shortly deliver our first 100% bungalow development of 30 units at

Chief Executive's Statement continued

Graphic removed

Image

1 Prime Minister Theresa May with LLO Clive Fenton at Swift House, Maidenhead

Wymondham, Norfolk, which is now under construction. There is a growing need for modern, low-maintenance and well-connected bungalows among the older population and the appropriateness of this form of housing in later life is well-proven. The supply of bungalows in the UK has also been in steady decline, with only 2,210¹ new bungalows registered with the NHBC in 2016, in comparison to 26,408 in 1986. The particular shortage of bungalows and other houses for older people means they are likely to attract a high level of demand.

We are also exploring the provision of bungalows and cottages on larger schemes, opening up exciting new possibilities for maximising development potential on certain sites, as well as providing for completely new land opportunities. As of 31 August 2017, we had 222 (FY16 127) bungalows within our land bank.

Our Management Services business

The rapid growth of our Management Services business continued during the year, adding 48 new developments to its portfolio, which now total 312 (FY16 264) managed developments. Providing

our own management services allows us to establish a unique relationship with our customers, providing personal and efficient services that not only help them, but also support the point of sale, and allow us to deliver industry-leading standards of customer satisfaction.

Our customers

We are pleased to report that we have, once again, achieved the full Five Star rating in the Home Builders Federation (HBF) customer satisfaction survey this year. This marks the twelfth consecutive year in which more than 90% of our customers have said that they would be prepared to recommend us to a friend. We are the only housebuilder of any size or type to win this award every year since it was introduced in 2005. This sustained recognition by our customers of the quality of product and service we deliver is a strong endorsement of our continued desire to design, build, sell and manage the very best retirement developments.

Quality

The Group was also pleased to achieve 15 Quality awards, 7 Seals of Excellence and 1 Regional Winner in the 2017 NHBC Pride in the Job awards, marking

a 50% increase in awards from 2016. The scheme is dedicated to recognising construction site managers who achieve the highest standards in housebuilding and has been instrumental in driving up standards in the sector for 37 years.

Our employees

Our performance this year would not have been possible without the dedication, enthusiasm and expertise of our people. We are building a culture of excellence that provides opportunities for development and recognises achievements by regularly celebrating those employees who go the extra mile for a customer or colleague through our instant, quarterly and annual PRIDE awards. I am also delighted to report that, in our most recent employee survey, 87% (FY16 89%) of our employees confirmed that they are proud to work for McCarthy & Stone.

Health and safety

I am also pleased to report that we have continued to make good progress with developing a culture of excellence in health and safety across the Group. Our vision is not just to achieve health and safety compliance but to lead our sector with a robust and consistent

Graphic removed

The White Paper notes that the Government will explore ways to stimulate the market to deliver new homes for older people and is introducing a new statutory duty, through the Neighbourhood Planning Act, on the Secretary of State to produce, for the first time, guidance for local planning authorities on how their local development documents should meet the housing needs of older people. Guidance produced under this duty will set clearer expectations about planning to meet the needs of older people, including supporting the development of such homes near local services, and we understand this will be published shortly.

In addition, the White Paper notes the Government's new commitment to explore ways to help older people move at the right time, including possible future incentives. We are working with the Government to provide more information on how this incentive might work, including a possible one-time Stamp Duty exemption for older people downsizing. Such policies would help older people to move, which would also in turn help first time buyers onto the housing ladder and encourage further demand for retirement housing.

Government consultation on ground rents

In June 2017, the Government also launched a consultation on tackling unfair practices in the leasehold market with particular reference to leasehold housing and unfair escalation clauses for ground rents. We understand and support the need for action in this area. Our ground rents are on fair and stable terms as they are fixed for fifteen years and increases are linked to the higher of 2% or Retail Price Index ('RPI'). There have undoubtedly been cases where the system has been abused by some, including with ground rents that double every ten years, and we understand why DCLG is considering taking action to protect homebuyers. We welcome this, but have raised concerns about the further proposals around reducing ground rent income for all leasehold properties to a zero or peppercorn rent.

Leasehold is a common and widely accepted form of tenure for apartment living and has traditionally been used as an efficient way of managing apartment blocks and managed estates

that contain a number of residents on the same site, often with competing voices. With best practice and proper guidance in place, it can work well, and has done for a number of years, and the vast majority of apartments are on fair terms. Ground rent helps to keep the freeholder actively involved in the development and is a key part of this system. We have responded accordingly to the Government's consultation and we await its outcome.

Outlook and current trading

The workflow of the business remains on track to support our growth strategy. Build activity commenced on 73 sites during FY17 (FY16: 54) and of the c. 80 sales releases which the Group plans to deliver in FY18 (FY17: 52), 96% are now under construction. During the first 10 weeks of the year 17 new sites (FY17: 13) have been successfully launched and this has contributed to an improvement in our forward order book, which currently stands at £277m (FY17: £250m). First occupations are planned to increase to more than 65 in FY18 (FY17: 49) and are expected to be weighted towards the second half of the year due to the timing of our build programmes. We therefore expect the delivery profile of the Group's profits between H1 and H2 to be similar to that in FY17.

We have started the new financial year with a high-quality land bank, a strong net cash position and an experienced management team in place. We also have the necessary regional infrastructure and strength of brand that ensures that we are uniquely placed to capitalise on the significant demographic opportunity available to us. We remain on track to deliver our strategic growth objective of building and selling more than 3,000 units per annum and continue to target a Return On Capital Employed ('ROCE') of 25% when the business achieves scale.

Clive Fenton
Chief Executive Officer
13 November 2017



DID YOU
KNOW?

312

Our Management Services
business has 312 developments
in their portfolio (FY16: 264)

Image
2 Walmsley Place, Bishops Cleeve

safety culture across our organisation. Our internal monitoring regime is supported by a rigorous, independent site inspection programme including regular reporting updates to the Board. During FY17, we received three BSG Health and Safety awards, including one award for Best Use of Technology for our pioneering work using drones for roof inspection to reduce the need for work at height.

Housing White Paper

In February 2017, we welcomed the Housing White Paper "Fixing our broken housing market", the country's first housing strategy for six years. It proposed a number of measures to support housebuilding and we were particularly pleased to see a number of positive references to the need to increase the provision of specialist retirement housing.

¹ NHBC, New Home Statistics Review 2016

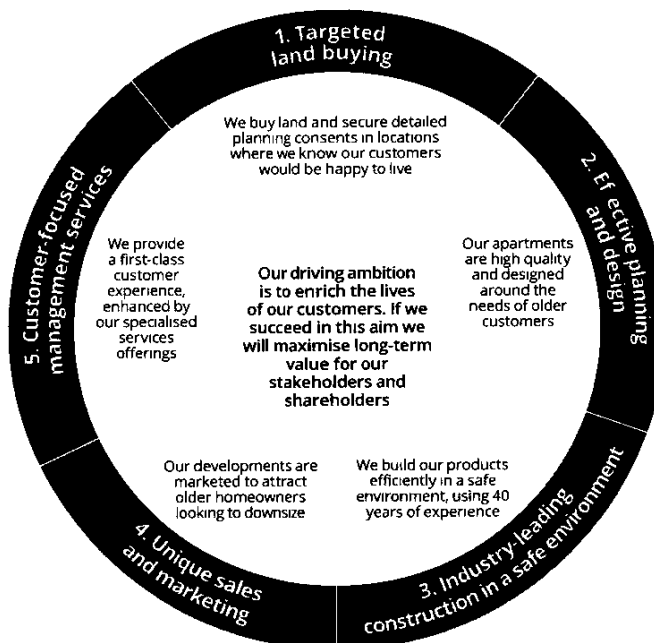
Our Business Model

The Group has a proven business model of buying land, securing detailed planning consent and then building, selling and managing high-quality developments across the UK that are specifically designed to meet the lifestyle needs of older people

Our customers

Our distinct and growing customer base is at the heart of everything we do

- Target customer age: over 60s in Retirement Living, over 70s in Retirement Living Plus and over 55s in Lifestyle Living
- Those who wish to maintain their independence with support on-hand if, and when, required
- Older owner-occupiers who are keen to downsize into attractive and secure housing with shared benefits and companionship
- Addressing undersupply of homes dedicated to the needs of our customer base



The principal risks and uncertainties associated with our Business Model are described, together with the mitigating actions on pages 56 and 57.

Core elements of our business model

1. Targeted land buying	<ul style="list-style-type: none">■ We buy land in appealing locations■ The sites are typically brownfield locations, well-located relative to essential services in towns and cities, and attract less competition from other housebuilders
2. Effective planning and design	<ul style="list-style-type: none">■ Our in-house planning team, the 'Planning Bureau', aims to obtain the best possible planning consent as quickly as possible by applying directly for detailed planning permission■ High-quality apartments designed around the changing needs of older customers
3. Industry-leading construction in a safe environment	<ul style="list-style-type: none">■ Efficient and cost-effective construction using 40 years' experience■ Industry-leading health and safety standards
4. Unique sales and marketing	<ul style="list-style-type: none">■ Marketing with a focus on consistency and transparency ensuring that the customer journey is as straight forward as possible■ Sales process focused on supporting our customers and their families from initial enquiry through to legal completion
5. Customer-focused management services	<ul style="list-style-type: none">■ Providing the highest quality property management, care and support services in response to our customers' and homeowners' changing needs

Graphic removed

Our Business Model continued

Targeted land buying

Strategic aim

We aim to identify sufficient high-quality land opportunities to meet our growth plans over the medium and long term

Key performance indicators (KPIs)

New sites exchanged

75

(FY16: 65)

Land bank units

9,967

(FY16: 10,186)

Number of years' supply within our land bank

4.3

(FY16: 4.4)

Investment in land and build

£0.5bn

(FY16: £0.5bn)

Graphic removed

KPI - Land bank (units)

	31 August 2017	31 August 2016
Owned and unconditional land bank	1,620	2,287
Conditionally contracted land bank	4,509	4,504
	6,129	6,791
Construction work in progress	2,699	1,883
Finished stock	1,139	1,512
Total owned and controlled land bank	9,967	10,186
Number of years' supply based on completions in the financial year	4.3 years	4.4 years

Image 1 Willoughby Place, Bourton on the Water

Strategic priority



Investment in land and build

Investment in land and build

FY16

£0.5bn

FY17

£0.5bn

Medium-term target

£2.5bn

In FY15 we announced the strategic aim of investing £2.5bn in land and build over the four years to FY19 in support of our strategic growth objective

We have continued to make good progress with our target of £2.5bn investment in land and build with a further £472m invested in land and build during the year (FY16: £468m)

Further information on this strategic priority is provided on pages 48 to 51

Highlights in the year
New sites exchanged

- 75 high-quality sites with attractive embedded margins added to land bank in FY17 (FY16: 65), equivalent to c 3,164 additional plots (FY16: c 2,614 plots), a 15% increase in the number of sites, and a 21% increase in the number of units
- Land secured with a high level of optionality (71%)
- The market for land remains relatively benign and competition for our typical brownfield sites is still highly fragmented
- The business continues to maintain operational focus and discipline in the assessment of its land purchases to ensure that returns continue to flow to shareholders

Land was secured across all three products

Graphic removed

Land bank

- The land bank as at 31 August 2017 was 9,967 units (FY16: 10,186 units)
- Total owned and controlled land bank as at 31 August 2017 represents 4.3 years supply (FY16: 4.4 years)

There is detailed planning consent in place for

- 100% of FY18 planned first occupations
- 65% of FY19 planned first occupations

Case study: Engagement on planning issues with local communities

Ocean House, Carlyon Bay

Development:
32 Lifestyle Living apartments

The story:

We signed a 24-month option agreement to purchase the site of this former hotel in October 2014

This gave us time to address the planning issues relating to the loss of the hotel and employment, and to arrive at the right quality of design required for such a sensitive location

Extensive engagement with local community, interest groups and the media meant that the benefits of providing specialist retirement housing were balanced against any concerns regarding the loss of the existing use.

Consequently, plans for the 1.7 acre site were successfully approved on the first time of asking by Cornwall Council's Planning Committee.

Opened in July 2017, Ocean House, Carlyon Bay is a development of 32 high specification two bedroom

apartments, less than 300 feet from the bay itself, giving fantastic views and access to the beautiful outdoors. Each luxurious Lifestyle Living apartment has been carefully designed to provide the best of comfortable, modern living for the over 55s

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Our Business Model continued

Targeted land buying

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Background to our land buying

- Our sites are typically centrally located within towns and cities
- Sites range from 0.5 to 3.0 acres in size
- Less competition for our sites from traditional housebuilders, who tend to be interested in larger, usually greenfield, locations
- Limited on-site affordable housing requirements and mitigated impact of Section 106 and Community Infrastructure Levy (CIL)¹ payments
- Experienced in-house planning team, ensuring a consistent approach to submission and negotiation of planning applications
- Optimised development density through reduced on-site parking and amenity space requirements

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Graphic removed

Gary Day, Land & Planning Director

“Our differentiated land model ensures that we adopt clear land acquisition criteria and a strict approval process”

Images
1 Oliver Place, Wilton
2 Birch Court, Murrinston

¹ See page 158 for glossary of terms

Effective planning and design

Strategic aim

Our aim is to operate an efficient and effective planning process and to design great homes to meet our customers' ever changing needs and improve their quality of life

KPIs

Detailed planning consents

64

(FY16: 60)

First time planning consents

75%

(FY16: 69%)

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Successful planning appeals

64%

(FY16: 42%)

Retained customer satisfaction rating

Five star HBF

Lifestyle Living annual legal completions

101

(FY16: 88)

Weeks saved per scheme from land exchange to build start

c.4

(FY16: c 17 weeks)

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Images: 1. Cullin o' Court, Glossop 2. Blake Court, Bridgwater

Our Business Model continued

Effective planning and design

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Case study: Shortening development cycle Tenterden, Kent

Development: 36 Retirement Living apartments

The story:

- Contracts exchanged (subject to planning): 29 February 2016
- Achieved planning permission 14 September 2016 (local first time consent in 28 weeks from land exchange)
- Achieved build start: 5 June 2017 (66 weeks or c 15.3 months from land exchange)

The main factors that helped shorten the development cycle were

- Designing the building using our standard apartment types and standard details to simplify the design process whilst producing an external design that was strongly influenced by the local vernacular and perceived by the local community to be in keeping with the local style
- The site-enabling works were simplified through improved collaboration (i.e. underground drainage, car parking design, retaining walls) to ensure we could move quickly from site acquisition to the construction of the new development

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Jadon Silva, Group Product and Development Director

"Our aim to deliver products tailored to our customers' needs has led to a number of formal product reviews, offering significant aesthetic enhancement"

Strategic priorities

Operational efficiency:
Development initiative

Development cycle

FY16

c.19.1 months

FY17

c.18.1 months

Medium-term target

16 months

The development initiative, introduced in FY15, aims to reduce the time taken between land exchange and build start. A number of changes designed to accelerate this cycle were implemented, focusing on the planning process, improved local consultations, increased product and design standardisation and

value engineering. Our target for reducing the time taken between land exchange and starting build is 16 months for standard sites achieving a first time detailed planning consent. During FY17, a further c four weeks per scheme have been saved from land exchange to build start, averaging at c 18.1 months.

Continued product
innovation

(i) Customer satisfaction

The aim is to retain our Five Star HBF customer satisfaction rating

The Five Star HBF customer satisfaction rating was retained for the 12th consecutive year

Lifestyle Living units sold as a percentage of total completions

FY16

3.8%

FY17

4.4%

Medium-term target

10%

(ii) Expand customer base

Grow Lifestyle Living to c 10% of annual legal completions

Lifestyle Living continued to grow during FY17 to 4.4% (FY16: 3.8%) of annual legal completions, despite a lower number of sales releases in the year – four compared to five sales releases in FY16

Further information on these two strategic priorities is provided on pages 50 and 51

Highlights in the year

Planning consents

- FY17 was another strong year for planning, with detailed planning consents achieved on 64 sites, representing c 2,473 units (FY16: 60 sites, representing c 2,449 units)
- During FY17 we achieved 75% success on first time planning consents (FY16: 69%) and won nine appeals (c 329 units) representing a 64% (FY16: 42%) success rate. This compares favourably against the national average rate of 32%¹

Product Approval Group

During FY17, a Product Approval Group ('PAG') was established to enhance our product offering, and identify and resolve issues. Members of PAG includes senior managers from Sales and Marketing, Management Services, Development, Construction, Procurement, Customer Services, and Health & Safety. It meets regularly to deliver optimum product selection and design decision-making. PAG has led to greater standardisation across the Group.

Continuous product improvements

Our aim to deliver products tailored to our customers' needs has led to a number of product improvements

- A Bistro concept kitchen has been introduced into Retirement Living Plus, providing a more flexible dining experience
- Our bathrooms have undergone a significant makeover, offering significant aesthetic enhancement. Through improved purchasing agreements, bathrooms have not only been enhanced in line with changing trends, but significant savings have also been identified, c £20.5k per development
- Electric car charging points have been incorporated into the design concept for our sites
- Improved kitchen design, making better use of space

Standardisation

The Group uses the integrated BIM (Building Information Management) tool Datum. It contains all our standard information ranging from apartment plans to specifications for individual building components

This information is stored alongside specific project information, including architectural drawings, 3D models, and specifications. The system enables a full cost plan to be compiled for each project from the early development stages. This helps to ensure greater predictability of project costs from the outset. It has been refined during the year, primarily focusing on increasing the content and its functionality. It has enabled the Group to further standardise the product, improve rebate compliance, and speed up the development cycle.

More efficient development cycle

During FY17, c four weeks per scheme has been saved from land exchange to build start. This was achieved by focusing on the planning process, in particular, local consultations, increased product and design standardisation, and value engineering

Quality of products

At the annual Housebuilder Awards in November 2016 we were pleased to again receive Best Retirement Scheme for Ramsay Grange and Lyle Court, our combined Retirement Living Plus and Lifestyle Living development in Barnton, Edinburgh

¹ Planning Inspectorate Statistics (PINS), August 2017 based on 11,952 appeals during the year ended 30 June 2017, with 3,578 appeals allowed

Our Business Model continued

Industry-leading construction
in a safe environment

Strategic aim
We aim to deliver exceptional build quality whilst maintaining industry-leading health and safety standards

KPIs

Build starts in the year

66

(FY16: 42)

Reduction in build cycle

c.4 weeks

(FY16: c.3 weeks)

Gross profit margin

20%

(FY16: 21%)

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Image
1 Savoy House and Tudor Rose Court, Southsea

Strategic priority

Operational efficiency:
Build initiative

Our build initiative continues to drive improvements to the build process, to accelerate build timescales, reduce build costs and enhance margins. Specific focus has been placed on supply chain management to maximise savings as well as driving towards longer-term benefits

via the increased use of modern methods of construction. The Group's framework of critical controls introduced last year is now fully embedded across all our regions and is driving improvements to build cycle times and budgets

Build cycle

FY16

c.15.3 months**c.14.4 months**

Medium-term target

12 months

During FY17, the average build cycle was further reduced by c 4 weeks, down from 15.3 months in FY16, to 14.4 months.

Gross margin was reduced in the year however, from 21% in FY16 to 20% in FY17,

impacted by the age and mix of units sold, increased incentive costs, build cost increases offset by pricing improvements and some additional land renegotiation costs

Further information on this strategic priority is provided on page 50.

Highlights in the year**Progress on build activity**

FY17 saw a 57% increase in the number build starts, at 66, compared with 42 in FY16

During FY17, 33% of build starts were non-traditional build techniques (i.e. Porotherm blocks and lightweight steel frame) contributing to an average build cycle reduction of four weeks

Health and Safety

Health and Safety remains a top priority for the Group. A recalibration of the scoring criteria for the BSG audits in FY17 resulted in lower average scores during the year, but now provides more meaningful feedback than before. For FY17 we achieved a score of 86% against the new scoring criteria. During the year a number of improvements have been made

- Health & Safety Committee now established, chaired by our Chief Operating Officer

New pioneering processes have been introduced

- The education and involvement of our subcontractors in Health and Safety
- The introduction of a new apprenticeship scheme
- Design initiative: a national training programme rolled out to our designers so they are equipped to design risk out of buildings before they are built
- Drones are being used for rooftop Health and Safety inspections
- Every region now has their own dedicated Health and Safety Adviser
- Defibrillators are now fitted at every new site

Pride in the Job awards

The Group was also pleased to win 15 awards at the 2017 NHBC Pride in the Job awards, marking a 50% increase in winners from 2016. In addition, 7 site managers also won Seals of Excellence and 1 Regional Winner. The scheme is dedicated to recognising construction site managers who achieve the highest standards in housebuilding and has been instrumental in driving up standards in the sector for 37 years

BSG awards

- We won three BSG Health & Safety awards in FY17: BSG Best Use of Technology for Health & Safety award for our pioneering work using drones for roof inspection to obviate the need for work at height
- Two Site Manager of the Year awards

Procurement

Good progress was made with cost saving initiatives during the year

- Total rebates of c. £3.0m invoiced in FY17 (FY16: £1.8m), as a result of negotiating more favourable supplier terms and improving compliance for meeting rebates targets
- 22 procurement tenders completed, identifying a savings opportunity of £127,000 per development

Our Business Model continued

Industry-leading construction in a safe environment

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John Tonkiss, Chief Operating Officer

“The build initiative continues to drive improvements to the build process, accelerate timescales and reduce costs”

Images
1 Lancaster House, K'kenham
2 Freeman House, Canterbury

Case study: Shortening build cycle (build time reduced to 55 weeks) Freeman House, Canterbury, Kent

Development:
54 Retirement Living apartments

The story:
Freeman House, Canterbury, was a complicated four-storey build, facing the cricket ground, with various balconies to all units, steel frame apertures and shared access with the cricket club and the local Sainsbury's. In addition, we had to accommodate 52 days' production down-time due to cricket matches during the season.

The build cycle commenced in June 2016, with a forecast first occupation date of 14 August 2017.

To overcome the various issues surrounding the complex build of this development, we changed the build technology to Porotherm light weight clay blocks with a 1/2mm bed joint. This technology was known to be quicker to lay, lighter to construct and did not absorb as much rain during the inclement weather. As a result, we delivered the scheme one month ahead of programme taking first occupations on 17 July 2017, resulting in 55 total weeks or c12.8 months from build start to first occupation.

Unique sales and marketing

Strategic aim

We aim to make our sales process as easy as possible for our customers ensuring that they are fully supported from the initial enquiry right through to legal completion

KPIs

Legal completions (units)

2,302

(FY16: 2,296)

Average selling price (£k)

£273k

(FY16, £264k)

Off-plan reservation rate (%)

53%

(FY16, 50%)

Months to reserve out from first occupation

19

(FY16, 18)

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Our Business Model continued

Unique sales and marketing

Graphic removed

Case study: Accelerating off-plan reservations Jameson Gate, Portobello, Edinburgh

Development:
42 Retirement Living apartments

The story:

In order to maximise the strong database we had for Jameson Gate, we ensured our sales team was fully inducted and provided with the tools required to sell with confidence. We opted to do an initial survey of our database, which provided our teams with a detailed insight of the prospects allowing customers to move quickly through the qualification process to booking home appointments, from which reservations were secured. This, along with events for our residents and industry networking, helped towards achieving 100% off-plan reservations at Jameson Gate.

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David Bridges, Group Marketing & Customer Experience Director

“Our continued investment in improving the customer journey, together with introducing the new Relationship Manager role across all regions has had a significant positive impact on off-plan sales rates”

Strategic priorities



Sales growth

In FY15 we announced the strategic target of selling more

than 3,000 units per annum by FY19 at an ASP of c. £300k

Unit sales

	FY16	FY17	Medium-term target
Unit sales	2,296	2,302	3,000

Total legal completions were slightly ahead of the prior year despite

delivering just 49 first occupations (FY16: 69)

ASP

	FY16	FY17	Medium-term target
ASP	£264k	£273k	£300k

Increase in ASP reflects a continuing improvement in sales mix and quality of sites

Operational efficiency
Sales initiatives:

Our sales initiative was introduced in FY15 to achieve more than 50% off-plan reservations and then reserve

out remaining apartments within 12 months of first occupation

Average % sales off-plan

	FY16	FY17	Medium-term target
Average % sales off-plan	50%	53%	50%

(i) Achieve greater than 50% off-plan reservations

Our sales initiative continued to make good progress during the year. The main focus has been on enhancing the early part of the customer journey via website improvements and the development of early relationships with

enquirers prior to site sales launches. New Relationship Management teams are now in place in all regions. These teams have contributed to the improvement in the off-plan sales rate to 53% in FY17, compared with 50% in FY16, our second half levels being particularly strong at 58%.

Average time to sell out

	FY16	FY17	Medium-term target
Average time to sell out	18 months	19 months	12 months

(ii) Reserve out remaining apartments within 12 months of first occupation

The average time to sell out was slightly

higher than in the prior year due to the selling out of older sites. Only one site now remains from FY14 and earlier years

Further information on these two strategic priorities is provided on pages 49 and 50

Highlights in the year
Rebranding

We refreshed our product branding during the year in order to capitalise on our strong brand which will now be used in a unified way across our three products. Our Assisted Living product was rebranded as Retirement Living Plus and our Ortus Homes product was rebranded as Lifestyle Living. This will allow us to capitalise on our existing strong brand recognition, optimise our marketing spend and create greater consistency across our product names.

A national brand building TV campaign to be launched in the New Year

Website redesign

Our website has been redesigned to improve our customer journey and achieve better search functionality. A new digital agency was also appointed to support search engine optimisation, pay per click and online display activity to improve our online efficiency.

Improved marketing materials

A more consistent creative style was implemented during the year to deliver stronger customer response to media.

Outsourced call handling now fully embedded

Ventrica, our outsourced call centre, is driving improved conversion rates to visits.

Continued investment in sales training

We have delivered high-impact training to Area Sales Managers who are critical to sales performance and have set up a new national training academy.

Part-exchange (PX)

During FY17, we worked closely with our third-party PX providers to improve the terms of their part-exchange offering, resulting in an estimated saving of c. £1m. In addition, we successfully piloted an in-house part-exchange scheme where McCarthy & Stone purchases the customer's property. This has resulted in a cost saving of c. £1m in relation to 49 properties resold during FY17, when compared to the costs associated with using third-party part-exchange providers.

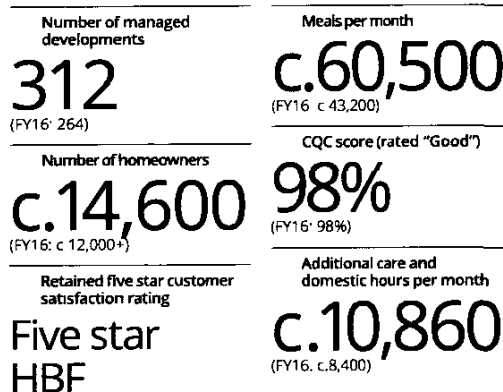
Our Business Model continued

Customer experience and property management

Strategic aim

We aim to enrich the lives of our customers by providing the highest quality property management, care and support services in response to their changing needs

KPIs



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Highlights in the year

Customer satisfaction

As the business continued to grow, our management services division remained committed to maintaining its customer-focused approach, ensuring its speed of growth never compromised the quality of service it provided. The positive results from a recent customer satisfaction survey demonstrated this ethos of excellence. 4,258 homeowners, in apartments first built and sold more than 18 months ago, responded to an independent survey in 2017. Nine out of ten said they were satisfied with the

- management services on offer
- attention to detail undertaken
- desire to deliver innovative new services which allowed homeowners to enjoy a safe and secure, independent lifestyle at the developments looked after by our management services division

Improvements in the handover process

Over the last year our management services division has been improving and aligning the handover process from the construction teams to provide a much enhanced customer experience. All the regions have now implemented a new phased occupation protocol, which looks at the development from our customers' perspective.

CQC score

98% of our inspections have been rated "Good". We are always looking to develop our people and improve our processes in order to provide a high-quality service.

Our focus is on evidencing that we pay attention to the detail to make a difference to homeowners' lives and being able to demonstrate that we always go the extra mile.

Our awards

At the annual Housebuilder Awards in November 2016 we were pleased to receive Best Customer Satisfaction Initiative for our approach to ensuring that we deliver a five-star service for our homeowners. The Group has also won "Best Retirement Scheme" at the annual Housebuilder Awards in 2016.

McCarthy & Stone's commitment to quality and customer service continues to be recognised by homeowners. In March 2017, the Group received the full Five Star rating for customer satisfaction from the HBF for the 12th consecutive year - making it the only UK housebuilder, of any size or type, to achieve this accolade.

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Case study: Providing care and support to our homeowners

Sharon Gratton, House Manager

Location:
Rockhaven Court, Horwich, Bolton
Development:
45 Retirement Living apartments

The story:
Sharon was a finalist in the On-Site Staff Member Category at the ARMA ACE 2017 awards, which was a fantastic achievement. Despite not winning, she was "highly commended".

Sharon is a shining beacon of what our House Managers and Estate Managers do on a daily basis. From the day she welcomed her first homeowner, Sharon has made it her primary objective to ensure everyone feels welcome and quickly settles into their new living environment that promotes independence, companionship and security. She is the first to say that it's been the most rewarding role in her career so far.

Whilst sustaining an active and stimulating activities calendar for homeowners to enjoy seems straightforward, the amount of planning involved should not be

underestimated, especially when factoring in peoples' different health and mobility needs. For Sharon, it's more than just a job title. It's a deeply felt vocation to ensure the welfare and happiness of the homeowners under her care.

Whether organising a programme of stimulating social activities, dealing with emotional distressing circumstances, routine development issues or just being a "good neighbour", Sharon's professionalism, empathy, attention to detail and sense of fun shines through. She is loved by her homeowners, respected by her peers and recognised by visitors for the outstanding job she has done for the past five years.

