McCarthy & Stone [illegible]

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McCarthy & Stone plc Annual Report 2018

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Annual Report 2018

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COMPANIES HOUSE
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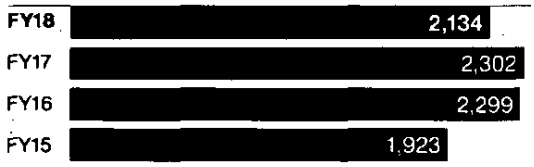
COMPANIES HOUSE

Operational Highlights

Legal completions[1]
Units

2,134

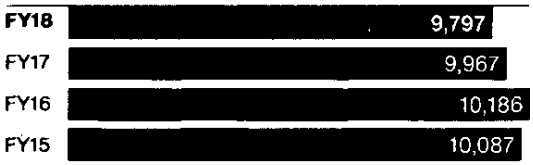


Average selling price
£k

£300k

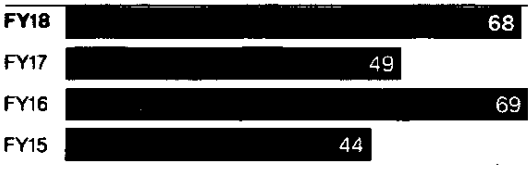
Land bank
Units

9,797



First occupations
Number of developments

68

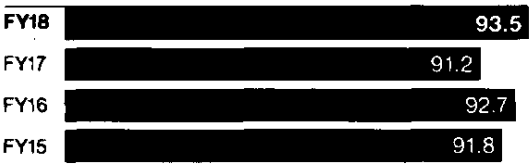


Build cycle time
Months

13.9

Customer satisfaction[2]
%

93.5%



1 *Excluding commercial units*
2 *Survey of new homeowners by the NHBC and HBF 2018*

Operational Highlights

Legal completions[1]
Units

2,134

Average selling price
£k

£300k

Land bank
Units

9,797

First occupations
Number of developments

68

Build cycle time
Months

13.9

Customer satisfaction[2]
%

93.5%

1 Excluding commercial units
2 Survey of new homeowners by the NHBC and HBF 2018

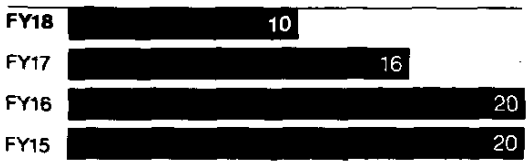
Financial Highlights

Revenue
£m

£671.6m

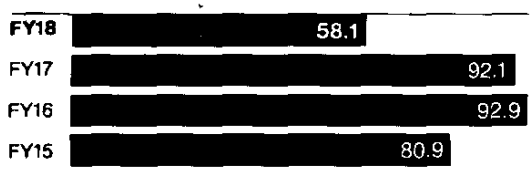
Underlying operating profit margin[1,3]
%

10%



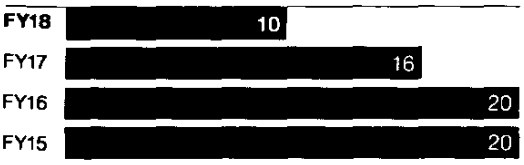
Profit before tax
£m

£58.1m



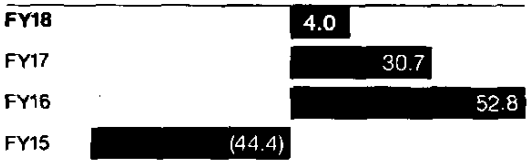
Return on capital employed[1,3]
%

10%



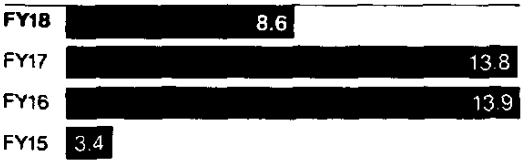
Year end net cash/(debt)[2,3]
£m

£4.0m



Earnings per share
Pence

8.6p



1 *Underlying operating profit margin and return on capital employed have been reconciled within note 5 to the consolidated financial statements*

2 *Net cash/(debt) has been reconciled within note 22 to the consolidated financial statement*

3 *This metric is a non-GAAP Alternative Performance Measure ('APM') presented to provide additional useful information - see further detail on the relevance of APMs within note 1 to the financial statements*

Creating retirement communities that enrich the quality of life for our customers and their families

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Front cover
External images, left to right:
Plas Glanrafon, Anglesey and Burrstone Grange, Thornton-Cleveleys

Strategic Report

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1 2

1 *Customers of Wingfield Court, Sherborne with pupils from Sherborne Abbey Primary School*

2 *Celebrating the visit of HRH Prince Charles at Bowes Lyon Court, Poundbury*

To create retirement communities that enrich the quality of life for our customers and their families.

Retirement living involves much more than simply deciding to move to a new home that's better suited to our customers' needs, it's an opportunity to embrace a new way of life: to have the freedom to live a lifestyle with more choices and more time to do the things they enjoy.

At McCarthy & Stone, we create retirement communities that enrich the quality of life for our customers and their families, and believe that life is for living, whatever your age.

As the industry leader with unique expertise in planning, design and construction, we predominantly turn brownfield sites into retirement communities with our two core products: Retirement Living and Retirement Living PLUS, which are aimed at those aged 60+ and 70+ respectively.

These communities are more than just places to live. They help our customers maintain their independence while providing peace of mind that assistance is on hand if needed. We also offer a wide range of on-site social activities, helping our customers to create new friendships and experiences to enhance their quality of life.

For those who need additional help, we provide 24-hour on-site assistance and specialist care packages, tailored to our customers' needs.

We build beautiful homes in stunning locations, but we are more than just a housebuilder. Our communities are managed by our dedicated teams, with House and Estate Managers who support our customers every step of the way. By taking care of daily chores, our customers can enjoy more time for themselves and with their loved ones.

With more than 40 years' experience providing high quality homes to exacting specifications, we have sold over 56,000 homes in the UK, across more than 1,200 developments.

There are currently 4.1 million[1] adults aged 65 and over who are considering downsizing. With only 733,000[4] retirement properties across all tenure types that have ever been built for older customers, we are well-placed to continue to benefit from the high demand for our retirement communities.

We have an unparalleled understanding of the needs of our customers and are proud winners of the HBF Five Star award for customer satisfaction for the past 13 years, which is every year since the survey started.

That's our purpose - creating retirement communities that enrich the quality of life for our customers and their families.

47%

47% increase in over 65s by 2037[2]

c.7/10

customers have made new friends and socialise more[3]

c.8/10

customers take part in organised events within our developments[3]

1 *YouGov for McCarthy & Stone (2018)*
2 *ONS, Population projections: 2016-based (2018)*
3 *Voluntas, Homeowner Survey for McCarthy & Stone (2017)*
4 *EAC, Specialist housing (2018)*

To be the leading developer, manager and owner of retirement communities

To create even deeper and longer relationships with our customers by transitioning the business from a housebuilder to the UK's leading developer, manager and owner of retirement communities

This new vision is underpinned by the following three principles:

1. **Flexibility:** We want to respond better to our customers' evolving needs by providing flexible care and ways to pay for our services
2. **Choice:** We want to provide our customers with more options in order to move into one of our properties: ownership, shared ownership or rental
3. **Affordability:** We want to ensure our products and services are affordable for our customers

Our Customer Research[1]

Customer research was instrumental in helping us formulate our new vision and strategic plan, with the following customer values being at the heart of our decision making:

Independence:
Proximity to transport, privacy and own outdoor space.

- 91% of our customers value good access to local amenities and facilities

Support:
Social activities and healthcare.

- 92% of our customers feel their House and Estate Manager is approachable and listens to their issues. They are also provided with 24-hour support

Convenience:
Having features that are easy to use and enhance our customers' lifestyle and safety.

- 94% of our customers now feel their new property is easy to maintain
- 52% of our customers move into our properties because of concerns about home maintenance in their previous property

Community:
Not feeling isolated and being part of a community are vital.

- c.7/10 customers have made new friends and socialise more
- c.8/10 customers take part in organised events within our developments

Affordability:
Value for money is a key deciding factor.

- 1 in 5 list price as a primary reason for not purchasing
- 1 in 10 are concerned about service costs and half of them would consider renting

91%
of customers said they have good access to local amenities[1]

92%
of customers feel that their House and Estate Managers listen to their needs[1]

94%
of customers said that their new home is easier to maintain[1]

52%
of customers move into our properties because of concerns about home maintenance in previous properties[1]

1 *Voluntas, Homeowner Survey for McCarthy & Stone (2017)*

Customer Satisfaction

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1

Case study

From world traveller to home bird: former professional dancer Sheila Groves relaxes in style at The Clockhouse.

Former professional dancer, Sheila, who has a love of ballroom, tap and ballet, has been on quite a journey. Having performed across the UK in places such as Plymouth and Blackpool, and travelled the world, Sheila has lived in America, Greece and Paris. She eventually settled back in the UK, before making the move to McCarthy & Stone's Retirement Living PLUS Development in Guildford to enjoy her retirement.

Despite having lived at the development for just a short time, Sheila is making the most of the thriving social scene at The Clockhouse and has forged great friendships with other homeowners.

Talking about her new-found social life at the development, Sheila said: "I can honestly say that moving to The Clockhouse has completely changed my life - I've made fantastic new friends and I haven't once felt lonely since moving in. Everyone at the development has been so warm and welcoming, and there's always someone to chat to in the homeowners' lounge - often over a nice bottle of wine!"

1 Sheila Groves, The Clockhouse, Guildford

More than 93% of our customers would recommend us to a friend

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In 2018 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.

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We are the only housebuilder of any size or type to have achieved this accolade for a record thirteenth consecutive year - every year since the survey started. The HBF yearly questionnaire is one of the largest customer surveys of its type. We were awarded the Five Star rating in March 2018, in which more than 93% of the 1,457 McCarthy & Stone customers who responded to the survey would recommend us to a friend. This compared favourably with the industry average of 86%.

We are also pleased that almost nine out of ten of our customers 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 our management services expertise that ensures customers and their families are supported and guided through the purchasing process and receive all the support they need while living with us.

c.9/10
of our customers said their new property improved their quality of life[1]

93.5%
of our customers would recommend us to a friend[1]

83%
of our customers said they experienced a sense of community in their new property[2]

96%
of our customers said they feel safe and secure in their new property[3]

c.33,500
social events were held in our managed properties over the last 12 months (FY17: c.27,600)

1 *Survey of new homeowners by the NHBC and HBF (2018)*
2 *Homeowner survey (2017) and research by Demos (2016)*
3 *Voluntas, Homeowner Survey for McCarthy & Stone (2017)*

Our Strategy

Strategic targets at a glance

On 25 September 2018 the Group announced a business transformation strategy. The strategy is directly aligned with our vision to create even deeper and longer relationships with our customers by transitioning the business from a housebuilder to the UK's leading developer, manager and owner of retirement communities. This transformation will be delivered in two phases:

Phase 1: by FY21
Optimising our operations for strong financial performance

Operating profit margin	Return on capital employed
>15%	>15%

Cost savings	Cash savings
>£40m	>£90m

Phase 2: by FY23
Leveraging our strategic opportunities

Flexibility of care and ways to pay

>5%

Grow Management Services to >5% of Group revenue

Choice of ownership

>20%

Rental or shared ownership to represent up to 20% of annual transactions

Affordability of products and services

c.15%

Lower cost product to represent c.15% of land bank

Our Strategy *continued*

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Paul Lester, CBE Goup Non-Executive Chairman

Introducing our business transformation strategy

As Chairman of McCarthy & Stone since 24 January 2018 I strongly believe in our operational capabilities and our unique potential to help respond to a structural undersupply of retirement communities for our rapidly ageing population.

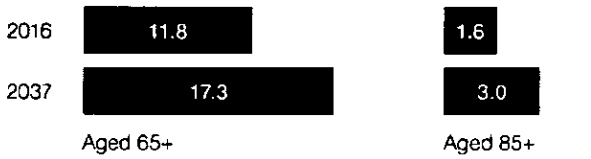
>£40m
Cost saving between FY18 and FY21

>15%
ROCE by FY21

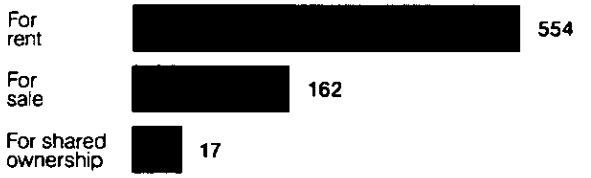
>£90m
Cash saving between FY18 and FY21

Transformation Strategy

Projected UK population growth[1], million



Specialist retirement housing[2], thousand



We have a great business with strong operational capabilities

We are the UK's leading developer and manager of retirement communities with a significant market share. The Group has built and sold more than 56,000 properties across more than 1,200 retirement developments since 1977 and we are renowned for our widely recognised and well respected brand.

All developments built since 2010 are managed by our established in-house management services team and during FY18 achieved 98% "Good" Care Quality Commission ('CQC') ratings for our registered Retirement Living PLUS developments.