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Mark Riddington, Managing Director
McCarthy & Stone Management Services Limited

"Over the last 12 months our management services division has been improving and aligning the handover process from the construction teams to provide an enhanced customer experience"

Our Medium-Term Strategy

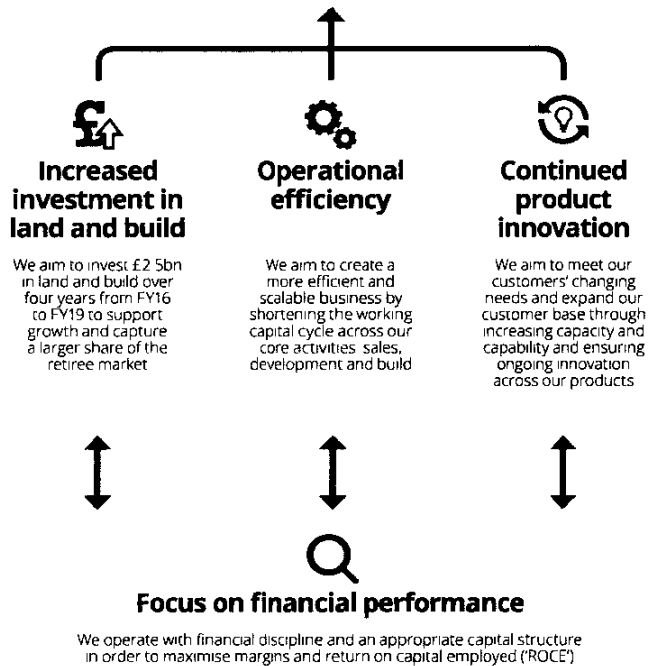
Creating an efficient and scalable business





Sales growth

Our medium-term strategy is to create an efficient and scalable business capable of building and selling more than 3,000 units per annum


To deliver this, we focus on four strategic priorities





Strategic priority	Medium-term targets	Measure/KPI	Performance			Progress in FY17	Objectives for FY18
			FY15	FY16	FY17		
 Sales growth Build and sell more than 3,000 units per annum at an average selling price of c. £300k	Build and sell more than 3,000 units per annum at an average selling price of c. £300k	Legal completions (units)	1,923 units	2,296 units	2,302 units	<ul style="list-style-type: none"> Total legal completions maintained at FY16 levels despite delivering just 49 first occupations this year compared to 69 in FY16 126 apartments sold to PFP Capital as part of a new strategic relationship allowing access to the growing rental market 	<ul style="list-style-type: none"> Deliver strong upward momentum in forward order book supported by an increased level of sales releases Continue to secure completion chains via effective use of part-exchange when required
		ASP (£k)	£245k	£264k	£273k	<ul style="list-style-type: none"> 3% improvement in ASP reflecting a continuing improvement in sales mix and quality of sites 	<ul style="list-style-type: none"> Deliver c. 80 new sales releases and c. 65 first occupations
		Revenue (£m)	£485.7m	£635.9m	£660.9m	<ul style="list-style-type: none"> Achieved 4% revenue growth despite a weakened forward order book brought into the year and fewer first occupations 	<ul style="list-style-type: none"> Continue to grow rental opportunity

Strategic priority	Medium-term targets	Measure/KPI	Performance			Progress in FY17	Objectives for FY18
			FY15	FY16	FY17		
 Investment in land and build £2.5bn investment in land and build over four years to FY19 to support growth and capture a larger share of the retiree market	£2.5bn investment in land and build by FY19	Cash investment in land and build (£bn)	£0.4bn	£0.5bn	£0.5bn	<ul style="list-style-type: none"> Continued to invest in land and build throughout the year despite seasonal cash availability skewed towards the second half of FY17 FY17 land and build spend of £0.5bn was on target 	<ul style="list-style-type: none"> Target land and build spend of c. £0.6bn - c. £0.7bn Continue to target high-quality land in accordance with our strict site purchase criteria, securing contract conditionality where appropriate
		Land bank (units)	10,087 units	10,186 units	9,967 units	<ul style="list-style-type: none"> Land bank stands at 9,967 units and represents 4.3 years supply There is detailed planning in place for 100% of FY18 planned first occupations and 65% of FY19 planned first occupations 	
		Sites acquired	90 sites	65 sites	75 sites	<ul style="list-style-type: none"> 75 sites acquired during FY17, reflecting continued momentum within our land acquisition strategy and the availability of high-quality sites Terms agreed on additional 1,355 units, representing a further 0.6 years supply 	

Our Medium-Term Strategy continued

Strategic priority	Medium-term targets	Measure/KPI	Performance			Progress in FY17	Objectives for FY18
			FY15	FY16	FY17		
 Operational efficiency Create an even more efficient and scalable business to support planned investment and targeted growth	Improve capital turn in order to maximise ROCE	Capital turn	1.0x	1.2x	1.1x	<ul style="list-style-type: none"> The decrease in FY17 underlying operating profit together with an increased level of investment in land and build has led to a reduction in capital turn to 1.1x (FY16: 1.2x) 	<ul style="list-style-type: none"> Continue to improve off-plan sales rates and target in excess of 50% off-plan reservations across all FY18 first occupations
						Sales initiative <ul style="list-style-type: none"> Exceeded our target to achieve greater than 50% off-plan reservations, with 53% off-plan sales achieved in FY17. In total, 26 developments of the 49 FY17 first occupations exceeded the 50% target, with six developments exceeding 80% off-plan sales rates Average time taken to sell out increased slightly to 19 months due to the final sell-out of older sites 	<ul style="list-style-type: none"> Target further reductions in time to sell out
						Development initiative <ul style="list-style-type: none"> Time taken between land exchange and build start reduced by c four weeks for standard sites. Build activity commenced on 73 sites during FY17 (FY16: 54) 	<ul style="list-style-type: none"> Continue to roll out our development initiative and target further reductions in average time taken from land exchange to build start
						Build initiative <ul style="list-style-type: none"> Datum platform is now in place to support standardisation, value engineering and cost management £3m of rebates invoiced in FY17 (FY16: £1.8m) 22 procurement tenders completed during the year, delivering a savings opportunity of £127k per development 	<ul style="list-style-type: none"> Focus on tighter management of build cycle by embedding consistent working practices and rolling out Datum platform across all new-build starts in FY18 Continue to adopt modern methods of construction in order to reduce build times further and pursue further margin improvement Ensure maximum rebate compliance is maintained across all developments

Strategic priority	Medium-term targets	Measure/KPI	Performance			Progress in FY17	Objectives for FY18
			FY15	FY16	FY17		
 Continued product innovation Meet our customers' changing needs and expand our customer base	Customer satisfaction Retain Five Star HBF customer satisfaction rating	Customer satisfaction rating	5 star	5 star	5 star	<ul style="list-style-type: none"> Five Star HBF customer satisfaction rating retained for 12th consecutive year Successfully increased capacity and capability of our management services business to ensure that we can meet the needs of customers at all new developments' Volume of developments managed increased from 264 to 312 	<ul style="list-style-type: none"> Retain Five Star HBF customer satisfaction rating Continue to increase capacity and capability of management services business in order to keep pace with growth in new developments
	Expand customer base Grow Lifestyle Living to c 10% of annual legal completions	Lifestyle Living completions (% of total completions)	1.0%	3.8%	4.4%	<ul style="list-style-type: none"> Lifestyle Living now represents c 7% (FY16: 8%) of land bank 101 (FY16: 88) Lifestyle Living units sold during FY17 with four new Lifestyle Living developments released for sale in FY17 (FY16: five) 	<ul style="list-style-type: none"> Grow Lifestyle Living to c 10% of land bank Continued innovation in our core products ensuring that we are meeting the needs of our customers Continue to expand our customer base through Private Rental Sector (PRS) opportunities and our Lifestyle Living 'Bungalow' product

Strategic priority	Medium-term targets	Measure/KPI	Performance			Progress in FY17	Objectives for FY18
			FY15	FY16	FY17		
 Focus on financial performance Target top-quartile sector margins and returns on capital	Improve underlying operating profit and maximise margins Target improved ROCE (25% target)	Underlying operating profit ¹ (£m) and underlying operating profit margin (%)	£95.3m 20%	£107.2m 17%	£96.2m 15%	<ul style="list-style-type: none"> £11.2m (2ppts in operating margin) decrease as a result of the age and mix of units sold, increased incentive costs and build cost increases offset by pricing improvements, some additional land renegotiation costs and our continued investment in our regional infrastructure 	<ul style="list-style-type: none"> Continue to target high-quality land with attractive margins Continue to pursue build cost savings via the build initiative Maintain strong balance sheet and focus on cash management Business growth to achieve operational leverage
		ROCE (%)	20%	20%	16%	<ul style="list-style-type: none"> 4ppts ROCE erosion as a result of a decrease in the FY17 underlying operating profit together with an increased level of investment in land and build 	
		Net (debt)/cash (£m)	(£44.4m)	£52.8m	£30.7m	<ul style="list-style-type: none"> Maintained strong net cash position due to a disciplined approach to land and build spend 	

¹ Underlying operating profit has been reconciled within note 6 to the Consolidated Financial Statements

Financial Review



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Rowan Baker, Chief Financial Officer

“The Group balance sheet remains strong with net cash of £31 million at the year end to support future investment in land and build”

¹ Underlying operating profit has been reconciled within note 6 to the Consolidated Financial Statements
² See page 158 for glossary of terms

Operating profit

£94.2m

(FY16: £95.1m)

Underlying operating profit¹

£96.2m

(FY16: £107.2m)

Net cash²

£30.7m

(FY16: £52.8m)

TNAV²

£676.4m

(FY16: £626.8m)

Our performance

McCarthy & Stone has continued to make progress towards achieving its medium-term strategic objective with significant focus placed on investment in land and build and keeping the workflow of the business firmly on track

Revenue

Revenue increased by 4% this year to £661m (FY16: £636m) primarily driven by an increase in average selling prices from £264k to £273k reflecting a continuing improvement in sales mix and quality of sites. Legal completions remained in line with the prior year at 2,302 units (FY16: 2,296) despite a weakened forward order book brought into the year and just 49 first occupations during the year (FY16: 69). Volumes benefited from the accelerated off-plan sales rates improvement from 50% in FY16 to 53% in FY17 and the bulk sale of 126 apartments to PFP Capital as part of the new strategic relationship allowing us to access the growing rental market.

Profit

The Group achieved an underlying profit before tax for the year of £94m (FY16: £105m) and a statutory profit before tax of £92m (FY16: £93m). This was achieved at a gross profit margin of 20% (FY16: 21%) and an underlying operating margin of 15% (FY16: 17%). This reduction in operating profit margin was driven by the age and mix of stock sold, an increase in incentives offered to customers to close out completion chains in light of the increased uncertainty in the secondary market, build cost increases offset by pricing improvements, some additional abortive land costs as we sought to reposition our land bank and our continuing investment in regional operational infrastructure to support our growth strategy.

The overheads in the business continued to be well-controlled with total administrative expenses for the year of £37m (FY16: £33m), excluding exceptional items and amortisation of brand. They remain at broadly the same proportion of revenue as last year of 6% (FY16: 5%) and reflect the investment being made to deliver the strategic growth of the business.

Capital structure and interest

We closed the year with a tangible gross asset value (TGAV*) of £646m (FY16: £574m), which was a year-on-year increase of 13%, primarily due to the continued level of land and build investment during the year. Similarly, our tangible net asset value increased to £676m (FY16: £627m). The Group continued to maintain a robust financial position with a net cash balance of £31m at 31 August 2017 (FY16: £53m) and negative gearing of 4% (FY16: 8%). This reflects management's ongoing focus on disciplined cash spend in response to continuing economic uncertainty and was achieved notwithstanding the negative cash impact of our new in-house part-exchange tool which resulted in £32m part-exchange assets being held on the balance sheet at the year end (FY16: £nil). We maintained a strong balance sheet and appropriate headroom against our £200m revolving credit facility (RCF) throughout the year.

The Group incurred net finance expenses of £2m during the year (FY16: £2m), benefiting from a full year of lower interest costs under the Group's amended RCF and the annual revaluation of its shared equity debtors.

Exceptional costs

There were no exceptional costs incurred during FY17. Total exceptional costs recognised within

the Consolidated Statement of Comprehensive Income during FY16 were £10m, of which £9m related to IPO advisor fees and associated costs and £1m related to management incentives, restructuring, redundancy and refinancing costs.

Taxation

The effective tax rate was close to the statutory rate during the current financial year. The total tax charge for the year was £18m (FY16: £19m) which represents an effective tax rate of 19% (FY16: 21%) based on a profit before tax of £92m (FY16: £93m). Reductions in the rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020 were substantively enacted on 18 November 2015 and 6 September 2016 respectively.

Earnings and dividend

Adjusted underlying basic earnings per share decreased by 12% to 14.2 pence (FY16: 16.1 pence) reflecting the lower level of profit after tax achieved this year. Basic earnings per share for FY17 were 13.8 pence (FY16: 13.9 pence). Details of the calculation of earnings per share can be found in note 12 to the consolidated financial statements.

The Directors are proposing a final dividend of 3.6 pence per share. This follows the interim dividend of 1.8 pence per share, giving a total dividend for the year of 5.4 pence per share. The proposed final dividend reflects our progressive dividend policy as stated at the IPO. The proposed dividend is covered 3 times by earnings. Subject to shareholder approval at the AGM, the dividend will be paid on 1 February 2018 to shareholders on the register at 5 January 2018.

The total cost of the final dividend is £19m, resulting in a total dividend cost relating to the year of £29m (FY16: £24m).

Risk management

The Group maintains a robust risk management framework, providing a clear link between strategy and the strategic, operational and financial risks faced by the business. The approach to risk is set by the Board, which maintains a close involvement in identifying and mitigating risk and monitors certain key risk indicators at Board meetings on a regular basis.

As part of managing the financial risk in the business, the potential impact of a downturn in the housing market or the broader UK economic environment is regularly evaluated and we have a number of key risk indicators that

Graphic removed

Image

1. Swift House, Maidenhead

are used at Board level in order to assess this. Our national reach and diversified portfolio of land ensures that we are not overly dependent on particular local markets or individual developments. In addition, our distinct business model helps to insulate our business from a downturn, with land acquisition normally contracted subject to planning and also often subject to commercial viability or by way of option, enabling us to review land acquisition decisions in light of planning outcomes and latest market conditions prior to committing significant capital.

Target returns

Our continuing investment in land and build in order to deliver future growth together with the lower underlying operating profit delivered in FY17 led to a decrease in ROCE by 4 ppts to 16% (FY16: 20%) and a reduction in capital turn to 1.1x (FY16: 1.2x). These metrics will recover, however, once our growth plans begin to deliver results. The workflow of the business remains firmly on track as a result of our continuing investment for growth and allows us to target future increases in both margin and ROCE with the aim of achieving a ROCE of 25% over the medium-term.

Rowan Baker
Chief Financial Officer
13 November 2017

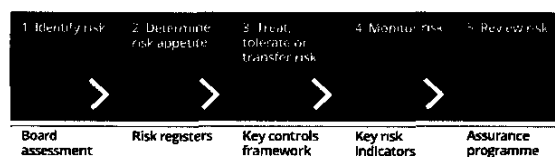


Risk Management

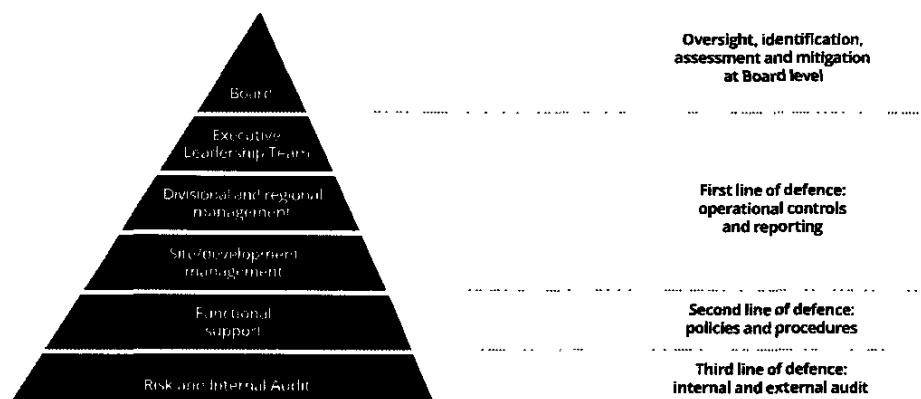
How we manage the risks to our business

Effective management of risk is integral to the successful implementation of our corporate strategy. Risk is managed through a five-step risk management process, led by the Board

Our risk management process



McCarthy & Stone's governance



The maintenance of formal risk registers, the identification of key control frameworks, the monitoring of key risk indicators and the pursuit of a broad assurance programme provide all levels of management with a clear framework within which to operate

The Group's risk management framework requires the maintenance and regular update of Group risk scorecards and regional risk registers to identify the risks to our business model and strategic plan, with the major risks reviewed by the Board in the context of the Group's appetite for risk. Since the beginning of FY17 the Board has recognised an increase in the following risks:

- A risk in relation to Government legislation has been increased as a result of the recently announced government consultation on ground rents
- The Board has also recognised an increased risk in relation to the timing of legal completions and profit being skewed towards the year end, which increases the risk in respect of forecasting accuracy and the timing of cash receipts required to fund further growth

The Board has downgraded the risk associated with build programmes and build costs as further progress has been made in tightening the control environment around build costs

The risk scorecards and registers are supported by frameworks of key operational and financial controls that enable risks to be treated, tolerated or transferred to third parties

The risk scorecards and registers are complemented by the monitoring of a set of key risk indicators approved by the Executive Leadership Team, which provide early warning of potential issues and enable management to react accordingly. Those risk indicators establish the risk appetite for each risk and are monitored at Group and regional levels.

Assurance is provided over the effective design and operation of the risk framework through a formal programme of assurance activity. This is structured around three lines of defence:

- 1 management assurance, through operational controls and reporting
- 2 functional support in the form of formal policies and procedures
- 3 programme of assurance activity, including internal and external audit

During FY17 internal audit reviews have focused on the following key areas of the business and identified ways of enhancing the control environment:

- The selling processes post first occupation
- Building in line with budget and programme including the implementation of new commercial and construction key controls
- Customer satisfaction
- IT project governance in relation to new initiatives

Overall oversight is provided by the Board, with individual members of the Board and the Executive Leadership Team sponsoring each of the key risks.

Monitoring key business risks

The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

Key business risks are formally identified, reviewed and updated by the Executive Leadership Team every six months using a risk scoring methodology. Each risk is categorised based on likelihood and potential impact. Once agreed with the Executive Leadership Team, the risks are plotted on a risk heat map and submitted to the Risk and Audit Committee for approval and subsequently to the Board.

The risk appetite is established by a bi-annual review of the risk heat map by the Executive Leadership Team. This review confirms whether the relative position of risks is acceptable and if not what actions need to be taken to reduce the likelihood or impact. A rating is given to each risk that defines whether the risk is within the risk appetite and requires no further attention, if the risk is crystallising and therefore action should be taken before the risk appetite is breached or whether the risk is already beyond the risk appetite requiring immediate action. The status of each key risk indicator is reviewed for all risks beyond the risk appetite and reported to the Executive Leadership Team and the Board. As part of this review, the Executive Leadership Team will review the actions required and ensure that progress is being made and conclude whether the proposed actions are still sufficient.

The risks attributed to each land acquisition opportunity are assessed by local regional management using predetermined criteria and form part of the regional submission to the Group Investment Committee, which approves each land purchase. Following land acquisition, the construction and commercial risks and opportunities are recorded in a development risk register. A range of worst-case to best-case potential out-turn costs are monitored and managed throughout the construction phase, allowing risks to be formally managed and opportunities realised.

Internal control environment

The core elements of the Group-wide internal control environment are organisational structure, culture and values, corporate strategy and a key controls framework.

Organisational structure

The Group's organisational structure is established around clear divisions of responsibilities between the Board and the Executive Leadership Team. The Board is responsible for the operational control of the Group, including all strategic, financial, organisational, legal and regulatory matters.

The Executive Leadership Team is responsible for the day-to-day management of the operational activities of the Group. Each member of the Executive Leadership Team has a 'leadership team' of direct reports, who are collectively responsible for the overall system of internal control across the business.

Culture and values

The Group has developed a values framework which consists of five cornerstone principles: passion, responsibility, innovation, determination and excellence (PRIDE). These are used as a guide to conduct business from key decisions to day-to-day activities.

These values are widely communicated across the business to ensure alignment with strategic aims and to actively encourage a culture that promotes teamwork, involvement and empowerment at all levels of the Group. These values play a key role in recruitment across the business.

Corporate strategy







The corporate strategy principally focuses on investing £2.5bn in land and build and on increasing the size of the business over the medium term. The strategy has been well documented and communicated both internally and externally. To support this strategy the Group has identified five strategic priorities, as discussed on page 48.









Key controls framework

The key controls framework defines the Group's most important internal controls on which it places key reliance in the management of its core business and reporting on its performance and progress towards strategic objectives. The Group operates consistent financial management, reporting controls and processes across its nine regions. These are monitored by the Group Financial Controller and her team in order to ensure their effectiveness. The key controls framework is reviewed and tested annually with the results presented to the Board, and is also subject to internal audit review.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Group include, but are not limited to

Risk area	Risk description	Mitigating actions
Economic conditions 	<p>Housebuilding is cyclical and reliant on the broader economy. A deterioration in the economic outlook, including economic growth, inflation, interest rates and buyer confidence, could have a significant impact on the Group's financial performance and ability to sell both retirement apartments and the properties acquired as part of the recently introduced in-house part-exchange scheme.</p> <p>The uncertainty in the economy and specifically the secondary housebuilding market following the result of the EU Referendum and General Election is likely to continue in the short to medium-term as Brexit negotiations continue.</p>	<p>The Group closely monitors industry indicators and assesses the potential impact of different economic scenarios. Decisions to allocate new capital to land and build are managed centrally through the Group Investment Committee. The Group aims to maintain a national and product spread of developments to ensure that it is not reliant on one particular locality or product type.</p> <p>The operation of in-house part-exchange scheme introduced during the year is subject to strict controls and regional limits.</p> <p>In addition, over the course of the last financial year, the Group has sought to enhance the robustness of its business model by developing a strategic relationship with PIP Capital to access the growing rental market. This will help to offset any potential impact of a downturn in the secondary housing market.</p>
Reputation and customer satisfaction 	<p>The Group constructs and sells a quality product to an ageing and sometimes frail customer base and provides ongoing management and personal care services. Any issues with the products or services the Group provides could impact on reputation or customer satisfaction to the detriment of the Group's business model.</p> <p>Adverse national publicity with respect to re-sales, especially older non-managed properties and those sold just prior to the housing market crash in 2008, can result in lower resale values, which in turn can adversely impact our ability to sell new retirement apartments.</p>	<p>The Group enforces strict procedures over the handover of developments for occupation and the handover of specific apartments to individual customers. Ongoing management and personal care services are provided within a robust framework of controls which is closely monitored. The business has a dedicated customer services team and tracks customer satisfaction through NHBC, HBF and internal surveys.</p> <p>A new in-house estate agency has been established to support the re-sales process for customers in our managed developments on the private market, with the aim of speeding up the sales process and maximising value on resale.</p>
Sales performance 	<p>The Group's growth plans assume that it can sell its products at attractive prices. Any volume shortfall or pricing weakness could have a significant impact on the Group's financial performance.</p>	<p>Detailed reporting enables the Group to monitor sales and pricing at a site and unit level and regularly review performance against expectation with regional management. A strict approval process has been introduced during the year for awarding discounts and incentives in excess of certain thresholds.</p>
Workflow management 	<p>The Group has historically suffered from a bias towards achieving the majority of its completions and profit in the second half of each financial year. Hence, any political uncertainty or adverse market conditions during this period could adversely impact the Group's annual performance. This was evidenced by the EU Referendum result in 2016 and to a lesser extent the General Election outcome in 2017.</p>	<p>The Group is taking action to spread the workflow more evenly throughout the year, which is likely to take effect from FY19 onwards, and continues to seek ways in which to improve this. Workflow is closely monitored by regional management and the Board.</p>
Government legislation 	<p>Like any other business, the Group is affected by changes in Government legislation. It is possible that the outcome of the recent Government consultation on unfair leasehold practices could adversely impact the Group's business model.</p>	<p>The Group closely monitors Government proposals and consultations and seeks alternative solutions, including lobbying Government, submitting consultation responses, and combining views with other companies in the sector to mitigate any potential adverse impact on the business model. The Group has recently carried out an impact assessment of lower and no ground rents and reviewed its land appraisal process accordingly.</p>
Build programmes and build costs 	<p>The Group's financial performance is dependent on its ability to deliver build programmes on time and on budget. Build programme or cost over-runs could result in slower sales or reduced margins.</p>	<p>Build progress and costs are reviewed regularly by dedicated regional commercial teams, as well as being reported to regional, divisional and Group management. Independent assurance is provided through a dedicated commercial internal audit resource. Framework agreements have been established with key subcontractors and suppliers to provide greater certainty of price and supply. In addition, the Group has recently implemented a tighter control framework over higher risk more complex developments.</p>

Risk area	Risk description	Mitigating actions
Employees 	The Group's employees are central to the achievement of the Group's objectives. Failure to recruit and retain sufficient staff resource of the right quality could constrain growth plans	The Group has put in place attractive reward mechanisms and provides extensive opportunities for personal development and training, both of which are regularly reviewed against peer housebuilders and other employers in local markets. Resource requirements are assessed against annual budgets and recruitment processes are designed to ensure talent attraction to deliver the Group's plans
Carrying value of land 	The net realisable value of land owned by the Group may decline due to changes in the property market or other conditions, or the Group being unable to secure detailed planning consent on land purchased unconditionally	Whenever possible, contracts to purchase land are via option agreement or are conditional on the Group obtaining detailed planning consent and contain a commercial viability clause. The Group performs impairment reviews in line with International Financial Reporting Standards (IFRS) requirements
Health & Safety 	Construction sites are inherently risky, and could expose employees/contractors to the risk of serious injury/fatality. Homeowners in the developments the Group manages are ageing and sometimes frail, with the risk that they can be more susceptible to injury	The Group strives for excellence in health and safety and considers it to be a top priority. The Health & Safety Operations Director reports directly to the Executive Leadership Team, identifying areas of concern, near misses and accidents. This is supported by a rigorous, independent site inspection process which routinely assesses and reports on standards. During the year, the Group also established a Health & Safety Committee, chaired by our Chief Operating Officer
Land acquisition and planning 	Poor-quality land and/or location could result in programme/cost over-runs and difficulty in selling. Failure to obtain timely planning permissions will adversely affect workflow, resulting in failure to meet targeted growth rates, future sales and/or cash flow	Regional land buying teams are in place across all regions providing local knowledge and expertise. These teams are targeted on land exchange and completion as part of their bonus structure. We acquire land with a high-degree of conditionality Regional planning teams have the support and oversight of the Group Investment Committee
Cyber/data 	Failure of any of the Groups IT systems, in particular those relating to customer data, surveying and valuation, could adversely impact the performance of the Group	The Group maintains central IT systems and has in place a fully tested disaster recovery programme. This is supplemented by regular reviews to seek to reduce the risk of successful cyber-attacks and a General Data Protection Regulation (GDPR) programme to ensure compliance
Change  Increased  No change  Decreased		

Viability statement

In addition to making a going concern statement, the Directors are also required to make a longer-term viability statement to comply with provision C.2.2 of the UK Corporate Governance Code 2014.

In response to that, the Directors have assessed the prospects and financial viability of the Group, taking into account both its current position and circumstances, and the potential impact of its principal risks. The Directors consider a three-year period was appropriate for this assessment as our capital cycle from land completion to final sell-out of a development, for FY17 build starts, is approximately three years. Our land pipeline also provides us with sufficient land under control to meet sales targets for the next three years. Accordingly, we consider it

appropriate that our viability review period is broadly aligned with the expected longevity of our owned land supply.

The Group is subject to a number of principal risks (as set out in more detail above, and the Directors' viability statement review considered the impact that these risks might have on the Group's ability to meet its targets. This was undertaken through the performance of a single downside case sensitivity, which reflects a severe but plausible impact assuming that appropriate steps are taken to mitigate the impact of the downside.

The Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year assessment period.

Corporate Social Responsibility Report

A responsible housebuilder

Graphic removed

Our focus on enriching the lives of our homeowners and employees influences all of our activities, from identifying and buying suitable land to designing, building, selling and managing high quality age-exclusive properties

Graphic removed

Images

- 1 West Midlands Region, Dragon Boat Race
- 2 Celebrating the opening of Hamon Court, Hunsdon

Introduction

This, our second Corporate Social Responsibility ('CSR') report, since re-joining the London Stock Exchange, encompasses all the operations from the land acquisition, planning and design stage through construction to management of our occupied developments. It explains how we interact with our stakeholders, namely our employees, our customers, our homeowners and the communities in which we operate.

As the UK's leading retirement housebuilder, our driving ambition across our business is to enrich the lives of our homeowners and employees. We aim to deliver this by

- creating a great place to work which is both safe and inspiring for our employees
- minimising the environmental impact of our activities
- engaging positively with the local communities in which our developments are built
- building a culture of excellence in health and safety across all our business activities
- building safe and vibrant developments to help older people lead healthy independent lives ensuring that they experience retirement living to the full

Our CSR Committee meets quarterly and is chaired by Gary Day, our Executive Land & Planning Director. It includes representatives from across the business - Land & Planning, Procurement, Construction, Regional Management, Health & Safety, HR, Communications, Management Services and Legal. The Committee reports directly to the Executive Leadership Team and indirectly to the plc Board.

Our priorities for FY17 and FY18

The main priorities of the Committee in FY17 have been

- establishing KPIs
- implementing a framework for greenhouse gas emission reporting

During FY18 the Committee will focus on

- continuing to improve our CSR performance
- refining our CSR reporting framework

Planning and design

We understand that our homeowners want to remain active within their community and near to local amenities and public transport links. On average our homeowners move no more than five miles from their current home into a McCarthy & Stone apartment, so our developments are clearly helping to meet a critical and growing local housing need.

We have strict criteria when purchasing land to ensure the location will suit the needs and aspirations of customers. Our developments are typically built on centrally located, urban, brownfield sites which were previously developed or had an existing established use.

Examples of sites we have purchased include local authority surplus car parks or buildings, police and fire stations, garages, pubs, care homes and hotels. In FY17 92% (FY16: 94%) of our land exchanges were brownfield sites.

We always seek to optimise the development density of our sites. This, combined with a relatively low level of car ownership and usage amongst our homeowners, means that we deliver a highly sustainable form of development.

Community consultation

We consult with local communities, businesses and other relevant stakeholders on every new planning application we bring forward (both pre and post-submission), including holding one-to-one meetings, discussions with affected parties and public exhibitions. This gives neighbours and other interested parties a platform to voice their opinions, many of which help to inform our designs and approach to construction.

During FY17, over 92 (FY16: 133) consultations and exhibitions were held with 84.4% (FY16: 79.6%) of attendees advising that they found them informative.

Construction

We are aware of the impact that the construction phase of our activities can have on the local community. All of our sites must comply with internal policies around levels of noise, cleanliness and presentation and some of our sites are accredited under the Considerate Constructors Scheme ('CCS').

Graphic removed

Minimising our impact on the environment

There are clear environmental and business benefits to designing energy efficient homes, using responsibly sourced and efficient materials, and with the minimum of waste sent to landfill.

Having a clear understanding of where our money is being spent and how much waste we create during the construction and operation of our developments allows us to make better informed business decisions whilst ensuring we minimise our environmental impact.

We are committed to reducing the level of waste generated by our construction sites year-on-year as this will bring both financial and environmental benefits.

Of the 18,821 tonnes of waste generated on our construction sites in FY17, only 1.7% (320 tonnes) went to landfill, the rest being recycled. We continue to work with our waste management companies to further improve this figure, as well as with our suppliers to reduce waste further up the supply chain.

DID YOU
KNOW?

98.3%

Waste recycled in FY17
(FY16: 94.4%)

Corporate Social Responsibility Report continued

Greenhouse gas emissions reporting

This section has been prepared in accordance with our regulatory obligation to report greenhouse gas (GHG) emissions pursuant to Section 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. As a newly listed company, this is the first year we have reported our GHG emissions in our Annual Report.

During the period from 1 September 2016 to 31 August 2017, McCarthy & Stone emitted a total of 16,382 tonnes of Carbon Dioxide equivalent (tCO₂e) from combustion of fuel and operation of facilities (Scope 1 direct) and electricity purchased for our own use (Scope 2 indirect, location-based).

The table below shows our GHG emissions for the year ended 31 August 2017.

Greenhouse gas emissions in tCO₂e

	FY17
Combustion of fuel and operation of facilities (Scope 1)	8,681
Electricity, heat, steam and cooling purchased for our own use (Scope 2 location-based)	7,701
Electricity, heat, steam and cooling purchased for our own use (Scope 2 market-based)	2,661

¹ Scope 2 emissions calculated using the market-based approach using supplier specific emission factors are calculated and reported in tCO₂.

Methodology

We quantify and report our organisational GHG emissions according to the Greenhouse Gas Protocol. Our sustainability consultant, Carbon Credentials, performed the calculations to convert our activity data into CO₂ equivalent using the UK Government 2017 Conversion Factors for Company Reporting.

This report has been prepared in accordance with the recent amendments to the GHG Protocol's Scope 2 Guidance, we have therefore reported both a location-based and market-based Scope 2 emissions figure. The Scope 2 market-based figure reflects emissions from

electricity purchasing decisions that McCarthy & Stone has made.

When quantifying emissions using the market-based approach we have used a supplier specific emission factor where possible. If these factors were unavailable, a residual mix emission factor was used. This approach is in line with the GHG Protocol Scope 2 Data Hierarchy.

We have also chosen to report our emissions per number of managed developments (312).

Greenhouse gas emissions in tCO₂e

	Location-based approach FY17	Market-based approach FY17
Total Scope 1 and 2 tCO ₂ e per Managed Development	16,382	11,341
	52.5	36.4

The emissions intensity calculation is based on a figure of 312 managed developments for the year September 2016 to 31 August 2017.

Reporting boundaries and limitations

We consolidate our organisational boundary according to the operational control approach. Emissions for all significant sites have been disclosed, which includes our offices, construction sites and developments.

The GHG sources that constitute our operational boundary for FY17 are:

- **Scope 1:** Natural gas combustion within boilers, diesel combustion within generators and road fuel combustion within vehicles.
- **Scope 2:** Purchased electricity consumption for our own use.

As this is our first year of reporting we have been unable to gather sufficient information on refrigerant consumption across the organisation, therefore this is excluded from our disclosure.

Graphic removed

Assumptions and estimations

As this is the first year we have reported our GHG emissions, our data collection processes have not been fully operational across all areas of reporting. We have therefore used some assumptions in order to estimate our activity data. For example, we did not have records of vehicle fuel consumption available for management services' employees or company vans. Therefore, estimations were made using available data from other parts of the business.

In addition, accurate records of diesel combustion in generators at construction sites were not available in time for reporting. Therefore, an estimation was used based on average diesel consumption at each site as well as available records from procurement.

In some cases, missing data has been estimated using extrapolation of available data from the reporting period.

Improving performance

We monitor energy consumption on the developments we manage in detail to identify opportunities to improve energy performance. We have now begun the process of collecting more accurate data for construction sites and offices. This will help us to understand more about our consumption and energy use, and to reduce our emissions going forward.

Efficient homes

We design our developments to maximise the performance of the fabric and materials of the building. The "fabric first" approach is used for a number of reasons:

- It prioritises the largest item of energy consumption in homes maintaining a comfortable internal temperature
- The energy efficiency is integrated into the building and does not require occupants to operate complex systems or change their behaviours

We employ a range of methods across our "fabric first" approach including:

- Maximising air tightness
- Installing insulation in walls and loft spaces
- Optimising solar gain through openings and shades
- Optimising ventilation and using the thermal mass of building fabrics
- Addition of photovoltaic cells to buildings where practical

Customer feedback

We also listen and respond to customer feedback. Our current work on improving kitchens is a good example of this. Around 20% of our negative or neutral feedback on the NHBC New Homes Survey was related to kitchens, with storage space the most common criticism. As a result, we have improved the specification of our kitchens and implemented an optimised design to make better use of the storage space.

Engaging with the community

We do not just consult with local communities at the planning stage – we also engage with them during the construction phase. Activities include visiting local schools or organising visits to our sites to encourage children to understand the dangers of construction sites.

Creating a culture of excellence and a great place to work

Our people are vital to the continued growth and success of our business. We recognise that attracting and retaining employees is only possible if we provide the right working environment, appropriate reward and recognition schemes and opportunities for personal development and training.

At 31 August 2017, the Group employed 2,264 people (FY16: 2,094). This figure excludes subcontractors and agency workers. Some 59% of employees in the main business are employed on sites or at developments or as House Managers with the balance based in our regional and central offices.