Our commitment to quality and customer service continues to be recognised by customers. In March 2018 we received the full Five Star rating for customer satisfaction from the Home Builders Federation for the thirteenth consecutive year - making us the only UK housebuilder, of any size or type, to achieve this accolade.

Market environment

I am acutely aware that the last two years have been challenging for the business, which is evidenced in the financial results contained in this report.

Since the Company's IPO in November 2015, the business has faced a number of market headwinds including political and economic uncertainty following the outcome of the vote to leave the European Union. These headwinds have resulted in a challenging economic backdrop, lower consumer confidence and reduced volumes in the secondary housing market with UK housing transactions showing a decline of c.40% since 2015.

In hindsight, the business should have responded sooner to the deteriorating market conditions and adopted a more modest medium-term business trajectory and consequently a reduced cost base.

The Board announced earlier this year that it would be undertaking a strategic review under my leadership. On 25 September 2018 we announced the results of that review which will position the business to succeed in this more challenging market environment.

UK consumer confidence index[3]

UK housing volumes[4], number of transactions per month

1 ONS, Population projections: 2016-based (2018)
2 EAC, Specialist housing (2018)
3 GFK for consumer confidence index
4 ONS for housing volumes per month

Below are the key operational and financial highlights of the transformation

Key operational highlights of the three year transformation programme	Key financial highlights of the transformation
• Shift in business mindset from growth to increasing ROCE and margins • Realigning the workflow and rightsizing the operational cost base to deliver steady state volumes of c.2,100 • Focus on build cost reduction and developing a more efficient sales and marketing model • Improved offering through increasing affordability, flexibility and choice for our customers • Focus on two core products, Retirement Living and Retirement Living PLUS • Change of year end to 31 October 2019 to decouple from peak holiday season	• ROCE improvement to more than 15% by FY21, increasing to over 20% by FY23 • Improvement in operating margins to more than 15% by FY21 • Total cost savings of more than £40m per annum by FY21 • Total cumulative cash savings in excess of c.£90m between FY19 - FY21 • The Group will focus on reducing its capital employed by at least £70m between FY18 and FY21

How we are going to deliver our business transformation

There are two stages to our business transformation strategy: 1) optimising our operations to deliver strong financial performance, and 2) leveraging our strategic opportunities.

Stage 1: Optimising operations to deliver strong financial performance

Firstly, we are focusing on optimising our operations for strong financial performance over the next three years. By FY21, we intend to deliver cost savings of more than £40 million per annum, ROCE improvement to more than 15% an improvement in operating margin to more than 15% and total cumulative cash savings of in excess of c.£90m between FY19 and FY21.

There are four parts to this plan:

Workflow realignment

- Workflow realignment is the backbone of the plan, working on a much more stable flow of land exchanges, build starts and first occupations

Rightsizing the business

- We will rightsize our organisation and its cost base in line with the new steady state production and sales volumes of c.2,100 units per annum. As part of this plan we have made a decision to move from nine to seven operating regions and flex the resources in those regions in line with their production requirements over three years. We will also align our support functions in line with the new steady state volumes and strengthen Group oversight, making sure regional operational models are more consistent, moving away from a decentralised housebuilding model

Efficient sales and marketing model

- We will drive significant improvements to our sales and marketing functions. The sales process will be standardised through the introduction of the Salesforce Customer Relationship Management system that will enhance the customer sales experience to be more personalised and tailored to their needs. Marketing will be centralised and benefit from a new website and content management system that will improve the effectiveness of the function and reduce the cost per lead
- With the introduction of these new sales and marketing systems, we will be able to further leverage insight from our customers and provide analytics which we will use to further develop our business model and offering to the customer

Build cost reduction

The build cost reduction programme includes:

- Design efficiency through standard designs and specifications guidelines and the introduction of compact design solutions
- Value engineering - preliminary construction costs standardisation and optimising of technical specifications
- Procurement initiatives through increased framework agreements and stronger competitive tendering processes

The initiatives are also tackling the affordability of our properties and will provide the opportunity to really change the way we build, both in terms of products we are fabricating and their method of construction.

Stage 2: Leveraging our strategic opportunities

Stage two of our business transformation is about unlocking our strategic opportunities. Here we will look beyond the three-year plan to a five-year vision for the business with returns on capital employed of more than 20%, fundamentally increasing the way we broaden and access our marketplace, delivering new revenue streams for the business and reducing some of the cyclicality that the business is exposed to as we stand today.

The long-term aim will be to create retirement communities that enrich the quality of life for our customers and their families and to become the UK's leading developer, manager and owner of retirement communities.

Our proposition is underpinned by three key principles:

Flexibility

- We will increase flexibility within our services to respond to evolving customer needs and increase revenue. This will include the introduction of a new tiered service for new and existing customers, expanding our care offering, opening up new developments for wider community use and integrating technology enabled services (e.g. motion monitoring, medication control sensors and home automation)

Choice

- Moving forward, we believe there is a big opportunity to introduce a multi-tenure offering, including much more rental and shared ownership. As our customer research reveals, 50% of customers would be interested in a rental proposition. Importantly, as we enter the rental market, we will retain a part share in this whilst exploring opportunities to bring institutional investment, Real Estate Investment Trust ('REIT') funds and various other vehicles into this industry

Affordability

- The business will seek to maintain its mass market appeal by increasing the affordability of its products. This will be achieved by reducing build costs, increasing efficiencies and introducing new contemporary and optimised apartment designs, incorporating, where appropriate, open plan living. We are going to go back to first principles and redesign our offering. We will achieve this through standardised designs that we will fabricate in a different way, ultimately reducing the average selling price and increasing the depth and size of our addressable market

Moving forward, we think there is a way of creating signature designs in this new space. It is an important part of the initiatives in the build cost reduction programme mentioned above, developing high-quality, attractive developments using modern methods of construction ('MMC'), to really accelerate both our build programmes and the roll out of these new initiatives.

Summary

We are building on our unique capabilities and positioning the business to succeed in the current challenging market environment. We await the Government's confirmation that the retirement sector will be exempt from the proposed cap on ground rents and look forward to the new planning policy on housing for older people.

Over the next three years we will be focusing on increasing returns for all our stakeholders by optimising our operations to deliver strong financial performance. In parallel, we will also aim to leverage our longer term strategic opportunities to increase our customer appeal, diversify our revenue streams and reduce our exposure the market cyclicality.

We believe that our new Group strategy will further build upon the strong fundamentals already present within our business, which include our significant share of the owner-occupied retirement market, our industry-leading levels of customer satisfaction and build quality and an expected c.87.5%[1] increase in the number of people aged 85 and over by 2037.

Our new Group strategy is aimed at improving our standard ways of working and providing greater clarity for our staff, suppliers, sub-contractors and other stakeholders, as well as improving our financial results.

1 ONS, Population projections: 2016-based (2018)

Chairman's Statement

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Paul Lester, CBE Group Non-Executive Chairman

£672m
Revenue
(FY17: £661m)

£58m
Profit before tax
(FY17: £92m)

5.4p
Dividend per share
(FY17: £5.4p)

Overview

The last financial year has been challenging for McCarthy & Stone with the current market environment continuing to have an impact on the business. A sluggish secondary housing market and lower consumer confidence following the outcome of the 2016 EU referendum have all contributed to this more difficult market backdrop. In light of these continuing headwinds, the Group began a strategic review of the business in April 2018 and announced its new transformation strategy on 25 September 2018.

Despite these external challenges, the Group delivered a 2% increase in revenue to £672m (FY17: £661m) as it continued to capitalise on the attractive underlying demographic opportunity and structural shortage of supply of retirement communities in the UK. This was driven by a 10% increase in average selling prices to £300k (FY17: £273k) offset by a lower volume of legal completions at 2,134 units (FY17: 2,302).

Underlying operating profit decreased to £68m (FY17: £96m) in the year while profit before tax decreased to £58m (FY17: £92m). This reduction in profitability was mainly driven by the slowdown in sales, reduced margins, build cost increases, increased usage of part-exchange to counteract subdued market conditions, additional marketing activity and an increase in operating costs in support of our previous growth strategy.

The Group remains the UK's leading developer and manager of retirement communities, with a significant market share of the private owner-occupied retirement market. Our strength of brand and continual striving for operational excellence ensures that we can continue to deliver reasonable results even when operating in a challenging market. We are building a strong and experienced management team that is focused on delivering the Group's new strategic objectives.

In addition, McCarthy & Stone continues to lead the sector on customer satisfaction. We are the only developer of any size or type to have received the full Five Star rating in the Home Builders Federation ('HBF') customer satisfaction survey for 13 consecutive years, in which more than 93% of our customers would recommend us to a friend.

Post year end, we were pleased to note that the Ministry of Housing, Communities and Local Government ('MHCLG') announced that it is proposing to allow the retirement community sector to continue to charge ground rents after they are capped elsewhere, subject to potential buyers having the choice to either pay a higher sale price at a ground rent of £10 per annum or a lower sale price with a specified economic ground rent. This proposal recognises the unique way the sector uses ground rents compared to the mainstream housebuilding industry. Whilst we are mindful that this proposal still remains at the consultation stage, we see this as a positive step for our customers and a strong indication from Government that our industry has a valuable contribution to make in providing much needed specialist housing for the older generation. We will continue to work closely with Government throughout the consultation period and are pleased with its initial findings in this area.

Economic and political environment

Since the Group's IPO in November 2015, the business has faced several market headwinds including political uncertainty following the outcome of the vote to leave the EU. These headwinds have resulted in a challenging economic backdrop, lowering consumer confidence and consequently reducing volumes in the secondary housing market with UK housing transactions showing a decline of c.40% since 2015.

Despite this backdrop, the market for retirement communities remains highly attractive, underpinned by strong demand. New research by the Office of National Statistics ('ONS') recognises that around 88% of household growth in the UK to 2041 is expected to come from those aged 65 and over[1] and McCarthy & Stone remains uniquely placed to capitalise on this unprecedented demographic opportunity.

1 ONS household projections: 2016-based (2018)

Chairman's Statement *continued*

New Business Transformation strategy

On 25 September 2018, the Group announced its new business transformation strategy 'creating retirement communities that enrich the quality of life of our customers and their families' with a strong focus on increasing ROCE, margins and cash generation.

The key highlights of the transformation are:

- Shift in business mindset from growth to increasing ROCE and margins
- Realigning the workflow and rightsizing the operational cost base to deliver steady state volumes
- Focus on build cost reduction and developing a more efficient sales and marketing model
- Improved offering through increasing affordability, flexibility and choice for our customers
- Focus on two core products, Retirement Living and Retirement Living PLUS
- Change of year end to 31 October 2019 to decouple from peak holiday season

Dividend

We continued our focus on careful cash management throughout the year and this has enabled the Directors to propose a final dividend of 3.5p per share, making the total dividend for the year 5.4p per share. This payment is in line with the dividend paid in the prior year (FY17: 5.4p per share) despite the Group's lower profits and signals the Board's confidence in its new strategy.

Board changes

There were a number of Board changes during the year:

1 October 2017
John Carter joined as a Non-Executive Director

3 January 2018
Paul Lester joined the Board as Chairman designate

24 January 2018
John White stood down as Chairman at the end of the Annual General Meeting

24 January 2018
Paul Lester appointed Chairman

17 May 2018
Arun Nagwaney joined as a Non-Executive Director

31 Aug 2018
Clive Fenton retired as Chief Executive Officer

25 September 2018
John Tonkiss appointed as Chief Executive Officer
(John was previously Chief Operating Officer)

I would like to welcome John as the new Chief Executive Officer of McCarthy & Stone. John has served on the Board since the Group's IPO in November 2015, became Chief Operating Officer in June 2017 and was previously chief operating officer at Unite Student Housing Group for ten years and before that, chief executive officer of Human Recognition Systems. He has been instrumental in leading the development of our new strategic plan since April 2018 and is therefore well-placed to lead the Executive Board in the delivery of its new strategy 'creating retirement communities that enrich the quality of life for our customers and their families'.

We have continued to strengthen our management team and now have a strong platform from which to take the Group through its transformation from a retirement housebuilder to an efficient developer and manager of retirement communities and to deliver enhanced returns for our shareholders, suppliers, employees and other stakeholders.

Paul Lester
Non-Executive Chairman
12 November 2018

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1 Lock House, Taunton

Chief Executive's Statement

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John Tonkiss, Chief Executive Officer

£300k
Average selling price
(FY17: £273k)

9,797units
Land bank
(FY17: 9,967 units)

93.5%
Customer satisfaction
(FY17: 91.2%)

Our results

Against a backdrop of a particularly challenging market, the Group delivered full year revenue of £672m (FY17: £661m), supported by a 10% improvement in average selling price, which increased during the year to £300k (FY17: £273k) reflecting improvements in the quality and locations of our developments.

The Group achieved 2,134 legal completions during the year (FY17: 2,302), with volumes constrained, as expected, by the heavy H2 weighting of first occupations, continuing economic uncertainty coupled with a slower secondary market and a softening of pricing, particularly in the South East, during the second half of the year.

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 where the demand is estimated at 30,000 retirement units per annum and supply in 2018 is likely to be in the region of just 6,000 units across all tenures[1] 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 which now provides services for c.16,900 homeowners within 379 developments - one of the largest operations of its kind in the UK. These high barriers to entry in our market ensure that we maintain a unique position as the only developer capable of meeting the nationwide need for high-quality specialist communities for the growing number of older people who are looking to move to properties more suited to their needs and lifestyle.