Employee communications

We communicate with our employees through a variety of channels including regular updates and the Group's quarterly staff newsletter. Group-wide business updates led by our Chief Executive Officer on the business strategy give employees an opportunity to provide feedback to management.

DID YOU
KNOW?

>13,500

Online and face-to-face
training courses
completed in FY17

Employees: as at 31 August 2017

		Female	
Directors of the Board			
– actual number	5	2	7
– percentage	71.4%	28.6%	
Employees in senior management positions (including Directors of subsidiary companies)			
– actual number	103	27	130
– percentage	79.2%	20.8%	
Total employees of the Group (excluding Non-Executive Directors)			
– actual number	756	1,508	2,264
– percentage	33.4%	66.6%	

At the end of the financial year 56.6% of all employees were female and 42.7% were over the age of 50.

Employee survey

Our latest all-employee survey was carried out in October 2016. The response rate was 86% and, as shown in the table below, demonstrated that our employee engagement scores continue to be significantly higher than external benchmarks.

External benchmarks for the employee survey are provided by the external supplier, and are based on responses to the same question from other survey participants.

2017 Employees survey	FY17 %	2016 %	External benchmark %
I am proud to work for McCarthy & Stone	87	89	63
I would be happy to recommend McCarthy & Stone as a place to work	79	81	74
I feel a sense of belonging at McCarthy & Stone	77	76	54
I feel valued for the work I do	74	74	44
I am clear about how my role contributes to McCarthy & Stone's success	90	91	62

Corporate Social Responsibility Report continued

Our values are:

**Passion
Responsibility
Innovation
Determination
Excellence**

Graphic removed

Recognition of achievements

Our values, which were chosen by our employees, are the standards to which we hold ourselves accountable and reflect the way we work, the way we communicate and the way we act



We celebrate and recognise employees who go the extra mile for a customer or colleague through our quarterly and annual PRIDE awards. Our progress is illustrated by our most recent employee survey, which identified that 87% of our employees are proud to work for McCarthy & Stone.

Any staff member can nominate a colleague for an instant PRIDE award which is judged by our regional PRIDE champions. Each quarter, instant PRIDE winners are then put forward for quarterly awards with overall winners being judged on an annual basis. During FY17, 674 PRIDE awards were presented.

NHBC Pride in the Job awards

We are extremely pleased that our standards are recognised externally. In 2017, 15 of our site managers were awarded NHBC Pride in the Job awards, an impressive 50% increase over 2016.

NHBC Pride in the Job is the industry's most prestigious awards programme, the awards recognise site managers who achieve the highest standards of housebuilding and who demonstrate the highest qualities of workmanship, leadership, technical expertise and health and safety awareness. 7 of our site managers have received an NHBC Seal of Excellence Award.

Apprentices and trainees

We offer aspiring site managers the opportunity to learn hands-on skills on our construction sites whilst studying towards a NVQ qualification such as Level 4 Diploma in Construction and Building Services Management, and Supervisors and Technical Certificate Level 4 NHC in Construction and the Built Environment. We also participate in a Shared Trade Apprentice Scheme, partnering with South West-based subcontractors, and various colleges. We hope that, once qualified, the apprentices will continue working for the Group, thus helping

to alleviate national shortages in skilled labour.

We have also offered trainee contracts in other departments such as Sales, Finance and Legal.

Opportunities for development

We have an ongoing commitment to training, and personal and professional development. Performance against objectives is formally reviewed on an annual basis. As well as setting objectives, the process includes the identification and implementation of a tailored personal development plan. Improvement programmes focusing on quality, efficiency and customer service provide an opportunity for all employees to be involved in the development of our business and products.

Student placement scheme

The Group is also developing the next generation of housebuilders through a student placement scheme run in conjunction with Northumbria University. As part of the scheme, which has been running since 1991, students studying for the BSc Hons in Construction Project Management have the opportunity to spend a year working at McCarthy & Stone.

Image

1 Children and teachers from Hucknall Day Nursery visit Whyburn Court, Nottingham

This works well for both the students, who gain on-site experience, and for McCarthy & Stone, with many students competing for placements and choosing to become employees after they graduate

Four new students started their placement years with us in August 2016. In total, over 130 people have completed the scheme with us since it was launched with several scheme participants continuing to work for us after completing their degrees. Some have risen to senior roles in the organisation, including two who are now regional managing directors

Employee involvement

Employees are encouraged to participate in the success of the Group. We currently have two share schemes which are open to all employees - a Sharesave plan ('SAYE') and a Share Incentive Plan ('SIP'). The SAYE savings contracts are for either three or five years. Neither scheme is subject to performance conditions

Diversity and inclusivity

We are committed to promoting policies to ensure that our employees are treated equally, regardless of status, gender, sex, age, colour, race or ethnic origin

We give full consideration to applications for employment from people with disabilities where the requirements of the job can be adequately fulfilled by a person with a disability. Should any employee become disabled, it is the Group's policy, wherever possible, to continue the employment of that person. It is the Group's policy to provide equal opportunities for the training and career development of employees with disabilities

We have recently reviewed and updated our Equality and Diversity Policy

Human rights

We support the United Nations' Universal Declaration of Human Rights and have policies and processes in place to ensure that we act in accordance with principles in relation to areas such as anti-corruption, diversity, whistleblowing and the requirements of the Modern Slavery Act 2015. All suppliers are required to confirm compliance with our Modern Slavery Policy which was adopted during the year

House Manager & Estate Manager of the Year awards

Two years ago we introduced our House Manager and Estate Manager of the Year awards to recognise the amazing work that our people do in managing our developments. These awards recognise the House Manager and Estate Manager who have excelled in their role and gone above and beyond to enrich the lives of colleagues and homeowners alike. In June our House Manager and Estate Manager of the Year for 2017 were announced

Graphic removed

Katrina Andrews, House Manager of the Year 2017
and Richard Wilson, Estate Manager of the Year 2017

Building a culture of excellence in health & safety

Health & safety continues to be one of our top priorities. In FY17, we relaunched our Health & Safety Committee, which meets quarterly. Members of the Committee include representatives from Health & Safety, Construction, Legal, HR, Marketing and Management Services and is chaired by John Tonkiss, our Chief Operating Officer

The Committee has oversight of all aspects of the Group's health and safety management policies and procedures, as well as regulatory issues and best practice

In addition, the Health & Safety Operations Director reports directly to the Executive Leadership Team. As well as the central team who determine our health and safety strategy, we have a Group Construction Health & Safety Manager and regional Health & Safety advisers

Katrina Andrews, our House Manager at Coppice Gate, Dibden Purlieu, has a long background in customer service and care, and was appointed as House Manager at Coppice Gate when it first opened in August 2016. Nominations for Katrina commented on how supportive she is to everyone around her, how fun she is and how she has a real passion for working with people. She commented on how coming into work was not like work at all, and that to make a difference to people's lives was the best possible job satisfaction

Richard Wilson has worked for YourLife Management Services since March 2014, and received countless nominations for his fantastic work, enthusiasm and positivity as well as always being fair and approachable to both colleagues and homeowners. On accepting his award, Richard said how lucky he felt to have a job he enjoyed so much

On-site, we emphasise a proactive approach to health and safety as well as reinforcing the individual responsibility that every site worker has for their, and their colleagues' health and safety. All staff (both employees and contractors) are required to have adequate health and safety qualifications before starting work on one of our sites and all contractors are required to hold a valid Construction Skills Certification Scheme Card. This evidences that the contractor has the relevant skills required for their role, including understanding the health and safety implications of the work they perform

We require all of our site managers and assistant site managers to hold Construction Industry Training Board's ('CITB') Site Management Safety Training Scheme qualifications and to be qualified first aiders. There must be a qualified first aider on-site at all times and all incidents must be reported internally. We believe our rigorous reporting standards provide us with a very honest portrayal of our accident statistics

Corporate Social Responsibility Report continued

During FY17, we reported 23 incidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) to the Health & Safety Executive. We have been actively encouraging transparency of accident reporting and we believe that the increase in RIDDOR reporting this year is a reflection of the greater level of scrutiny placed by the Group on this area.

We employ the BSG to undertake independent audits of our construction sites throughout the year and it visits each site every three weeks during the build process. Although a recalibration of the scoring criteria for the BSG audits in FY17 has resulted in lower average scores, it also provides more meaningful feedback than before. During FY17 our average score was 86.1% against the new scoring criteria (FY16: 98.7%). These audits help the Group move closer to its goal of achieving a culture of excellence in health and safety.

Since 2015, the Group has entered its sites for the NHBC Health and Safety Awards. These have been running for eight years, and recognise and reward the very best in health and safety, with the aim of driving up standards, and showcasing and sharing best practice.

During FY17, we received two NHBC Health and Safety commendations and won three BSG Health and Safety awards. We won the BSG Best Use of Technology for Health & Safety award for our pioneering work using drones for roof inspection to obviate the need for work at height. We also won two Site Manager of the Year awards in BSG's South West and Midlands regions respectively.

All our house managers and estate managers have basic first aid training and are qualified to make initial assessments of minor trips and falls. Any incident involving a homeowner on one of our developments merits a full enquiry performed by our Health & Safety team with a view to ensuring that the incident is not repeated.

From August 2017, all of our new developments are being fitted with automatic external defibrillators.

All offices have a qualified first aider whose training is refreshed annually. All staff are also required to complete a desk-based questionnaire concerning their desk space and seating arrangements.

In 2014, we brought our health and safety training in-house, allowing us to tailor the courses to our needs. We have introduced training for staff to enable them to become increasingly self-supportive in their management of health and safety. During FY17, the Group delivered 355 in-house training courses for employees and 178 in-house training courses for contractors. In total, 563 people attended safety workshops and 17 BSG safety surgeries were held.

Living in a McCarthy & Stone development

Our Retirement Living and Retirement Living Plus developments have a house manager or estate manager on-site during working hours or up to 24 hours a day, respectively. Since 2010 these services have been provided in all new developments by our in-house management services businesses. Their role is not only to help deal with any issues that our homeowners may have but also to help create a friendly and communal environment where the homeowners can, if they wish, seek companionship and make new friends. To support this, the Group has set up a 'community fund' which can be spent at the House/Estate Manager's discretion with the aim of engendering a sense of community within the first year of each new development.

We are very proud of the work that our management services businesses do in promoting social interaction among our homeowners. More than 27,600 social events were held in our managed developments during FY17, averaging more than seven events per development per month.

Social events are organised in our homeowners' lounges and range from coffee mornings, film and quiz nights, music evenings, exercise and craft classes to local interest talks and events.

Our homeowners have been especially supportive of our 40th year celebration RVS fundraising challenge, holding coffee mornings and bake-off competitions.



Our homeowners tell us what they think of McCarthy & Stone

In August 2017 we commissioned our second homeowners' satisfaction survey, contacting homeowners in our developments which have been open for at least 18 months. We undertook the survey to see how our scores compare to the NHBC surveys, which are undertaken at eight weeks and at nine months.

Over 4,200 homeowners (51%) responded and the results compare very favourably with the NHBC survey. Overall satisfaction had improved slightly from 85% to 86%. Feedback around the quality of life in our developments was, on the whole, positive as indicated by the responses shown in the table below.

We will use the feedback from the survey to inform discussions across the business on how we can improve the design, layout and management of our developments.

Helping our homeowners to reduce their carbon footprint

During 2016, we began a roll-out of smart electricity meters across our developments. These allow us to monitor usage on a real-time basis, both in terms of kWh and cost of electricity used within shared areas on a half-hourly basis. As at 31 August 2017, 98 developments had these smart meters installed, representing approximately 31% of the Group's managed developments.

Key figures from our 2017 Homeowners' Satisfaction Survey

	Agreed	Disagreed
I feel safe and secure in my property	96%	2%
My property is easy to maintain	94%	1%
My property is easy to live in / suitable for my needs	93%	3%
I have good access to local amenities and facilities	91%	3%
I feel 'at home' in my property	89%	3%
I find the communal areas homely and welcoming	85%	5%
I make use of the communal areas to socialise	80%	5%

The data from the new meters has been received enthusiastically by homeowners with energy savings already starting to be seen. Some of the benefits include: laundry facilities being used outside of peak hours when electricity is cheaper, windows and doors being kept shut when the heating is on, and the heating being turned down when not required.

We will start our roll-out of smart gas meters across the Group's Retirement Living Plus developments which use gas, during FY18.

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Becoming Dementia-Friendly

In March 2017, we welcomed the publication of the **Dementia-friendly housing charter** that has been introduced to inform housing organisations, corporate bodies and sector professionals on how housing, its design and supporting services can help improve and maintain the well-being of people affected by dementia.

The charter, which we played a role in drafting, is an important and influential document that will inspire the housing sector to make a valuable contribution to support people with dementia.

We have already identified areas where we can improve our products to make them more dementia-friendly and we have made it a priority to continue to make key changes across our organisation to help improve the lives of people living with dementia. We have introduced "Designing for Dementia" guidance for our architects and interior designers.

In October 2016 we circulated our own **Becoming Dementia-Friendly - Achieving Excellence in our Developments** document to all our Retirement Living Plus developments. Our aim is to encourage staff and homeowners to commit to working together for people with dementia, and to provide the families and friends of people with dementia access to more structured and personalised support for their loved ones.

Our subsidiary, YourLife Management Services Limited, YLMS, is a member of the National Dementia Action Alliance, which brings together organisations and individuals across England committed to improving health and social care outcomes for people living with dementia, and those who care for them. YLMS has produced an action plan representing our stance nationally to achieve better standards for people living with dementia.

We are striving to ensure that all of our developments, both existing and new builds, will incorporate elements and principles of dementia-friendly design. We have developed a McCarthy & Stone guide that promotes a technology solution for the needs of our homeowners: this includes the new 'Care Clip' that can enable a person to leave a development safe in the knowledge that we can track their whereabouts as needed.

The more our business knows about dementia, the more we can do to help and understand the disease. Appropriate training is therefore vital and we have redesigned and lengthened the dementia awareness course offered to our estate management teams and our house managers to help them understand the basics of dementia, and the response needed to support people living with dementia in our developments.

A virtual dementia tour has been delivered to all of our estate management teams. The aim of this training is for individuals to experience what it is like to have dementia and put that learning into practice in their developments by improving standards.

We are encouraging all of our staff to become Dementia Friends to learn a little bit more about what it is like to live with dementia and then turn that understanding into action.

Our overarching aim is to meet the challenge of supporting people with dementia and their family members. Through this challenge, we aim to create an environment that is inclusive, accepting and promotes quality of life for people living with dementia.

Image

1 Prime Minister Theresa May chatting with homeowners at Swift House, Maidenhead

Corporate Social Responsibility Report continued

Our RVS fundraising challenge

Our desire to support and enrich the lives of older people has been the driving force behind our 40th Anniversary charity partnership with RVS in 2017. Events have been held across the business to raise money for RVS to support the fantastic work it does in helping older people live better at home.

Our employees have participated in cycle rides, charity walks, sponsored events, marathons and even a parachute jump in Dubai.



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We had a dragon boat race in the West Midlands region, whilst the North East region organised a charity ball.

Our homeowners have also been extremely supportive of our fundraising challenge and have organised events across our developments during the year.

We are delighted that we surpassed our £130,000 target by early September 2017. With events still being organised and money still rolling in, we are tremendously proud of, and grateful for the achievements and support of our employees, our homeowners and our suppliers, who have all contributed to this wonderful cause.

Graphic removed

Images

1. South West Region Sky Dive
2. North London Charity Walk
3. North West Region at Haydock Races

CSR KPIs

KPI	FY17 outcome	FY16 outcome
Planning and design		
Consultations and exhibitions	92	133
Number of attendees who found this informative	84.4%	79.6%
Construction and environmental		
Greenhouse gas emission per managed development - tonnes of Carbon Dioxide equivalent (tCO ₂ e)	52.5	n/a
Waste to landfill	1.7%	5.6%
BSG construction site audit (average score)	86.1% ¹	98.7%
Smart meters in our developments	31%	22%
Employees		
PRIDE awards	674	572
Percentage of female Directors	28.6% ²	14.3%
Percentage of female employees	66.6%	63.8%
Training courses (employees)	13,500+	8,200
Percentage of employees over 50	42.7%	45.9%
NHBC Pride in the Job awards	15	10
NHBC Seal of Excellence awards	7	2
Health and safety		
RIDDOR incidents - construction sites/offices ³	23	9
NHBC Health and Safety awards (commended)	2	5
BSG Health & Safety award winners	3	2
In-house training courses for contractors	211	178
Customer satisfaction		
HBF Five Star award	Yes	Yes
Annual number of social activities in our developments	27,600+	16,500+ ⁴

¹ The reduction is due to a recalibration of the scoring criteria to provide more meaningful feedback

² The percentage has reduced past year and to 25% following the appointment of John Carter

³ Includes RIDDORs in respect of sub-contractors at our sites

⁴ The number of social activities was only reported for eight months of FY16

Our Strategic Report, on pages 4-67 has been reviewed and approved by the Board

On behalf of the Board

Clive Fenton
13 November 2017



Corporate Governance



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- Image captions*
- 1 View of Poole Harbour from Horizons
 - 2 Beacon Court, Fife
 - 3 Mr & Mrs Mangell, Elm Tree Court, Huntingdon

Board of Directors



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John White Group Non-Executive Chairman

John was appointed as Independent Non-Executive Chairman of the Group in September 2013 and is also Chairman of our Nomination Committee. He was Group Chairman of Persimmon plc, a position he held between April 2006 and April 2011, having previously been Group Chief Executive Officer since 1993. He has spent all his working life in the housing industry and has unrivalled experience of working within the sector.

John is also Chairman of Northampton Saints plc and a director of Northampton Rugby Football Club Limited and Premier Rugby Limited.

On 9 November 2017, the Company announced John's intention to retire following the conclusion of the Company's AGM on 24 January 2018 and the appointment of Paul Lester as Chairman Designate.

Committees

Chairman of the Nomination Committee and a member of the Remuneration Committee.

Clive Fenton Chief Executive Officer

Clive joined the Group as Chief Executive Officer in February 2014. He has a wealth of both housebuilding and business experience, having spent almost 30 years with Barratt Developments plc. He joined Barratt in 1983 and worked in a number of finance and operational roles before being appointed to the Group Board in 2003 with overall responsibility for all operations in the South of England. He was also responsible for group strategic land, partnership housing and retirement homes. More recently he was Chief Executive Officer of Mount Anvil, a development company specialising in the residential property market in central London.

Committees

Member of the Nomination, Disclosure and Allotment Committees.

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John Tonkiss

Chief Operating Officer

John joined McCarthy & Stone in February 2014 and joined the Board in November 2015. He was appointed as Chief Operating Officer on 1 June 2017. John previously held the roles of Operations Director - North and Business Transformation Director, and became Group National Operations Director in September 2016. He is responsible for the Group's nine operating regions and also leads the improvement change programme to accelerate business growth, enhance customer experience and improve operating performance.

John was previously Chief Executive Officer of Human Recognition Systems, the UK's leading biometric solutions provider. Prior to that, he worked for ten years for The Unite Group, the UK's largest provider of purpose-built student accommodation, becoming Group Chief Operating Officer in 2008.

Rowan Baker

Chief Financial Officer

Rowan joined McCarthy & Stone in January 2012 and was appointed as Chief Financial Officer on 6 January 2017, having previously held the role of Group Financial Controller. Rowan played a lead role in the Company's successful IPO in November 2015.

Before joining McCarthy & Stone, Rowan held various roles in industry and private practice, most notably at Barclays Bank plc and PricewaterhouseCoopers. Rowan is a Chartered Accountant and a Chartered Tax Adviser.

Committees

Member of the Allotment and Health & Safety Committees

Committees

Member of the Disclosure and Allotment Committees

Board of Directors continued



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Frank Nelson Senior Independent Director

Frank joined the Board in November 2013 and is the Senior Independent Director and Chairman of the Risk and Audit Committee. He is a qualified accountant with 30 years' experience in the housebuilding, infrastructure and energy sectors. He was Finance Director of Galliford Try plc from 2000 until 2012 and was also responsible for its PFI/PPP activities. He was previously Finance Director of Try Group plc from 1987, leading the company through its flotation in 1989 and subsequent merger with Galliford.

Frank is currently the Senior Independent Director of HICL Infrastructure Company Limited, Telford Homes plc and Eurocell plc. Frank also acts as an adviser to certain private businesses.

Committees

Chairman of the Risk and Audit Committee, and a member of the Remuneration and Nomination Committees.



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Mike Parsons Independent Non-Executive Director

Mike joined the Board in November 2013 as a Non-Executive Director and is Chairman of the Remuneration Committee. He founded Barchester Healthcare 23 years ago, following a successful career in advertising. Barchester is one of the largest independent healthcare providers in the UK.

Mike is chairman of Breeze and Oomph, vice chair of Care England, the care sector trade association, and a Non-Executive Director of Connect Physiotherapy. He also chairs Albion Care Communities, who are developing the next generation of care homes, and is a director of Martha Flora, the Dutch dementia specialist.

Committees

Chairman of the Remuneration Committee, and a member of the Risk and Audit and Nomination Committees.

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Geeta Nanda, OBE Independent Non-Executive Director

Geeta joined the Board in April 2015 as a Non-Executive Director. She has more than 28 years' experience in the housing sector and has recently served as Chief Executive Officer of Thames Valley Housing Association Limited (TVHA). Geeta joined TVHA in 2008 and in 2013 was awarded an OBE for her achievements to social housing.

Geeta is a Director of Fizzy Enterprises (a joint venture with Silver Arrow, a subsidiary of the Abu Dhabi Investment Authority) which she launched in 2012, as a branded market rent proposition. She has 23 years' experience in non-executive roles and has served on the Boards of two housing organisations and national and local charities. Geeta moved to Metropolitan Housing Association as Chief Executive Officer in October 2017.

Committees

Member of the Risk and Audit, Remuneration and Nomination Committees

John Carter Independent Non-Executive Director

John was appointed a Non-Executive Director of McCarthy & Stone in September 2017. He is currently the Chief Executive of Travis Perkins plc, a position held since January 2014. Having joined Travis Perkins in 1978, he was appointed to the Board in 2001. John has been the driving force behind the growth of Travis Perkins plc, the No. 1 supplier of building materials in the UK, and responsible for the growth of 20 UK and European business brands serving retail and B2B customers with international global sourcing operations.

John managed and integrated a number of key strategic acquisitions over the past 20 years, including Keyline in 1999, Wickes in 2005, and the BSS Group. John was previously a Trustee of the British Research Establishment for three years from 2013 to 2016.

Committees

None

Corporate Governance

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John White, Group Non-Executive Chairman

"I am pleased to present the Corporate Governance section of our FY17 Annual Report. We believe that a solid corporate governance framework is essential for upholding our core business values and delivering our strategy and it is my responsibility to promote high standards of governance and business practice throughout the organisation"

We continue to strive to ensure that our practices and procedures are appropriate for a publicly listed company and reflect our commitment to good corporate governance and effective leadership

In this section of the Report we explain how we manage our business and promote high standards of governance across the Group. We describe our governance structure and explain how we have applied the main principles of the UK Corporate Governance Code 2016 ('the Code') and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority ('DTR Rules') over the past year. A copy of the Code can be found on the Financial Reporting Council's website www.frc.org.uk

Compliance with the Code

The Company has complied with the main principles of the Code for FY17. The following paragraphs set out how we have complied. References are to the principles of the Code.

A. Leadership

The role of the Board (A1)

The Board is responsible for operational control of the Group, including all strategic, financial, organisational, legal and regulatory matters and the Directors meet regularly to enable them to discharge their duties. The Company Secretary (Group General Counsel and Company Secretary) is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. In addition, the Directors may take independent professional advice as required.

There is a formal schedule of matters specifically reserved for Board decision which is kept under regular review.

Matters reserved for the Board include:

- Approval of the Group's objectives, values and standards
- Approval of the business model and strategy
- Oversight of the Group's operations to ensure sound, competent and prudent management
- Approval of major changes to the Group's structure and control
- Approval of major land acquisitions
- Internal controls and a sound system of risk management
- Approval of shareholder communications

In accordance with the Code, the Board has established three formal Board Committees: Risk and Audit, Remuneration and Nomination. The membership of each of the Committees is in compliance with the requirements of the Code and the terms of reference of the Committees are included on our corporate website.

Details of the responsibilities of each of the Committees and their activities during the year are set out on the following pages of this Report. The Company Secretary acts as Secretary to each of the Committees.

In addition, the Board has established a Disclosure Committee, whose role is to ensure timely and accurate disclosure of information that we are required to publish in accordance with our legal and regulatory obligations. It meets on an ad-hoc basis and its membership is the Chief Executive Officer, the Chief Financial Officer, the Company Secretary and the Director of Communications.

The Board has established a sub-committee called the Allotment Committee, whose role is to approve the allotment and issue of shares in the Company within the limits authorised by shareholders at each AGM. The Allotment Committee, whose members are the Executive Directors and the Company Secretary, meet on an ad-hoc basis.

The role of the Executive Leadership Team is to support the Chief Executive Officer in implementing Group strategy and managing the day-to-day operations of the business. It meets each month. As well as the Executive Leadership Team, the other members of the Executive Board are the Land & Planning Director, the HR Director, the Director of Communications, the Group Marketing & Customer Experience Director and the Group General Counsel & Company Secretary.

The role of the Executive Leadership Team is to support the Chief Executive Officer in implementing Group strategy and managing the day-to-day operations of the business.

Decisions on investments and development activities are made by the Group Investment Committee which meets weekly and is chaired by the Land & Planning Director, with major investment decisions being referred on to the Board for final approval.

The governance structure for the Group is set out on page 79.

Corporate Governance continued

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Patrick Hole Group General Counsel & Company Secretary

Patrick joined McCarthy & Stone in July 2014. Patrick is responsible for the legal and company secretarial functions of the Group. He is a qualified solicitor with more than 20 years' post qualification experience. Patrick was a partner in a private practice for many years and also has a broad range of in-house experience, including interim roles at both DTZ and Keepmoat.

Committees Member of the Disclosure Committee

During FY17 there were nine Board meetings and one Strategy Day. The Directors' attendance at those meetings, as well as the meetings of the three main Board Committees, are shown in the table below.

Director ¹	Board	Risk and Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings	9	3	3	1
John White	9/9	n/a	3/3	1/1
Clive Fenton	9/9	n/a	n/a	1/1
John Tonkiss	9/9	n/a	n/a	n/a
Rowan Baker ²	7/7	n/a	n/a	n/a
Geeta Nanda	8/9	3/3	2/3	1/1
Frank Nelson	9/9	3/3	3/3	1/1
Mike Parsons	9/9	3/3	3/3	1/1
Nick Maddock ³	2/2	n/a	n/a	n/a

¹ Excludes John Carter, who was appointed first year end
² Appointed to the Board on 5 January 2017
³ Resigned on 5 January 2017

Division of responsibilities (A2, A3)

The Board has adopted role profiles for the Chairman and the Chief Executive Officer, which clearly set out their distinct roles and responsibilities.

I, as Chairman, am responsible for leadership of the Board and for ensuring that the strategic direction and objectives of the Group are relevant to deliver shareholder value and to promote the long-term success of the Group. I lead the Board in its constructive challenge of the Executive Leadership Team and ensure that Board discussions are searching and forward-thinking. I am also responsible for promoting high standards of corporate governance and good business practice.

Clive Fenton, our Chief Executive Officer, is responsible for the day-to-day management of the operational activities of the Group and the development and innovation of the Group's business. With the support of the Executive Leadership Team, he implements the strategies and objectives agreed by the Board to deliver operational performance and success.

Non-Executive Directors (A4)

The Board currently has four Non-Executive Directors - Frank Nelson, Mike Parsons, Geeta Nanda and John Carter - who have all been appointed during the past five years. Their previous experience of the construction industry, the housing sector or providing services to the elderly add valuable skills and input to the Board.

Frank Nelson is the Senior Independent Director. His responsibilities include the annual appraisal of my performance. He adds support to the Chair and deputises for me in my absence and is available to communicate with shareholders.

B. Effectiveness Board composition and independence (B1)

The appointment and replacement of the Company's Directors is governed by the Company's Articles of Association, the Companies Act 2006 and the individual service contracts and terms of appointment of the Directors. The Articles permit a maximum of 12 Directors.

The Board currently comprises the Chairman (who was independent on appointment), three Executive Directors and four Non-Executive Directors. All of the Non-Executive Directors are independent. John Carter is considered to be independent notwithstanding his directorship with Travis Perkins plc, a supplier to the Group, as the level of business between McCarthy & Stone plc and Travis Perkins plc is not deemed to be material. Relevant safeguards are being put in place to ensure that John will not influence any consideration of such business. Short biographical details of each of the Directors are set out on pages 70 to 73.

At its meeting in June 2017, the Nomination Committee considered the independence of the individual Directors on the Board at that stage and confirmed that there were no independence issues, notwithstanding the fact that two of the Non-Executive Directors, Frank Nelson and Mike Parsons, had been included in the Company's Management Incentive Plan which was put in place in 2013 and was wound up in November 2015. Their participation in the plan is a reflection of the different ownership structure of the Company at that time. Since Admission, the Non-Executive Directors have not been included in any of the Group's share plans or bonus arrangements. John Carter was appointed after the year end and his independence was reviewed during the Nomination Committee meeting on 8 November 2017.

Appointments and commitment (B2, B3, B7)

The date of appointment of each of the Directors is set out on page 81 - none of the Directors has served for more than six years. Nick Maddock, who was Chief Financial Officer, resigned with effect from 6 January 2017 and Rowan Baker, who was the Group Financial Controller, was promoted to the Board as the new Chief Financial Officer on the same date. John Carter was appointed to the Board on 1 October 2017.

As announced on 9 November 2017, Paul Lester will be joining the Board as a Non-Executive Director and Chairman Designate on 3 January 2018 and, subject to his election by shareholders, will take over as Chairman from me at the conclusion of the Company's AGM on 24 January 2018.

Appointments fall under the remit of the Nomination Committee, which leads the process in selecting any new Directors before making recommendations to the Board. The Nomination Committee is working with senior management to ensure that satisfactory succession plans are in place.

The Board is satisfied that each of the Directors has committed sufficient time and input during the year to enable him/her to fulfil his/her duties as evidenced by the high attendance at all the Board and relevant Committee meetings throughout the year

The Directors' service contracts and letters of appointment set out the time commitment expected to fulfil their roles. The Board is satisfied that each of the Directors has committed sufficient time and input during the year to enable him/her to fulfil his/her duties as evidenced by the high attendance at all the Board and relevant Committee meetings throughout the year.

The Non-Executive Directors' letters of appointment are for three-year terms, which can be renewed for a further two three-year terms.

In accordance with the Code, all of the Directors are required to seek re-election at each AGM. The resolutions for the re-election and election of the Board members will be included in the separate Notice of AGM.

Induction, development and support (B4, B5)

On joining the Board, each Director is provided with a full introduction to the business. In order to assist the Directors in their ongoing understanding of the Group, some of the Board meetings are held at the regional offices to provide an opportunity for the Directors to meet local management and to visit some of the Group's developments. Papers are circulated in a timely manner to enable the Directors to undertake full and detailed consideration of the agenda items in advance of the meeting and each of the Directors has access to the services of the Company Secretary.

In order to assist the Directors in their ongoing understanding of the Group, some of the Board meetings are held at the regional offices to provide an opportunity for the Directors to meet local management and to visit some of the Group's developments

Board evaluation (B6)

An evaluation of the performance of the Board, its members and Committees was carried out during FY17 by the Nomination Committee and details of the internal evaluation process and findings are included in the Nomination Committee section on page 81. It is anticipated that the evaluation during FY18 will be externally facilitated.

C. Accountability Reporting (C1)

The Statement of Directors' Responsibilities is on page 109. The viability statement is on page 57. The report of the independent auditor is on pages 112 to 117. The statement on going concern is on page 108. Details of the Board's arrangements to ensure that the information presented in this Report is fair, balanced and understandable is set out on page 109.

Corporate Governance continued

Risk management and internal controls (C2)

Details of the risk management process and the principal risks facing the Group are set out on pages 54 to 57. The Board is responsible for the system of internal controls, which are designed to manage the business risks faced by the Group, and for reviewing the effectiveness of those controls. Business targets are set within appropriate timeframes, policies, procedures and control processes for managing the Group's business activities have been put in place, and key financial risks are controlled through clearly laid down authorisation levels and segregation of accounting duties.

The Risk and Audit Committee, together with the Internal Audit function, has identified the principal risks facing the Group and has established systems for evaluating and managing those risks

The Risk and Audit Committee, together with the Internal Audit function, has identified the principal risks facing the Group and has established systems for evaluating and managing those risks. These systems have been in place for the whole of the year under review and up to the date of this Report. Further information can be found on pages 54 to 57.

Audit and Auditor (C3)

Details of the work of the Risk and Audit Committee and the auditor are set out on pages 82 to 85.

D. Remuneration

Details of Executive Directors' remuneration and the Group's approach to remuneration policy are set out on pages 86 to 105.

E. Relations with shareholders

Although most direct shareholder contact is by the Chief Executive Officer and the Chief Financial Officer, feedback is communicated back to the other Directors primarily through reports to the Board and copies of analysts' presentations.

All of the Directors who were members of the Board at that time attended the AGM in January 2017 and it is anticipated that all the current members of the Board will attend the AGM in January 2018 and that the meeting will be organised in compliance with the Code.