Strategic initiatives

Over the last three years our continued efforts on achieving operational excellence to support our growth objectives by accelerating our working capital cycle have been focused on our three key strategic initiatives: improving sales rates, reducing time taken between securing land and starting build and implementing build programme efficiencies. We made good progress across all three areas during FY18 and our strategic transformation plan announced in September 2018 builds on these previous initiatives.

Sales initiative

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

We have consistently delivered our 50% off-plan reservation target over the last few years but delivered a slightly lower result this year at 49% (FY17: 53%). While this is marginally lower than our previous three-year average of 51%, it has been influenced by the increased mix of larger Retirement Living PLUS sites and remains a good performance in the context of the weaker market backdrop - Retirement Living 60% (FY17: 76%), Retirement Living PLUS 28% (FY17: 16%) and Lifestyle Living 12% (FY17: 8%).

FY18 was a year of integration for our sales initiative, as our National Training Academy became fully operational, running 50 courses over 120 days, training more than 420 delegates. Our outsourced call handling was also fully embedded. Furthermore, we were able to build our brand awareness with the introduction of our nationwide multi-channel marketing campaign, 'Retirement Living to the Full' which we launched in January 2018.

Our average time to sell out continued to fall behind our 12 month target but was in line with the last two years at 18 months (FY17: 19). Again, a good performance in light of the current challenging market backdrop.

FY18 saw an increase in part-exchange transactions to 35% (FY17: 27%) of total legal completions reflecting the ongoing subdued secondary market and a full year national roll-out of our in-house part-exchange scheme. Our in-house part-exchange scheme has proved to be a valuable tool for the business and delivered a saving of c.£7m (FY17: c.£1m) when compared to the costs associated with using third-party part-exchange providers. As at 31 August 2018, we held 147 properties (FY17: 114 properties) on the balance sheet at a net carrying value of £42m (FY17: £32m). Our in-house part-exchange properties resold on average c.13.1 weeks after buy-in (FY17: c.8.5 weeks), with the slightly longer selling time in line with our 13 week target and a reflection of the full year national roll-out.

1 *Knight Frank, Retirement Housing (2018)*

Strategic initiatives continued

Development initiative

Our development initiative was established to reduce the development cycle time by reducing the time taken between land exchange and the build start process. This involved the implementation of a number of process improvements with particular focus on 'ways of working', the planning process and increased standardisation. This has enabled the business to bring forward profitable developments more quickly, 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 focused on embedding our FUSION process and improving our development capacity and responsiveness. FUSION is a development initiative which aims to reduce the time taken between securing land and starting build. Progress on this initiative has translated into a similar development cycle time as last year of 18.3 months (FY17: 18.1 months) for standard sites achieving first-time detailed planning consent. In future years, we will be focusing on the elements within our development initiative that align with our new strategy, ensuring that we are optimising margin on all sites at the design stage. A consequence of this may be that we achieve fewer first time planning consents, but the returns generated should be higher.

Build initiative

The build initiative continued to drive improvements to the build process during the year, to accelerate build timescales, reduce build costs and enhance margins. This resulted in build cycle time reduction from 14.4 months in FY17 to 13.9 months in FY18. Specific focus has been placed on improving our material procurement practices through increased framework agreements and we have plans to introduce stronger competitive tendering processes, particularly for our sub-contractors. In addition, we introduced DATUM, our industry leading product management platform with technical specification libraries fully established to improve the value engineering around such areas as foundations, balconies, wall structures etc. This will create a strong foundation for our build cost reduction workstream within our new strategy.

New strategic direction

Faced with the continued challenging economic backdrop, the Board undertook a strategic review of the business and in September 2018 we announced our new strategy 'creating retirement communities to enrich the quality of life for our customers and their families'.

This new strategy represents a shift in the business mindset from growth to increasing our return on capital employed and margins. We are positioning the business to succeed in the current challenging market environment and, over the next three years, we will be focusing on increasing returns by optimising our operations to deliver strong financial performance across four fundamental pillars, for the benefit of all our shareholders:

- **Workflow realignment** is aimed at generating a stable monthly flow of land exchanges, build starts, sales releases and first occupations, all of which are fundamental to our operational efficiency

  We have already completed the necessary planning actions within our Group three year plan, while continuing to maintain land bank optionality
- **Rightsizing the business** seeks to align the operational cost base to reflect steady state volumes, while retaining the ability to respond if market conditions improve

  We have now completed the formal collective consultation process for reducing our footprint from nine to seven regions with the total headcount reduction resulting in an annualised cash saving of c.£10m
- **Efficient sales and marketing** model involves a reorganisation of our sales teams and a centralised approach to Group marketing

  We have now set up the operating model and intend to complete roll out by the end of December. Our new Salesforce CRM system will be piloted in December with full rollout in February 2019. This will allow us to standardise sales processes, leverage customer insights and analytics resulting in improved marketing effectiveness and reduced cost per lead, while allowing us to enhance personalised customer experience
- **Build cost reduction programme** involves increasing standardisation, more efficient designs and optimising subcontract procurement practices

  Design efficiency reviews are currently being undertaken on all FY20 developments and we expect the majority of savings to come through the income statement in FY21

In parallel, we will also aim to leverage our longer term strategic opportunities within our services and product offering. We will aim to create even deeper and longer relationships with customers to increase our customer appeal, diversify our revenue streams and reduce our exposure to market cyclicality.

The long-term aim will be to create retirement communities that enrich the quality of life for our customers and their families and to become the UK's leading developer, manager and owner of retirement communities.

The Group's proposition is underpinned by three key principles:

- **Flexibility** within our services to respond to evolving customer needs and increase revenue. This will include the introduction of a new tiered service for new and existing homeowners, expanding our care offering, opening up new developments for wider community use and integrating technology enabled services (e.g. motion monitoring, medication control sensors and home automation)
- **Choice of ownership** through multi-tenure options, including outright ownership, shared ownership and rental. Moving forward, we believe there is a big opportunity to have a multi tenure offering and our customer research indicated that 50% of customers are interested in a rental proposition. Importantly, as we enter the rental market, we intend to sell our rental properties on to investors whilst retaining an interest. Over time, there is likely to be an opportunity to bring institutional investment, Real Estate Investment Trust ('REIT') funds and various other vehicles into this space
- **Affordability** - to maximise the mass market appeal by increasing the affordability of our products. This will be achieved by reducing build costs, increasing efficiencies and introducing new contemporary and compact designs

New strategic targets:

- Steady state volume of c.2,100 units per annum
- ROCE improvement of greater than 15% by FY21, increasing to over 20% by FY23
- Improvement in operating margins to more than 15% by FY21
- Total cost savings of more than £40m per annum by FY21
- Total cumulative cash savings in excess of £90m between FY19-FY21
- The Group will focus on reduction in capital employed by at least £70m between FY18 and FY21

Land bank

During the year, we invested £112m (FY17: £156m) in land and our land bank now stands at 9,797 units, which equates to over 4.6 years' supply based on current unit sales volumes. 54 high quality sites with attractive embedded margins were added to the land bank during the year (FY17: 75) in line with our new strategy focusing on a more measured trajectory and smoother workflow objectives.

Our product ranges

We sold three products during the year. Our two core products, Retirement Living and Retirement Living PLUS (which will be the focus of our business going forward post our strategy update), alongside our Lifestyle Living offering.

During the year we brought to market 41 (FY17: 37) Retirement Living developments and 19 (FY17: 8) Retirement Living PLUS developments, including 72 (FY17: 0) bungalow units. 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 particular shortage of bungalows and other houses for older people means they are likely to attract a high level of demand. In response to this demand, we are intending to provide more 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 2018, we had 364 (FY17: 222) bungalow units within our land bank.

Going forward we will focus on our two core product lines, Retirement Living and Retirement Living PLUS, that best fit our new strategy and enable us to provide customers flexibility and choice through product innovations. Our Lifestyle Living offering will be phased out over time and our bungalow range will be incorporated into our core product offerings.

Our Management Services business

The rapid growth of our Management Services business continued during the year, adding 68 new developments to its portfolio, which as of 31 August 2018 totals 379 (FY17: 312) managed developments. Providing our own management services allows us to establish a unique relationship with our customers, ensuring that they receive the highest standards of ongoing support, providing personal and efficient services that not only help them, but also support the point of sale, and allowing us to deliver industry-leading standards of customer satisfaction.

Our Management Services business *continued*

We now have c.16,900 (FY17: c.14,600) homeowners to whom we provide c.31,000 (FY17: c.24,000) hours of care and support and c.60,900 (FY17: c.60,500) meals per month.

In line with our new strategy, we see a Management Services offering that responds to evolving customer needs combined with flexible payment options as the key to delivering an enhanced customer experience.

Our customers

We are delighted to report that, once again, we achieved the full Five Star rating in the Home Builders Federation ('HBF') customer satisfaction survey for 2018. This marks the thirteenth consecutive year in which we have achieved a Five Star rating and this year 93.5% of our customers have said that they would 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.

Our employees

Our performance this year would not have been possible without the dedication, enthusiasm and expertise of our people. They are critical to the continued evolution of the business. We are in the process of building a culture of excellence that provides further 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 for Passion, Responsibility, Innovation, Determination and Excellence. The Board is mindful that 2018 has been a particularly challenging year for the Group and its employees and would like to place on record their appreciation of the huge efforts undertaken by all employees across the Group, particularly against the backdrop of a difficult market.

At the beginning of FY18, we launched our new management development programme which has seen nearly 400 attendees. We also launched our inaugural Future Leaders programme, which is designed to equip our future sector leaders to lead strategy execution and transformational changes.

We have also launched an apprenticeship scheme for site management and quantity surveying.

Health and safety

I am 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 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 FY18 we received 3 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.

Government consultation on ground rents

In June 2017, the Government 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 and welcome the Government's recent announcement, post the year end, to propose allowing an exemption for the retirement community sector to continue to charge ground rents after they are capped elsewhere. Our ground rents are on fair and stable terms as they are fixed for 15 years and increases are linked to the higher of 2% or RPI. There have undoubtedly been cases where the system has been abused by some, including with ground rents that double every ten years and the sale of leasehold houses, and we understand why the MHCLG is taking action to protect homebuyers.

We were therefore pleased that on 15 October 2018, Government announced that it is proposing to allow the retirement community sector to continue charging ground rents after they are capped elsewhere, subject to offering customers a choice between paying a higher sale price or a ground rent. While the proposal remains at the consultation stage, this is a positive step for our customers and we will continue to work closely with Government for the remainder of the consultation period.

Outlook and current trading

We are seeing continued resilience within our lead indicators, which are currently running moderately ahead of the prior year on a per outlet basis, but the secondary market remains challenging, especially in the South East, where customers continue to exercise caution due to economic uncertainty.

Our forward order book as at 9 November 2018 (week 10) is in line with management expectations and currently stands c.4% behind the prior year at c.267m (10 November 2017: £277m) reflecting 4 sales releases since 1 September 2018 (FY18: 17 sales releases). Recent trading has also been impacted as expected by organisational changes within our sales function across the last 6 weeks.

We have a 14 month accounting period in FY19, with a new year end date of 31 October 2019. Our expected FY19 out-turn assumes that FY19 FRI sales go ahead as planned and remains in line with the Board's expectations. The Group reiterates the FY19 savings range announced as part of our new strategy (c. 20-30% of the FY21 target P&L saving of c.£40m). Our build programmes are currently all on track to deliver more than 40 first occupations in FY19.

We will continue to apply a measured approach to land acquisitions at attractive margins to add to our existing quality land bank, in line with the new strategy.

Our main focus for FY19 will be on rolling out our new strategy, achieving key milestones and delivering savings in accordance with our new strategic plan.

John Tonkiss
Chief Executive Officer
12 November 2018

Our Market

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1 Open day for customers of Langton House, Warlington

2 Customers of Wingfield Court, Sherborne with pupils from Sherborne Abbey Primary School

3 The Rt Hon Theresa May MP, Prime Minister, meeting McCarthy & Stone's Management Services team at Swift House, Maidenhead, on 13 October 2017

There is an undersupply of suitable housing options for older people in the UK

The UK population is ageing rapidly and there has been a long-term undersupply of suitable housing options for older people. These two factors mean there is growing demand for new retirement communities across the country.

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We remain the sector leader in the retirement living market with an offering that is built around creating high-quality retirement communities that improve the quality of life for our customers and their families. This means we are well-placed to benefit from the UK's ageing population and the structural shortage of specialist properties for older people.

Undersupply

In 2018, just 6,000 new retirement units will come to the market in the UK across all tenures and while there is understandable interest in the retirement sector from new operators, unit delivery remains low when set against potential demand of up to 30,000 units a year[1]. The sector has significant barriers to entry and developers need to have an in-depth knowledge and understanding of all aspects of this market to deliver successful products and services to older people.

Graphic removed

This shortage of retirement properties is one part of the wider housing crisis. It is estimated that England alone needs c.300,000 new homes a year[2] to match demand, but there were just c.217,000 net additions in 2016/17[3]. This creates a significant annual shortfall and pent up demand.

2

An ageing population

The number of older people living in the UK far exceeds the supply of suitable retirement housing. The number of people aged 65 or over stands at 11.8 million - rising to 17.3 million over the next 20 years, while those aged 85 or over will rise from 1.6 million to 3.0 million[4]. These figures suggest that demand for retirement communities will increase rapidly.

Graphic removed

3

1 *Knight Frank, Retirement Housing (2018)*
2 *HM Treasury (2017)*
3 *ONS, Housing supply; net additional dwellings, England: 2016-17, (2017)*
4 *ONS, Population projections: 2016-based (2018)*

Strong demand to downsize

A significant proportion of older people are also looking to downsize. Our yearly opinion survey with YouGov in 2018 found that 35% of people aged 65 or over are considering downsizing, equating to 4.1 million people. The survey also found that 22%, or 2.7 million, would consider moving to a retirement community, providing confidence in the long-term potential of this market[1].

Tapping into the broader retirement housing market

As part of our new Group strategy and to leverage the undersupply and ever increasing demand for retirement living accommodation, we will provide greater choice for customers by offering multi-tenure solutions including:

- Outright ownership
- Shared ownership
- Rental

In July 2017, we surveyed potential customers on our database. c.50% of these said that they would consider renting. Assuming this can be applied to the 579,000 projected retirement homes demanded by 2028, it could create a potential market of c.289,500 rental retirement homes over the next decade[1].

Political support

There have been several positive political developments relating to retirement communities in the year. National Planning Practice Guidance[2] was updated in September 2018 and contained several positive changes, noting that:

- "The need to provide housing for older people is critical as people are living longer lives and the proportion of older people in the population is increasing... Supporting independent living can help to reduce the costs to health and social services, and providing more options for older people to move could also free up houses that are under-occupied."
- "Local planning authorities should ensure that the policies in their Local Plan recognise the diverse types of housing needed in their area and, where appropriate, identify specific sites for all types of housing to meet their anticipated housing requirement. This could include sites for older people's housing including accessible mainstream housing such as bungalows and step-free apartments, sheltered or extra care housing, retirement housing and residential care homes."

Parliament's Communities and Local Government Select Committee also published a report on Housing for Older People[3] in February 2018 calling for:

- A national strategy to improve Government policy on housing for older people
- The National Planning Policy Framework to be amended to emphasise the key importance of the provision of housing for older people
- Specialist housing to be designated as a sub-category of the C2 planning classification or have a new use class to lower its planning contributions
- Councils to publish a strategy explaining how they intend to meet the housing needs of older people in their area and identify a target for new housing for older people

While not Government policy, the report provides a useful route map to increasing delivery in this sector.

We also note the Government's consultation paper on ground rent reform, which was published in October 2018. We are pleased with the proposal to exempt the retirement sector from the proposed cap on ground rents. The proposal recognises the unique way the sector uses ground rents compared to the mainstream housebuilding industry. However, we note that this remains a proposal and is subject to further consultation and passage through Parliament.

We also await the Government's proposed new planning guidance on housing for older people and the Green Paper on Social Care, which are both expected to be published by the end of 2018.

1 *YouGov for McCarthy & Stone (2018)*
2 *MHCLG, National Planning Practice Guidance, para 020 (2018)*
3 *Parliament, Housing for Older People (2018)*

Our People

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6

1 Housebuilder Awards 2018
2 RVS fund raising, South East
3 Head Office Choir at the 'Sing Your Heart Out' concert for RVS
4 RVS fund raising, West Midlands
5 RVS fund raising, West Midlands
6 PRIDE Award Winner, Piers Cullis

Equal opportunities for all

Our people are vital to the performance of our business and will be pivotal in supporting the delivery of the new strategy. The Group recognises 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.

17,646
Online and face to face training courses completed (FY17: 13,500)

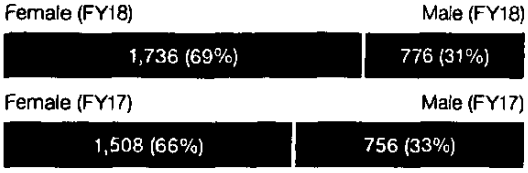
At the end of FY18, the Group employed a total of 2,512 people (FY17: 2,264). This figure excludes subcontractors and agency workers.

Equal opportunities for all our employees

The charts below show that we currently have a higher proportion of men working in senior management positions than female. The charts also show that females represent 69% of our workforce. This is primarily because our Management Services and Care division employs significantly more females than males. Also shown is the split between men and women on the Board. We have published our gender pay gap information which can be found within the Directors' Remuneration Report on pages 102 to 125. The full gender pay gap report is published on our website: **www.mccarthyandstonegroup.co.uk**

Employees in senior management positions (including Directors of related undertakings)

Total employees of the Group (excluding Non Executive Directors)



The table below shows our total employees excluding Non-Executive Directors by age group.

Employees by age analysis

Total employees of the Group 25 and under	**189**
Total employees of the Group 26-49	**1,227**
Total employees of the Group 50 and over	**1,096**

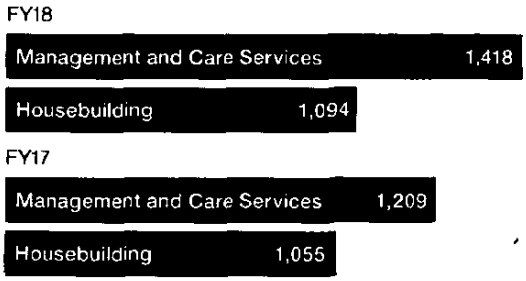
Our standards of working

We are committed to achieving the highest legal and ethical standards and it is our policy to conduct business in a fair, honest and open way, without the use of bribery or corrupt practices in order to obtain an unfair advantage.

The Group has policies in relation to whistleblowing, anti-bribery and corruption, fraud and anti-money laundering and all staff are required to undertake training on these matters.

The Group's policy and statement in relation to slavery and human trafficking as required under the Modern Slavery Act 2015 are available to view on our website: **www.mccarthyandstonegroup.co.uk**

Employee split by business area



Our People *continued*

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. Our values are:

Passion
Responsibility
Innovation
Determination
Excellence

681
PRIDE Awards FY18 (FY17: 674)

We celebrate and recognise employees who go the extra mile for a customer or colleague through our quarterly and annual PRIDE awards.

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 FY18, 681 PRIDE awards were presented (FY17: 674).

As always our thanks go to our workers - the drivers, the managers, the Directors, our site teams, the sales teams and all the hard working people at McCarthy & Stone up and down the country.

Apprentices and trainees

We have partnered with apprenticeship training providers to deliver a range of qualifications within the business. We have aspiring Site Managers, Surveyors and Team Leaders on the programme, with agreements in place with providers to deliver a range of other apprenticeships including, but not limited to, project management, finance and customer services. We also participate in a Shared Trade Apprentice Scheme, which places apprentices within our supply chain and provides work experience to help them achieve their qualification. We hope that, once qualified, the apprentices will continue working for the Group, thus helping to alleviate national shortages in skilled labour the industry is currently experiencing.

We also offer trainee contracts in other departments such as sales, finance and legal services.

Student placement scheme

The Group has continued its work on developing the next generation of housebuilders in FY18 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. This works well for both the students, who gain on-site experience, and for McCarthy & Stone, with many students competing for placements.

In total, over 130 people have completed the scheme with us since it was launched. Several scheme participants continued to work for us after completing their degrees. Some of these have risen to senior roles within the organisation.

Opportunities for development

We have an ongoing commitment to training and personal development. Performance against objectives is formally reviewed on an annual basis, and, as well as setting objectives, identifies learning and development opportunities that will increase employees' effectiveness in their current role, or prepare individuals for a future role.

All employees have access to a range of both internal and external training and development and professional qualification courses. The key management and leadership development programmes we delivered during FY18 and will continue in FY19, were:

Management Development Programme (MDP), which provides new and existing managers the opportunity to develop their skills in a number of areas including: leadership, performance coaching, performance management and team effectiveness. We are pleased to have seen high attendance levels at MDP events in FY18 of c.400 attendees; 43% of which were female.

Our Future Leaders Programme, which is aimed at our existing Director level employees, with the objective of developing them to take on more senior leadership roles in the future. This programme has been recognised as a finalist in the best training category in the HBF annual awards 2018.

We are an approved CMI Centre (enabling us to deliver Chartered Management Institute qualifications). People attending many of the Management Development workshops have the opportunity to continue their development and progress to Level 3 or Level 5 CMI Certificate or Diploma in Leadership and Management.

Our new sales academy opened in FY17. Since its opening at the end of August 2018 55 sales courses have been run with 408 delegates attending.

Awards

NHBC Pride in the Job Awards

We are extremely pleased that our high standards are recognised externally. In 2018, 20 (FY17: 15) of the Group's Site Managers were awarded NHBC Pride in the Job Awards. The result was unprecedented for McCarthy & Stone as it is the largest number of awards we have ever received and marks a 33% (FY17: 50%) increase from last year.

In addition to the 20 Pride in the Job awards, five of the winners went on to win Seals of Excellence and one Regional Award for the South West which now goes through to the National Awards which are to be presented in January 2019.

These awards are the industry's most prestigious awards programme and 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.

ARMA ACE Awards

In July 2018, we were pleased to win two awards at the ARMA (Association of Residential Managing Agents) national awards. The awards were for ARMA's On-site Staff Member of the year and Service Charge Accountant of the year. We were also one of the finalists for ARMA's National Managing Agent of the year.

The Awards celebrate excellence and exceptional achievement by the UK's leading managing agents and suppliers and the work of their people in improving the lives of thousands of customers.

Graphic removed

The only housebuilder to receive the full Five Star rating from the HBF for 13 years

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HBF/Housebuilder Awards - Best Retirement Scheme for Horizons, Poole

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2018 ARMA ACE Awards - Winner of Onsite Staff Member of the year and winner of Service Charge Accountant of the year, as well as finalist for National Managing Agent of the year

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WhatHouse Awards - Bronze in the Best Retirement Scheme category for Bowes Lyon Court, Poundbury

Graphic removed

Pride in the Job - 20 site managers won the coveted Pride in the Job Award from the NHBC, five site managers won Seals of Excellence and one Regional Winner

Our Products and Services

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Graphic removed

Graphic removed

2

1 Lonsdale Park, Oakham
2 The Wickets, Settle

Creating retirement communities

Two retirement accommodation products, incorporating highly desirable apartments and bungalows at selected sites, catering exclusively for older people

We offer well-designed properties 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 combined with just the right level of *service and support*.

Our offer to our customers extends beyond just the built environment. Through our in-house management services teams, we have long term relationships with our customers. This enables us to provide flexible services and support, throughout the whole time that they live with us.

Whilst our products and services offer genuine benefits to our *customers, as part of our strategy, we have responded with* a new long-term customer centric vision for the business to broaden our services, product and multi-tenure offering to better cater for our customers' needs.

As well as undertaking the day-to-day running of developments, a key part of the role for our House and Estate Management teams is fostering and developing the community. All new developments receive an initial community fund to help support *social events and activities - based on the interests of residents.* C.33,500 social events were held in our managed properties over the last 12 months. The impact of this on the lives of residents is clear from our last customers' survey - 83% of our *customers said that they experienced a sense of community in* their new property, compared to 51% of older people in general.

We also have a number of sites currently under development that offer bungalows alongside apartment living. Adding the availability of on-site services enhances the enduring appeal of owning a bungalow for our target age group.

c.60,900
Meals served *per month*
(FY17: 60,500)

c.16,900
Number of *residents*
(FY17: 14,600)

379
Developments *under management*
(FY17: 312)

c.31,000
Hours of care and domestic *support per month*
(FY17: c.24,000)

Providing flexibility, choice and affordable options

Our homes and communities meet a range of needs of our customers and we provide them with a variety of properties and differing levels of flexible care and services.

Multi tenure options will also create choice for our customers, ranging from outright ownership to rental and shared ownership solutions.

Peace of mind and a sense of community is created through our well-established management and care services teams providing social activities and services for our existing customers.

Whilst our homes provide customers with the independence and convenience that they require, they also have call support on all sites and 24-hour on site staffing at our Retirement Living PLUS developments.