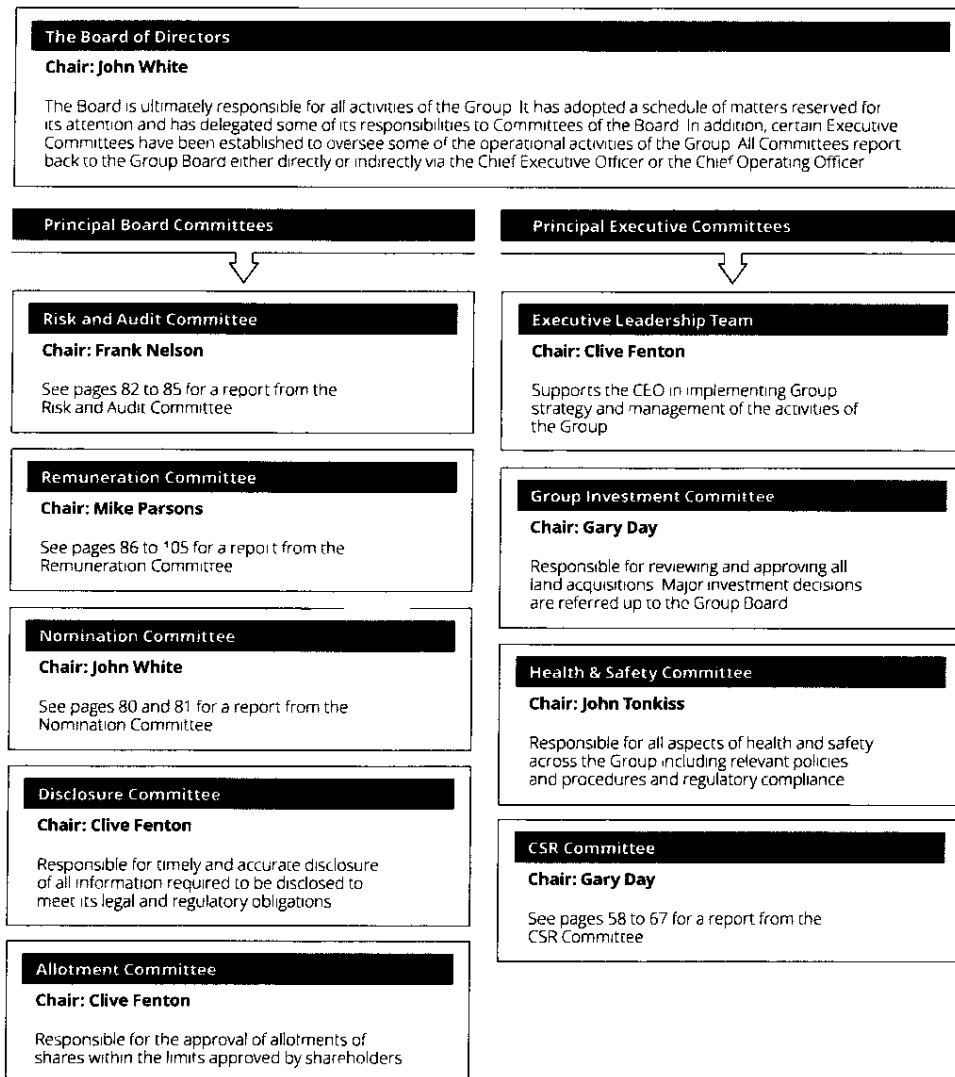
On behalf of the Board

John White
Group Non-Executive Chairman

13 November 2017



Governance Structure and Delegation of Authority



Nomination Committee Report

Graphic removed

John White, Nomination Committee Chairman

“Maintaining the right balance of skills and knowledge is key to achieving the Group’s strategic objectives. One of the main activities during the year was the selection and appointment of a new Chief Financial Officer”

I am pleased to present the Nomination Committee’s report for FY17

Membership and tenure

Members of the Committee are appointed by the Board. The members of the Committee during FY17 were

- John White (Chairman)
- Clive Fenton
- Frank Nelson
- Geeta Nanda (appointed on 24 January 2017)
- Mike Parsons

There was one formal meeting of the Committee during the year which all the members of the Committee attended. Two further meetings have been held since the year end.

Responsibilities and terms of reference

The Nomination Committee’s key duties are to review the structure, size and composition of the Board and its Committees, ensuring that the skills and experience of the Board remains appropriate and balanced, to recommend appointments and re-elections to the Board, succession planning for the Directors and senior management, and the annual evaluation process. The terms of reference, which are available on our website, were adopted with effect from 11 November 2015.

Activities during FY17

One of the main activities during the year was the selection and appointment of a new Chief Financial Officer, following the announcement in October 2016 of Nick Maddock's intention to resign. The Committee approved the process to find his replacement with consideration being given to both internal and external candidates. Russell Reynolds, an independent external search agency, was appointed to run the process on behalf of the Group. Following conclusion of that process, the Committee recommended Rowan Baker as the preferred candidate to the Board, which subsequently approved her appointment.

During the year the Committee also carried out the annual evaluation process. This was done internally and it is anticipated that external facilitators will be used to assist the process in FY18.

The Committee also reviewed the succession planning, especially at the main Board and executive and senior management levels. The Group's Equality and Diversity policy and the Committee's terms of reference were also reviewed.

Evaluation process and results

The Committee carried out a thorough, in-house evaluation of the Board and each of the Risk and Audit, Remuneration and Nomination Committees, as well as the performance of each of the Directors. This was carried out by way of a questionnaire as well as one-to-one meetings between the Chairman and the Non-Executive Directors on the performance of the individual Directors. The review of the Chairman's performance was led by the Senior Independent Director. The effectiveness of the Board was assessed in respect of its structure, organisation, reporting and communications. Directors were also invited to make recommendations on how the performance and operation of the Board could be improved.

The Chairman was satisfied with the performance and effectiveness of the Board and its Committees. One of the areas highlighted for improvement related to communication with regional and senior management. As a result, more Board meetings will be held at the Group's regional offices and the number and frequency of presentations from regional management and function heads will be increased. Another area that was highlighted was the need to focus more closely on succession planning.

Board composition and succession planning

The current composition of the Board is set out in the table below. Further details are on pages 70 to 73.

Director	Role	Date of appointment to the Board
John White	Chairman	23 September 2013
Clive Fenton	Chief Executive Officer	17 February 2014
John Tonkiss	Chief Operating Officer	5 November 2015
Rowan Baker	Chief Financial Officer	6 January 2017
Mike Parsons	Non-Executive Director	4 November 2013
Frank Nelson	Non-Executive Director	18 November 2013
Geeta Nanda	Non-Executive Director	1 April 2015
John Carter	Non-Executive Director	1 October 2017

Although the Board has been completely refreshed in the past five years, the Board evaluation process identified that the composition should be kept under review by the Committee in

order to ensure that the mix and experience remains relevant to our business. Following the Board evaluation process, the Committee commenced the process to appoint two additional Non-Executive Directors to strengthen the current mix of skills and experience. In June 2017 a beauty parade of three firms was held to assist with the recruitment process. Zygos, a firm of independent advisers, was selected, subject to the Group retaining the right to introduce candidates directly. Following year end, John Carter was introduced and brought forward for consideration by the Nomination Committee. His candidature was recommended to the Board, who approved his appointment in October. John brings with him strong industry experience, which will help to strengthen the Board.

As announced on 9 November 2017, Paul Lester will be joining the Board as a Non-Executive Director and Chairman Designate on 3 January 2018 and, subject to his election by shareholders, will take over as Chairman from me when I step down at the conclusion of the Company's next AGM in January 2018. The Committee undertook a search to identify a suitable candidate for the role of Chairman. The Company did not instruct an external search agency or use open advertising for the search, given the strength of potential internal and external candidates who had been identified for the role. The Committee concluded that, after interviewing a shortlist of three candidates, Paul Lester was the most appropriate candidate for the role. I did not chair or attend any meetings of the Committee which related to the appointment of my successor.

The Group is continuing to develop succession plans for senior and executive management, which are reviewed and monitored by the Committee.

Retirement and re-election of Directors

In accordance with our Articles of Association and as a FTSE 250 company, all of our Directors are required to seek annual re-election by our shareholders. All the Directors who sought re-election at last year's AGM were re-elected.

As part of its evaluation process, the Committee reviewed the performance of each of the Directors during the past year and has recommended that all those Directors wishing to continue to stand should seek re-election at the 2018 AGM. They individually and as a Group continue to provide invaluable experience, challenge and contribution to the leadership of the Group. John Carter and Paul Lester will also seek election at the 2018 AGM.

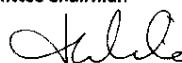
Diversity

The Group has an Equality and Diversity Policy, which commits us to zero tolerance of unlawful discrimination and encourages diversity in our workforce. The Committee reviewed the Policy during the year and will continue to keep this under review to ensure that it remains appropriate for the business.

Although the Group has not set specific gender targets, as we believe that appointments should be based on merit, we support the principle of diversity, not just at Board level but throughout the Group. At year end we had two female members of the Board (representing 28.6%) and 66.6% of our total workforce were female. Further breakdown is provided on page 61.

John White Nomination Committee Chairman

13 November 2017



Risk and Audit Committee Report

Graphic removed

Frank Nelson, Risk and Audit Committee Chairman

“The key responsibilities of the Risk and Audit Committee are to review the integrity of the Group’s annual and half year financial statements. The Committee is confident that it has carried out its duties in the year under review effectively and to a high standard”

The purpose of this report is to describe how the Committee has carried out its responsibilities during the year

In summary, the key responsibilities of the Risk and Audit Committee are to review the integrity of the Group’s annual and half year financial statements and the relationship with the external auditor, to monitor our internal controls and risk management systems and our internal audit activities, and to provide independent oversight of our business conduct, including our whistleblowing and anti-bribery procedures

Membership and tenure

There has not been any change to the members of the Risk and Audit Committee during the financial year and up to the date of this report. The members of the Committee are

- Frank Nelson (Chairman of the Committee) Senior Independent Director
- Mike Parsons, Independent Non-Executive Director
- Geeta Nanda, Independent Non-Executive Director

I was previously Finance Director of Galliford Try plc, the FTSE 250 housebuilding and construction group, for 25 years prior to joining McCarthy & Stone. My extensive financial experience, particularly in the housebuilding and construction sector, have proved invaluable in chairing our Risk and Audit Committee.

The Committee as a whole has competence relevant to our business. As stated above, I have spent most of my career in the housebuilding sector, Geeta Nanda has more than 28 years' experience in the housing sector and more than 23 years' experience as a Non-Executive Director and Mike Parsons has spent the last 23 years working with businesses providing care and support for elderly people.

Further details of the background and experience of the Committee members are set out on pages 70 to 73.

Responsibilities and terms of reference

The key responsibilities of the Committee are to:

- Monitor the integrity of the financial statements and any other formal announcements relating to the Group's financial position and performance
- Assess whether management has made appropriate estimates and judgements and to provide advice to the Board on whether the Annual Report and Financial Statements are fair, balanced and understandable
- Keep under review, and monitor the effectiveness of, the Group's internal controls and risk management systems
- Monitor and review the effectiveness of the risk and internal audit function
- Monitor and review the effectiveness of the services of the external auditor, including negotiation of the audit fee
- Develop and implement the policy on the supply of non-audit services by the external auditor
- Review the adequacy and security of the Group's procedures on whistleblowing, anti-bribery and corruption and anti-money laundering

The Committee has formal terms of reference which are reviewed annually to ensure they remain appropriate. No changes were made to the terms of reference during the year. A copy of the full terms of reference can be viewed on our website www.mccarthyandstonegroup.co.uk/about-us/corporate-governance

Activities during FY17

There were three Risk and Audit Committee meetings during the financial year, organised to tie in with the annual audit cycle. The table on page 76 sets out attendance of the Committee members at those meetings. In accordance with the Committee's terms of reference, meetings can also be attended, by invitation, by other Directors and members of the internal audit and external audit teams, when deemed appropriate. The Chief Financial Officer, the Director of Risk and Internal Audit, the Group Financial Controller and the external audit partner attended all three meetings during the year. The members of the Committee meet with the external auditor without Executive Directors or management at every meeting attended by the external auditor.

During FY17 the key areas of focus for the Committee were as follows:

- In November 2016 we reviewed the FY16 financial statements and the draft Annual Report. We discussed the audit with Deloitte, our external auditor, and reviewed its report and its audit work. The Committee also considered the going concern and viability statements of the Group. We also considered and concluded that the FY16 Annual Report and Financial Statements gave a fair, balanced and understandable view of the Group's performance and position.
- In February 2017 we reviewed the proposed audit fees and the scope of the external audit in relation to the FY17 financial statements.
- In April 2017 we reviewed the FY17 half year results, including the review undertaken by the external auditor, before recommending that the half year results announcement be approved by the Board.
- At each meeting we received reports from the Internal Audit team on Group risks and risk management, and at the November 2016 and April 2017 meetings reviewed the Group risk heat map.
- At each meeting we also received reports on the internal audit programme and findings of internal audits carried out during the year.
- We undertook our annual review of the Group's systems of internal controls. We continue to monitor their effectiveness throughout the year.
- At each meeting we received reports on the effectiveness of our whistleblowing and anti-bribery and corruption procedures and were advised if any notifications had been raised under those policies.

Risk and Audit Committee Report continued

- During the year we met with the Financial Reporting Council ("FRC") which conducted its review of the quality of Deloitte LLP's audit procedures applied during the FY16 audit.

Significant financial reporting issues

Significant financial reporting issues, judgements and areas of estimation uncertainty reviewed by the Committee during FY17 were

• Shared equity receivables

The Committee reviewed the accounting treatment of future receivables due under the shared equity schemes that have been used over the years by the Group. The assumptions used in estimating the value of the future receivables are reviewed half yearly and relate to the date of the anticipated future receipt, house price inflation, the discount rate and the new build premium.

• Cost capitalisation of overheads

The Committee received a proposal from management analysing the split of overhead costs relating to design, planning, commercial, construction, procurement and health and safety between those that could be attributed to the cost of the developments to inventory and those that relate to general business overheads to expenses. The assumptions are reviewed annually with the function heads before being proposed to the Committee.

Risk management and internal controls

Our Risk and Internal Audit function was established in the summer of 2014 with the following key areas of responsibility

- The design and implementation of a robust risk management framework across the Group to identify, monitor and manage key business risks and to establish a risk appetite for each key risk beyond which corrective action is required.
- The development of an assurance programme to ascertain whether the controls around our key business risks are designed and operating effectively.

Details of how the Group manages the risk process are set out on pages 54 and 55. The Director of Risk and Internal Audit reports at each Committee meeting on any changes to the risks faced by the business and any areas for improvement.

An annual internal audit plan, focusing on the key risks to the business, is reviewed and agreed by the Committee. Its cycle is driven primarily by risks identified in the risk heat map. A separate commercial internal audit plan has been put in place specifically to investigate the management of our construction activities. A separate sales internal audit plan was established and completed in 2017 to specifically focus on the sales process of core stock.

Findings from internal audits and recommended improvements are reported to the Committee. I regularly meet with the Director of Risk and Internal Audit. Other members of the Committee and the Board will also meet with the Director of Risk and Internal Audit periodically during the year.

The Board of Directors recognises its overall responsibility for the Group's system of internal controls and for monitoring its effectiveness. There is an ongoing process for identifying, evaluating and managing significant risks. However, in reviewing the effectiveness of internal controls, any internal control system can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board, on the recommendation of the Risk and Audit Committee, has remained satisfied that the system of internal controls continued to be effective in identifying, assessing and ranking the various risks facing the Group, and in monitoring and reporting progress in mitigating the potential impact on the business. Systems have been in place for the year under review and up to the date of approval of the Annual Report and Financial Statements. The Board has approved the statement of the Principal Risks and Uncertainties set out on pages 56 and 57 of this Annual Report.

The Board of Directors recognises its overall responsibility for the Group's system of internal controls and for monitoring its effectiveness. There is an ongoing process for identifying, evaluating and managing significant risks.

External auditor

The Committee is responsible for the appointment of the external auditor, its fee and the scope of the annual audit.

Auditor independence and performance

Deloitte LLP has been our external auditor since FY09, the first audit of the Company. We have had the same Audit Partner since 2013 but the Audit Director has changed during that period. In line with rotation guidelines a new Audit Partner will lead the FY18 audit. The next audit tender will take place no later than the summer of 2018.

The performance, effectiveness and independence of the auditor and the work it performs are reviewed annually following completion of the external audit. Deloitte are required to disclose any significant facts and matters that may reasonably impact on their independence or on the objectivity of the lead partner and the audit team. In addition, the Committee considers and approves all the fees that the Group pays for audit, audit-related and non-audit services from Deloitte. Details of the Company's policy on non-audit services are detailed in the following section. That policy was

drafted in line with the requirements of the EU Audit Directive (2014/56/EU) and Audit Regulation (537/2014) which came into force in the UK on 17 June 2016

The Audit Committee assessed the performance of the external auditor and the effectiveness of the external audit for FY17. In coming to its conclusion the Audit Committee reviewed amongst other matters

- Feedback on the effectiveness and performance of the external audit from Group, regional management and the Director of Risk and Internal Audit who were closely involved in both the half year and full year reporting process
- Deloitte LLP's fulfilment of the agreed audit plan for FY17
- Reports highlighting the material issues and accounting judgements that arose during the conduct of the audit
- Deloitte LLP's objectivity and independence during the process

The Audit Committee concluded that the audit process as a whole had been conducted robustly and that the team selected to undertake the audit had done so thoroughly and professionally. Deloitte LLP's performance as auditor to the Company during FY17 was therefore considered to be satisfactory.

During the year, the FRC also undertook a review of certain aspects of Deloitte LLP's audit of McCarthy & Stone plc for the year ended 31 August 2016. We have reviewed the FRC's findings in assessing the performance and effectiveness of Deloitte LLP's audit work.

Taking into account our and the FRC's findings in relation to the effectiveness of the audit process and in relation to the independence of our external auditor, the Committee is satisfied that Deloitte LLP's audit continues to be effective and independent. As a result, the Committee has recommended to the Board that Deloitte be proposed for reappointment at the 2018 AGM.

The Company has complied throughout the reporting year with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Policy on non-audit services

It is the Group's practice, whenever possible, to put non-audit work out to tender. The Board only appoints Deloitte LLP to provide non-audit services if the Directors have satisfied themselves that the auditor's objectivity and independence have not been compromised. A policy on non-audit services has been approved by the Committee, which incorporates the provisions of the EU audit reform.

The external auditor is appointed to provide audit and audit-related services, including annual audit of the Group, Parent Company and non-dormant subsidiary financial statements as well as the half year review.

The external auditor is prohibited from providing services which involve

- Bookkeeping and other services relating to accounting records and corporate financial statements
- Design and implementation of financial information systems
- Any valuation that could have a material effect on the financial statements
- Tax services that depend on a particular accounting treatment
- Recruiting executives or providing advice on remuneration packages
- Actuarial services
- Management functions
- Internal audit services
- Legal, broker, investment adviser or investment banking services
- Corporate finance or transaction services where the outcome is dependent on accounting treatment, or on a contingent fee basis if material to the audit firm, or the outcome involves a future or contemporary audit judgement relating to a material balance in the financial statements
- Any other work that is prohibited by UK ethical guidance

The external auditor may be selected to provide any other services that do not fall within audit and audit-related services or that are not prohibited, subject to a competitive selection process.

Fees payable to Deloitte in FY17 in relation to the interim review, year end audit and statutory audits of subsidiaries are detailed in note 6 to the consolidated financial statements. There were no non-audit fees paid during the year.

Whistleblowing, fraud and anti-bribery and corruption

During the year, the Committee received regular updates from the Company Secretary on compliance with the policies across the business on whistleblowing, anti-bribery and corruption, fraud and anti-money laundering. In addition, the Committee and the Board reviewed and approved the Group's new conflicts of interest policy.

Frank Nelson
Risk and Audit Committee Chairman

13 November 2017



Directors' Remuneration Report

Remuneration Committee Chairman's Annual Statement

Graphic removed

"As Chairman of the Remuneration Committee, I am pleased to present, on behalf of the Board, our Directors' Remuneration Report. This report lays out the core elements of our policy and its implementation during FY17"

Mike Parsons, Remuneration Committee Chairman

The Annual Report on Remuneration is set out on pages 94 to 105. It details decisions and actions taken by the Remuneration Committee based on the performance of the Group and the Executive Directors, the changing corporate governance landscape and in the context of pay in the Group as a whole. The Annual Report on Remuneration is subject to an annual advisory vote and a resolution will be put to shareholders at the AGM in January 2018 for its approval. The wording of the resolution is set out in the separate Notice of AGM.

Remuneration policy

In creating our remuneration policy last year, our objective was to create a policy which supports the Group's strategy to create an efficient and scalable business capable of building and selling more than 3,000 units per annum to enable us to target top-quartile sector margins and returns on capital over the medium term

Our remuneration policy was approved by shareholders at our AGM on 25 January 2017, receiving over 92.8% of the votes that were cast. The policy is intended to apply for up to three years and is therefore designed to incentivise and motivate the leadership team to implement the Company's strategic goals and also to ensure they are aligned with shareholder expectations. This has been a guiding principle for the Committee.

We are not proposing any changes to the remuneration policy for the forthcoming year. A summary of our Remuneration Policy is included at the end of this Remuneration Report on pages 101 to 104, while the full text of the Remuneration Policy can be found on pages 63 to 74 of our FY16 Annual Report. The FY16 Annual Report can be downloaded from our website: www.mccarthyandstonegroup.co.uk

Remuneration Committee

There has not been any change to the membership of the Committee during the year and up to the date of this report. The members are all of the Non-Executive Directors of the Board, namely:

- Mike Parsons (Chairman of the Committee, and Independent Non-Executive Director)
- Geeta Nanda (Independent Non-Executive Director)
- Frank Nelson (Senior Independent Director)
- John White (Non-Executive Director, and Chairman of the Board)

Other individuals, including the Chief Executive Officer and external advisers, may be invited to attend meetings of the Committee. The Company Secretary acts as Secretary to the Committee.

As well as the Group's remuneration policy, the Remuneration Committee's other main responsibilities include the remuneration and terms of engagement of Executive Directors and the Chairman, overseeing any major changes to the Group's employee benefit structures; approval of any performance-related schemes, share incentive schemes and deferred bonus arrangements. The Committee provides a report to the Board on its activities and decisions.

Major remuneration events during FY17:

• Continued development of our Board

Nick Maddock resigned as Chief Financial Officer on 11 October 2016 and stepped down from the Board with effect from 6 January 2017. Rowan Baker, who was previously the Group Financial Controller, was promoted to the role of Chief Financial Officer and joined the Board on 6 January 2017. I would like to welcome Rowan to the Board and once again thank Nick for his service.

The Committee approved the termination arrangements for Nick and the new terms for Rowan. Nick did not receive any termination payments, he was not eligible for the bonus plan in respect of FY16 or FY17 and his LTIP awards lapsed on his departure.

When Rowan was appointed to the Board, her salary was set at £225,000 - a conservative level, significantly below that of her predecessor with the intention that it would be kept under review and over time based on performance would be brought up to a market level. Based on her strong performance and development in the role to date and her critical role in delivering the strategy of the business the Committee determined to increase her salary to £285,000 effective 1 September 2017, the next planned review will be in November 2018. The Committee notes that the increased salary remains below the lower quartile of the FTSE 250 and housebuilder peers (the two external benchmarks the Committee uses as a guideline when setting pay for executives).

On her appointment to the role, Rowan's bonus opportunity was set at 100% of salary in cash, recognising that FY17 was a transitory year, rather than the policy level for Executive Directors of 150% of salary. For FY18, Rowan's bonus opportunity will be increased to 150% of salary with one-third deferral in line with the other Executive Directors. Rowan's full remuneration terms are set out in the following Annual Report on Remuneration.

The Committee proposes to increase John Tonkiss' salary by 10% from £300,000 to £330,000 effective 1 November 2017. The proposed increase recognises his strong performance and the increased responsibility following his appointment to the role of Chief Operating Officer in June 2017.

Directors' Remuneration Report continued

The Committee is mindful of the sensitivity to large increases in base pay levels and considered its proposed approach carefully in this context. The intention of the salary increase is to bring the COO and CFO's salaries to a level that the Committee considers appropriate given their performance and critical importance to the business. The Committee will continue to monitor Executive Director salaries and will consider whether further above average employee increases are required.

Clive Fenton, our CEO, will receive an increase of 3.2% in line with the increase for the average employee population.

• Determination of the FY17 bonus payments

The Group completed its first full year of trading since joining the Main Market in November 2015 and the Executive Directors and the broader executive team have delivered performance in line with market expectations despite continued economic uncertainty following the outcome of the EU referendum in 2016.

The Group delivered a 4% increase in revenue to £660.9m (FY16: £635.9m), although underlying operating profit decreased by 10% to £96.2m (FY16: £107.2m) at a gross profit margin of 20% (FY16: 21%), reflecting the mix of units sold, increased costs and our continued investment in regional operational infrastructure to support our growth strategy. As a result, the threshold of £108.6m operating profit (equating to 70% of the total bonus opportunity) was not achieved and no bonus was awarded against this measure.

During the year the Group invested in land and build and added a further 75 high-quality sites with attractive embedded margins into the land bank (FY16: 65), equivalent to c.3,164 additional plots (FY16: c.2,614). As a result, the bonus target for land exchanges of 3,133 plots was slightly exceeded resulting in 55% of this element of the bonus (accounting for 10% of the total bonus opportunity) being earned.

The Group continued to maintain a robust financial position with a net cash balance of £30.7m (FY16: £52.8m) at the year end. Strong cash generation resulted in a positive cash inflow of £49.2m excluding the balance sheet impact of the in-house part-exchange initiative, against a target of £27.3m. The Executive Directors were therefore awarded 82% of the bonus (accounting for 10% of the total bonus opportunity) in relation to this measure.

The continued focus on homeowner satisfaction has led to us in the twelfth consecutive year being awarded the Five Star rating for customer satisfaction by the HBF.

The continued focus on homeowner satisfaction has led to us in the twelfth consecutive year being awarded the Five Star rating for customer satisfaction by the HBF. This sustained recognition by our customers of the quality of product we deliver resulted in achievement of the customer satisfaction target of 93% (we achieved 93.4%) and as a result 60% of the bonus in relation to this element (which accounts for 10% of the total bonus opportunity) was earned.

The Group continued to maintain a robust financial position with a net cash balance of £30.7m at the year end. Strong cash generation resulted in a positive cash inflow of £49.2m.

In respect of FY17, the bonus for the Executive Directors was therefore 19.7% of the maximum opportunity. This equates to 29.6% of salary for the CEO and COO and 19.7% of salary for the CFO. The Committee believes that these pay-outs reflect the performance of the Group over the year.

Remuneration approach for FY18 Non-Executive Directors' fees

The Non-Executive Directors' fees have not been increased since November 2015. It has been agreed that the Non-Executive Directors will receive a 3% increase in their basic fees with effect from FY18. The Chairman, John White, has waived his increase. There will not be any change to the level of additional fees paid for the Senior Independent Director or for Committee membership.

FY18 bonus objectives

The annual bonus plan measures and their weightings for FY18 will be:

- Group profit before tax (70%)
- Group full year cash flow (10%)
- Group customer satisfaction (10%)
- Group land exchanges (10%)

Changes to the FY18 Long Term Incentive Plan (LTIP)

The Committee reviewed the appropriateness of the LTIP arrangements and the associated performance targets. As a result of this review, the Remuneration Committee proposes to maintain the current quantum of 150% of salary for the Executive Directors. The approved policy allows for, but does not require, an additional post-vesting holding period to apply to the awards. Whilst this provision was not used for previous awards, the Committee recognises the importance of linking executive pay to long-term and sustained shareholder value and therefore has decided to add a two-year holding period for FY18 awards. During the holding period, executives will not be allowed to sell vested shares (other than for tax purposes), meaning the overall time horizon of the FY18 awards will be five years. This approach is in line with the expectation/preferences of many of our shareholders and additionally reflects the Government's response to the green paper on corporate governance and executive pay.

The Remuneration Committee decided to retain the existing performance measures (earnings per share, return on capital employed and total shareholder return), which focus executives on maximising returns to shareholders through growth in sustainable earnings and efficient capital management. In line with the approved policy and previous awards as detailed on page 91 and 92, threshold performance will result in 25% vesting against each element, with 100% vesting at or above the maximum performance target. However, the Committee proposes to amend the weightings and targets for the FY18 awards, as detailed on page 92. The changes we are proposing do not require formal shareholder approval. However, we believe that it is important to seek the views of our shareholders. Prior to the publication of our Annual Report we consulted with our major shareholders and would like to thank them for their positive engagement during the process which helped shape these changes.

No other changes are proposed in respect of the remuneration elements in FY18.

Our goal has been to be thoughtful and clear in the layout of this report and I look forward to your support on the resolution.

I welcome any feedback from the Company's shareholders.

Mike Parsons
Remuneration Committee Chairman

13 November 2017



Notes

This Report has been prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the UK Corporate Governance Code and the Listing Rules. The Report consists of two sections:

- The Annual Statement by the Remuneration Committee Chairman and associated 'At a glance' section.
- The Annual Report on Remuneration which sets out payments made to the Directors and details the link between Group performance and remuneration for FY17.

Directors' Remuneration Report continued

At a glance

Introduction

In this section, we report on the remuneration outcomes for FY17, which have been implemented in accordance with our remuneration policy.

Our remuneration policy was designed to align remuneration of our Executive Directors with Group strategy and to drive continued success within a remuneration framework that meets the shareholder and governance expectations of a FTSE 250 company. The Remuneration Policy was approved by shareholders at the AGM in January 2017 and is set out in full on pages 63 to 74 of our FY16 Annual Report.

Our core principles of remuneration are:

- To ensure top executives are attracted, retained and motivated to drive the Company forward
- To incentivise management in creating an efficient and scalable business to support the growth strategy
- To deliver long-term sustainable value to shareholders

FY17 outcomes

The outcomes outlined in this section reflect the remuneration and performance measures and targets in place during FY17 and their level of satisfaction. These were in line with the Remuneration Policy approved last year.

The table below shows the total remuneration paid or payable to each of the Executive Directors in respect of FY17. These amounts include the bonus amounts payable as detailed in the following table:

Total Remuneration for our Executive Directors	FY17	FY16
Clive Fenton – CEO	£753,169	£628,024
John Tonkiss – COO	£462,231	£324,617
Rowan Baker – CFO ¹	£223,594	n/a
Nick Maddock – former CFO ²	£133,702	£364,933

¹ Rowan Baker became an Executive Director on 6 January 2017.

² Nick Maddock resigned from the Board with effect from 6 January 2017.

Annual bonus outcomes:

The strategy and KPIs of the Group are primary factors in ensuring that there is alignment between performance and reward. The performance measures used during the year were (a) Group operating profit (70%), (b) Group full year cash flow (10%), (c) Group land exchanges (10%), and (d) Group customer satisfaction (10%).

The table below shows the total bonus payable to each of the Executive Directors in respect of FY17 outcomes. Further details of how the performance measures for our annual bonus plan and LTIP align to our strategy are outlined on page 63 of the FY16 Annual Report.

Annual bonus outcomes for our Executive Directors	FY17	FY16
Clive Fenton – CEO	£143,412	£61,750
John Tonkiss – COO	£88,800	£36,400
Rowan Baker – CFO ¹	£29,631	n/a
Nick Maddock – former CFO ²	–	–

¹ Rowan Baker became an Executive Director on 6 January 2017.

² Nick Maddock resigned from the Board with effect from 6 January 2017.

Equity exposure of the Board

The Executive Directors are required to build up over a five-year period, and then subsequently hold, a shareholding equivalent to 200% of their base salary. As a result of the IPO in November 2015, Clive Fenton and John Tonkiss have significant shareholdings in the Company, providing them with a material stake in the business. Rowan Baker, who was appointed to the Board on 6 January 2017, has not yet met her shareholding requirement. The table below shows their interest in the Company as a percentage of their salary as at 31 August 2017.

	Clive Fenton	John Tonkiss	Rowan Baker
Shareholding requirement	200%	200%	200%
Value of beneficially owned shares	564%	319%	3%
Value of gain on interests over shares (i.e. unvested/unexercised awards)	255%	253%	132%

The table on page 97 shows the interests of each Executive Director in the shares of the Company at year end.

Implementation of the Remuneration Policy in FY18

For FY18, the proposed remuneration will be as set out below. This is in accordance with our remuneration policy.