Graphic removed

1

To further develop our offering, we will be piloting and introducing new services as part of our ongoing business transformation which will build on our current Management Services proposition and demonstrate that we are evolving with our customers' needs and values. These may include:

Quality of life

- Expanding our care offering into our Retirement Living developments
- New partnerships with local fitness centres
- Sleep quality sensors with remote monitoring
- Activity detection sensors
- A greater role for technology and artificial intelligence

Convenience

- New tiered levels of services and support
- New partnerships with the NHS
- Home automation control such as lighting, heating and home appliances
- Medication control sensors
- Change of charging model into an all-inclusive management fee model
- New, flexible ways to pay for services including pay as you go, deferred and hybrid options

Community

- Opening our new developments for wider community use
- Video communication
- Community challenges

Safety

- Fall awareness sensors
- Security cameras

1 Lido Grange, Prestatyn

Retirement Living

The perfect blend for many buyers - their own apartment, maintenance taken care of and the chance to socialise

Graphic removed

- *Minimum age of 60 and a current average buyers' age of 79*
- Typical number of homes per site: 30-50 with 1, 2 *or 3 bedroom options*
- FY18 completions: 1,412 (FY17: 1,722)
- House Manager and shared facilities, including customers' lounge, guest suite[1] and communal gardens

For more information see pages 38 to 41

Retirement Living PLUS

All the benefits of Retirement Living with support and on-site catering for those wanting a little more help

Graphic removed

- *Minimum age 70 and a current average buyers' age of 83*
- Typical number of homes per site: 50-70 with 1, 2 or 3 bedroom options
- FY18 completions: 583, (FY17: 479)
- Similar services to Retirement Living, with the added benefit of a restaurant or bistro, domestic support and flexible care packages, among other facilities and services[1]
- 24-hour staffing

For more information see pages 42 to 45

Bungalows

Within our Retirement Living and Retirement Living PLUS developments, we will be providing the option of bungalow homes at selected sites

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- Typically 1, 2 or 3 bedroom options
- FY18 completions: 21, (FY17: 0)
- Offers similar services to Retirement Living and Retirement Living PLUS at selected sites

1 Facilities and services may vary by site

Retirement Living

Graphic removed

2

Graphic removed

Key features

- For those aged 60+
- On-site House Manager
- Customers' lounge
- Guest suite
- Extensive landscaped grounds
- Typically 30-50 homes per site
- Bungalows as an option at selected sites[1]

Homes feature one, two or three bedrooms, spacious lounges, fitted kitchens, level access, extra storage, en-suite bathrooms for our classic designs 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 a more convenient height.

Our apartment 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 a sense of community, including a shared lounge, guest suite to accommodate visiting family and friends, and landscaped grounds.

Bungalows are also an option for our customers within several Retirement Living developments.

Each of our Retirement Living developments has a dedicated House Manager working five days a week during office hours, managing the day-to-day running of the development while also helping to facilitate various social activities.

1 Facilities and services may vary by site

44

New Retirement Living developments sales released in FY18 (FY17: 36)

1,412

Units sold in FY18 (FY17: 1,722)

1 Applegate House, Trowbridge
2 Chesterton Court, Ilkley

Retirement Living

Case study

Age is just a number for one seasoned traveller and Solihull retiree

Solihull retiree, Betty Chinnock (82), is proving age is just a number when it comes to enjoying retirement to the full. Having made the decision to downsize to McCarthy & Stone's Brueton Place development on Blossomfield Road, Solihull, Betty is making the most of the opportunity to do more of what she loves - to travel the world.

Known for her adventurous spirit and having lived by the motto, "if you don't ask you don't get", Betty has been on many fantastic overseas expeditions throughout her life. From an on-going love affair with Italy to a Canadian road trip in her 70s, it is difficult to find a place Betty hasn't travelled to. Having moved to an age exclusive apartment, Betty is now gearing up for more exciting adventures both home and away.

Betty explained what prompted her recent move: "I first heard about the McCarthy & Stone development in Solihull when a friend of mine suggested going to an Open Day.

Graphic removed

"I was immediately impressed, I left the event with a spring in my step and proceeded with the exchange process which only took 10 days!"

According to Betty, she has had the support of her nearest and dearest throughout her move. "My family have been incredibly supportive throughout the whole process," Betty said. "There was an incredibly fast turnaround, as I sold my property and bought at Brueton Place in just over a week. Without the superb assistance I received from McCarthy & Stone and the unparalleled backing of my family, none of this would have been possible."

McCarthy & Stone's age exclusive developments are designed to offer customers the very best in independent living within a safe and secure environment, with the opportunity to benefit from companionship when they want it and privacy and assistance when they need it.

"My one-bedroom apartment is perfect, it has a Juliet balcony which looks over an abundance of trees and the beautifully landscaped gardens which I adore waking up to every morning.

"There are lots of events here at Brueton Place that I love attending", Betty continued. "We have a weekly coffee morning on Wednesday, and it's great to socialise with other homeowners. The community aspect of life at McCarthy & Stone was very appealing to me, all of the fellow homeowners at Brueton Place are very friendly and happy to chat. I have the perfect balance of a private life and a social life, and I've made lots of fantastic new friends here."

Betty Chinnock
Brueton Place
Solihull

Retirement Living PLUS

Graphic removed

2

Graphic removed

Key features

- For those aged 70+
- Estate Manager and on-site team
- Customers' lounge
- Restaurant/bistro
- Well-being suite
- Built to Wheelchair Accessibility Standards
- Mobility scooter store
- CQC registered, 24-hour support
- Typically 50-70 homes in each development
- Bungalows as an option for Retirement Living PLUS developments and available at selected sites[1]

Our Retirement Living PLUS developments offer retirement properties with management services, domestic assistance and personal care on site. They are 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.

As with Retirement Living schemes, bungalows are also an option within Retirement Living PLUS developments at selected sites[1].

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 care services. Tailored and flexible care and support packages mean customers only pay for the additional help they use.

1 Facilities and services may vary by site

18

New Retirement Living PLUS developments sales released in FY18 (FY17: 12)

583

Units sold in FY18 (FY17: 479)

1 Augustus House, Virginia Water
2 Albert Court, Henley

Retirement Living PLUS

Case study

The magic of the Savoy Ballroom lives on 63 years' later

Having raised a family and lived in the United States of America and Holland, Pieter (84) and Monica (82) Peursum have returned to Southsea - to the very spot where their life together began, more than 63 years ago.

The couple first met at the iconic Southsea Ballroom in 1953 - a building which is now enjoying a new lease of life, having being transformed into a McCarthy & Stone Retirement Living PLUS development, Tudor Rose Court.

Having met when Pieter was stationed to the area to complete his national service in the Dutch Navy, the couple had a whirlwind romance and decided to get married so they could stay in the country together.

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Pieter said: "I would go to the Savoy Ballroom every Friday and Saturday evening and one night I had the pleasure of dancing with Monica."

Mr and Mrs Peursum decided to move back to Southsea, which is when they heard about McCarthy & Stone's Tudor Rose Court, situated on the seafront. Designed for the over 70s, the Retirement Living PLUS development is perfect for those who want to own their property, with the added advantage of access to a little extra support when required and all the benefits of living in a community of like-minded individuals.

Mr and Mrs Peursum are making the most of the thriving social community that has formed at Tudor Rose Court. "The staff and homeowners at the development are all wonderful and we enjoy being part of an active community," Pieter explained. "We like to get involved in as many activities as possible, including gala evenings, the Valentine's Day tea dance and weekly organised walks to the pier."

"We're so happy to now be settled into our stunning apartment and we feel truly blessed with the life that we've had together. We have enjoyed every minute - which is why it feels extra special as we are back to the exact place where it all began for us!"

Mr & Mrs Peursum
Tudor Rose Court
Southsea

Our Business Model

Core elements of our business model

By ensuring that our customers are at the heart of our business we will continue to build our business model on five important principles - each designed to provide the very best product, service and on-going support.

Creating retirement communities that enrich the quality of life for our customers and their families

1. Targeted land buying
2. Effective planning and design
3. High quality construction
4. Specialist sales and marketing
5. Supportive management and care services

How we fund our business

Our business is funded from cash generated by selling retirement properties, freehold reversions and providing management and care services. From time to time we also issue promissory notes to fund the acquisition of selected land sites. Additionally, we have in place a Revolving Credit Facility ('RCF') which has been extended during the year from £200m to £250m for a period of 12 months from February 2018 and matures in May 2021.

The levels of drawdown fluctuate during the year reflecting the Group seasonality in revenue and working capital requirements to fund our investment in land, build and sales and marketing expenditure.

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1 Cranberry Court, Peterborough

1. Targeted land buying

We target different land:

- Centrally located brownfield sites
- Close to amenities
- Fragmented competitive landscape

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48

2. Effective planning and design

We have significant planning and design expertise:

- Specialist in-house planning team
- Strong reputation with local authorities
- Increased government recognition of benefits of our products
- Limited on-site affordable housing requirements

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52

3. High quality construction

We deliver high-quality construction:

- Industry-leading quality and performance
- Experienced subcontractors and established supply chain
- Repeatable build process

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56

4. Specialist sales and marketing

An industry-leading trusted brand:

- Specialist trained sales force
- Trusted brand - 40 years' experience
- Dedicated customer service teams

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60

5. Supportive management and care services

Well-established management and catering services:

- Dedicated in-house management services team
- House and Estate Management teams undertake day-to-day running of developments
- Provides added peace of mind for customers
- Ongoing service quality underpins McCarthy & Stone brand

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64

Targeted land buying

Overview

We identify and secure high-quality land to create retirement communities that are located within towns and cities, close to amenities, which meet the needs of our customers and their families.

The market for land remains relatively benign and competition for our typical brownfield sites is still highly fragmented. However, 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.

There are four key elements that differentiate our land acquisition model:

1. Strict site purchase criteria:
   - Sites are typically small (c.1-2 acres), centrally located within towns and cities, close to amenities
   - Optimised development density through reduced on-site parking and amenity space requirements
   - Limited on-site affordable housing requirements and mitigated impact of Section 106 and Community Infrastructure Levy ('CIL') payments
2. Conditionality of our purchase agreements
3. Less competition for our sites from traditional housebuilders, who tend to be focused on larger, usually greenfield locations
4. Significant planning and design expertise

Highlights in the year

Our investment model for our Retirement Living and Retirement Living PLUS products incorporates the ability of the site to generate ground rent income to fund the provision of the extensive non-saleable communal spaces that are an essential ingredient to the lifestyle that we offer to our customers.

As a result of the Government's announcement on 21 December 2017 of its intention to abolish ground rents, we adopted a more cautious approach towards our land buying activity, with all sites secured after the Government's announcement making no allowance for ground rents in the financial appraisals.

Following our extensive discussions with government officials and politicians, in October 2018 the government issued a further consultation document on leasehold reform and ground rents, proposing that retirement housing be exempt from the intention to restrict ground rents to a peppercorn. This is good news, but until the proposed exemption has been re-confirmed following the outcome of that consultation, and consequently taken through parliament and embedded in legislation, we will continue to adopt a cautious approach to our financial appraisals at the point of land acquisition.

54 high quality sites with attractive embedded margins were added to the land bank in FY18 (FY17: 75). The 54 sites secured in the year accord with the more measured trajectory and smoother workflow objectives in line with our Group's new strategy.

Of the 54 land exchanges, only two sites were secured on an unconditional contract basis; twelve sites were secured by means of Option Agreements; and 40 sites were secured under conditional contracts (the principal condition being obtaining a satisfactory planning consent) with 19 of these having a non-viability clause and/or other flexibility in the contract terms enabling termination at our discretion.

54
Number of land exchanges
(FY17: 75)

9,797
Number of land bank units
(FY17: 9,967)

£112m
Investment in land during the year
(FY17: £156m)

Our Business Model *continued*

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2

1 Riverside Court, Abergavenny
2 Brownfield site, Honeylands House, Exeter

Targeted land buying

Strategic focus

Targeting land that meets our customers' needs and ROCE targets

To identify and secure land bank that meets our customers' needs as well as a return on capital employed of more than 15% by FY21 and more than 20% by FY23.

Strategic objectives

Operational efficiency and rightsizing the business

Improve operational efficiency by providing a stable monthly flow of land exchanges to support the steady state volumes required under the new Group strategy.

Financial hurdle rates will be strictly in line with strategic objectives for both return on capital employed and margin.

How will we achieve this

Deliver our new strategic objectives:

- Shift away from volume towards buying quality land with margin enhancing potential as opposed to being focused on quantity of sites
- Actively manage our land bank to less than 4 years supply to meet our new steady state volume targets of c.2,100 units per annum
- Introduce our new incentive scheme designed to deliver the smoothed workflow objective
- Expand the membership of the Group Investment Committee to include Divisional Finance Directors in order to provide greater link and challenge of regional investment proposals

Build on our existing strengths and initiatives:

- Significant local knowledge
- Comprehensive understanding of our customers' needs in terms of locality and amenities
- A well-established and tailored approach to land buying with clear criteria for land acquisitions including a comprehensive review and approval process prior to any acquisition
- Expertise in securing optionality in conditional land purchase contracts

Manage our risks, challenges and uncertainties

- Economic conditions • Workflow • Government legislation
- Employees • Carrying of land value • Land acquisition and planning
- Delivery of new strategy

See pages 74-77

Our Business Model *continued*

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1 Limwood, Hayling Island
2 Bowes Lyon Court, Poundbury
3 William Bradford Court, Doncaster

Effective planning and design

Overview

We operate an efficient and effective planning process and design high quality homes that meet our customers' evolving needs, improving their quality of life.

The Group's in house specialist planning team deals with all aspects of the planning process including informing, preparing and executing its planning applications and the monitoring and influencing of emerging relevant national and local planning policies. Our Planners become involved in a site from the initial high level suitability appraisal and then work with our design team to develop beautiful homes for our customers.