Base salary	<p>For FY18, the base salaries for the Executive Directors will be:</p> <p>Clive Fenton £500,000 (3.2% increase with effect from 1 November 2017)</p> <p>John Tonkiss £330,000 (10.0% increase with effect from 1 November 2017)</p> <p>Rowan Baker £285,000 (26.7% increase with effect from 1 September 2017)</p> <p>The Committee has increased John's salary by 10% from £300,000 to £330,000 effective 1 November 2017 to recognise his strong performance and the increased responsibility following his appointment to the role of Chief Operating Officer in June 2017.</p> <p>Rowan was promoted to the Board in January 2017 on a salary below the targeted policy level. The Committee has increased Rowan's salary from £225,000 to £285,000 effective from 1 September 2017 to recognise her strong performance and development in the role and her critical role in delivering the Group's strategy. In accordance with our remuneration policy, the Committee has flexibility to increase Rowan's salary from time to time as she gains experience in her role. The Committee has therefore agreed the above increase to take effect from 1 September 2017 and will keep her salary under review.</p>
Pension	The maximum contribution into the defined contribution plan or a salary supplement in lieu of pension will be 20% of gross base salary.
Benefits	Standard benefits will be provided including private medical insurance, life insurance and a car or car allowance.
Annual Bonus Plan ('ABP')	For FY18 the maximum bonus opportunity is 150% of salary.
Cash and deferred shares	<p>The performance conditions and their weightings for the FY18 annual bonus are as follows:</p> <ul style="list-style-type: none"> • Group profit before tax (70%) • Group full year cash flow (10%) • Group customer satisfaction (10%) • Group land exchanges (10%) <p>One-third of any bonus earned will be in the form of deferred shares, which will be deferred for three years.</p> <p>The precise details of the targets themselves are deemed to be commercially sensitive as they relate to the current financial year. The Committee therefore does not consider it appropriate to disclose annual bonus targets during the year. However, details of the performance targets will be disclosed on a retrospective basis in next year's Remuneration Report.</p> <p>The Annual Bonus Plan ('ABP') contains clawback and malus provisions.</p>
Long Term Incentive Plan (LTIP)	<p>The performance conditions for the FY18 LTIP awards are earnings per share ('EPS'), return on capital employed ('ROCE') and relative total shareholder return ('TSR') against the comparator housing group and FTSE 250 (excl. Financial Services and investment trusts). All three measures are assessed over a three-year performance period.</p> <p>For the achievement of threshold performance, 25% of the element will vest with straight-line vesting in between to maximum performance. The LTIP contains clawback and malus provisions. Please see the full Remuneration Policy as set out on pages 63 to 74 in our FY16 Annual Report for further details.</p> <p>In FY18 an LTIP award up to a maximum of 150% of salary will be awarded to the Executive Directors. As stated in the Chairman's letter, the FY18 LTIP will have a two-year post vesting holding period during which executives cannot sell vested shares other than for tax purposes.</p>

Directors' Remuneration Report continued

FY18 LTIP targets	<p>The previous LTIP performance measures and targets were set in line with market practice, investor expectations and the medium-term business plan following the IPO. In light of the current economic and political uncertainty, the Remuneration Committee concluded that a review of the current structure was appropriate from a business perspective and necessary in order to maintain the incentive effect of LTIP awards and hence motivate and retain the Executive Directors and other senior executives over the near future.</p> <p>The Remuneration Committee decided to retain the existing performance measures ('EPS', 'TSR' and 'ROCE'), which focus executives on maximising returns to shareholders through growth in sustainable earnings and efficient capital management. In line with the approved policy and previous awards, threshold performance will result in 25% vesting against each element, with 100% vesting at or above the maximum performance target. However, the Committee proposes to amend the weightings and targets for the FY18 awards.</p> <p>The FY18 LTIP proposed performance measures, weightings and targets are outlined in the table below alongside those operated in respect of the previous LTIP award in FY17.</p>	
Performance measures	FY17 weightings and targets	FY18 weightings and targets
Earnings Per Share ('EPS')	Weighting: 33.3% FY19 EPS Threshold: 21.8p Max: 27.8p	Weighting: 37.5% FY20 EPS Threshold: 21.8p Max: 27.8p
Relative Total Shareholder Return ('TSR')	Weighting: 33.3% Measured against housebuilder peer group Threshold: equal to index Max: index + 7.5% p.a.	Weighting: 25.0% Measured against two groups (equally weighted), housebuilder peer index and FTSE 250 constituents Threshold: equal to index / median of FTSE 250 Max: index + 7.5% p.a. / upper quartile of FTSE 250
Return On Capital Employed ('ROCE')	Weighting: 33.3% Threshold: 22.0% Max: 25.0%	Weighting: 37.5% Threshold: 20.0% Max: 25.0%
<p>Changes to FY18 performance measures and rationale for change</p> <p>Increase EPS weighting to 37.5%</p> <ul style="list-style-type: none"> Profitability is a key driver of the business and EPS as a performance measure motivates and provides a strong 'line of sight' to management as they have a greater influence over the outcome The EPS targets are set based on the three-year business plan and analyst consensus <p>Increase ROCE weighting to 37.5% and reduce threshold target to 20%</p> <ul style="list-style-type: none"> Managements' focus on capital efficiency remains an important performance indicator of the business and its business plan as set out on IPO. Therefore it is appropriate to increase the weighting of this measure The Committee believes that the maximum target of 25% ROCE remains a suitably stretching target and that achieving this within the performance period would represent exceptional performance and hence justify full vesting of this element of the LTIP. In order to improve alignment with the Company's business plan for FY20, the threshold target will be set at 20%. The Committee considers this level of performance to be realistic yet challenging, and representative of the Company's medium-term business plan 		

Reduce Relative TSR weighting to 25% and split comparator group into two groups

- Our largest shareholders have a strong preference for shareholder return measures and relative TSR best reflects how the Company is performing against its peers. Therefore it is appropriate to retain TSR as a performance measure
- The unique business profile of the Company means that while Brexit had an impact on all housebuilders' performance, other housebuilders have recovered largely as a result of the Government's help-to-buy scheme which is not applicable to the Company. Notwithstanding this, the Committee feels that housebuilders remain an appropriate comparator group for TSR but that this should be balanced against the broader market by the introduction of a FTSE 250 comparator group. The use of two peer groups would provide a more holistic assessment of performance against both a cyclical industry and performance against the broader market. Constituents of our housebuilder peer group are set out on page 95.

The Committee believe that the additional two year holding period and the new weightings and targets will create the right balance between supporting a successful execution of the three-year business plan and incentivising the Executive Directors.

NED fees

The fees for FY18 for the Non-Executive Director roles are:

- Chairman: £230,000
 - Board fee: £54,600
 - Senior Independent Director's additional fee: £10,000
 - Committee Chairman fee (per Committee): £10,000
-

Annual Report on Remuneration

Executive Directors' remuneration (audited)

Single total figure of remuneration (audited)

The table below sets out the single total figure of remuneration for each Executive Director in respect of FY17 and FY16. Further explanations of each of the elements are set out below in the following sections of this report.

Name	Period	Base salary	Benefits	Annual bonus ²	LTP ⁴	Pension ⁵	Total
Clive Fenton	FY17	£462,917	£30,257	£143,412	None	£96,583	£753,169
	FY16	£467,617	£27,407	£61,750	None	£71,250	£628,024
John Tonkiss	FY17	£296,667	£24,626	£88,800	None	£52,138	£462,231
	FY16	£229,445	£15,782	£36,400	None	£42,990	£324,617
Nick Maddock ¹	FY17	£105,769	£8,231	-	None	£19,702	£133,702
	FY16	£288,781	£21,156	-	None	£54,996	£364,933
Rowan Baker ²	FY17	£151,641	£6,183	£29,631	None	£36,139	£223,594

¹ Nick Maddock resigned from the Board with effect from 6 January 2017.

² Rowan Baker was appointed to the Board with effect from 6 January 2017. The amounts in this table relate only to the period since she joined the Board and do not cover the period from 1 August 2016 to 5 January 2017.

³ One-third of the annual bonus payable to Clive Fenton and to John Tonkiss is in the form of deferred shares to the value of £47,804 and £29,600 respectively. These amounts are included in the annual bonus figures in this table. The shares are deferred for three years and are not subject to any performance conditions. Rowan Baker's bonus is all cash with no deferred shares.

⁴ No LTIPs were due or eligible to vest in FY17.

⁵ Comprises the value of Group Personal Pension scheme contributions and salary supplements in lieu of pension.

Base salary

As reported in the Annual Report last year, the base salary for the CEO and the COO were increased with effect from 1 November 2016. The table below shows the base salary for each of the Executive Directors during the year. As Rowan Baker was only appointed to the Board on 6 January 2017, her salary prior to that date has not been disclosed. Nick Maddock resigned from the Board with effect from 6 January 2017.

Executive Director	Position	Period	Annual salary
Clive Fenton	Chief Executive Officer	1.09.16 – 31.10.16 1.11.16 – 31.08.17	£475,000 £484,500
John Tonkiss	Chief Operating Officer	1.09.16 – 31.10.16 1.11.16 – 31.08.17	£280,000 £300,000
Rowan Baker	Chief Financial Officer (current)	6.01.17 – 31.08.17	£225,000
Nick Maddock	Chief Financial Officer (former)	1.09.16 – 6.01.17	£300,000

Benefits (audited)

The Executive Directors typically receive private medical insurance, life insurance and cash for car allowance, although the Committee retains the flexibility to provide other benefits. The amounts shown in the table above are the gross (before tax) amounts.

Annual bonus (audited)

The strategy and the KPIs of the Group are primary factors in ensuring that there is alignment between performance and reward. For FY17 the performance conditions and their weightings for awards under the ABP were:

- Group operating profit (70%)
- Group full year cash flow (10%)
- Group land exchanges (10%)
- Group customer satisfaction (10%)

Under the terms of the FY17 annual bonus, 25% for each element is payable for achieving the threshold performance, 50% is payable for achieving target performance, increasing to 100% for achieving maximum performance. Achievements between these points are calculated on a straight-line basis. The maximum opportunity for Clive Fenton and John Tonkiss was 150% of salary and one-third of any bonus earned was in the form of deferred shares, which is deferred for three years. Rowan Baker was appointed in the year and her maximum bonus opportunity was set at 100% of salary in cash, recognising that FY17 was a transitional year rather than the maximum policy level for Executive Directors of 150% of salary. For FY18, Rowan's bonus opportunity will be increased to 150% of salary with one-third deferral in line with other Executive Directors.

The bonus awards payable to the Executive Directors in respect of FY17 were agreed by the Remuneration Committee, having reviewed the Company's results and the extent to which the performance conditions were met. The results are shown in the following table. As at 13 November, no awards have been granted in respect of FY18.

Performance conditions	Weighting of each condition	Performance targets			Actual performance	Percentage of maximum performance achieved	Annual bonus value achieved		
		Performance targets required		Maximum weighting per target			Clive Fenton	John Tonkiss	Rowan Baker
Underlying operating profit	70.0%	Threshold Target Maximum	£108.6m £113.6m £123.6m	17.5% 35.0% 70.0%	£96.2m	0.0%	-	-	-
Cash flow	10.0%	Threshold Target Maximum	£2.0m £27.3m £61.5m	2.5% 5.0% 10.0%	£49.2m	82.0%	£59,694	£36,962	£12,334
Land exchanges	10.0%	Threshold Target Maximum	2,781 3,133 3,446	2.5% 5.0% 10.0%	3,164	55.0%	£40,039	£24,792	£8,273
Customer satisfaction	10.0%	Threshold Target Maximum	91.0% 93.0% 95.0%	2.5% 5.0% 10.0%	93.4%	60.0%	£43,679	£27,046	£9,024
Total	100.0%					19.7%	£143,412	£88,800	£29,631

LTIP awards (audited)

During FY17 LTIP awards of 150% of salary were granted to Clive Fenton and John Tonkiss, and 106% of salary to Rowan Baker. The awards were made as nil-cost options and the number of shares over which each nil-cost option was awarded was calculated by reference to the closing price of the shares as derived from the Daily Official List of the London Stock Exchange on the day before the date of the award.

These nil-cost options will vest depending on performance against a challenging sliding scale of Earnings per Share ('EPS'), Return on Capital Employed ('ROCE') and relative Total Shareholder Return ('TSR') against a bespoke group of housebuilders. The TSR comparator group index comprises the unweighted average TSR of the following housebuilders: Barratt, Bovis, Bellway, Crest Nicholson, Persimmon, Redrow and Taylor Wimpey. All three measures are assessed over a three-year performance period and are equally weighted. The LTIP contains clawback and malus provisions.

The performance conditions and targets for the FY17 LTIP awards are set out below. For the achievement of threshold performance, 25% of the element will vest with straight-line vesting in between to maximum performance.

Measure	Weighting	Threshold performance	Maximum performance
EPS	1/3rd	21.8 pence	27.8 pence
FY19 ROCE	1/3rd	22%	25%
Relative TSR	1/3rd	Equal to Index	Index + 7.5% p.a.

The following LTIP awards were made during FY17

Executive Director	Grant date	Number of shares awarded	Basis of award granted (% of basic salary)	Face value of award ²	% of award vesting at threshold	Maximum percentage of the face value that could vest	Performance period ³
Clive Fenton	22.12.16	471,916	150%	£726,750	25%	100%	3 years
John Tonkiss	22.12.16	292,208	150%	£450,000	25%	100%	3 years
Rowan Baker ¹	22.12.16	40,584	n/a	£62,500	25%	100%	3 years
	27.01.17	105,520	79%	£176,957	25%	100%	3 years

¹ Rowan Baker was granted an LTIP award in December 2016 prior to being promoted to the Board. She was awarded a top up LTIP award in January 2017 following her appointment as CFO. The face value of the second award was calculated using the closing share price on 26 January 2017 being £1.677. The combined awards represent 106% of her basic salary.

² The face value is calculated using the closing share price on 21 December 2016 (£1.54) and on 26 January 2017 (£1.677).

³ The performance period runs for three years from the date of grant. Relative TSR will be measured from 27 December 2016 over a three-year period. EPS and ROCE will be measured at 31 August 2019.

As at 13 November, no awards have been granted in respect of FY18.

Annual Report on Remuneration continued

Pension entitlements (audited)

The Group operates a Group personal pension scheme under which Executive Directors are entitled to receive contributions of up to 20% of salary. The Group does not currently operate a defined benefit scheme.

Non-Executive Directors' remuneration

The Company's Articles of Association restrict the annual fees that may be paid to the Non-Executive Directors in aggregate to £1.0m. This amount may only be increased by ordinary resolution of the shareholders.

Single total figure of remuneration (audited)

The table below sets out the single total figure of remuneration and breakdown for each Non-Executive Director.

Non-Executive Directors ¹	Period	Fees	Benefits ²	Total	Role
John White	FY17	£230,000	£2,670	£232,670	
	FY16	£209,083	£2,334	£211,417	Group Non-Executive Chairman
Frank Nelson	FY17	£73,000	£107	£73,107	
	FY16	£68,360	-	£68,360	Senior Independent Director
Mike Parsons	FY17	£63,000	-	£63,000	
	FY16	£60,322	-	£60,322	Independent Non-Executive Director
Geeta Nanda	FY17	£53,000	-	£53,000	
	FY16	£52,283	-	£52,283	Independent Non-Executive Director

¹ John Carter was appointed after year end so has not received any remuneration for FY17.

² Benefits relate to outside of policy travel expenditure.

Non-Executive Directors' fees

The Non-Executive Directors' fees which applied during FY17 were:

Role	Fees
Chairman	£230,000
Non-Executive Director's Board fee	£53,000
Senior Independent Director's additional fee	£10,000
Committee Chairman's additional fee (per Committee)	£10,000

The Non-Executive Directors are not entitled to participate in the Group's Pension Scheme, ABP, LTIP or the Sharesave Plan.

Directors' shareholdings and share interests (audited)

Directors' interests in share awards (audited)

The outstanding interests in share awards for the Executive Directors as at 31 August 2017 are shown in the table below. The Non-Executive Directors are not permitted to participate in any of the Group's share plans or incentive arrangements.

Director/ Plan	Date of grant	Number of share awards	Vested during the year	Lapsed during the year	Exercise price (£)	Vesting date	Expiry date
Clive Fenton – CEO							
LTIP	25.11.15	263,888	-	-	nil	25.11.18	25.11.25
LTIP	22.12.16	471,916	-	-	nil	22.12.19	22.12.26
Sharesave	10.12.15	10,752	-	-	1,674	28.01.19	28.07.19
John Tonkiss							
LTIP	25.11.15	155,555	-	-	nil	25.11.18	25.11.25
LTIP	22.12.16	292,208	-	-	nil	22.12.19	22.12.26
Sharesave	10.12.15	10,752	-	-	1,674	28.01.19	28.07.19
Rowan Baker							
LTIP	25.11.15	22,222	-	-	nil	25.11.18	25.11.25
LTIP	22.12.16	40,584	-	-	nil	22.12.19	22.12.26
LTIP	27.01.17	105,520	-	-	nil	27.01.20	27.01.27
Sharesave	10.12.15	10,752	-	-	1,674	28.01.19	28.07.19
Nick Maddock¹							
LTIP	25.11.15	166,666	-	166,666	nil	lapsed	lapsed
Sharesave	10.12.15	10,752	-	10,752	1,674	lapsed	lapsed

¹ Nick Maddock left the Company on 6 January 2017 and his LTIP and Sharesave options lapsed on that date.

There were no outstanding ABP share awards as at 31 August 2017.

Directors' shareholdings (audited)

The Executive Directors are required to build up over a five-year period, and then subsequently hold, a shareholding equivalent to 200% of their base salary. At the end of FY17 Clive Fenton and John Tonkiss had met their shareholding requirement. Rowan Baker, who was appointed to the Board on 6 January 2017, has not yet met her shareholding requirement, but she is aware she will need to increase her shareholding to meet this requirement by 6 January 2022. Non-Executive Directors are not subject to shareholding requirements.

The table below shows the interests in shares in the Company, including unvested awards, for each of the Directors as at 31 August 2017. No options were exercised during the year. There has not been any change since the year end.

Director	Shares beneficially owned	Shares subject to performance conditions	Shares not subject to performance conditions	Options vested but unexercised	Options unvested (LTIPs)	Options unvested (Sharesave)	Shares beneficially owned as % of salary ¹	Shareholding requirement met?
Executive Directors								
Clive Fenton	1,651,345	-	-	-	735,804	10,752	564.1%	Yes
John Tonkiss	578,719	-	-	-	447,763	10,752	319.3%	Yes
Rowan Baker	3,789	-	-	-	168,326	10,752	2.8%	No
Nick Maddock ²	825,361	-	-	-	n/a	n/a	n/a	n/a
Non-Executive Directors								
John White	1,650,192	n/a	n/a	n/a	n/a	n/a	-	n/a
Frank Nelson	173,270	n/a	n/a	n/a	n/a	n/a	-	n/a
Mike Parsons	173,270	n/a	n/a	n/a	n/a	n/a	-	n/a
Geeta Nanda	-	n/a	n/a	n/a	n/a	n/a	-	n/a

¹ This is based on a closing share price of £1.655 and the year-end salaries of the Executive Directors. Shares used for the above calculation exclude unvested and unexercised options. They include shares where the Executive Director has beneficial ownership, shares independently acquired in the market and those held by a spouse or civil partner or dependent child under the age of 18 years.

² Nick Maddock left the Company on 6 January 2017. The beneficially owned shares represent his holding on his date of resignation. His LTIP and Sharesave options lapsed on that date.

Payments to past Directors (audited)

There were no payments in the financial year.

Payments for loss of office (audited)

There were no payments in the financial year. No payments were made to Nick Maddock for loss of office.

External directorships

Executive Directors may hold positions in other companies as Non-Executive Directors and retain their fees. Clive Fenton, John Tonkiss and Rowan Baker do not hold any external directorships.

Comparison of overall performance and pay

The graph below shows the value of £100 invested in the Company's shares since listing compared with the FTSE 250 index. The graph shows the Total Shareholder Return generated by both the movement in share value and reinvestment over the same period of dividend income.

As the Company is currently a constituent of the FTSE 250, the Committee considers this is an appropriate index. The comparison is from the date of listing on 11 November 2015 to 31 August 2017.

Graphic removed

Annual Report on Remuneration continued

Chief Executive Officer's historic remuneration

The following table shows the total single figure for the role of Chief Executive Officer as well as the annual bonus and LTIP vesting level achieved for each of the periods covered by the graph on the previous page

	FY17	FY16
CEO total single figure	£753,169	£628,024
Annual bonus payment level achieved (% of maximum opportunity)	19.7%	10.0%
LTIP vesting level achieved (% of maximum opportunity) ¹	0%	0%

¹ No award has vested under the LTIP

Statement of considerations of employment conditions elsewhere in the Group

The policy for all employees is determined in terms of best practice and ensuring that the Group is able to attract and retain the best people. This principle is followed in the development of our policy

The remuneration strategy of the Company has been designed to ensure all employees share in its success through performance-related remuneration and share ownership. On IPO the LTIP was introduced for Executive Directors and other selected members of senior management. Awards under the LTIP will provide alignment between senior leaders and our shareholders based on overall performance of the business

For all employees, the Company has adopted the Sharesave and the Share Incentive Plan ('SIP'). Under these Plans, all employees have the opportunity to purchase shares in the Company subject to certain restrictions

The Company does not use remuneration comparison measurements nor have employees been consulted directly on the policy. In setting the remuneration policy for Directors, the pay and conditions of other employees of the Group are taken into account, including any base salary increases awarded

The Committee is provided with data on the remuneration structure for management level tiers below the Executive Directors, and uses this information to ensure consistency of approach throughout the Group

Change in Chief Executive Officer's remuneration compared with employees

The following table illustrates the change in CEO salary, benefits and bonus between FY16 and FY17 compared with other employees in the Group taken as a whole

	Base salary	% change FY16 to FY17	
		Benefits	Annual bonus
Chief Executive Officer	2%	10%	132%
Other Group employees	3%	14%	146%

Relative importance of spend on pay

The table below shows the relative importance of spend on pay in comparison to profit distributed by way of dividends

	FY17	FY16	% changes
Overall spend on pay including Executive Directors	£80.0m	£69.3m	13%
Profit distributed by way of dividends	£29.0m	£24.2m	20%

There were no distributions by way of share buybacks during the year

Consideration by the Directors of matters relating to Directors' remuneration

The Board has delegated to the Committee, under agreed terms of reference, responsibility for the policy and for determining specific packages for the Executive Directors and other selected members of the senior management team. Prior to the establishment of the Committee, remuneration decisions were made by the Board. The Company consults with key shareholders in respect of the policy and the introduction of new incentive arrangements.

The members of the Committee during FY17 and up to the date of this Report are Mike Parsons (Chairman), John White, Frank Nelson and Geeta Nanda.

The terms of reference for the Committee are available on the Company's website www.mccarthyandstonegroup.co.uk/about-us/corporate-governance, and from the Company Secretary at the registered office.

Our main responsibilities are to:

- Determine and agree with the Board the broad Policy for the Executive Directors and other selected members of the senior management team
- Undertake periodic reviews to assess the appropriateness and relevance of the Policy ensuring alignment with best practice principles of the UK Corporate Governance Code
- Consider the relative importance of the Group's expenditure on pay compared to the Group's profits, dividends and tax paid
- Review any major changes in employee benefit structures throughout the Company or Group and to administer all aspects of any share scheme

The Committee receives assistance from the HR Director and the Company Secretary, who will attend meetings by invitation, except when issues relating to their own remuneration are being discussed. The Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer attend by invitation on occasion.

Adviser to the Remuneration Committee

Following a selection process carried out by the Board prior to and then following the IPO of the Company, the Committee has engaged the services of PricewaterhouseCoopers (PwC) as independent remuneration adviser.

During FY17 PwC has provided advice, primarily in respect of the remuneration policy and LTIP awards.

PwC also provides certain other non-audit services in respect of tax and internal audit to the Group. The Committee is satisfied that no conflict of interest exists or existed in the provision of these services and that the advice received from PwC is objective and independent. PwC is a member of the Remuneration Consultants Group and is a signatory to its voluntary code of conduct which is designed to ensure objective and independent advice is given to remuneration committees.

Fixed fees of £36,000 (FY16: £24,000) were paid to PwC during the year in respect of remuneration advice given to the Committee.

Annual Report on Remuneration continued

Shareholder engagement and statement of voting at the AGM

The Committee believes it is very important to maintain an open dialogue with shareholders on remuneration matters. Shareholders' views were sought and considered when we set the remuneration policy last year as well as consulting on the changes to the incentive arrangements as outlined earlier in this report. The Committee commits to consulting with our major shareholders in respect of any future changes to the remuneration policy and any material changes to incentive arrangements.

We put resolutions to approve the remuneration policy, as set out in last year's Annual Report, and to approve the FY16 Annual Report on Remuneration to our members at our AGM in January 2017. The voting outcome of those two resolutions were

FY17 Resolution	Votes for	Votes against	Total votes cast (excluding withheld)	Votes withheld
Directors' Remuneration Policy:				
Number of votes cast	320,184,871	24,713,722	344,898,593	3,773,564
Percentage of votes cast	92.8%	7.2%		
Annual Report on Remuneration:				
Number of votes cast	345,465,429	1,642,446	347,107,875	1,564,283
Percentage of votes cast	99.5%	0.5%		

Summary of remuneration policy

The following table sets out the elements of remuneration permitted under the remuneration policy which was approved by shareholders in January 2017. The full policy is set out in the FY16 Annual Report on pages 63 to 74.

Element of remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Maximum opportunities	Performance metrics
Base salary	Provides a base level of remuneration to support recruitment and retention of Executive Directors with the necessary experience and expertise to deliver the Group's strategy.	<p>Set on appointment and reviewed annually or when there is a change in position or responsibility.</p> <p>When determining an appropriate level of salary, the Committee considers:</p> <ul style="list-style-type: none"> • Remuneration practices within the Group • The general performance of the Group • Salaries within the ranges paid by the companies in the comparator group used for remuneration benchmarking • Any change in scope, role and responsibilities • The economic environment <p>Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.</p>	<p>The Committee ensures that maximum salary levels are set in line with companies of a similar size to McCarthy & Stone, operating in a similar sector.</p> <p>The companies in the comparator group are the constituents of the FTSE 250 and sector peer organisations of a similar size.</p> <p>The Committee intends to review the comparator groups each year and may add or remove companies from the group as it considers appropriate. Any changes to the comparator group will be in the section headed Implementation of Remuneration Policy, in the following financial year.</p> <p>In general, salary increases for Executive Directors are in line with the increase for employees.</p> <p>The Company sets out in the section headed Implementation of Remuneration Policy Executive Director salaries for that year and the following year.</p>	None.
Benefits	Provides a benefits package in line with practice relative to its comparator group to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Group's strategy.	<p>Executive Directors typically receive private medical insurance, life insurance and a car or car allowance. The Committee retains the flexibility to provide other benefits.</p> <p>The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Group strategy. Additional benefits may therefore be offered such as relocation allowances on recruitment.</p>	The maximum is set at the cost of providing the benefits described.	None.
Pensions	Provides a pension provision in line with practice relative to its comparator group to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Group's strategy.	The Company offers a Group Personal Pension scheme. The Executive Directors are entitled to receive a maximum employer contribution into the Group Personal Pension scheme or a salary supplement in lieu of pension of 20% of basic salary per annum.	<p>The maximum contribution into the Group Personal Pension scheme or a salary supplement in lieu of pension is 20% of gross basic salary.</p> <p>The Company sets out in the section headed Implementation of Remuneration Policy, in the following financial year the pension contributions for that year for each of the Executive Directors.</p>	None.

Annual Report on Remuneration continued

Element of remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Maximum opportunities	Performance metrics
Annual and Deferred Bonus Plan ('ABP')	<p>The ABP provides a significant incentive to the Executive Directors linked to achievement in delivering goals that are closely aligned with the Group's strategy and the creation of value for shareholders.</p> <p>In particular, the ABP supports the Company's objectives allowing the setting of annual targets based on the business strategy at the time, meaning that a wider range of performance metrics can be used that are relevant and achievable.</p> <p>The Committee has discretion to defer part of the bonus earned in shares under the ABP.</p> <p>The advantage of deferral is:</p> <ul style="list-style-type: none"> Increased alignment between Executive Directors and shareholders created through deferred shares and the increased equity stake of management in the Company Vesting of deferred shares are subject to an Executive Director's continuing employment, which provides an effective lock-in 	<p>The Committee determines the bonus to be awarded following the end of the relevant financial year.</p> <p>The Company will set out in the section headed Implementation of Remuneration Policy, in the following financial year, the nature of the targets and their weighting for each year.</p> <p>Details of the performance conditions, targets and their level of satisfaction for the year being reported on is set out in the Annual Report on Remuneration</p> <p>The Committee can determine that part of the bonus earned under the ABP is delivered as an award of shares.</p> <p>The maximum value of deferred shares is 50% of the bonus earned.</p> <p>The portion of bonus earned to be deferred into Company shares for the year being reported on will be set out in the Annual Report on Remuneration.</p> <p>The main terms of these awards are</p> <ul style="list-style-type: none"> Minimum deferral period of three years, during which no performance conditions will apply The participant's continued employment at the end of the deferral period unless he/she is a good leaver <p>The Committee may award dividend equivalents on those shares to the participants to the extent that they vest.</p> <p>The Committee has the discretion to apply a holding period of two years post vesting of deferred shares</p> <p>The ABP contains clawback and malus provisions. Please refer to page 69 of the 2016 Annual Report for further details.</p>	<p>The maximum bonus (including any part of the bonus deferred into shares) deliverable under the ABP does not exceed 150% of a participant's annual base salary.</p> <p>Percentage of bonus maximum earned for levels of performance</p> <ul style="list-style-type: none"> Threshold: 25% of maximum bonus On target: 50% of maximum bonus Maximum: 100% of maximum bonus <p>The annual bonus will be paid in cash and deferred shares.</p>	<p>An award under the ABP is subject to satisfying financial and strategic/operational performance/personal performance conditions and targets measured over a period of one financial year.</p> <p>A minimum of 50% of the bonus shall be based on financial performance measures. The Committee will determine the bonus to be delivered following the end of the relevant financial year</p> <p>The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the bonus, disclosing precise targets for the ABP in advance would not be in shareholder interests. Targets, performance achieved and awards made will be published at the end of the performance period so shareholders can fully assess the basis for any pay-outs under the ABP.</p> <p>In exceptional circumstances the Committee retains the discretion to:</p> <ul style="list-style-type: none"> Change the performance measures and targets and the weighting attached to the performance measures and targets part-way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate Make downward or upward adjustments to the amount of bonus earned resulting from the application of the performance measures, if the Committee believes that the bonus outcomes are not a fair and accurate reflection of business performance <p>Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Annual report on Remuneration.</p>

Element of remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Maximum opportunities	Performance metrics
LTIP	<p>The purpose of the LTIP is to incentivise and reward Executive Directors in relation to long-term performance and achievement of Group strategy.</p> <p>This will better align Executive Directors' interests with the long-term interests of the Group and act as a retention mechanism.</p> <p>The use of relative TSR, measures the success of the implementation of the Group's strategy in delivering a return above our peer group.</p> <p>The use of three-year EPS and ROCE, ensures Executive Directors are focused on sustainable long-term financial performance.</p>	<p>Awards are granted annually to Executive Directors in the form of a conditional share award or a nil-cost option.</p> <p>Details of the performance conditions for grants made in the year and the future financial year are set out in the Annual Report on Remuneration.</p> <p>Awards will vest at the end of a three-year period subject to:</p> <ul style="list-style-type: none"> • The Executive Director's continued employment at the date of vesting • Satisfaction of the performance conditions <p>The Committee may award dividend equivalents on awards to the extent that these vest.</p> <p>The Committee has the discretion to apply a holding period of two years post vesting of LTIP awards.</p> <p>The LTIP contains clawback and malus provisions. Please refer to page 69 of the 2016 Annual Report for further details.</p>	<p>Normal annual maximum value of 150% of annual base salary based on the market value at the date of grant set in accordance with the rules of the LTIP</p> <p>In exceptional circumstances the Committee may grant an award with a maximum of 200% of annual base salary</p> <ul style="list-style-type: none"> • 25% of the award will vest for threshold performance • 100% of the award will vest for maximum performance <p>There is straight-line vesting between these points</p>	<p>The performance conditions for the FY17 LTIP awards are cumulative EPS, ROCE and TSR. The weightings of which are outlined on page 95.</p> <p>The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate.</p> <p>No material change will be made to the type of performance conditions without prior shareholder consultation.</p> <p>In exceptional circumstances the Committee retains the discretion to:</p> <ul style="list-style-type: none"> • Vary, substitute or waive the performance conditions applying to LTIP awards if the Committee considers it appropriate and that the new performance conditions are deemed reasonable and are not materially less difficult to satisfy than the original conditions • Make downward or upward adjustments to the amount vesting under the LTIP resulting from the application of the performance measures if the Committee believes that the outcomes are not a fair and accurate reflection of business performance

Annual Report on Remuneration continued

Element of remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Maximum opportunities	Performance metrics
All employee share plans - SIP and Sharesave	The SIP and Sharesave are all employee share ownership plans which have been designed to encourage all employees to become shareholders in the Company and thereby align their interests with shareholders	Executive Directors are eligible to participate in both the SIP and Sharesave The Executive Directors are entitled to participate in any other all employee arrangement implemented by the Company.	The maximum levels of participation set by legislation from time to time	In accordance with the legislation the Company may impose objective performance conditions and/or length of service/hours worked/level of remuneration to determine the level of awards made under the SIP.
Minimum shareholding requirement	<p>The Committee has adopted formal shareholding guidelines that will encourage the Executive Directors to build up over a five-year period and then subsequently hold a shareholding equivalent to a percentage of base salary. Adherence to these guidelines is a condition of continued participation in the equity incentive arrangements. This requirement ensures that the interests of Executive Directors and those of shareholders are closely aligned</p> <p>Currently the requirement is for all Executive Directors to build up a shareholding equal to 200% of salary.</p> <p>The Committee retains the discretion to increase the shareholding requirements.</p>			

Executive Directors' contracts and letters of appointment for Chairman and Non-Executive Directors

Name	Date of service contract	Nature of contract	Notice periods		Compensation provisions for early termination
			From company	Director	
Clive Fenton	30 January 2014	Rolling	12 months	12 months	At the discretion of the Committee
John Tonkiss	21 January 2014	Rolling	12 months	6 months	
Rowan Baker	6 January 2017	Rolling	12 months	6 months	

Non-Executive Directors

Name	Date of letter of appointment
John White	24 September 2013
Frank Nelson	11 November 2013
Mike Parsons	28 October 2013
Geeta Nanda	4 March 2015
John Carter	18 September 2017

The Committee's policy for setting notice periods is that a 12 month period will apply for Executive Directors

The Non-Executive Directors of the Company (including the Chairman) do not have service contracts. The Non-Executive Directors are appointed by letters of appointment. Each independent Non-Executive Director's term of office runs for a three-year period which can be renewed for two further three-year terms. The terms of the Non-Executive Directors' positions are subject to their re-election by the Company's shareholders at the AGM and to re-election at any subsequent AGM at which the Non-Executive Directors stand for re-election.

All Directors will be put forward for re-election by shareholders on an annual basis.

The service contracts and letters of appointment of the Directors are available for inspection at the Company's registered office during normal office hours.

Illustrations of the application of the Remuneration Policy

The charts below illustrate the remuneration that would be paid to each of the Executive Directors, based on salaries at the start of FY18, under three different performance scenarios: (i) minimum, (ii) on-target, and (iii) maximum. The table below these charts sets out the assumptions used to calculate the elements of remuneration for each of these scenarios. The elements of remuneration have been categorised into three components: (i) fixed, (ii) annual bonus (deferred bonus), and (iii) LTIP.

Chief Executive Officer (Clive Fenton) (£'000)

Maximum	30%	35%	35%	2,130
On-target	46%	27%	27%	1,380
Minimum	100%	630		
Actual	81%	19%	753	

■ Fixed ■ Bonus ■ LTIP

Chief Operating Officer (John Tonkiss) (£'000)

Maximum	30%	35%	35%	1,410
On-target	46%	27%	27%	915
Minimum	100%	420		
Actual	81%	19%	462	

■ Fixed ■ Bonus ■ LTIP

Chief Financial Officer (Rowan Baker) (£'000)

Maximum	30%	35%	35%	1,216
On-target	46%	27%	27%	789
Minimum	100%	351		

Actual We have not included the "Actual" bar for Rowan Baker as she was only a Director for part of the year.

■ Fixed ■ Bonus ■ LTIP

Element	Description	Minimum	Target	Maximum
Fixed	Salary, benefits ¹ and pension	Included	Included	Included
Annual bonus	Annual bonus (including deferred shares) ² Maximum opportunity of 150% of salary	No annual variable	50% of maximum bonus	100% of maximum bonus
LTIP	Award under the LTIP ² Maximum annual award of 150% of salary	No multiple year variable	50% of the maximum award	100% of the maximum award

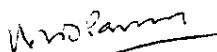
Notes

¹ Based on FY17 benefits payments as per the Single Figure Table. The actual benefits paid for FY18 will only be known at the end of the financial year. See page 94 for the Single Figure Table and the accompanying notes.

² In accordance with the regulations share price growth has not been included. In addition, dividend equivalents have not been added to the deferred shares or LTIP awards.

Mike Parsons
Remuneration Committee Chairman

13 November 2017



Directors' Report

The Directors present their report for the financial year ended 31 August 2017

Corporate governance statement

The information that fulfils the requirements of the corporate governance statement for the purposes of the FCA's Disclosure Guidance and Transparency Rules can be found in the corporate governance information on pages 74 to 105 (all of which forms part of this Directors' report) and in this Directors' report

Cross-references to other sections of the document

Disclosures that are in other sections include

Subject matter	Section and page reference
Employee diversity and inclusivity	Strategic report, page 63
Employee involvement	Strategic report, page 63
Greenhouse gas emissions	Strategic report, page 60
Likely future developments	Strategic report, pages 56 and 57

Dividends

An interim dividend of 1.8p (FY16: 1.0p) per ordinary share was paid on 9 June 2017 to those shareholders on the register on 28 April 2017. Subject to shareholder approval at the 2018 AGM, the Directors are proposing a final dividend for the financial year ended 31 August 2017 of 3.6p (FY16: 3.5p) per ordinary share. This brings the total dividend for the year to 5.4p (FY16: 4.5p).

Directors

The names of the Directors who were Directors at year end and up to the date of this report are on pages 70 to 73. Nick Maddock served as a Director until 6 January 2017 when he resigned from the Board. Rowan Baker was appointed to the Board on 6 January 2017. John Carter was appointed to the Board on 1 October 2017.

Details of the Directors' interests in the share capital of the Company are set out in the Directors' Remuneration Report on page 97.

The powers given to the Directors are contained in the Company's Articles of Association (the 'Articles'), subject to the Companies Act 2006, and any directions given by members in general meetings.

The Board, who is ultimately responsible for the management of the business of the Company, may exercise all powers to borrow money, to pay interim dividends, to mortgage or charge any of its undertakings, to issue securities and to give security for any debt, liability or obligation of the Company to any third party.

The appointment and replacement of directors is governed by the Articles and the Board may appoint any person to be a director (so long as the total number of directors does not exceed the limit prescribed in the Articles, which is currently 12).

Under the Articles, any such director shall hold office only until the next AGM and shall then be eligible for election by the members. In line with the UK Corporate Governance Code all directors are required to retire and, if they so wish, they may stand for annual re-election. All current directors will be seeking re-election at the 2018 AGM.

The Articles may be amended by a special resolution of the shareholders.

Articles of Association

The Articles of Association may be amended in accordance with the provisions of the Companies Act 2006 by way of a special resolution of the Company's shareholders.

Share capital and control

Details of the Company's share capital are on page 137 in note 25 to the consolidated financial statements.

At 31 August 2016 there were 537,314,069 25 ordinary shares of 8p nominal value in issue. Following approval at the AGM, the quarter share was bought back and cancelled on 25 January 2017. No other shares have been bought back and cancelled.

During the year 15,365 new ordinary shares have been issued and allotted to satisfy early exercises of options under the Group's Sharesave Plan by good leaver employees, who are entitled to exercise their pro-rata options within six months of leaving the Group.

The Company has one class of shares, ordinary shares of 8p nominal value, each of which carries the right to one vote at general meetings of the Company and to an equal proportion of any dividends declared and paid.

Shares may be issued with such rights and restrictions as the Company may, by ordinary resolution, decide or, if there is no such resolution or so far as it does not make specific provision, as the Board may decide.

There are no restrictions on the transfer of our ordinary shares and there are no shares carrying special rights with regards to control of the Company. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or on voting rights. There are no specific restrictions on the size of a holding or on the exercise of voting rights which are governed by the Articles of Association and prevailing legislation. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Resolutions to allot, issue and buy back shares

Shareholder authority will be sought each year to authorise the Directors to allot new shares and to disapply pre-emption rights and to make market purchases of our ordinary shares

We intend to renew our powers to issue and buy back shares at each AGM. At our AGM on 25 January 2017 the Directors were authorised to issue shares up to a maximum nominal amount of £14,328,360 and empowered to issue shares on a non pre-emptive basis up to a maximum nominal amount of £2,149,256 for general use and a further £2,149,256 for use in connection with an acquisition or other capital investment

The Directors were also authorised to buy back up to 53,731,406 shares. This authority has not been used. The Directors are seeking renewal of this authority at the forthcoming AGM, in accordance with relevant institutional guidelines

Substantial shareholdings

As at 31 August 2017, we had been notified, in accordance with the rules set out in the FCA's Disclosure Guidance and Transparency Rules sourcebook, of the following interests in our ordinary share capital:

Name of notifying entity/nature of holding	Number of shares disclosed	% interest in voting rights
Anchorage Capital Master Offshore Limited (indirect) ¹	134,695,393	25.07
Prudential plc group of companies (indirect) ²	55,140,163	10.26
The Goldman Sachs Group, Inc (indirect) ³	52,870,054	9.84
Aviva plc and subsidiaries (indirect)	3,024,245	0.57
Aviva plc and subsidiaries (direct) ⁴	31,165,914	5.80
Canada Pension Plan Investment Board (direct)	29,084,092	5.41
Royal London Asset Management Limited (direct)	27,045,491	5.03

¹ Includes contracts for difference (CFDs) representing 48,785,237 voting rights

² Includes rights to recall 1,259,083 loaned shares

³ Includes open stock loan of 80,314 shares and warrs/CFDs representing 42,091,714 voting rights

⁴ Includes right to recall 4,111,585 loaned shares

In the period from 31 August 2017 to the date of this report, we received the following notifications:

Name of notifying entity/nature of holding	Number of shares disclosed	% interest in voting rights
Anchorage Capital Master Offshore, Ltd (indirect) ¹	140,595,070	26.17
Prudential plc group of companies (indirect) ²	70,235,186	13.07
The Goldman Sachs Group, Inc (indirect) ³	54,462,421	10.14
Aviva plc and its subsidiaries (direct)	14,851,688	2.76

¹ Includes financial instruments representing 48,785,237 voting rights (9.08%)

² Includes financial instruments representing 235,415 voting rights (0.04%)

³ Includes financial instruments representing 44,433,955 voting rights (8.27%)

Information provided to the Company under the Disclosure Guidance and Transparency Rules is publicly available via the regulatory information service and on the Company's website

Significant agreements with change of control provisions

The Company has in place a revolving credit facility dated 19 December 2014 (as amended by an amendment letter dated 10 February 2015 and further amended by a supplemental agreement dated 23 May 2016). The revolving credit facility and our joint venture with Somerset Care relating to YLMS both contain termination provisions that could be triggered in certain circumstances, including if any person or group of persons acting in concert gain control of the Company.

There are no agreements between the Group and its Directors and employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) in the event of a takeover bid.

Directors' insurance and indemnities

The Group maintains Directors and Officers' liability insurance which provides cover for any legal action brought against the Directors.

The Group has also granted indemnities to each of the current Directors of the Company and its main trading subsidiary to the extent permitted by law. Qualifying third-party indemnity provisions were in force during the year ended 31 August 2017 and continue to remain in force.

Political donations

By way of a special resolution approved at the AGM on 25 January 2017, shareholders authorised the Company to make political donations and political expenditure up to a maximum of £100,000. During the year the Group did not make any political donations or incur any political expenditure. The Directors are seeking renewal of the authority at the forthcoming AGM, in accordance with relevant institutional guidelines.

Financial instruments

Details of the Group's financial instruments and its exposures to price risk, credit risk, liquidity risk and cash flow risk are set out in note 30 to the financial statements on pages 139 to 143.

Directors' Report continued

Going concern

The Directors have assessed the Group's business activities and the factors likely to affect our future performance in light of current and anticipated economic conditions. The Directors are confident that they are satisfied that the Group has adequate resources in place to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. For this reason, they have continued to adopt the going concern basis in preparing the Annual Report and financial statements.

The Directors are also required to provide a broader assessment of viability over a longer period, which can be found on page 57.

In making the going concern statement and the viability statement, the Directors have taken into account the 'Guidance on Risk Management, Internal Controls and Related Financial and Business Reporting' issued by the Financial Reporting Council in September 2014.

Disclosure of information to the auditor

Each person who is a Director of the Company as at the date of approval of this report confirms that:

- (a) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- (b) the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Annual General Meeting

The 2018 AGM will be held on Wednesday 24 January 2018. Full details are contained in the Notice convening the AGM, which is being sent to shareholders with this Annual Report.

On behalf of the Board

Patrick Hole
Company Secretary

13 November 2017



Statement of Directors' Responsibilities

Financial statements and accounting records

The Directors are responsible for preparing the Annual Report and 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 the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards), including FRS 102, the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland, and applicable law.

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 the Company and of their profit or loss for that period

In preparing the Parent Company financial statements, the Directors are required to

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting 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
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

In preparing these financial statements, International Accounting Standard 1 requires that directors

- Properly select and apply accounting policies
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- Make an assessment of the Company's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Fair, balanced and understandable

The Board confirms that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the position, performance, strategy and business model of the Company

Responsibility statement

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

- The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

This responsibility statement was approved by the Board of Directors on 13 November 2017 and is signed on its behalf by

Clive Fenton
Chief Executive Officer
13 November 2017



Rowan Baker
Chief Financial Officer
13 November 2017



removed

Graphic removed

Images

- 1 *Stukeley Court, Stamford*
- 2 *Horizons, Poole*
- 3 *Mr & Mrs Page, Superstones Court, Shrewsbury*

Independent Auditor's Report to the Members of McCarthy & Stone plc

Report on the audit of the financial statements

Opinion

In our opinion

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 August 2017 and of the Group's profit for the year then ended
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB)
- The Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

We have audited the financial statements of McCarthy & Stone plc (the 'Parent Company') and its subsidiaries (the 'Group') which comprise

- The Consolidated Statement of Comprehensive Income
- The Consolidated and Parent Statements of Financial Position
- The Consolidated and Parent Statements of Changes in Equity
- The Consolidated and Parent Cash Flow Statements
- The statement of accounting policies
- The related notes 1 to 34 of the Group statements and 1 to 11 of the Parent statements

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice)

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

The key audit matters that we identified in the current year related to cost capitalisation of overheads and certain shared equity receivables. We have identified fewer key audit matters in the current year, due to the non-recurring nature of two key risks identified in the prior year arising from the Initial Public Offering ('IPO') being the accounting treatment applied in respect of transaction costs and incentive scheme arrangements.

The materiality that we used in the current year was £4.6m (FY16: £5.2m) which was determined on the basis of 5% of pre-tax profit.

We have performed full scope audits on the Group's four largest entities: McCarthy & Stone plc, McCarthy & Stone (Developments) Limited, McCarthy & Stone Retirement Lifestyles Limited and McCarthy & Stone (Extra Care Living) Limited.

We have performed an audit of select account balances on McCarthy & Stone (Home Equity Interests) Limited and McCarthy & Stone (Equity Interests) Limited and desktop review procedures over highly immaterial subsidiaries.

Conclusions relating to principal risks, going concern and viability statement

We have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1 to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the Strategic Report section on page 57

We are required to state whether we have anything material to add or draw attention to in relation to

- The disclosures on pages 56 and 57 that describe the principal risks and explain how they are being managed or mitigated
- The Directors' confirmation on page 55 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity
- The Directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- The Directors' explanation on page 57 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions
- Whether the Directors' statements relating to going concern and the prospects of the Company required in accordance with Listing Rule 9.8.6R(3) are materially inconsistent with our knowledge obtained in the audit

We confirm that we have nothing material to add or draw attention to in respect of these matters

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The accounting treatment of Incentive schemes was included as a key audit matter in our prior year report but has not been included in 2017 due to now being immaterial to the financial statements. Similarly the treatment of transaction costs on IPO was specific to our 2016 audit only and so is not included this year

Key audit matter	How the scope of our audit responded to the key audit matter	Key observations
Cost capitalisation of overheads <i>Refer to page 84 (Report of the Risk and Audit Committee) and pages 128 and 129 (Critical accounting judgements and key sources of estimation uncertainty)</i> Inventory comprises land, work in progress and finished stock. The value of inventory as at 31 August 2017 is £760.4m (FY16: £685.8m) and is the most significant item on the Consolidated Statement of Financial Position. Overhead costs capitalised at 31 August 2017 amount to £23.2m (FY16: £25.7m) representing 5.1% (FY16: 4.9%) of stock additions. Amounts released to cost of sales totaled £20.7m (FY16: £13.2m) Management perform a detailed exercise to analyse by department the proportion of costs relating directly to site development versus general business overheads We consider the allocation and recognition of overhead costs into inventory to represent an area of risk and an area where potential fraud could occur as it requires a significant level of judgement identified in	<p>We challenged the reasonableness of the allocation and the accuracy of costs capitalised for each category of inventory. Our work involved the following:</p> <ul style="list-style-type: none"> • Assessing the design and implementation of relevant controls surrounding the formulation of the percentages applied • Liaising with senior departmental management to understand the process employed in determining the cost allocation • Performing sensitivity analysis on the proportion of costs capitalised in the year • Checking the mechanical accuracy of the calculations to identify any anomalies • Performing tests of detail over a sample of costs absorbed to assess whether these are valued and allocated correctly • Performing a recalculation based on the final percentage allocation and audited cost inputs to establish whether the amounts capitalised are accurate 	<p>We did not identify any issues to report in the course of our work. Accordingly, we are satisfied as to the reasonableness of the allocation and accuracy of costs capitalised in the year</p>
<ul style="list-style-type: none"> • Identifying which costs, based on their nature, should be capitalised into inventory rather than expensed 		

Independent Auditor's Report to the Members of McCarthy & Stone plc continued

Key audit matter	How the scope of our audit responded to the key audit matter	Key observations
<p>Cost capitalisation of overheads <i>continued</i></p> <ul style="list-style-type: none"> Determining the proportion of Planning, Design, Commercial, Construction and Health & Safety costs incurred in bringing the inventories to their present location and condition as per IAS 2 'Inventories' <p>The judgement above impacts the carrying value of inventory in the Consolidated Statement of Financial Position and the gross margin recognised on each apartment sold</p> <p>Shared equity receivables Refer to page 84 (Report of the Risk and Audit Committee), pages 128 and 129 (Critical accounting judgements and key sources of estimation uncertainty) and page 136 (financial statement disclosures)</p> <p>During the year the Group offered shared equity based arrangements to buyers. The present value of total shared equity receivables as at 31 August 2017 is £28.9m (FY16: £29.3m). Of this amount, £19.3m (FY16: £18.9m) was attributable to the New Shared Equity Scheme</p> <p>The Group's assessment and supporting calculation of the New Shared Equity Scheme is dependent on a number of assumptions, which are inherently judgemental due to their forward-looking nature. Key assumptions include:</p> <ul style="list-style-type: none"> Property price projections Expected maturity date Discount rate New build discounts and property sale premiums <p>The above assumptions are dependent on management's ability to estimate market activity, future trends and fluctuations. Changes to these assumptions could result in a material change in the value of the receivable recognised within the Consolidated Statement of Financial Position and the associated movements recorded in the Consolidated Statement of Comprehensive Income</p>	<p>We critically assessed the accuracy of the inputs and the reasonableness of the assumptions applied in the Group's fair value model of the New Shared Equity Scheme. Our work involved the following:</p> <ul style="list-style-type: none"> Assessing the design and implementation of relevant controls over the determination of the assumptions applied Consulting with our internal Real Estate specialists to challenge the rates and methodologies applied through comparison with the market Obtaining relevant sector data (e.g. Office for National Statistics and the latest indices) to challenge the reasonableness of house price inflation and new build premiums Performing tests of detail to assess the integrity of inputs and recalculate the related fair value adjustments Performing sensitivity analysis over the assumptions both individually and collectively to understand whether material differences arise as a result of changes in these assumptions Comparing the cash received on redemption during the year as an indicator of whether carrying value reflects fair value Checking the mechanical accuracy of the fair value calculation and assessing the adequacy of disclosure in the financial statements in accordance with the requirements of IAS1 'Presentation of Financial Statements' 	<p>We did not identify any issues to report in the course of our work. Accordingly we are satisfied as to the reasonableness of the carrying valuation of shared equity receivables recognised</p>

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £4.6m which is based on 5% of pre-tax profit for the year.

Pre-tax profit has been chosen as the basis for materiality as this is the measure by which stakeholders and the market assess the wider performance of the Group.

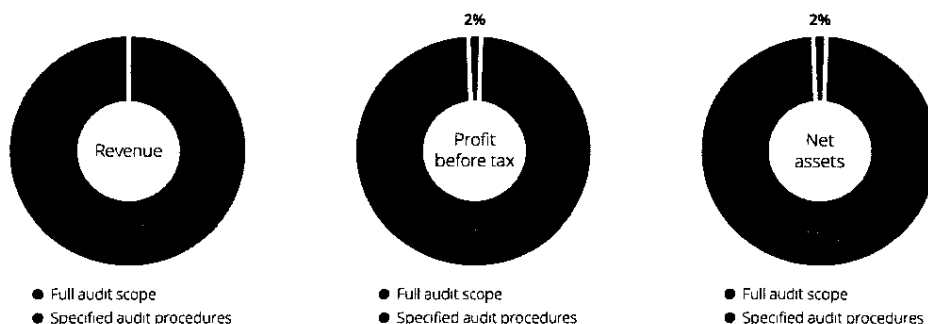
We determine performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at £3.2m (FY16: £3.6m), representing 70% of Group materiality for the 2017 audit.

We agreed with the Risk and Audit Committee that we would report to the Committee all audit differences in excess of £0.2m (FY16: £0.3m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Risk and Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

The Group has operations across the United Kingdom, split between three geographic divisions and nine regional offices. All subsidiaries of the Group are managed from the head office in Bournemouth and are subject to a common control environment. Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment, we focused our audit scope on the four largest entities in the Group: McCarthy & Stone plc, McCarthy & Stone (Developments) Limited, McCarthy & Stone Retirement Lifestyles Limited and McCarthy & Stone (Extra Care Living) Limited. These entities represent the principal entities and account for 98% (FY16: 98%) of the Group's net assets, 100% (FY16: 100%) of the Group's revenue and 98% (FY16: 98%) of the Group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.



Our audit work on these entities was executed at levels of materiality applicable to each individual Company ranging from £3.5m to £4.1m which were lower than Group materiality.

We have performed an audit of select account balances on McCarthy & Stone (Home Equity Interests) Limited and McCarthy & Stone (Equity Interests) Limited and desktop review procedures over highly immaterial subsidiaries.

At the Parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit is performed centrally and includes coverage of all nine regional offices within the Group. As part of our audit we visit a sample of three regional offices each year on a rotational basis with reference to size and complexity among other factors. The purpose of these visits is to conduct procedures over selected controls that are in place at each regional office.

Independent Auditor's Report to the Members of McCarthy & Stone plc continued

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our auditor's report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable - the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit;
- Risk and Audit Committee reporting - the section describing the work of the Risk and Audit Committee does not appropriately address matters communicated by us to the Committee;
- Directors' statement of compliance with the UK Corporate Governance Code - the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of the Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Report on other legal and regulatory requirements**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit

- 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
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements

In the light of the knowledge and understanding of the Group and of the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report

Matters on which we are required to report by exception**Adequacy of explanations received and accounting records**

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

- We have not received all the information and explanations we require for our audit
- 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
- The Parent Company financial statements are not in agreement with the accounting records and returns

We have nothing to report in respect of these matters

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns

We have nothing to report in respect of these matters

Other matters**Auditor tenure**

Following the recommendation of the Risk and Audit Committee, we were appointed by the shareholders on 25 January 2017 to audit the financial statements for the year ending 31 August 2017. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 9 years, covering the years ending 31 August 2009 to 31 August 2017.

Consistency of the audit report with the additional report to the Risk and Audit Committee

Our audit opinion is consistent with the additional report to the Risk and Audit Committee we are required to provide in accordance with ISAs (UK).



Gregory Culshaw ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

13 November 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 August 2017

	Notes	2017 £m	2016 £m
Continuing operations			
Revenue	4	660.9	635.9
Cost of sales		(530.2)	(499.5)
Gross profit		130.7	136.4
Other operating income	8	8.9	8.5
Administrative expenses		(38.8)	(44.7)
Other operating expenses		(6.6)	(5.1)
Operating profit		94.2	95.1
Amortisation		(2.0)	(2.1)
Exceptional administrative expenses	6	-	(10.0)
Underlying operating profit		96.2	107.2
Finance income	9	1.6	2.7
Finance expense	10	(3.7)	(4.9)
Profit before tax	6	92.1	92.9
Income tax expense	11	(17.7)	(19.4)
Profit for the year from continuing operations and total comprehensive income		74.4	73.5
Profit attributable to:			
Owners of the Company		74.2	73.1
Non-controlling interest		0.2	0.4
		74.4	73.5
Notes 1 to 34 form part of the financial statements shown above. All trading derives from continuing operations			
Earnings per share			
Basic (p per share)	12	13.8	13.9
Diluted (p per share)	12	13.8	13.9
Adjusted measures			
Underlying operating profit	6	96.2	107.2
Underlying profit before tax	6	94.1	105.0

Consolidated Statement of Financial Position

As at 31 August 2017

	Notes	2017 £m	2016 £m
Assets			
Non-current assets			
Goodwill	13	41.7	41.7
Intangible assets	14	27.6	29.6
Property, plant and equipment	15	2.4	2.9
Investments in joint ventures	17	0.4	0.4
Investment properties		0.2	0.2
Trade and other receivables	19	32.1	32.7
Total non-current assets		104.4	107.5
Current assets			
Inventories	18	760.4	685.8
Trade and other receivables	19	9.5	7.5
Cash and cash equivalents	28	40.7	119.0
Total current assets		810.6	812.3
Total assets		915.0	919.8
Equity and liabilities			
Capital and reserves			
Share capital	25	43.0	43.0
Share premium	26	101.6	100.8
Retained earnings		600.1	553.5
Equity attributable to owners of the Company		744.7	697.3
Non-controlling interests		1.0	0.8
Total equity		745.7	698.1
Current liabilities			
Trade and other payables	21	85.4	98.7
UK corporation tax		6.7	8.4
Short-term borrowings	23	-	11.3
Land payables	22	67.4	49.3
Total current liabilities		159.5	167.7
Non-current liabilities			
Long-term borrowings	23	8.0	52.5
Deferred tax liability	20	1.8	1.5
Total liabilities		169.3	221.7
Total equity and liabilities		915.0	919.8

Notes 1 to 34 form part of the financial statements shown above

These financial statements were approved by the Board on 13 November 2017 and signed on its behalf by

Clive Fenton
Director



Rowan Baker
Director



Consolidated Statement of Changes in Equity

For the year ended 31 August 2017

	Notes	Share capital £m	Share premium £m	Retained earnings £m	Total £m	Non- controlling interest £m	Total equity £m
Balance at 1 September 2015		381.1	56.4	104.3	541.8	0.7	542.5
Profit for the year		-	-	73.1	73.1	0.4	73.5
Total comprehensive income for the year		-	-	73.1	73.1	0.4	73.5
Transactions with owners of the Company:							
Issue of ordinary shares		4.9	104.8	(19.4)	90.3	(0.3)	90.0
Capital reduction of share capital and share premium		(343.0)	(56.4)	399.4	-	-	-
Share-based payments	31	-	-	1.5	1.5	-	1.5
Share issue related costs		-	(4.0)	-	(4.0)	-	(4.0)
Dividends		-	-	(5.4)	(5.4)	-	(5.4)
Balance at 31 August 2016		43.0	100.8	553.5	697.3	0.8	698.1
Profit for the year		-	-	74.2	74.2	0.2	74.4
Total comprehensive income for the year		-	-	74.2	74.2	0.2	74.4
Transactions with owners of the Company:							
Share-based payments	31	-	-	0.9	0.9	-	0.9
Dividends	25	-	-	(28.5)	(28.5)	-	(28.5)
Share issue related costs – tax credit		-	0.8	-	0.8	-	0.8
Balance at 31 August 2017		43.0	101.6	600.1	744.7	1.0	745.7

Notes 1 to 34 form part of the financial statements shown above

Consolidated Cash Flow Statement

For the year ended 31 August 2017

	Notes	2017 £m	2016 £m
Net cash (outflow) / inflow from operating activities	28	(3.8)	18.3
Investing activities			
Purchases of property, plant and equipment		(0.7)	(1.5)
Purchases of intangible assets		(0.4)	(0.4)
Proceeds from sale of property, plant and equipment		0.1	0.1
Net cash used in investing activities		(1.0)	(1.8)
Financing activities			
Proceeds from issue of share capital		-	86.0
Repayment of long-term borrowings		(45.0)	(35.0)
Dividends paid		(28.5)	(5.4)
Net cash (used in) / from financing activities		(73.5)	45.6
Net (decrease) / increase in cash and cash equivalents		(78.3)	62.1
Cash and cash equivalents at beginning of year		119.0	56.9
Cash and cash equivalents at end of year		40.7	119.0

Notes 1 to 34 form part of the financial statements shown above

Notes to the Consolidated Financial Statements

1. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

McCarthy & Stone plc is a Company incorporated in England and Wales under the Companies Act. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the Group) and include the Group's interest in jointly controlled entities. The Parent Company financial statements present information about the Company as a separate entity and not about the Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS) and have been prepared under the historical cost convention as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

Going concern

The Group meets its day-to-day working capital requirements through cash in hand and its bank facilities. The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements. Further information on the Group's borrowings is given in note 23.

Basis of consolidation

The consolidated financial statements incorporate the results of the Company and its subsidiaries. For the purposes of consolidation, subsidiaries are entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is attained (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating unit (CGU) expected to benefit from synergies arising from a business combination. The CGU to which goodwill has been attributed is tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the CGU, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the CGU.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods supplied stated net of discounts, rebates, VAT and other sales taxes or duty.

The Group recognises revenue when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- The amount of revenue can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the entity
- The costs incurred or to be incurred in respect of the transaction can be measured reliably

1. Significant accounting policies continued

Revenue recognised in the Consolidated Statement of Comprehensive Income but not yet invoiced is held on the Consolidated Statement of Financial Position within 'Trade and other receivables'. Revenue invoiced but not yet recognised in the Consolidated Statement of Comprehensive Income is held on the Consolidated Statement of Financial Position within 'Deferred revenue'.

Revenue is classified as follows:

Unit sales

Revenue represents the consideration received from the sale of leasehold interests in retirement apartments and freehold interests in houses, cottages and bungalows and is recognised on legal completion. Where the Group commits on completion to provide an additional cash amount above an offer given by a third-party part-exchange provider, this additional cash amount is recognised as a deduction from revenue. Cash incentives are considered to be a discount from the purchase price offered to the acquirer and are therefore accounted for as a reduction of revenue.

Freehold reversionary interests ('FRIs') and house manager flat freehold interests ('HMFIs')

FRIs and HMFIs in respect of developed sites are periodically sold to third parties. Revenue arising from these sales is recognised only to the extent that the underlying leasehold interest in the retirement apartment has been contractually sold.

Other operating income

Other operating income includes Management Services income, net rental income, profits arising from the disposal of undeveloped land sites, VAT refunds and profits arising from the realisation of shared equity receivables.

Finance income

Revenue is recognised as interest accrues, using the effective interest rate method, being the rate used to discount the estimated future cash receipts over the expected life of the financial instrument.

Cost of sales

Costs directly attributable to the unit sales are included within cost of sales. This includes the cost of bringing the inventory into use and regional marketing costs that are directly attributable to sales, including show flat running costs and estate agent referral fees.

The gain or loss arising on the sale of part-exchange properties are not included in revenue and are recorded as a reduction to cost of sales as they are seen as a sales incentive.

Build-related rebates are recorded as a reduction to cost of sales.

From 1 September 2016, the Group has refined its estimate of unit cost when units are sold and the cost is released into the Consolidated Statement of Comprehensive Income. Cost of sales is now recognised on a unit-by-unit basis, by reference to the forecast future margin across the development. The impact of the change in estimate on gross profit and inventory for the year ended 31 August 2017 is an increase of £4.1m (0.8% of cost of sales) being a 0.6% increase to gross margin.

Exceptional items

Exceptional items are defined as items of income or expenditure which, in the opinion of the Directors, are material, non-recurring and unusual in nature or of such significance that they require separate disclosure. Exclusion of these balances allows review of the underlying trading position of the Group. These are detailed further in note 6.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

Retirement benefit costs

The Group operates a stakeholder retirement benefit scheme.

A retirement benefit scheme is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to benefit schemes are recognised as an expense in the Consolidated Statement of Comprehensive Income in the years during which services are rendered by employees.

Notes to the Consolidated Financial Statements continued

1. Significant accounting policies continued

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax

Current tax

Tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, where the Group is unable to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted by the year end. Deferred tax is charged or credited in the Consolidated Statement of Comprehensive Income, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Tangible and intangible assets

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost of assets less their residual value over their useful lives, using the straight-line method, on the following bases:

Fixtures, fittings and equipment	3-10 years
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The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income on the transfer of the risks and rewards of ownership.

The Group has no class of tangible fixed asset that has been revalued. On transition to IFRS the net book values recorded at 1 September 2012 have been applied and these are based on historic cost or fair value recognised at the date of acquisition.

Intangible assets - brand

Separately acquired brands are shown at historical cost. Brands have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over their useful lives, estimated at 20 years.

1. Significant accounting policies continued**Internally-generated intangible assets - research and development expenditure**

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when all the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use
- Management intends to complete the software product and use or sell it
- There is an ability to use or sell the software product
- It can be demonstrated how the software product will generate probable future economic benefits
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available
- The expenditure attributable to the software product during its development can be reliably measured

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent year.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which do not exceed ten years.

Development expenditure relating to software has been capitalised and is detailed in note 14 to the financial statements.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of (i) fair value less costs to sell, and (ii) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that the revaluation balance is greater than the impairment loss.

Joint ventures

The Group has a number of contractual arrangements with other parties which represent joint ventures. These take the form of agreement to share control over these entities; joint ventures are accounted for using the equity method of accounting.

The Group classifies its interests in joint arrangements as either joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Group has rights only to the net assets of an arrangement). When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. The cost of sites in the course of construction and finished stock comprises the cost of land purchases, which are accounted for from the date of contract exchange, when the Group obtains the effective control of the site, building costs and attributable construction overheads. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution, completion and disposal.

Part-exchange properties are stated at fair value, established by independent surveyors, less a provision for costs to sell.