Government is increasingly recognising the role of older person's housing in addressing the national housing shortfall through efficiently and effectively providing more housing and in recycling the housing market. There is also increasing understanding of the health and social benefits that come with it and in turn the savings that this presents to the public purse, particularly in savings to the NHS. For these reasons, revised National Planning Policy Guidance continues to refer to housing for older people as being "critical" and it is the only this form of housing that is referred to in this way. It also now refers to the need to realise those social and health benefits. Through our Public Affairs initiatives and direct lobbying, the Group continues to work closely with Government to progress even greater appreciation of the social and economic benefits of retirement housing and to reduce some of the barriers that can hamper our ability to deliver.

Changes at the national level to planning policy aimed at ensuring Local Plans play a greater role in decision making means an increasing importance in involvement in the formulation of those plans. This includes greater scrutiny of their detail particularly in matters of viability. The Group is taking the unusual step of joint working with some of our competitors, pooling expertise and resources to present a combined response to emerging policies on behalf of the industry. This should enhance our ability and resource to make representations and ensure a stronger hearing and influence.

An example of this is making comprehensive representations on the Mayor of London's Draft Plan and ensuring that we have the right support in place to present these to the appointed Inspectors who will examine the Plan.

Achieving planning permissions continues to present challenges and has contributed to a drop in planning permissions being granted in FY18. The ground rent issue has also impacted on our timely achievement of planning permissions where we have had to review submitted schemes and request reduced contributions or more apartments to ensure financial viability of our schemes.

Highlights in the year

During FY18 37 detailed planning consents were granted, compared with 64 in FY17.

The development cycle time increased slightly from 18.1 months for FY17 to 18.3 months for FY18, primarily as a result of delays by the planning authorities, in the planning process.

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2017 What House Awards

In November 2017, we were pleased that our new development at Bowes Lyon Court in Poundbury picked up Bronze award for Best Retirement Development at the 2017 What House Awards.

37
Detailed planning consents
(FY17: 64)

Five Star
Retained customer satisfaction rating
(FY17: Five Star)

18.3
Development cycle time in months
(FY17: 18.1)

Our Business Model *continued*

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3

1 Apartment at Crocus Court, Poulton-le-Fylde
2 William Bradford Court, Doncaster
3 Crocus Court, Poulton-le-Fylde

Effective planning and design

Strategic focus

Achieve more standardised and efficient designs and continue our planning efforts to deliver new steady state volume targets of c.2,100 units per annum.

Strategic objectives

Workflow realignment, build cost reduction and affordable product offering

Workflow management is fundamental to our operational efficiency. We will create a monthly flow of quality land acquistion and planning application submissions to facilitate stabilised build starts throughout the year and steady state sales volumes moving forward.

How will we achieve this

Deliver our new strategic objectives:

- We will operate an efficient and effective planning process whereby we achieve the best possible planning consents as quickly as we can, providing for efficient, high quality and affordable retirement developments
- We will adopt a systemised development approach across both the planning and design functions and design new, affordable, standardised, streamlined, contemporary and compact solutions - the McCarthy & Stone signature designs
- Our designs will be simplified, while meeting planning policy requirements which will support our build cost reduction strategic objective and achieve our return on capital employed target of more than 15% by FY21 and more than 20% by FY23
- Our new designs will promote open plan living and provide full depth daylight with a higher quality finish
- We will broaden our market appeal by designing our products to be more affordable to the mass market and adopt different building types with a modular approach which can also be extended to our bungalow designs and we will continue to optimise development density through reduced on-site car parking and amenity space requirements
- The designs will be able to utilise standard components which can be bolted to modules extending to additional rooms or storage and create customer options which are easy to manage such as walk in wardrobes
- We will ensure a stable monthly flow of build starts and first occupations. These will be supported by conditional land acquisitions and subject to planning and commercial viability.
- We will drive value engineering preliminary through standardisation and optimising technical specifications especially focused on foundations, balconies and wall structures
- In addition, we will move away from the mindset of first time consents at whatever cost, and ensure appropriate balance between our workflow and margin objectives. The new incentive scheme will be rolled out across the business which will be specifically designed to smooth out the work flow across the development and build cycles and support margin and ROCE key objectives

Building on our strengths and initiatives:

- Specialist in-house planning team
- Strong reputation with local authorities
- Comprehensive local knowledge
- Limited on-site affordable housing requirements
- Increased government recognition of the social and economic benefits of our products
- Increasing national and local planning presumption in favour of high density development on centrally located brownfield sites and greater recognition of the social and economic benefits of our products

Manage our risks, challenges and uncertainties

- Economic conditions • Workflow • Government legislation
- Employees • Carrying of land value • Land acquisition and planning
- Delivery of new strategy

See pages 74-77

High quality construction

Overview

We deliver exceptional build quality whilst maintaining robust health and safety standards.

Highlights in the year

The high quality of our construction services is one of the driving forces behind us being the only housebuilder of any type that has achieved a Five Star rating in the HBF Customer Service Surveys for the last 13 years since its inception.

During FY18 construction commenced on 53 sites compared to 66 for FY17, reflecting our reduced volume requirements. Last year our continued focus on improving our operating efficiency resulted in further improvements in our build cycle with a reduction from 14.4 to 13.9 months between FY17 and FY18. This has been delivered through a continued focus on improving the critical path for our developments together with improvements to the quality and depth of our supply chain.

The gross profit margin saw a decrease from 20% in FY17 to 16% in FY18 as a result of geographical sales mix, increasing build costs and increased usage of part exchange schemes to counteract subdued market conditions. Additional marketing activity to support 69 (FY17: 52) sales releases also contributed towards the margin deterioration.

Awards

2018 NHBC Health & Safety awards

In June 2018, we were pleased to receive three NHBC Health & Safety Awards. The awards recognise and reward the very best in health and safety in the housebuilding sector, and three site managers, Rick Egerton, Mick Walters and Tony Barrowclough, were commended. The awards are testament to the continued care and attention we put into all of our developments.

NHBC Pride in The Job awards

In May 2018, 20 site managers received a coveted Pride in the Job Quality Award from the National House Builders' Council ('NHBC'). Of these five went on to win Seals of Excellence and one to win a Regional Award. This year's result is unprecedented for McCarthy & Stone as it is the largest number of awards ever received by the Group.

Health and Safety

Health and safety continues to be one of our top priorities with the Health and Safety committee meeting on a quarterly basis. On our sites we emphasise a proactive approach to health and safety as well as reinforcing the individual responsibility that every site worker has for their own and their colleagues' wellbeing. All staff (both employees and contractors) are required to have adequate health and safety qualifications before starting work on our sites and all contractors are required to hold valid Construction Skills Certification Scheme cards.

The Board receives regular updates on Health and Safety including our Annual Injury Incidence Rate (AIIR).

The AIIR is a commonly used metric for calculating reportable accident rates amongst House Builders Federation members and the wider construction industry.

McCarthy & Stone's AIIR was 643 for the year until 31 March 2018, which is a 35% improvement on the period ending 31 March 2017.

In August 2018, we appointed NHBC to carry out monthly independent health and safety inspections on all our live construction sites. The data these reports produce will allow us to compare our sites against a 60% benchmark score NHBC have set as compliant, and also to compare ourselves directly against other housebuilders through their system of All Advisor Average comparison.

Reducing injuries in the workplace

To continue to drive down our current AIIR we have introduced a new housekeeping document which has improved both the standards and culture on our sites over the past 12 months.

Annual Injury Incidence Rate

	2018	2017
McCarthy & Stone	**643**	993
UK Construction Industry[1]	**397**	398
Home Builder Peer Group[2]	**334**	335

53
Build starts in the year
(FY17: 66)

13.9
Build cycle in months
(FY17: 14.4)

16%
Gross profit margin
(FY17: 20%)

1 Health and Safety Executive
2 Home Builders Federation

Our Business Model *continued*

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2

1 Bentlech, Anglesey
2 Rogerson Court, Pocklington

High quality construction

Minimising our impact on the environment

Environmental Policy

The Group has implemented an Environmental Policy designed to minimise our impact on the environment and promote a sustainable and ethical approach to managing its business activities.

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 while ensuring we minimise our environmental impact.

We are committed to minimising as far as possible levels of waste generated by our construction sites as this brings both financial and environmental benefits. Of the 26,655 tonnes of waste generated on our construction sites in FY18, only 1.8% (being 485 tonnes) went to landfill, the rest being recycled. We continue to work with our waste management companies to try and further improve this figure, as well as with our suppliers to reduce waste further up the supply chain.

Strategic focus

Redesigning and re-engineering the way we build

We will deploy more cost-effective building solutions and streamline procurement practices by redesigning and re-engineering the way we build. In order to achieve this we will further develop our value engineering and procurement initiatives.

Strategic objectives

Operational efficiency through rightsizing our business and build cost reduction

As part of the new Group strategy, our primary objectives are to optimise our balance sheet and right size our operational cost base to deliver build cost saving.

We will also to aim to reduce the pressure on our suppliers and employees to deliver during peak periods.

How will we achieve this

- We will reduce the number of units in development and in finished stock over the next three years. We will also match production levels with sales rates and create a stable monthly flow of build starts and first occupations
- Staff will be incentivised to deliver a smoothed workflow and will focus on optimising subcontractor procurement practices which facilitate further build cost reductions and margin improvements
- We have introduced improved tools to allow further development of our supply chain through enhanced tendering processes, particularly on the subcontract elements.
- Various value engineering opportunities have been identified, the move towards additional modern methods of construction and proposals to streamline our preliminary costs will give us the ability to not only mitigate inflationary pressures but to reduce our base costs
- We will aim to reduce our finished stock to c.1,100 units by FY21

We will build on our existing strengths and initiatives:

- Full capability to deliver on steady volumes
- Experienced subcontractors
- Established supply chain
- Repeatable build process
- Customer-focused build
- DATUM - industry leading product management platform with technical specification libraries fully established
- Bidcon - construction estimating tool now fully operational across the business

Manage our risks, challenges and uncertainties

- Reputation and customer satisfaction • Workflow
- Government legislation • Build programmes and cost
- Employees • Health and Safety • Delivery of new strategy

See pages 74-77

Specialist sales and marketing

Overview

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

Highlights in the year

Investing in our sales staff is vital. As such we have set up our national training academy which is now operational and offers high quality and consistent training for all our sales staff.

Increased brand awareness has been achieved through our nationwide "Retirement living to the full" multi-channel marketing campaign, with TV bursts in January to March 2018 and September to October 2018.

The Group delivered full year revenue of £672m (FY17: £661m), supported by a 10% improvement in average selling price, which increased during the year to £300k (FY17: £273k). This reflected substantial improvements in the quality and location of our developments.

The Group achieved total legal completions of 2,134 units (FY17: 2,302) during the year, with volumes constrained, as expected and by the heavy weighting of first occupations, continuing economic uncertainty coupled with a slower secondary housing market and a softening of pricing, particularly in the South, during the second half of the year. This also had an adverse impact on our off-plan reservation rates which reduced from 53% in FY17 to 49% in FY18.

Our volumes included the sale of 25 units (FY17: 126 units) across 9 developments to PfP Capital. Additionally, 43 units (FY17: nil) across 23 developments were sold to heylo housing as part of their Homereach product range which provides customers with a shared ownership tenure option. Our in-house shared ownership pilot delivered the first three units (FY17: nil) under this initiative in Q4 FY18.

Views on YouTube:
c.1,600,679

Web calls attributed to the TV ad:
c.2,482

Web sessions during the TV campaign:
up 16% year on year

2,134
Legal completions (units)
(FY17: 2,302)

£300k
Average selling price
(FY17: £273k)

49%
Off-plan reservation rate
(FY17: 53%)

Specialist sales and marketing

Strategic focus

Leveraging customers' insight to provide an enhanced customer experience

Listening to our customer feedback and learning about their purchasing experience with McCarthy & Stone will help us to develop a better customer focused and efficient sales and marketing solution that supports our strategic objectives going forward.

Strategic objectives

Create an efficient and effective sales and marketing model

Enhanced sales efficiency and effectiveness with a streamlined approach to delivering a stable flow of first occupations and will support the delivery of ROCE of more than 15% by FY21 and more than 20% by FY23.

How will we achieve this

Deliver our new strategic objectives:

- Salesforce technology

Implementation of the new Salesforce Customer Relationship Management platform will standardise the sales process and provide an enhanced personalised customer experience.

The Salesforce technology is due to be launched in the North West region in December 2018, with all regions going live in early 2019. Standardised sales and marketing processes will be implemented alongside the new technology.

- Benefits of the new system include:
  - Improved customer insight
  - Enhanced personalised customer experience
  - Improved marketing effectiveness
  - Optimised sales operating model creating streamlined sales staffing and the development of an improved sales website and content management system
- Centralise the marketing function:
  - Marketing will be centralised to promote a consistent message, improved effectiveness and reduction in the cost per lead
- We will also strengthen Group oversight and control in key areas of sales and marketing

Build on our existing strengths and initiatives:

- Significant local knowledge and a trusted brand with over 40 years experience
- Dedicated customer service teams
- National training academy fully set up and operational

Manage our risks, challenges and uncertainties

- Economic conditions • Reputation and customer satisfaction
- Sales performance • Workflow • Government legislation
- Employees • Cyber/data

See pages 74-77

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Case study

Nick Twigger is a shining example of what our Estate Managers do on a daily basis. Nick has made it his primary objective to ensure that everyone at Wilton Court, Kenilworth feels welcome, whether that be the team of 13 staff he manages or the 70 customers who live there. Customers describe living at Wilton Court as being part of one big happy family.