Land inventories and the associated land payables are recognised in the Consolidated Statement of Financial Position from the date of unconditional exchange of contracts. Where, through deferred purchase credit terms, cost differs from the nominal amount which will be paid in settling the deferred purchase terms liability, the initial cost of the land is discounted to fair value. The land payable is then increased to settlement value over the period of financing, with the financing element being charged to the Consolidated Statement of Comprehensive Income as a finance cost.

Notes to the Consolidated Financial Statements continued

1. Significant accounting policies continued

Options purchased in respect of land are capitalised initially at the cost of the option. Regular reviews are completed for impairment in the value of these options and provisions made accordingly to reflect loss of value. The impairment reviews consider the period elapsed since the date of purchase of the option given that the option contract has not been exercised at the review date. Furthermore, the impairment reviews consider the remaining life of the option, taking into account any concerns over whether the remaining time will allow successful exercise of the option. The carrying cost of the option at the date of exercise is included within the cost of land purchased as a result of the option exercise.

Expenditure on land without the benefit of detailed planning consent, either through purchase of freehold land or non-refundable deposits paid on land purchase contracts subject to detailed planning consent, are capitalised initially at cost. Regular reviews are completed for impairment in the value of these investments, and provision made to reflect any irrecoverable element. The impairment reviews consider the existing value of the land and assess the likelihood of achieving detailed planning consent and the value thereof.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

All financial assets are normally recognised and derecognised on the date that an agreement has been entered into where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. They are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group held no financial assets classified as held-to-maturity or AFS during the reporting periods presented herein.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Classes of financial asset

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near term.
- On initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy and information about the grouping is provided internally on that basis.
- It forms part of a contract containing one or more embedded derivatives and IAS 39 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at FVTPL.

1. Significant accounting policies continued

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the other operating income line item in the Consolidated Statement of Comprehensive Income. Fair value is determined in the manner described in note 30.

The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Group does not issue or hold derivative financial instruments for speculative purposes.

Shared equity receivables

Shared equity interests arise from sales incentive schemes under which the Group acquires a contractual entitlement to receive a proportion of the proceeds of sale of an apartment. These interests are normally protected by a legal charge over the relevant apartment and/or a restriction on title.

The value of the shared equity receivables changes in response to an underlying variable and therefore is accounted for as a derivative. The shared equity receivables are initially recognised at fair value, being the estimated future amount receivable by the Group, discounted to present value. The fair value of future anticipated cash receipts takes into account the Directors' view of future house price movements and the expected timing of receipts. The Directors revisit the future anticipated cash receipts from the assets at each reporting date and the difference between the anticipated future receipt and the initial fair value is credited to finance income/expense.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised as the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as 'other financial liabilities'.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Land-related promissory notes

Land-related promissory notes are treated as financial liabilities and are classified as land creditors or borrowings depending on the substance of the contractual arrangements.

Share-based payment schemes

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market-based vesting conditions and no expense is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market-based vesting condition.

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each reporting period end thereafter until the awards are settled. Market-based conditions are taken into account when determining fair value.

Further details regarding the schemes are set out in note 31.

Notes to the Consolidated Financial Statements continued

2. Outlook for adoption of future standards (new and amended)

There have not been any new standards and amendments adopted for the first time for the financial year ending 31 August 2017

At the date of approval of the financial statements, the following standards and interpretations which have not been applied by the Group in the financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 'Financial Instruments' was issued in final form incorporating the impairment, classification and measurement requirements in July 2014 and is scheduled to replace IAS 39 'Financial Instruments: Recognition and Measurement' for the Group from 1 September 2018. The Group continues to assess the impact and application of the new standard. However, we do not currently expect the standard to have a material impact on our reported results and financial position.

- IFRS 15 'Revenue from Contracts with Customers' was issued in May 2014 and amended in September 2015. This standard sets out requirements for revenue recognition from contracts with customers under a five-step model to apportion revenue against performance obligations within a contract. The Group continues to assess the impact of the standard and has identified two key areas, part-exchange properties and FRI revenue, where the standard will impact the timing of recognition and presentation of balances in the financial statements.

Part-exchange properties - Currently under IAS 18 'Revenue' the income and costs associated with part-exchange properties are recognised on a net basis within cost of sales. Under IFRS 15 the requirement will be to present the non-cash consideration received from a customer within revenue measured at fair value. The subsequent sale of the property received from the customer in part-exchange will be accounted for as a separate contract, with the revenue and costs being recognised in other operating income and expenditure. The net impact on the Group for FY17 if IFRS 15 was adopted would be a decrease to cost of sales of £1.0m and net decrease in other income of £1.0m.

FRI revenue - Under the Group's current accounting policy, revenue arising from the sale of FRI is recognised only to the extent that the underlying leasehold interest in the retirement apartment has been contractually sold. Under the new IFRS 15 standard, revenue would likely be recognised at the point of sale to the third party. This would accelerate the recognition of revenue and eliminate the deferred income balance currently held on the balance sheet.

The full impact of this change on revenue and margins is still being assessed by the Group.

The above items will have no impact on the Group's cash flows. This standard will be applicable to the Group from 1 September 2018.

- IFRS 16 'Leases' was published in January 2016 and is expected to be effective for the Group from 1 September 2019. This standard is a replacement of the current leases standard IAS 17 'Leases' and brings significant changes to the accounting of leases by lessees. IFRS 16 requires the recognition of a 'right-of-use' asset and a corresponding lease liability on the Balance Sheet of the lessee. In the Income Statement, the existing operating lease charges, the majority of which is currently recognised within operating profit, will be replaced by a depreciation charge against the 'right-of-use' asset. Additionally there will be an interest cost in relation to the lease liability which will be recognised within finance costs. The IASB has included an optional exemption, for lessees, for certain short-term leases and leases of low-value assets, however, this exemption can only be applied by lessees. The impact this standard will have on the Group continues to be assessed. However, we do not currently expect the standard to have a material impact on our reported results and financial position.
- Amendments to IAS 7 'Statement of Cash Flows' was issued in January 2016 and will be applicable to the Group from 1 September 2017. The Amendment requires enhanced disclosures of changes in financing liabilities.
- Amendments to IFRS 11 'Acquisitions of Interests in Joint Operations'
- Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets'
- Amendments to IAS 1 'Presentation of Financial Statements'
- Amendments to IAS 27 'Equity Method in Separate Financial Statements'
- Amendments to IFRS 10 and IAS 28 'Sale of Contribution of Assets between an Investor and its Associate or Joint Venture'
- Amendments to IFRS 2 'Share-based Payments'
- Annual improvements to IFRS '2012 - 2014 Cycle'

The potential impact of the above standards and interpretations is still being assessed by the Group.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

No critical judgements have been made in the process of applying the Group's accounting policies that have a material effect on the amounts recognised in the financial statements.

3. Critical accounting judgements and key sources of estimation uncertainty continued**Assumptions and other sources of estimation uncertainty**

The following are assumptions the Group makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities at the year end and within the next financial year

Fair value of shared equity receivables

Shared equity receivables are recognised at the fair value of future anticipated cash receipts that takes into account the Directors' view of an appropriate discount rate, a new build premium, future house price movements and the expected timing of receipts

Shared equity receivables are reviewed at each reporting date using a variety of estimates that anticipate future cash flows from the assets. Further information regarding the assumptions and sensitivity effects of a reasonable possible change can be seen within note 30

Cost capitalisation of overheads

Inventory includes a proportion of design, procurement, construction, health & safety, commercial and planning costs. Costs associated with these functions are reviewed by management to attribute those costs relating directly to the cost of the developments to inventory and those that relate to general business overheads to expenses. The assumptions used are reviewed annually by the function heads before being proposed to the Risk and Audit Committee

Cost capitalisation involves estimates of the proportion of costs that are directly attributable to sites. The key source of estimation uncertainty in this area relates to the percentage of time spent by our regions on directly attributable site activities. The percentage of their time which is capitalised ranges between 70-93% for the various functions. Overhead costs capitalised at 31 August 2017 amount to £23.2m (2016: £25.7m)

Change of estimate

From 1 September 2016, the Group refined its estimate of unit cost when units are sold and the cost is released to the Consolidated Statement of Comprehensive Income. Cost of sales is now recognised on a unit-by-unit basis, by reference to the forecast future margin across the development. The impact of the change in estimate on gross profit and inventory for the year ended 31 August 2017 is an increase of £4.1m (0.8% of cost of sales)

4. Revenue

	Continuing operations Year ended 31 August	
	2017 £m	2016 £m
Unit sales	631.8	608.2
FRI revenue	29.1	27.7
	660.9	635.9

All unit sales revenue arose from the sale of properties and is attributable to continuing operations. All revenue was generated within the UK. No individual customer is significant to the Group's revenue in any period. All revenue is explained within note 1

Proceeds received on the disposal of part-exchange properties, which are not included in revenue, were £11.6m (2016: £nil). These are recognised on a net basis within cost of sales on the basis that they are incidental to the main revenue-generating activities of the Group. The net profit on disposal of these properties was £0.1m (2016: £nil)

5. Segmental analysis

IFRS 8 'Operating Segments' establishes standards for reporting information about operating segments and related disclosures, products and services, geographic areas and major customers. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance

The Group conducts its activities through a single operating segment. Consequently, no detailed segment information has been presented

None of the Group's customers represented more than 10% of the Group's revenue generated from the building of retirement apartments for any reporting period presented herein

Notes to the Consolidated Financial Statements continued

6. Profit before tax

Profit before tax has been arrived at after charging/(crediting)

		Continuing operations Year ended 31 August	
	Notes	2017 £m	2016 £m
Amortisation of intangibles	14	2.4	2.5
Depreciation of property, plant and equipment	15	1.1	1.1
Operating lease rental expense	27		
Land and buildings		1.4	0.9
Plant and machinery		2.5	2.3
Cost of inventories recognised as an expense		457.1	436.0
Staff costs	7	92.6	79.0
Change in fair value of derivatives		-	0.3
Share-based payments charge to profit and loss	31	0.9	1.5
Movement in inventory provision (including part-exchange properties)		1.2	(0.3)

Reconciliation to underlying operating profit and profit before tax

The following tables present a reconciliation between the statutory profit measures disclosed on the Consolidated Statement of Comprehensive Income and the underlying measures used by the Board to appraise performance

Exceptional items are items which, due to their one-off, non-trading and non-recurring nature, have been separately classified by the Directors in order to draw them to the attention of the reader

Adjusted cost items are items which are material and are presented separately within the Consolidated Statement of Comprehensive Income. The Directors are of the opinion that the separate presentation of these items provides helpful information about the Group's underlying business performance. Amortisation of brand has been adjusted in order to reconcile the underlying operating profit and underlying profit before tax given the Directors do not believe these costs reflect the underlying trading of the business

Exceptionals

Year ended 31 August 2017	Notes	Statutory £m	Exceptional Administrative costs £m	Adjusted cost Amortisation of brand £m	Underlying £m
Operating profit		94.2	-	2.0	96.2
Finance income	9	1.6	-	-	1.6
Finance expense	10	(3.7)	-	-	(3.7)
Profit before tax		92.1	-	2.0	94.1
Income tax expense		(17.7)	-	(0.4)	(18.1)
Profit for the year from continuing operations and total comprehensive income		74.4	-	1.6	76.0
Earnings per share					
Basic (p per share)		13.8	-	0.4	14.2
Diluted (p per share)		13.8	-	0.4	14.2

Year ended 31 August 2016	Notes	Statutory £m	Exceptional Administrative costs £m	Adjusted cost Amortisation of brand £m	Underlying £m
Operating profit		95.1	10.0	2.1	107.2
Finance income	9	2.7	-	-	2.7
Finance expense	10	(4.9)	-	-	(4.9)
Profit before tax		92.9	10.0	2.1	105.0
Income tax expense		(19.4)	(0.7)	(0.4)	(20.5)
Profit for the year from continuing operations and total comprehensive income		73.5	9.3	1.7	84.5
Earnings per share					
Basic (p per share)		13.9	1.8	0.4	16.1
Diluted (p per share)		13.9	1.8	0.4	16.1

The exceptional administrative costs in 2016 primarily relate to the transaction fees and other costs of listing (£8.5m). Other costs recognised within exceptionals relate to redundancy and restructuring costs (£0.9m), Management Incentive Plan payments (£0.4m) and refinancing and other costs (£0.2m)

6. Profit before tax continued

Auditor's remuneration

	Continuing operations Year ended 31 August	
	2017 £m	2016 £m
Fees payable to the Group's auditor		
Annual audit	0.2	0.2
Transaction related audit and advisory services	–	0.7
	0.2	0.9

There were no other non-audit fees payable to the Group's auditor in the year

Audit fees in relation to joint ventures audited by the Group's auditor were £3,000 (2016: £3,000)

7. Staff costs

Staff costs for the year include Directors' emoluments, which are detailed below

	Continuing operations Year ended 31 August	
	2017 £m	2016 £m
Wages and salaries	80.4	67.4
Social security costs	8.0	7.1
Other pension costs	2.6	2.1
Share-based payments	0.9	1.5
Termination payments	0.7	0.9
	92.6	79.0

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

	Continuing operations Year ended 31 August	
	2017 Number	2016 Number
Office management and staff	902	900
House managers	1,024	827
Construction staff	219	241
	2,145	1,968

Staff costs include an average of 823 persons employed during the year from YLMS (2016: 679), a 50% owned subsidiary held by the Group

At 31 August 2017 the Group employed 2,264 people (2016: 2,094)

Directors' emoluments

Amounts recognised in respect of Directors' emoluments

	Continuing operations Year ended 31 August	
	2017 £m	2016 £m
Wages and salaries	1.7	1.5
Social security costs	0.2	0.2
Share-based payments	0.3	0.6
Other pension costs ¹	0.2	0.2
	2.4	2.5

¹ Includes salary supplements in lieu of pension

The emoluments of the highest paid Director was £1.0m (2016: £0.9m), including pension contributions of nil (2016: nil)
The number of Directors in the Company pension plan was two (2016: two)

Notes to the Consolidated Financial Statements continued

8. Other operating income

	Continuing operations Year ended 31 August	
	2017 £m	2016 £m
Net rental income	0.3	0.6
Other income	7.7	5.9
Non-core business revenue	0.9	2.1
Land sales profit / (loss)	-	(0.1)
	8.9	8.5

Other income arises on the services provided by Group subsidiaries to manage certain developments. Non-core business revenue relates to other income such as customer extras.

9. Finance income

	Continuing operations Year ended 31 August	
	2017 £m	2016 £m
Change in fair value of shared equity receivables	1.5	2.5
Interest income received	0.1	0.2
	1.6	2.7

10. Finance expense

	Continuing operations Year ended 31 August	
	2017 £m	2016 £m
Loans and overdraft fees	3.1	3.6
Promissory note interest and fees	0.1	0.5
Amortisation of refinancing issue costs	0.5	0.5
Fair value movement on interest rate cap	-	0.3
	3.7	4.9

11. Tax

	Notes	2017 £m	2016 £m
Corporation tax charges			
Current year		17.7	18.6
Adjustments in respect of prior years		(0.3)	(0.4)
Deferred tax charges			
Current year	20	0.3	1.2
		17.7	19.4

11. Tax continued

The tax charge for each year can be reconciled to the profit per the Consolidated Statement of Comprehensive Income as follows

	2017 £m	2016 £m
Profit before tax on continuing operations	92.1	92.9
Tax charge at the UK corporation tax rate of 19.58% (2016: 20.00%)	18.0	18.6
Tax effect of:		
Expenses that are not deductible in determining taxable profit	0.1	1.5
Income not taxable in determining taxable profit	(0.1)	(0.1)
Adjustments in respect of previous periods	(0.3)	(0.4)
Share options timing difference	0.2	-
Other reconciling items	(0.2)	(0.2)
Tax charge for the year	17.7	19.4

Reductions in the rate of corporation tax to 19% and 18% from 1 April 2017 and 1 April 2020 were substantially enacted on 18 November 2015. A further reduction in the corporation tax main rate from 1 April 2020 to 17% was fully enacted on 15 September 2016. The deferred tax assets and liabilities at 31 August 2017 have been calculated based on the appropriate rate at which the asset/liability will unwind.

12. Earnings per share

Basic earnings per share is calculated as the profit for the financial period attributable to shareholders of the Company divided by the weighted average number of shares in issue during the period. The actual weighted average number of ordinary shares during the full year ended 31 August 2017 was 537.3m for the basic and 537.6m for the diluted calculations, giving a statutory earnings per share for the year ended 31 August 2017 of 13.8p for basic and 13.8p for diluted.

	2017	2016
Profit attributable to shareholders (£m)	74.2	73.1
Weighted average no. of shares (m)	537.3	525.6
Basic earnings per share (p)	13.8	13.9

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume the conversion of all potentially dilutive ordinary shares. At 31 August 2017, the Company had two categories of potentially dilutive ordinary shares: 3.9m nil cost share options under the LTIP and 4.1m 167.4p share options under the Sharesave plan.

A calculation is done to determine the number of shares that could have been acquired at fair value based on the aggregate of the exercise price of each share option and the fair value of future services to be supplied to the Group, which is the unamortised share-based payments charge. The difference between the number of shares that could have been acquired at fair value and the total number of options is used in the diluted earnings per share calculation.

	2017	2016
Profit used to determine diluted EPS (£m)	74.2	73.1
Weighted average number of shares (m)	537.3	525.6
Adjustments for:		
Share options - LTIP (m)	0.3	0.3
Shares used to determine diluted EPS (m)	537.6	525.9
Diluted earnings per share (p)	13.8	13.9

13. Goodwill

	£m
Cost	
At 1 September 2015 and 31 August 2016 and 2017	41.7
Carrying amount	
At 1 September 2015 and 31 August 2016 and 2017	41.7

No impairment losses have been recognised in any of the reporting periods presented herein.

Goodwill arose as a result of an acquisition in 2009 of the assets and liabilities of Monarch Realisations 1 plc (in liquidation). As the goodwill relates to the business as a whole, it has not been allocated to a specific CGU. For key assumptions in determining recoverable amounts in goodwill impairment testing, refer to note 16.

Notes to the Consolidated Financial Statements continued

14. Intangible assets

	Brand £m	Software £m	Total £m
Cost			
At 1 September 2015	41.4	3.9	45.3
Additions	-	0.4	0.4
At 31 August 2016	41.4	4.3	45.7
Additions	-	0.4	0.4
At 31 August 2017	41.4	4.7	46.1
Amortisation			
At 1 September 2015	(13.2)	0.4	(13.6)
Charge for the year	(2.1)	(0.4)	(2.5)
At 31 August 2016	(15.3)	(0.8)	(16.1)
Charge for the year	(2.0)	(0.4)	(2.4)
At 31 August 2017	(17.3)	(1.2)	(18.5)
Carrying amount			
At 31 August 2016	26.1	3.5	29.6
At 31 August 2017	24.1	3.5	27.6

Brand assets represent the McCarthy & Stone brand name purchased as part of the business combination in 2009. Brand assets have 11 years and 7 months of useful life remaining.

All amortisation charged is recognised in administrative expenses in the Consolidated Statement of Comprehensive Income.

15. Property, plant and equipment

	Fixtures fittings and equipment £m	Total £m
Cost		
At 1 September 2015	6.0	6.0
Additions	1.5	1.5
Disposals	(0.3)	(0.3)
At 31 August 2016	7.2	7.2
Additions	0.7	0.7
Disposals	(0.1)	(0.1)
At 31 August 2017	7.8	7.8
Accumulated depreciation and impairment		
At 1 September 2015	(3.4)	(3.4)
Charge for the year	(1.1)	(1.1)
Eliminated on disposals	0.2	0.2
At 31 August 2016	(4.3)	(4.3)
Charge for the year	(1.1)	(1.1)
Eliminated on disposals	-	-
At 31 August 2017	(5.4)	(5.4)
Carrying amount		
At 31 August 2016	2.9	2.9
At 31 August 2017	2.4	2.4

16. Impairment testing

During the periods reported in the financial statements, no impairments have been recognised against the Group's assets. For each reported period, management have performed an impairment review of goodwill, being an indefinitely lived asset. The Group only has one CGU, being the McCarthy & Stone (Developments) Limited's business, which was acquired in 2009.

The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to earnings before interest, tax, depreciation and amortisation (EBITDA) used as a proxy of free cash flows beyond the budgeted years as well as the level of capital expenditure required to maintain the existing business into the future. These assumptions are reviewed and revised annually in light of current economic conditions and the future outlook for the business. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business; rates used for 2017 are 7.0% (2016: 8.4%).

The forecast period employed in the impairment assessment was three years followed by an assessment of cash flows and growth into perpetuity. The growth rates used are based on management's assessment of the cash flow forecasts over the medium term. Due to the headroom within the calculation no further growth has been assumed within the perpetuity calculation. These are based on conservative estimates of the Group's ability to participate in the growth expected in the industry. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value of goodwill recognised in the financial statements has been compared to the derived value in use with no impairment charges arising. The Group has conducted a sensitivity analysis on the key assumptions which are material to the impairment assessment including the discount rate, the cash flow projections and the terminal growth rate and concluded no material sensitivity exists in these calculations.

No impairment charges were recorded on items of property, plant and equipment throughout the period covered by these financial statements.

17. Investment in joint ventures

The Group has a 50% ownership interest in Kindle Housing Limited, which manages affordable housing. Kindle Housing Limited has 100% ownership interest of ordinary shares in each of Kindle Housing (Worthing) Limited, Kindle Housing (Christchurch) Limited and Kindle Housing (Exeter) Limited, which rent affordable housing to local key worker employees. As a result the Group also has a 50% ownership interest in these companies, all of which are registered in England and Wales.

The Group accounts for its interests in these companies using the equity method of accounting.

The share of the assets, liabilities, income and expenses of the jointly controlled entities is not material.

18. Inventories

	2017 £m	2016 £m
Land held for development	148.6	236.5
Sites in the course of construction	341.2	201.0
Finished stock	238.7	248.3
Part-exchange properties	31.9	-
	760.4	685.8

Days in inventory amounted to 582 days in 2017 (2016: 574 days).

Inventory days are calculated by taking year end inventory (excluding part-exchange properties) divided by cost of inventories recognised as an expense.

19. Trade and other receivables

	2017 £m	2016 £m
Trade and other receivables due in less than one year		
Trade receivables	2.1	1.5
Other debtors and prepayments	7.4	6.0
	9.5	7.5

Notes to the Consolidated Financial Statements continued

19. Trade and other receivables continued

	2017 £m	2016 £m
Trade and other receivables due in greater than one year		
Secured mortgages	3.2	3.4
Shared equity receivables	28.9	29.3
	32.1	32.7

Trade receivables and secured mortgages disclosed above are classified as loans and receivables and are measured at amortised cost

The Directors consider that the carrying amounts of trade and other receivables and non-current receivables approximates their fair value

20. Deferred tax

The following are the major deferred tax liabilities recognised by the Group

	Accelerated tax depreciation £m	Other temporary differences £m	Unrelieved tax losses £m	Total £m
At 1 September 2015	–	(0.3)	–	(0.3)
Income statement charge	–	(1.2)	–	(1.2)
At 31 August 2016	–	(1.5)	–	(1.5)
Income statement charge	–	(0.3)	–	(0.3)
At 31 August 2017	–	(1.8)	–	(1.8)

Deferred tax assets are represented by positive values and deferred tax liabilities are represented by negative values in the table above

Deferred tax assets of £0.1m in relation to capital losses carried forward were not recognised as there is uncertainty as to whether these losses could be utilised by the Group prior to expiry (2016: £0.1m). These losses have no expiry date

21. Trade and other payables

	2017 £m	2016 £m
Trade payables	22.7	26.8
Other taxes and social security costs	1.9	1.9
Accrued expenses	42.6	51.4
Other creditors and deferred income	18.2	18.6
	85.4	98.7

Trade payables and accrued expenses principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases was 20 days during 2017 (2016: 21 days). No material interest costs have been incurred in relation to such payables. The Group policy is to ensure that payables are paid within the pre-agreed credit terms and to avoid incurring penalties and/or interest on late payments. Other creditors include sales taxes, property taxes, social security and employment taxes due to local tax authorities. The Directors consider that the carrying amount of trade payables approximates their fair value

No trade payables are purchased on extended payment terms

22. Land payables

	2017 £m	2016 £m
Land payables	67.4	49.3

Land payables relate to payment due in respect of land which has been purchased under an unconditional contract

23. Borrowings

Short-term borrowings		2017 £m	2016 £m
Promissory notes		–	11.3
Long-term borrowings		2017 £m	2016 £m
Loans		10.0	55.0
Unamortised issue costs		(2.0)	(2.5)
		8.0	52.5
Outstanding at 31 August			
	Maturity	2017 £m	2016 £m
Revolving Credit Facility	May 2021	10.0	55.0

The Group has in place a £200m revolving credit facility (RCF) initially with a five-year term maturing December 2019. In May 2016, an amendment was made to the RCF agreement to improve the commercial terms and extend the facility's maturity date from 19 December 2019 to 23 May 2021.

The nominal interest rate of the £200m RCF is 1, 3 or 6 month LIBOR + 1.6% (2016: 1, 3 or 6 month LIBOR + 1.6%) depending on the length of the drawdown. As at 31 August 2017, £10m (2016: £55m) was drawn. The RCF is secured by a floating charge over the assets of McCarthy & Stone plc, McCarthy & Stone Retirement Lifestyles Limited, McCarthy & Stone (Developments) Limited, McCarthy & Stone (Extra Care Living) Limited and McCarthy & Stone Total Care Management Limited.

24. Net cash

	2017 £m	2016 £m
Loans	8.0	63.7
Add back unamortised issue costs	2.0	2.5
Cash and cash equivalents	(40.7)	(119.0)
Net cash	(30.7)	(52.8)
Add back land-related promissory notes	–	(11.3)
Net cash excluding land-related promissory notes	(30.7)	(64.1)

Net cash is a non-GAAP measure and is calculated as cash and cash equivalents less long-term and short-term borrowings (excluding unamortised debt issue costs and land-related promissory notes).

25. Share capital

The Company has one class of ordinary shares which carry no right to fixed income. There is no limit to authorised share capital.

Allotted and issued ordinary shares	2017 £'000	2016 £'000
8p each fully paid: 537,329,434 ordinary shares (2016: 537,314,069)	42,986	42,985

Allotment of shares during the year	2017 Number '000	2016 Number '000
At 1 September	537,314	1,905,550
Issuance of new shares in relation to the Management Incentive Plan	–	43,707
Consolidation of share capital	–	(1,461,943)
Issuance of new shares in relation to primary proceeds from the IPO	–	50,000
Issuance to satisfy early exercises under Sharesave plan	15	–
At 31 August	537,329	537,314

Issuance of new shares in relation to Sharesave ('SAYE') plan

During the year 15,365 ordinary shares were issued to satisfy the early exercise of options under our December 2015 SAYE plan by seven "good leaver" employees. The shares were all issued at 167.4p each, being the exercise price of the SAYE options granted on 10 December 2015.

Notes to the Consolidated Financial Statements continued

25. Share capital continued

Dividends on equity shares

The interim dividend of 1.8p (2016: 1.0p) was approved by the Board on 4 April 2017 and paid on 9 June 2017 to all ordinary shareholders on the register of members at the close of business on Friday 28 April 2017. The ex-dividend date was 27 April 2017. The final dividend proposed by the Board is 3.6p (2016: 3.5p) per share resulting in a total ordinary dividend for the year of 5.4p (2016: 4.5p). It will be paid on 1 February 2018 to those shareholders who are on the register at 5 January 2018 subject to approval at the Company's Annual General Meeting. The ex-dividend date is 4 January 2018. These financial statements do not reflect the final dividend payment.

26. Share premium reserve

	2017 £m	2016 £m
Share premium	101.6	100.8

The share premium reserve represents the consideration that has been received in excess of the nominal value of shares in issue.

Movements in share premium are presented within the Consolidated Statement of Changes in Equity.

27. Operating lease arrangements

	2017 £m	2016 £m
Minimum lease payments under operating leases recognised as an expense during the year	3.9	3.2

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

	2017 £m	2016 £m
Within one year	4.3	3.9
In the second to fifth years inclusive	6.9	8.7
After five years	1.1	2.8
Outstanding commitments for future minimum lease payments	12.3	15.4

Operating lease payments typically represent rentals payable by the Group for its office properties and cars. Rent reviews and break clauses apply to leased property agreements.

28. Notes to the cash flow statement

	Notes	2017 £m	2016 £m
Profit for the financial year		74.4	73.5
Adjustments for:			
Income tax expense	11	17.7	19.4
Amortisation of intangibles	14	2.4	2.5
Share option charge	31	0.9	1.5
Depreciation of property, plant and equipment	15	1.1	1.1
Interest expense	10	3.7	4.9
Interest income	9	(1.6)	(2.7)
Operating cash flows before movements in working capital		98.6	100.2
Decrease in trade and other receivables		0.1	2.2
(Increase) in inventories		(85.9)	(99.5)
Increase in trade and other payables		5.4	37.5
Operating cash flows before interest and tax paid		18.2	40.4
Interest received		0.1	0.2
Interest paid		(2.9)	(4.1)
Income taxes paid		(19.2)	(18.2)
Cash (used) / generated by operations		(3.8)	18.3
Net cash (outflow) / inflow from operating activities		(3.8)	18.3
Cash and cash equivalents			
Cash and bank balances		40.7	119.0

28. Notes to the cash flow statement continued

Cash and cash equivalents comprise cash and bank balances and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of cash and cash equivalents approximates fair value.

The increase in inventories comprises movements in inventories (including part-exchange properties), offset by the repayment of promissory notes.

The increase in trade and other payables includes the movement in land payables.

29. Retirement benefit schemes

The Group operates a stakeholder defined contribution retirement benefit scheme which is open to all employees.

Other than amounts that are deducted from employees' remuneration and accrued pending payment to the benefit scheme, no further obligations fall on the Group as the assets of these arrangements are held and managed by third parties entirely separate from the Group.

The benefit scheme charge for the year represents contributions payable to the benefit scheme and amounted to £2.6m for the year ended 31 August 2017 (2016: £2.1m). Unpaid contributions amounted to £0.3m as at 31 August 2017 (2016: £0.2m).

30. Financial risk management

The Group's financial instruments comprise cash, bank loans and overdrafts, trade receivables, other financial assets and trade and other payables.

Categories of financial instruments

	2017 £m	2016 £m
Financial assets		
Financial assets at fair value through profit or loss		
Shared equity receivables	28.9	29.3
Loans and receivables		
Cash and cash equivalents	40.7	119.0
Trade and other receivables	2.7	2.2
	72.3	150.5
Financial liabilities		
Amortised cost		
Trade and other payables	77.2	92.0
Land payables	67.4	49.3
Loans	8.0	52.5
Land-related promissory notes	-	11.3
	152.6	205.1

Capital risk management

The Group manages its capital (being debt, cash and cash equivalents and equity) to ensure entities within the Group have a strong capital base in order to continue as going concerns, to maintain investor and creditor confidence and to provide a basis for the future development of the business while maximising the return to stakeholders.

The revolving credit facility imposes financial covenants, which is normal for such agreements, all of which the Group is compliant with. The Group manages a robust internal forecasting and review process to ensure it operates within these capital requirements.

The Group does not routinely make additional issues of capital, other than for the purpose of raising finance for the management of the cost of capital of the Group or to fund significant developments designed to grow value in the future.

Share-based payment schemes allow senior employees of the Group to participate in the ownership of the Group in order to ensure the senior employees are focused on growing the value of the Group to achieve the aims of all shareholders.

Financial risk management

The Group's finance function is responsible for all aspects of corporate treasury. It co-ordinates access to financial markets and monitors and manages the financial risks relating to the operations of the Group through internal reports which analyse exposures by degree and magnitude. The risks reviewed include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Board is responsible for managing these risks and the policies adopted are as set out on the next pages.

Notes to the Consolidated Financial Statements continued

30. Financial risk management continued

Housing market risk management

The Group's activities expose it primarily to macroeconomic risks such as deflation and the cyclical nature of UK property prices. A deterioration in the economic outlook could have a significant impact on the Group's financial performance and the Group has the following procedures which mitigate its market-related operational risk:

- The Group closely monitors industry indicators and assesses the potential impact of different economic scenarios.
- Decisions to allocate new capital to land and build are managed centrally through the Group Investment Committee, membership of which includes the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer and the Land & Planning Director.
- The Group aims to maintain a national and product spread of developments to ensure that it is not reliant on one particular location, development or product.
- The Group undertakes a weekly review of sales, reservations and incentives at regional and Group level.

The value of the Group's house price linked financial assets is sensitive to UK house prices since the amount repayable is dependent upon the market price of the property to which the asset is linked. At 31 August 2017 if UK house prices were 5% lower for a one-year period and all other variables were held constant, the Group's house price linked financial assets would decrease in value, excluding the effects of tax, by £1.1m (2016: £1.1m) with a corresponding reduction in both the result for the year and equity.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a low exposure to credit risk due to the nature and legal framework of the UK housing industry. As stated in the Group's accounting policy for revenue recognition, a sale is only recognised upon legal completion and this is accompanied by full cash receipt in virtually all cases.

In certain circumstances the Group offers sales incentives resulting in a long-term debt being recognised under which the Group will receive a proportion of the resale proceeds of a property. The Group's equity share is protected by a registered entry on the title and usually represents the first interest in the property. A reduction in property values leads to an increase in the credit risk of the Group in respect of such sales.

The credit risk relating to shared equity receivables is deemed immaterial as the value is recovered through subsequent disposal of the related asset. As a result, management consider the credit quality of these receivables to be good in respect of the amounts outstanding, resulting in low credit risk. Exposure to house price sensitivity is built into the fair value calculation.

Trade receivables consist of a large number of customers, spread across different regions. Ongoing credit evaluation is performed on the financial condition of trade receivables.

The Group does not have any significant credit risk exposure to any single counterparty or group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. There is no material concentration of credit risk in respect of one individual customer.

The carrying amount recorded for financial assets in the financial statements is net of impairment losses and represents the Group's maximum exposure to credit risk. No guarantees have been given in respect of third parties. In addition, for contracted rental agreements deposits or advances may be held to mitigate risk. The Group also holds legal recourse and can exercise its right to recover rental equipment from non-performing customers.

Liquidity risk management

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group's strategy in relation to managing liquidity risk is to ensure that the Group has sufficient cash flow liquid funds to meet all its potential liabilities as they fall due. The Group produces cash flow forecasts to monitor the expected requirements of the Group against the available facilities. The principal risks with these cash flows relate to achieving the level of sales volumes and prices in line with current forecast.

30. Financial risk management continued

The maturity of the financial liabilities of the Group at 31 August 2016 and 2017 are as follows

	2016				
	Carrying value £m	Contractual cash flows £m	Within 1 year £m	2-5 years £m	5+ years £m
Loans	55.0	64.7	2.0	62.7	–
Other financial liabilities carrying interest	11.3	11.4	11.4	–	–
Financial liabilities carrying no interest	141.3	141.3	141.3	–	–
Total	207.6	217.4	154.7	62.7	–

	2017				
	Carrying value £m	Contractual cash flows £m	Within 1 year £m	2-5 years £m	5+ years £m
Loans	10.0	15.2	1.4	13.8	–
Financial liabilities carrying no interest	144.6	144.6	144.6	–	–
Total	154.6	159.8	146.0	13.8	–

Other financial liabilities carrying interest are promissory notes, which attract availability and discount fees. Financial liabilities carrying no interest are trade and other payables and land payables. The timing and amount of future cash flows given in the table above is based on the year end position.

Interest rate risk management

Interest rate risk reflects the Group's exposure to fluctuations to interest rates in the market. The risk arises because the Group's RCF is subject to floating interest rates based on LIBOR.

In the year ended 31 August 2017, if UK interest rates had been 0.5% higher or lower, as this is a reasonably possible change, and all other variances were held constant, the Group's pre-tax profit would decrease/increase by £0.5m (2016: £0.5m). Calculations have been based on borrowing values at each month end.

Fair value of financial instruments**Valuation techniques and assumptions applied for the purposes of measuring fair value****Fair value of financial instruments carried at amortised cost**

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Bank and other loans

Fair value is calculated based on discounted expected future principal and interest flows.

Interest rate swaps

At each period end, the Directors appoint a valuer to perform an external valuation of the fair value of each interest rate swap or cap outstanding.

Valuation of Levels 1, 2 and 3 financial assets and liabilities

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Notes to the Consolidated Financial Statements continued

30. Financial risk management continued

Fair value measurements recognised in the Consolidated Statement of Financial Position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. The grouping into Levels 1 to 3 is based on the degree to which their fair value is observable.

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

The financial instruments held by the Group that are measured at fair value all relate to financial assets measured at fair value through profit and loss ('FVTPL') using methods associated with Level 3. The sensitivities are not material on assets held at fair value.

	2016			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Financial assets at FVTPL				
Shared equity receivables	–	–	29.3	29.3
Total financial assets designated at FVTPL	–	–	29.3	29.3

	2017			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Financial assets at FVTPL				
Shared equity receivables	–	–	28.9	28.9
Total financial assets designated at FVTPL	–	–	28.9	28.9

There were no transfers between Levels 1, 2 or 3 in the year.

Financial assets comprise shared equity loans secured by way of a charge on the property and an interest rate cap.

Financial assets are recorded at fair value, being the estimated amount receivable by the Group, discounted to present day values.

For shared equity receivables the fair value of future anticipated cash receipts takes into account the Directors' views of an appropriate discount rate, a new build premium, future house price movements and the expected timing of receipts. These assumptions cover a variety of different schemes and the range of assumptions used are stated below. The assumptions are reviewed at each period end.

Assumptions	2017	2016
Discount rate	3.8 to 4.4%	4.7 to 5.1%
New build premium	5%	5%
House price inflation	0 to 5.75%	0 to 4.0%
Timing of receipt	5 to 14 yrs	5 to 12 yrs

Sensitivity-effect on value of other financial assets (less)/more	2017 Increase assumptions by 1%/1 year £m	2017 Decrease assumptions by 1%/1 year £m
Discount rate	(2.3)	2.6
House price inflation	2.3	(2.1)
Timing of receipt	(0.4)	0.4

The fair value of the shared equity receivable is based on the external available data. The sensitivity-effect of a 1% change is representative of our best estimate of a reasonably possible change.

The Directors review the anticipated future cash receipts from the assets at each reporting date and the difference between the anticipated future receipt and the initial fair value is credited to finance income.

30. Financial risk management continued

At initial recognition, the fair values of the assets are calculated using a discount rate appropriate to the class of assets that reflects market conditions at the date of entering into the transaction. The Directors consider at the end of each reporting period whether the initial market discount rate still reflects up to date market conditions. If a revision is required, the fair values of the assets are re-measured at the present value of the revised future cash flows using this revised discount rate. The difference between these values and the carrying values of the assets is recorded against the carrying value of the assets and recognised directly in the Consolidated Statement of Comprehensive Income.

The following tables present the changes in Level 3 instruments for the years ended 31 August 2016 and 2017

	2016		
	Shared equity receivables £m	Interest rate cap £m	Total £m
Opening balance	28.0	0.3	28.3
Additions	0.5	–	0.5
Disposals	(1.7)	–	(1.7)
Revaluation gains or (losses) recognised in the income statement	2.5	(0.3)	2.2
Closing balance	29.3	–	29.3

	2017		
	Shared equity receivables £m	Interest rate cap £m	Total £m
Opening balance	29.3	–	29.3
Additions	0.8	–	0.8
Disposals	(2.7)	–	(2.7)
Revaluation gains recognised in the income statement	1.5	–	1.5
Closing balance	28.9	–	28.9

Notes to the Consolidated Financial Statements continued

31. Share-based payments

Equity-settled share-based payment plans

The Group operates a number of share-based payment schemes as set out below

Long Term Incentive Plan ('LTIP')

The Group's LTIP is open to key management at the discretion of the Board. Awards under the scheme are granted in the form of nil-priced share options. LTIP awards will normally vest, and LTIP Options become exercisable, on the third anniversary of the date of the grant of the LTIP award to the extent that any applicable performance conditions have been satisfied. LTIP options will remain exercisable for ten years after the date of the grant. Awards are to be settled by the issue of new shares or acquisition of shares in the market. The performance conditions for the 2016 and 2017 LTIP grants are earnings per share ('EPS'), comparative total shareholder return ('TSR') and return on capital employed ('ROCE'). The TSR performance condition is a market-based condition. In order to value the TSR performance conditions against the FTSE 250 and peer group, a Monte Carlo simulation model is required which can simulate correlation between companies.

LTIP			Total
Date of grant	21 December 2016	25 November 2015	
Options granted	1,933,352	1,930,524	
Fair value at measurement date* (£)	1.32	2.12	
Share price on date of grant (£)	1.56	2.32	
Exercise price (£)	-	-	
Vesting period	3 years	3 years	
Expected dividend yield	n/a	n/a	
Expected volatility	29.21%	26.07%	
Risk free interest rate	0.23% p.a.	0.8% p.a.	
Valuation model	Black-Scholes and Monte Carlo	Black-Scholes and Monte Carlo	
Movements in the year:			
Options at beginning of the year	-	1,816,636	1,816,636
Granted during the year	1,933,352	-	1,933,352
Exercised during the year	-	-	-
Lapsed during the year	(57,143)	(308,326)	(365,469)
Expired in the year	-	-	-
Options at the end of the year	1,876,209	1,508,310	3,384,519
Exercisable at end of the year	-	-	-

* This is the average fair value of the fair values for the three tranches of the LTIP awards during 2017

The weighted average of the average price for the LTIP award is nil

Expected volatility was determined by calculating the average historical volatility over a period commensurate with the expected life of the award for the LTIP based on the FTSE 250, which McCarthy & Stone are a constituent of post-IPO

Sharesave plan ('SAYE')

The SAYE plan is an all-employee savings-related share option plan. Employees are invited to make regular monthly contributions to a SAYE scheme operated by Link Asset Services. On completion of the contract period (three or five years) employees are able to purchase ordinary shares in the Company based on the average closing middle market price over the three days prior to the award, less 20% discount. There are no performance conditions.

31. Share-based payments continued

SAYE			Total	Weighted average exercise price
Date of grant	10 December 2015	10 December 2015		
Options granted	2,912,247	1,197,514		
Fair value at measurement date (£)	0.68	0.75		
Share price on date of grant (£)	2.34	2.34		
Exercise price (£)	1.674	1.674		
Vesting period	3 years	5 years		
Expected dividend yield	26.20%	28.16%		
Expected volatility	25.07%	26.07%		
Risk free interest rate	0.8% p.a.	1.2% p.a.		
Valuation model	Black-Scholes	Black-Scholes		
Movements in the year				
Options at beginning of the year	2,653,028	1,161,675	3,814,703	1.674
Granted during the year	-	-	-	-
Exercised during the year	(15,365)	-	(15,365)	1.674
Lapsed during the year	(740,448)	(234,829)	(975,277)	1.674
Expired in the year	-	-	-	-
Options at the end of the year	1,897,215	926,846	2,824,061	1.674
Exercisable at end of the year	-	-	-	-

Expected volatility was determined by calculating the average historical volatility over a period commensurate with the expected life of the savings term for the SAYE options, based on the FTSE 250, which McCarthy & Stone are a constituent of post-IPO.

Share Incentive Plan ('SIP')

The SIP allows all employees to purchase partnership shares each month from pre-tax pay, which are then held in trust. These shares can be sold or taken from the SIP or be left within the trust for as long as the plan remains open. All plan shares and any other assets held by the trustees will be held upon trust for the participants; there is therefore no impact to the Group's financial statements in respect of this plan.

Annual and Deferred Bonus Plan ('ABP')

The ABP incorporates the Company's executive bonus scheme as well as a mechanism for the deferral of bonus into awards over ordinary shares. The Committee can determine that part of the bonus under the ABP is provided as an award of deferred shares, which takes the form of a £nil cost option. The maximum value of deferred shares is 50% of the bonus earned. All employees (including the Executive Directors) of the Group are eligible to participate in the ABP at the discretion of the Board. At 31 August 2017 three Executive Directors were participating in the scheme. For the year ended 31 August 2017, one-third of the bonus earned by the CEO and COO in the financial year, totalling £0.1m, will be deferred in the form of deferred shares for three years, during which no performance conditions will apply. The amount deferred will be recognised over the three-year deferral period.

Total Share-based payment schemes

Analysis of the income charge	2017 £m	2016 £m
Equity-settled and cash-settled share-based payments		
Management Incentive Plan	-	0.4
Equity-settled share-based payments		
SAYE	0.5	0.4
LTIP	0.4	0.7
	0.9	1.1
	0.9	1.5

Notes to the Consolidated Financial Statements continued

32. Subsidiaries

Name	Principal activity	Company number	Class of shares	2017 %	2016 %
McCarthy & Stone (Developments) Limited	Holding Company	06622183	Ordinary	100	100
McCarthy & Stone Retirement Lifestyles Limited	Developer	06622231	Ordinary	100	100
McCarthy & Stone (Equity Interests) Limited	Property Investment	05663330	Ordinary	100	100
McCarthy & Stone (Home Equity Interests) Limited	Property Investment	05984851	Ordinary	100	100
McCarthy & Stone Investment Properties No 23 Limited*	Property Investment	06496130	Ordinary	100	100
McCarthy & Stone (Total Care Living) Limited*	Property Investment	06069509	Ordinary	100	100
McCarthy & Stone (Ainwick) Limited*	Property Investment	07517819	Ordinary	100	100
McCarthy & Stone (Extra Care Living) Limited	Property Investment	06897363	Ordinary	100	100
McCarthy & Stone Total Care Management Limited	Property Investment	06897301	Ordinary	100	100
McCarthy & Stone Rental Interests No 1 Limited*	Property Investment	06897272	Ordinary	100	100
McCarthy & Stone Management Services Limited	Development management	07166051	Ordinary	100	100
McCarthy & Stone Lifestyle Services Limited*	Holding Company	07165986	Ordinary	100	100
McCarthy & Stone Financial Services Limited*	Financial Services	07798214	Ordinary	100	100
Keyworker Properties Limited	Property Investment	04213618	Ordinary	100	100
McCarthy & Stone Estates Limited*	Property Resale	07165952	Ordinary	100	100
YourLife Management Services Limited	Development Management	07153519	Ordinary	50	50
McCarthy & Stone Properties Limited*	Dormant	01925738	Ordinary	100	100
The Planning Bureau Limited*	Dormant	02207050	Ordinary	100	100
Ortus Homes Limited*	Dormant	08658235	Ordinary	100	100
McCarthy & Stone Resales Limited*	Property Resale	10716544	Ordinary	100	n/a
Linden Court Limited*	Dormant	04322139	Ordinary	100	n/a

* These UK subsidiaries will take advantage of the audit exempt on set out within section 479A of the Companies Act 2006 for the year ended 31 August 2017

The dormant companies have taken advantage of the section 394A exemption from preparing individual accounts

Each of the above shareholdings gives the immediate Parent Company 100% voting rights, with the exception of YourLife Management Services Limited where the parent has 50% voting rights, but the power to appoint the majority of the Directors. Accordingly, this gives the Group power over the relevant activities of this entity

The registered address of all of the above subsidiaries is 4th Floor, 100 Holdenhurst Road, Bournemouth, Dorset, BH8 8AQ

33. Related party transactions

Balances and transactions between the Parent Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties are disclosed below

Remuneration of key management personnel

The key management personnel are the Executive Leadership Team. The remuneration that they have received during the year is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'

	2017 £m	2016 £m
Short-term employee benefits	2.7	2.5
Social security costs	0.4	0.3
Share-based payments	0.4	0.9
Pension contributions	0.3	0.2
Termination payment	-	0.4
	3.8	4.3
Aggregate emoluments of the highest paid Director	1.0	0.9

In 2016, as part of the Management Incentive Plan shares totalling 33,098,147 were issued to key management personnel, prior to share consolidation. Note 25 details movements in share capital within the year

34. Events after the balance sheet date

There were no events after the reporting period that required adjustment or disclosure in the financial statements

Parent Company Statement of Financial Position

As at 31 August 2017

	Notes	2017 £m	2016 £m
Assets			
Non-current assets			
Investments in subsidiaries	4	439.4	439.4
Total non-current assets		439.4	439.4
Current assets			
Trade and other receivables	5	77.9	104.3
Cash and cash equivalents		-	-
Total current assets		77.9	104.3
Total assets		517.3	543.7
Equity and liabilities			
Capital and reserves			
Share capital		43.0	43.0
Share premium		101.6	100.8
Retained earnings		367.4	394.3
Total equity	6	512.0	538.1
Current liabilities			
Trade and other payables	7	5.3	5.6
Total current liabilities		5.3	5.6
Total liabilities		5.3	5.6
Total equity and liabilities		517.3	543.7

Notes 1 to 11 form part of the financial statements shown above

There were no recognised gains and losses for the year other than the profit for the year (2016: nil)

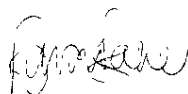
The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Parent Company profit and loss account. The Company recorded a profit for the year of £0.7m (2016: £1.7m)

These financial statements of McCarthy & Stone plc (06622199) were approved by the Board on 13 November 2017 and signed on its behalf by

Clive Fenton
Director



Rowan Baker
Director



Parent Company

Statement of Changes in Equity

For the year ended 31 August 2017

	Notes	Share capital £m	Share premium £m	Retained earnings £m	Total £m
Balance at 1 September 2015		381.1	56.4	(2.5)	435.0
Profit for the year		-	-	1.7	1.7
Total comprehensive income for the year		-	-	1.7	1.7
Transactions with owners of the Company					
Issue of ordinary shares	6	4.9	104.8	-	109.7
Capital reduction of share capital and share premium	6	(343.0)	(56.4)	399.4	-
Share-based payments	9	-	-	1.1	1.1
Share issue related costs	6	-	(4.0)	-	(4.0)
Dividends	6	-	-	(5.4)	(5.4)
Balance at 31 August 2016		43.0	100.8	394.3	538.1
Profit for the year		-	-	0.7	0.7
Total comprehensive income for the year		-	-	0.7	0.7
Transactions with owners of the Company					
Share-based payments	9	-	-	0.9	0.9
Dividends	6	-	-	(28.5)	(28.5)
Share issue related costs – tax credit		-	0.8	-	0.8
Balance at 31 August 2017		43.0	101.6	367.4	512.0

Notes 1 to 11 form part of the financial statements shown above

Parent Company

Cash Flow Statement

For the year ended 31 August 2017

	Notes	2017 £m	2016 £m
Net cash inflow from operating activities	8	28.5	5.4
Investing activities			
Amounts owed in respect of share issuance	6	–	(86.0)
Net cash used in investing activities		–	(86.0)
Financing activities			
Proceeds from issue of share capital	6	–	86.0
Dividends paid	6	(28.5)	(5.4)
Net cash from financing activities		(28.5)	80.6
Net increase in cash and cash equivalents		–	–
Cash and cash equivalents at beginning of year		–	–
Cash and cash equivalents at end of year		–	–

Notes 1 to 11 form part of the financial statements shown above

Notes to the Parent Company Financial Statements

1. Accounting policies

McCarthy & Stone plc is a public limited liability Company incorporated in England. The Registered Office is 4th Floor, 100 Holdenhurst Road, Bournemouth, Dorset, BH8 8AQ. The following accounting policies have been applied consistently in dealing with the items that are considered material in relation to the financial statements, on an ongoing basis and in accordance with the Companies Act 2006.

Basis of preparation

The separate Company financial statements have been prepared under the historical cost accounting rules and in accordance with FRS 102, The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The Company recorded a profit for the year of £0.7m (2016: £1.7m).

The principal accounting policies adopted are set out below.

Investments in subsidiaries

Investments in Group undertakings are included in the Statement of Financial Position at cost less any provision for impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Share-based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market-based vesting conditions and no expense is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market-based vesting condition.

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each reporting period end thereafter until the awards are settled. Market-based conditions are taken into account when determining fair value.

Further details regarding the schemes are set out in note 31 to the consolidated financial statements.

Dividend distribution

Dividend distributions to McCarthy & Stone's shareholders are recognised in the Company's financial statements in the periods in which the final dividends are approved at the Annual General Meeting, or when paid in the case of an interim dividend.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets

All financial assets are normally recognised and derecognised on the date that an agreement has been entered into where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. They are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified as 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

1. Accounting policies continued

Financial assets are classified as 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as 'other financial liabilities'.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction from the proceeds.

Related parties

The Company discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the Directors, separate disclosure is necessary to understand the effect of the transactions on the financial statements.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no specific critical judgements or key assumptions the Company makes about the future, or other major sources of estimation uncertainty at the end of the reporting period, that are deemed to have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities at the year end and within the next financial year.

Notes to the Parent Company Financial Statements continued

3. Staff costs

The Company had no employees during the period covered by these financial statements. Costs relating to time incurred by Directors for Group activities are recharged to McCarthy & Stone plc.

4. Investments in subsidiaries

Cost	2017 £m	2016 £m
1 September	439.4	419.7
Additions	-	19.7
At 31 August	439.4	439.4
Net book value	439.4	439.4

Investments in subsidiary undertakings relate to a 100% ownership interest in McCarthy & Stone (Developments) Limited.

The Group's subsidiary undertakings for the period that are significant for the period and traded during the period are listed in note 32 to the consolidated financial statements.

5. Trade and other receivables

	2017 £m	2016 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	77.3	104.3
UK corporation tax	0.6	-
	77.9	104.3

Amounts repayable from McCarthy & Stone Retirement Lifestyles Limited are repayable on demand and carry interest of 2.2% (2016: 2.2%) at the year end date.

6. Shareholders' funds

The movements of the share capital, share premium and equity reserve accounts are disclosed in note 25 and 26 to the consolidated financial statements.

Dividends within the year are disclosed within note 25 to the consolidated financial statements.

7. Trade and other payables

	2017 £m	2016 £m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	5.3	5.6
	5.3	5.6

Amounts payable to McCarthy & Stone (Developments) Limited are repayable on demand and carry interest of 2.2% (2016: 2.2%) at the year end date.

8. Notes to the cash flow statement

	Notes	2017 £m	2016 £m
Profit for the financial year		0.7	1.7
Adjustments for:			
Interest income		(1.9)	(2.6)
Share option charge		0.9	1.1
Income tax expense		0.2	0.4
Operating cash flows before movements in working capital		(0.1)	0.6
Decrease / (increase) in trade and other receivables	5	27.0	(0.8)
(Decrease) / increase in trade and other payables	7	(0.3)	3.4
Operating cash flows before interest and tax paid		26.6	3.2
Interest received		1.9	2.6
Tax paid		-	(0.4)
Cash generated by operations		28.5	5.4
Net cash inflow from operating activities		28.5	5.4
Cash and cash equivalents			
Cash and bank balances		-	-

9. Share-based payments

Following the IPO of the Company in November 2015, the Company entered into new share incentive plans. Details of share awards granted by the Company to employees of subsidiaries, and that remain outstanding at the year end over the Company's shares, are set out in note 31 to the consolidated financial statements.

The Company recognised an expense of £0.9m relating to equity-settled share-based payment transactions in the year (2016: £1.1m).

10. Financial instruments

The Company has the following financial instruments:

	2017 £m	2016 £m
Financial assets		
Loans and receivables measured at amortised cost		
Trade and other receivables	77.3	104.3
Cash and bank balances	-	-
	77.3	104.3
Financial liabilities		
Loans and payables measured at amortised cost		
Trade and other payables	5.3	5.6
	5.3	5.6

The Company has no derivative financial instruments. The fair value of the financial instruments is equal to their carrying values.

11. Related party transactions

The Company is exempt from disclosing related party transactions with other companies that are wholly owned within the Group. See note 33 to the consolidated financial statements.

Remuneration to key management personnel has been disclosed within note 33 to the consolidated financial statements.

Warning to shareholders

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad. While high profits are promised, those who buy or sell shares in this way usually lose their money. These callers can be very persistent and extremely persuasive. They may even claim to be calling on behalf of the Company.

The Financial Conduct Authority (FCA) has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

Protect yourself

You are advised to be extremely wary if you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports. You should take these steps before handing over any money.

Get the name of the person and organisation contacting you

Check the Financial Services Register at <http://www.fca.org.uk/> to ensure they are authorised

Use the details on the FCA Register to contact the firm

Call the FCA Consumer Helpline on: 0800 111 6768 if there are no contact details on the Register or you are told they are out of date

Search the FCA's list of unauthorised firms and individuals to avoid doing business with.

REMEMBER: if it sounds too good to be true, it probably is!

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

Report a scam

If you are approached about a share scam you should tell the FCA using the share fraud reporting form at www.fca.org.uk/consumers/report-scam-unauthorised-firm where you can find out about the latest investment scams. You can also call the Consumer Helpline on **0800 111 6768**.

If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040**.

Historical statistics

	FY17	FY16	FY15 ¹	FY14 ¹
Legal completions	2,302	2,296 ²	1,923	1,677
Gross average selling price	£273k	£264k	£245k	£222k
Revenue	£660.9m	£635.9m	£485.7m	£387.8m
Profit before tax	£92.1m	£92.9m	£80.9m	£57.1m
Shareholders' funds	£908.9m	£919.8m	£762.3m	£477.2m
ROCE	16%	20%	20%	17%
Tangible gross asset value	£645.7m	£574.1m	£513.5m	£451.2m
Tangible net asset value	£676.4m	£626.8m	£469.1m	£402.3m
Basic earnings per share	13.8p	13.9p	13.5p ⁴	n/a ⁴
Dividends for the year ³	5.4p	4.5p	nil	nil
Number of shares in issue	537,329,434	537,314,069	n/a ⁵	n/a ⁵
Number of shareholders	863	705	n/a ⁶	n/a ⁶

¹ FY15 and FY14 financial statements were produced prior to our stock exchange listing which took place on 11 November 2015.

² Includes three commercial units.

³ The dividends in respect of any financial year are the interim dividend which has been paid and the final dividend which has been approved. Dividends were not paid in FY15 or FY14.

⁴ The figure for the FY15 EPS was recalculated in the FY16 Annual Report and adjusted to reflect the 4:1 consolidation of our share capital that took place in FY16. Prior years have not been adjusted.

⁵ The Company's share capital at 31 August 2015 and 31 August 2014 was 1,905,549,751 ordinary shares of 20p each. As part of the preparation for listing, the nominal value of the shares was reduced to 2p. Additional shares were allotted and the shares were consolidated on a 4:1 basis becoming ordinary shares of 8p nominal value.

⁶ The number of shareholders prior to our listing on 11 November 2015 has not been disclosed on the grounds of irrelevance.

Cautionary statement regarding forward-looking statements

Some of the information in this document may contain projections or other forward-looking statements regarding future events or the future financial performance of McCarthy & Stone plc and its subsidiaries (the Group). You can identify forward-looking statements by terms such as 'expect', 'believe', 'anticipate', 'estimate', 'intend', 'will', 'could', 'may' or 'might', the negative of such terms or other similar expressions. McCarthy & Stone plc (the Company) wishes to caution you that these statements are only predictions and that actual events or results may differ materially. The Company does not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in projections or forward-looking statements of the Group, including among others, general economic conditions, the competitive environment as well as many other risks specifically related to the Group and its operations. Past performance of the Group cannot be relied on as a guide to future performance.

General information

McCarthy & Stone plc is a public Company limited by shares and registered in England and Wales, registered number 06622199

Our registered and head office is situated at
4th Floor
100 Holdenhurst Road
Bournemouth
Dorset
BH8 8AQ

Telephone **01202 292480**

Corporate website **www.mccarthyandstonegroup.co.uk**

Consumer website **www.mccarthyandstone.co.uk**

Email **investor-relations@mccarthyandstone.co.uk**

Our ordinary shares are listed on the London Stock Exchange (premium listing) and we are in the FTSE 250 Index

Legal Entity Identifier (LEI)
213800CEJ40Q5YPU8Z37

International Securities Identification Number (ISIN)
GB00BYNVD082

Ticker Symbol **MCS**

Advisers
Legal adviser
Allen & Overy LLP

Financial adviser
Rothschild

**Financial and corporate
communications**
Powerscourt

Banker
HSBC Bank plc

Joint corporate brokers
Deutsche Bank
Peel Hunt

Registrar
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Statutory auditor
Deloitte LLP

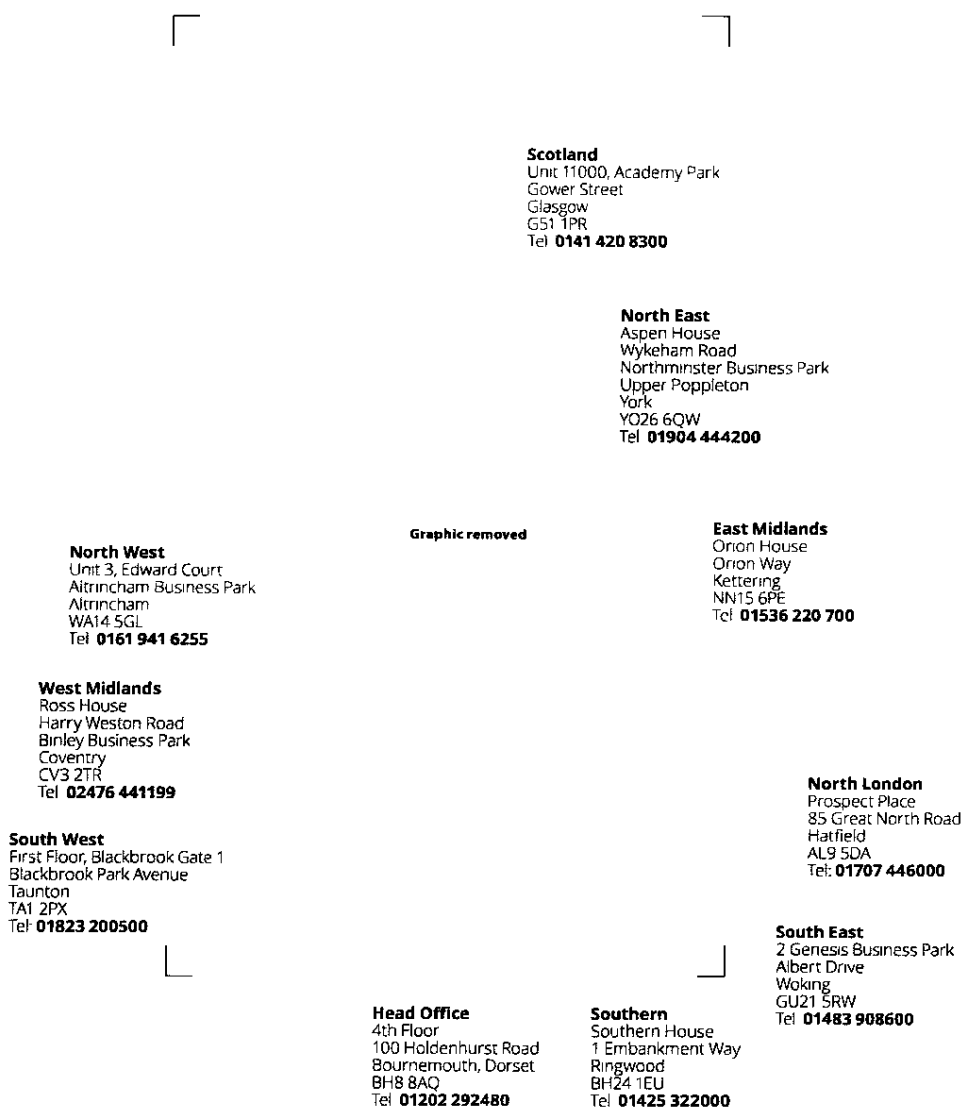
Contact details for our registrars, Link Asset Services

Calls from the UK **0871 664 0300** (calls cost 10p per minute, plus any network extras, lines are open Monday to Friday from 9am to 5.30pm, excluding UK public holidays)

Calls from outside the UK **+44 208 639 3399**

Email **enquiries@linkgroup.co.uk**

3 Divisions & 9 Regions



Glossary

'ASP'	average selling price - the average price agreed for sales of apartments in the year after deducting list price discounts and part-exchange top-ups	'MSMS'	McCarthy & Stone Management Services Limited - a wholly-owned subsidiary of the Company that provides management services to homeowners in the Group's Retirement Living and Lifestyle Living developments
'BSG'	the Building Safety Group is a not-for-profit organisation which specialises in providing Health, Safety and Environmental advice for the construction industry	'Net assets'	net assets is calculated as total assets less total liabilities
'Capital turn'	calculated by dividing revenue by the average opening and closing tangible gross asset value in the year	'Net debt/cash'	cash and cash equivalents less long-term and short-term borrowings (excluding unamortised debt issue costs)
'CGU'	cash generating unit	'NHBC'	National House Building Council
'CIL'	the Community Infrastructure Levy of the Community Infrastructure Levy Regulations 2010	'PRS'	Private Rented Sector
'Company'	McCarthy & Stone plc	'ROCE'	return on capital employed - calculated by dividing underlying operating profit by the average opening and closing tangible gross asset value in the year
'CQC'	the Care Quality Commission is an executive non-departmental public body of the Department of Health which regulates and inspects health and social care services in England	'Section 106'	the legally-binding agreements or planning obligations entered into between a landowner and a local planning authority, under section 106 of the Town and Country Planning Act 1990
'DCLG'	the Department for Communities and Local Government	'TGAV'	tangible gross asset value - calculated as TNAV less net debt/cash
'EPS'	profit attributable to ordinary shareholders (excluding exceptional items) divided by the weighted average number of ordinary shares in issue during the financial year	'TNAV'	tangible net asset value - calculated as net assets excluding goodwill and intangible assets
'FRI'	freehold reversionary interest - the freehold of each of the Group's developments in England and Wales which include the future income stream of ground rents which can be sold to third parties	'TSR'	total shareholder return - is a measurement of the performance of the Group's share price since the IPO. It combines the share price appreciation and dividends paid to show the total return to the shareholders expressed as a percentage
'FTSE'	the Financial Times Stock Exchange	'Underlying profit before tax'	calculated by adding amortisation of brand and exceptional administrative expenses to profit before tax
'Gearing'	gearing is calculated by dividing net debt by net assets	'YLMS'	YourLife Management Services Limited - a subsidiary of MSMS owned 50/50 by MSMS and Somerset Care Group Limited, that provides management services, domestic assistance, personal care and additional support to homeowners in the Group's Retirement Living Plus developments
'Group'	the Company and its consolidated subsidiaries and subsidiary undertakings		
'IPO'	Initial Public Offering		
'Land bank'	includes owned sites and exchanged sites		
'LIBOR'	the London interbank offered rate		

McCarthy & Stone

— Retirement living to the full —

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