Graphic removed

Nick manages a varied and stimulating range of entertainments and activities at Wilton Court, all tailored to the different interests and the health and mobility needs of our customers. Wilton Court is recognised in the local community for its charity fund-raising exploits and Nick is at the helm of this, with many charities and local organisations benefiting from events and activities at Wilton Court.

Nick Twigger
Estate Manager, Wilton Court, Kenilworth

Supportive management and care services

Overview

Through our in-house Management and Care Services team, we develop a long term relationship with our customers. This enables us to provide flexible services and support, throughout the whole time they spend in our development. Almost nine out of ten of our customers say that their quality of life has actually improved after living with us for nine months.

Our customers have peace on mind safe in the knowledge that our dedicated in-house teams are on hand to assist should they need it. This is key to ensuring that our customers can relax and enjoy their retirement to the full.

Our management, catering and care teams support a wide range of services including:

- c.60,900 meals served each month[1]
- c.31,000 hours of care and support each month[1]
- c.33,500 social activities held during FY18[1]

Highlights in the year

98%[2] of our Retirement Living PLUS registered developments inspected have been rated "Good" by the CQC.

As well as undertaking the day-to-day running of developments, a key part of the role for our management and care services teams is fostering and developing the community. All new developments receive an initial community fund to help support social events and activities. Based on the interests of customers c.33,500 (FY17: c.27,600)[1] social events were held in our managed properties over the last 12 months. The impact of this upon the lives of customers is clear from our last customer survey - 83% of our customers said that they experienced a sense of community in their new property, compared to 51%[1] of older people in general.

Awards

At this year's Association of Residential Managing Agents Awards we were delighted to win two awards and be shortlisted in the headline category:

- ARMA Onsite Staff Member of the year: **Nick Twigger, Estate Manager, Wilton Court**
- ARMA Service Charge Accountant of the year: ***Julija Bizna, Management Services Head Office***
- Finalist - ARMA National Managing Agent of the year

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379
Developments under management (FY17: 312)

c.16,900
Number of customers (FY17: c.14,600)

98%
CQC score rated "Good" (FY17: 98%)

1 *Homeowner survey (2017) and research by Demos (2016)*
2 *CQC*

Our Business Model *continued*

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1

Graphic removed

2

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3

1 Building maintenance
2 Dedicated to looking after our customers
3 Keeping the development looking its best all year round

Supportive management and care services

Strategic focus

Service offering that responds to evolving customer needs and creates retirement communities

Having run focus groups with current customers, prospective customers and their family members, we are looking to expand our offering to provide greater flexibility around the payment of service charges, provide more choice of additional lifestyle support and activities and increase opportunities to open up our developments to wider community use.

Strategic objectives

Evolving our business

Develop our service proposition to align with our long-term vision and purpose of creating even deeper and longer relationships with our customers and create retirement communities that enrich the quality of life for our customers and their families.

We are seeking to develop our management and care services so that they are well placed to develop our business model which can be flexible and future proofed and evolve with the actual needs of our customers, offering what our customers are seeking from within their communities including:

- Independence and proximity to transportation, privacy and their own outdoor space
- Support during life transitions, including social activities and healthcare
- Convenience as customers value features that are easy to use and enhance their lifestyle and safety
- Community as our customers don't want to be isolated
- Affordability as our customers want different options of service and payment methods

Graphic removed

How will we achieve this

Delivery of our new strategic objectives:

Leveraging customer involvement, insights and analytics at every stage of our business development.

Enhance the personalised customer experience by introducing more flexibility, choice and affordability.

The key initiatives to create the enhanced customer experience include:

- Management and care services will be more customer facing
- Introduction of differing options for levels of service
- Introduction of flexible payment options and charging model into an all-inclusive management fee model. Customer feedback shows the peace of mind given by a fixed fee model is highly valued and preferred to a variable model
- Introduce technology enabled services to help improve the quality of life, community, safety and convenience for the customer
- Provision of new offerings to give support and inclusion of the community which will include new partnerships, opening our developments to the public and expanded care options
- Build management and care services into a fully-fledged profit generating segment of our business

Build on our existing strengths and initiatives:

- Dedicated in-house Management and Care Services team and a strong service platform
- House and Estate Management teams undertake day-to-day running of developments
- Providing added peace of mind for customers, including social events, care support services, safety and security
- Ongoing service quality underpins the McCarthy & Stone brand by achieving 'Good' CQC ratings in 98%[1] of registered Retirement Living PLUS developments in FY18

Manage our risks, challenges and uncertainties

- Government legislation • Employees • Health and Safety
- Cyber/data • Delivery of new strategy

See pages 74-77

1 CQC

Financial Review

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Rowan Baker Chief Financial Officer

Our performance

During the last financial year, the business continued to face considerable market headwinds including continuing political and economic uncertainty following the outcome of the vote to leave the EU. These headwinds have resulted in a lowering of consumer confidence, a challenging secondary housing market and some softening of pricing in the South East. The above external factors, together with our continued investment in operating costs in support of our previous growth strategy, have resulted in a 30% reduction in underlying operating profit and a 33% reduction in operating profit compared to the prior year.

Revenue

The Group delivered full year revenue of £672m (FY17: £661m), supported by a 10% improvement in average selling price, which increased during the period to £300k (FY17: £273k). This reflected substantial improvements in the quality and location of our developments. Our revenue for the year included FRI revenue of £29m (FY17: £29m).

The Group achieved total legal completions of 2,134 units (FY17: 2,302) during the year, with volumes constrained, as expected, by the heavy H2 weighting of first occupations, continuing economic uncertainty coupled with a slower secondary market, especially in the South East, during the second half of the year.

Our volumes included the sale of 25 units (FY17: 126 units) across 9 developments to PfP Capital as we continued to leverage the opportunity to access the growing rental market. Additionally, 43 units (FY17: nil) across 23 developments were sold to heylo housing as part of their Homereach product range as a means by which to provide customers with a shared ownership tenure option.

Profit

Consistent with guidance given in June, underlying operating profit decreased to £68m (FY17: £96m) in the year, whilst operating profit decreased to £64m (FY17: £94m). Our underlying operating profit margin decreased to 10% (FY17: 15%) and our operating profit margin decreased to 9% (FY17: 14%). This reduction in profitability and margin percentage was mainly driven by build cost increases, increased usage of part-exchange and incentives to counteract subdued market conditions, additional marketing activity to promote the higher level of current year sales releases (FY18: 69, FY17: 52) and our continued investment in operating costs in support of our previous growth strategy.

During the year, we saw an increase in the volume of part-exchange transactions reaching 753, 35% of legal completions (FY17: 627, 27% of legal completions), as a reflection of the ongoing subdued secondary market. 335 of these transactions were on balance sheet PX (FY17: 163) resulting from the national roll-out of in-house part-exchange solutions with tight controls in place to ensure regions do not exceed their capital allocation. This translated into a saving of c.£7m (FY17: c.£1m) compared to use of third-party PX with average capital employed of £27m (FY17: £10m) over the year. 335 properties (FY17: 163 properties) were purchased during the year at an average of 96% (FY17: 96%) of market value with 302 (FY17: 49) properties re-sold within the year. The average time taken to resell these properties was c.13.1 weeks (FY17: c.8.5 weeks).

Total administrative expenses for the year amounted to £40m (FY17: £37m), excluding exceptional items and amortisation of brand and remained at the same proportion of revenue as last year of 6% (FY17: 6%).

Underlying profit before tax decreased to £62m (FY17: £94m) during the year with statutory profit before tax of £58m (FY17: £92m). This was impacted by a net £1m revaluation loss (FY17: net £2m revaluation gain) of our shared equity portfolio which contributed to an increase in net finance expenses to £5m (FY17: £2m) reflecting an adverse change in the forward looking HPI assumptions. Statutory profit before tax has been further impacted by £2m (FY17: £nil) of exceptional costs incurred in FY18 as we commenced our business transformation programme.

£672m
Revenue
(FY17: £661m)

£64m
Operating profit
(FY17: £94m)

10%
ROCE
(FY17: 16%)

Capital structure and interest

The Group saw its tangible gross asset value increase to £692m (FY17: £646m) and its tangible net asset value increase to £696m (FY17: £676m) during the year. This was primarily driven by a £147m increase in finished stock excluding in-house part-exchange properties reflecting 52 first occupations delivered in the second half of FY18 (FY17: 30 first occupations delivered in the second half of FY17).

An increase in trade and other receivables due in less than 1 year from £10m in FY17 to £22m in FY18 primarily reflects balances due from heylo housing for the bulk sale transaction. Trade and other payables have increased from £85m in FY17 to £115m in FY18 due to higher deferred income balances reflecting the FRI transaction in August 2018 and high level of accruals due to August build activity.

During the year we continued to maintain a robust financial position with net cash of £4m (FY17: £31m) as at 31 August 2018. This resulted in a negative gearing of 2% (FY17: 4%), reflecting management's ongoing focus on disciplined land acquisition in response to continuing economic uncertainty and was achieved notwithstanding the negative cash impact of increased build spend and our in-house part-exchange tool which resulted in £42m part-exchange assets being held on the balance sheet at the year end (FY17: £32m).

We maintained appropriate headroom against our revolving credit facility ('RCF') throughout the year. This facility was increased from £200m to £250m for 12 months from February 2018. The level of drawdown fluctuated during the year with the maximum draw down of £195m in June 2018 (FY17: £166m in July 2017) reflecting the Group's revenue peak in August and working capital requirements to fund our investment in land, build and sales and marketing expenditure. The average draw down during the year was £137m (FY17: £100m).

The Group incurred net finance expenses of £5m during the year (FY17: £2m), impacted by a net £1m revaluation loss (FY17: net £2m revaluation gain) of our shared equity portfolio which resulted in an increase in finance expenses to £6m (FY17: £4m) reflecting an adverse change in the forward looking HPI assumptions.

Exceptional costs

Exceptional costs of £2m (FY17: £nil) were recognised within the Consolidated Statement of Comprehensive Income during FY18. These costs related to advisory fees and redundancies incurred on commencement of the Group's strategic review in the year.

Taxation

The effective tax rate was close to the statutory rate during the current financial year. The total tax charge for the year was £12m (FY17: £18m) which represents an effective tax rate of 20% (FY17: 19%) based on a profit before tax of £58m (FY17: £92m). The rate of corporation tax was lowered to 19% from 1 April 2017 and will be at 17% with effect from 1 April 2020.

Earnings per share and dividend

Underlying basic earnings per share decreased by 35% to 9.2p (FY17: 14.2p) reflecting the reduction in underlying profit before tax from £94m in FY17 to £62m in FY18. Basic earnings per share for FY18 were 8.6p (FY17: 13.8p). Details of the calculation of underlying earnings per share can be found in note 5 to the financial statements. Details of the calculation of earnings per share can be found in note 11 to the financial statements.

The Directors are proposing a final dividend of 3.5p per share. This follows the interim dividend of 1.9p per share, giving a total dividend for the year of 5.4p per share (FY17: 5.4p per share). This maintains our dividend at the same level as the prior year despite the lower level of profitability and reflects the Board's confidence in its new strategy. The proposed total annual dividend is covered 1.6x times by FY18 earnings. Subject to shareholder approval at the Annual General Meeting ('AGM'), the dividend will be paid on 1 February 2019 to shareholders on the register at 4 January 2019.

The total cost of the final dividend is £19m, resulting in a total dividend cost relating to the year of £29m (FY17: £29m).

Target returns

Our investment in build to deliver our previous growth strategy resulted in a £157m increase in finished stock (including on balance sheet part exchange properties). This increase, together with a £29m reduction in underlying operating profit, led to a decrease in ROCE by 6 ppts to 10% (FY17: 16%) and a reduction in capital turn to 1.0x (FY17: 1.1x). Our new strategy, however, focuses on increasing ROCE, margin and cash generation with the target of delivering a greater than 15% ROCE by FY21 and a further 5pp improvement to greater than 20% ROCE by FY23.

Our new strategic targets reported on 25 September are as follows:

- ROCE improvement of greater than 15% by FY21, increasing to over 20% by FY23

- Improvement in operating margins to more than 15% by FY21
- Total cost savings of more than £40m per annum by FY21
- Total cumulative cash savings in excess of £90m between FY19-FY21
- The Group will focus on a reduction of its capital employed by at least £70m between FY18 and FY21

Change of auditors and financial year end

In June 2018 the Board completed the external audit tender process in line with the ten year statutory requirement and appointed Ernst & Young LLP as the Group's statutory auditors for the period ending 31 October 2019. This appointment remains subject to approval by shareholders of the Group at the Annual General Meeting to be held on 23 January 2019. As part of the business transformation strategy announced on 25 September 2018, the Directors decided to change the Group's financial year end from 31 August to 31 October. This will allow us to decouple our year end activities from the peak August holiday season and will serve to accelerate the process of rebalancing workflow and sales volumes throughout the year. FY19 will be the first financial year reported to 31 October and therefore will be a 14 month period of account. Our first half reporting will cover the six months to 28 February 2019 and our second half, the eight months from 1 March to 31 October 2019.

Post balance sheet event

On 25 September 2018 the Group announced its new business strategy aimed at improving margins, rightsizing the operational cost base and evolving the business model to meet the changing needs of our customers. Total exceptional costs of c.£25m are expected across the life of the business transformation programme, with £2m already incurred in FY18. The majority of the exceptional costs are expected to come through in the first half of FY19, representing the cost of land that will no longer be developed, redundancy costs and further consultants' fees. There were no events after the reporting period that required adjustment in the FY18 financial statements.

Risk management

The Group maintains a robust risk management framework, providing a clear link between its 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 are used at Board level in order to assess this. Our geographic coverage 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.

The following risks have been identified by the Board with respect to delivering the new Group strategy:

- Unit completion pattern continues to be lumpy with a significant proportion delivered towards the year end
- Land buying and build programmes are not successfully calibrated to deliver a steady state production
- Failure to deliver required cost savings through changes to the organisational design
- The build cost reduction programme is not fully achieved
- Failure to streamline the sales model and centralise the marketing function

Liquidity risk is the risk 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 liquid funds to meet all its potential liabilities as they fall due. The liquidity of the Group is dependant on achieving the level of sales volumes, prices in line with current forecasts and strategic objectives as announced on the 25 September 2018. Liquidity risks are managed through the regular review of detailed short term and long term cash flow forecasts to monitor the expected requirements of the Group against the available facilities, principally the revolving credit facility in place, and by maintaining adequate committed banking facilities to ensure appropriate headroom.

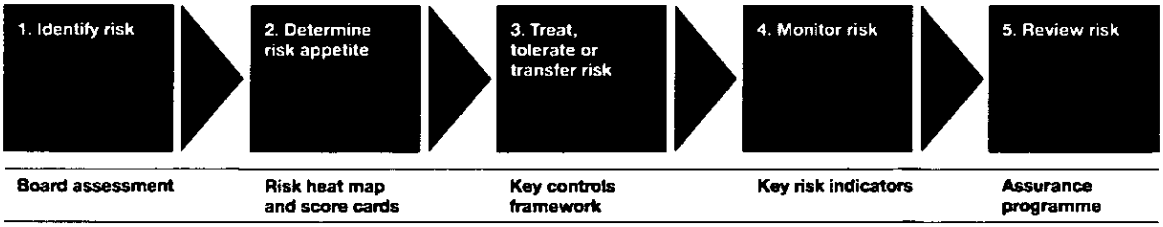
Rowan Baker
Chief Financial Officer
12 November 2018

Risk Management

How we manage the risks to our business

Effective management of risk is integral to the successful delivery of our strategy and could have an adverse impact on shareholder value and the Group reputation

Risk is managed through a five-step risk management process, led by the Board



The maintenance of formal risk dashboards, risk scorecards, the management of key control frameworks, the monitoring of risk indicators for the principal risks and the pursuit of a broad assurance programme provide all levels of management with a clear framework within which to operate.

The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten our business model, achievement of strategic objectives, solvency or liquidity.

Principal risks and uncertainties are formally identified, reviewed and updated by the Executive Board every six months using a risk scoring methodology. Each risk is categorised based on likelihood and potential impact. Once agreed with the Executive Board, 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 for each risk is established through a bi-annual review of the risk heat map. This review confirms whether the relative position of each risk is acceptable and if not, what actions are needed to reduce the likelihood and/or impact of them crystallising.

In addition, risk indicators have been identified for each principal risk by the Executive Board with associated risk parameters. This allows the Executive Board to identify whether any principal risks are beginning to crystallise beyond the pre-determined risk appetite and if so whether any actions are required to address this.

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, reporting and oversight
2. Functional oversight
3. Programme of assurance activity, including internal audit

Monitoring principal risks

The following risks have been identified by the Board with respect to delivering the new Group strategy:

- Unit completion pattern continues to be lumpy with a significant proportion delivered towards the year end.
- Land buying and build programmes are not successfully calibrated to deliver a steady state production
- Failure to deliver required cost savings through changes to the organisational design
- The build cost reduction programme is not fully achieved
- Failure to streamline the sales model and centralise the marketing function

Liquidity risk is the risk that the Group will encounter when it has 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 liquid funds to meet all its potential liabilities as they fall due. The liquidity of the Group is dependant on achieving the level of sales volumes, prices in line with current forecasts and strategic objectives as announced on the 25 September 2018. Liquidity risks are managed through the regular review of detailed short term and long term cash flow forecasts to monitor the expected requirements of the Group against the available facilities, principally the revolving credit facility in place, and by maintaining adequate committed banking facilities to ensure appropriate headroom.

The risks attributed to each land acquisition opportunity are assessed by 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 to best-case potential out-turn costs are monitored and managed throughout the construction phase, allowing risks to be formally managed and opportunities realised.

Principal risks crystallisation in FY18:

- The risks to build costs experienced in previous years were largely kept under control in FY18
- The risk that did crystallise in FY18 was the sales risk resulting in the profit warning in June 2018. The business failed to achieve the growth rates expected in the IPO strategy due to a number of factors, not least the softening in the secondary housing market due to ongoing economic uncertainty caused by Brexit

The principal sales risk indicators highlighted to management that this risk was crystallising beyond the risk appetite but despite management attempts to address this, the risk fully crystallised.

Internal audit assurance

During FY18 internal audits focused on the following key areas of the business which related to the principal risks identified and assessed compliance with core policies and procedures:

- Marketing, forecasting, health and safety
- Regional key controls framework certification
- Robustness of the forward sales order book
- Southern, South East and East Midlands Regional audits to assess compliance with core policies
- Commercial audits of developments under construction and three regions' commercial processes.

Overall oversight is provided by the Board, with individual members of the Board and the Executive Board owning each of the principal risks.

Internal control environment

The core elements of the Group-wide internal control environment are organisational structure, culture and values, Group 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 Board. The Board is responsible for the operational control of the Group, including all strategic, financial, organisational, legal and regulatory matters.

The Executive Board is responsible for the day-to-day management of the operational activities of the Group. Each member of the Executive Board has a 'leadership team' of direct reports, who are responsible for the system of internal controls across their business area.

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 conducting business from key decisions to day-to-day activities.

These values are widely communicated across the business to ensure alignment with strategic objectives 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.

Group strategy

The Group strategy, which was reviewed during FY18, has increased focus on profitability. The strategy has been well documented and communicated both internally and externally and was the subject of a strategy review day on 25 September 2018. To support this strategy the Board has identified our strategic objectives, as discussed on pages 10 and 11.

Key controls framework

The key controls framework defines the Group's most important internal controls on which it places reliance in the management of its core business and reporting on its performance and progress towards achieving strategic objectives. The Group operates consistent processes and controls across the business. The key controls framework is reviewed and tested annually with the results presented to the Board and is also subject to internal audit review.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2016, The Directors have to assess the prospects and viability of the Group.

In response to that, the Directors have assessed the prospects and financial viability of the Group, taking into account both its current position and principal risks. The Directors consider a three-year period is appropriate for this assessment as our capital cycle from land completion to final sell-out of a development, for FY18 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 overleaf) 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 modelling of a combined set of sensitivities, by applying a reasonably possible downside to sales completion volumes, selling prices, FRI income and expected build cost savings. This sensitivity analysis reflects a severe but plausible impact, assuming that the appropriate steps are taken to mitigate the impact of the downside and continuing availability of the RCF throughout the assessment period, which is due for renewal in May 2021. The Directors will continue to review the Group's external funding requirement following the announcement of the Group's new strategy on 25 September 2018 and do not anticipate any issues in securing a renewal of the facility beyond May 2021. Further detail as to how the facility is used, the level of reliance placed, and how the Group's liquidity risk is managed can be found on page 70.

Based on this review, the Directors confirm that 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 three-year assessment period.

Principal Risks and Uncertainties facing the Group

Risk area	Risk description	Mitigating actions
Economic conditions	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 in-house part-exchange scheme. The uncertainty in the economy and specifically the secondary housebuilding market following the EU referendum is likely to continue in the short to medium-term as the UK exits the EU in March 2019.	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 geographical and product spread of developments to ensure that it is not reliant on one locality or product type. The operation of an in-house part-exchange scheme is subject to strict controls and regional and divisional limits. The development of new tenure types, including the rental and shared ownership offerings will help to offset any potential impact of a downturn in the secondary housing market.
	Business area impacted Land Buying 48 Planning & Design 52 Sales & Marketing 60	
Government legislation	Like any other business, the Group is affected by changes in Government legislation. The Government consultation on unfair leasehold practices in FY18 had an adverse impact on the Group's business model.	We welcome the Government's consultation paper on ground rent reform which was published in October 2018 and are pleased with the proposal to exempt the retirement sector from the proposed cap on ground rents. However, the Group notes that this remains a proposal and is subject to further consultation and passage through Parliament. The Group has recently carried out an impact assessment of lower and no ground rents and reviewed its land appraisal process accordingly and is seeking alternative solutions to mitigate the adverse impact on the business model should an exemption not be granted.
	Business area impacted Land Buying 48 Planning & Design 52 Construction 56 Sales & Marketing 60 Management Services 64	
Delivery of new strategy	Prolonged business disruption and/or failure to achieve the targeted savings could result in adverse financial deterioration and the level of funding required to support working capital, which may negatively impact the viability of the Group.	Clear and concise objectives have been developed to deliver the targets as defined in the new Group strategy. A Transformation and change office to oversee and closely monitor progress against the objectives has been created.
	Business area impacted Land Buying 48 Planning & Design 52 Construction 56 Sales & Marketing 60 Management Services 64	

Change from previous year

Increased risk | No change | Decreased risk | New risk

Risk area	Risk description	Mitigating actions
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 consents will adversely affect workflow, resulting in failure to meet targeted sales and/or cash flow. **Business area impacted** Land Buying 48 Planning & Design 52	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 reward structure. We acquire land with a high degree of conditionality. Regional planning teams have the support and oversight of the Group Investment Committee.
Build programmes and cost	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. As part of the strategic review the Board have identified significant potential for cost reductions through standardisation, design efficiencies and procurement practices. Achievement of this build cost reduction programme will be critical to the Group delivering its new strategy. **Business area impacted** Construction 56	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 by the internal audit team who perform commercial internal audits of developments under construction in order to mitigate the risk. Framework agreements have been established with key subcontractors and suppliers to provide greater certainty of price and supply. In addition, the Group has implemented a tighter control framework over higher risk more complex developments.
Workflow	The Group has historically suffered from a bias towards achieving the majority of its completions and profits in the second half of the 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. **Business area impacted** Land Buying 48 Planning & Design 52 Construction 56 Sales & Marketing 60	As part of the new strategy, the Group is re-aligning workflow towards a steady state production through the following actions: • Reducing the number of sites in development • Ensuring stable monthly flow of build starts and first occupations • Introducing an incentive scheme designed to deliver smoothened workflow • Changing the year end away from the peak holiday season to 31 October Workflow is closely monitored by regional and divisional management and by the Board.

Principal Risks and Uncertainties facing the Group *Continued*

Risk area	Risk description	Mitigating actions
Sales performance	The Group's business plan assumes selling and charging of its products and services at attractive prices. Any volume shortfall or pricing weakness could have a significant impact on the Group's financial performance. **Business area impacted** Sales & Marketing 60	Detailed reporting enables the Group to monitor sales and pricing at a site and unit level and regularly review performance against expectation with regional and divisional management. A strict approval process exists for awarding discounts and incentives in excess of certain thresholds.
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 adversely impact the business. **Business area impacted** Land Buying 48 Planning & Design 52 Construction 56 Sales & Marketing 60 Management Services 64	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 and retention to deliver the Group's strategy.
Reputation and customer satisfaction	The Group builds, sells and rents a quality product to an ageing and sometimes frail customer base and provides ongoing management and 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. Adverse national publicity with respect to resales, 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. **Business area impacted** Construction 56 Sales & Marketing 60	The Group enforces strict procedures over the handover of developments for occupation and the handover of specific apartments to individual customers. Ongoing management and 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. An in-house estate agency supports the resales process for customers in our managed developments on the general housing market, with the aim of speeding up the sales process and maximising value on resale.

Risk area	Risk description	Mitigating actions
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. **Business area impacted** Land Buying 48 Planning & Design 52	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, on a half yearly basis.
Health and Safety	Construction sites are inherently risky, and could expose employees/contractors to the risk of serious injury/fatality. Customers in the developments the Group manages are ageing and sometimes frail, with the risk that they can be more susceptible to injury. **Business area impacted** *Construction* 56 *Management Services* 64	The Group strives for excellence in health and safety and considers it to be a top priority. This is supported by a rigorous, independent site inspection process which routinely assesses and reports on standards.
Cyber/data	Failure of any of the Group's IT systems, in particular those relating to customer data, surveying and valuation, could adversely impact the performance and reputation of the Group. **Business area impacted** Sales & Marketing 60 Management Services 64	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 with GDPR legislation. The Salesforce CRM platform due to be rolled out during FY19 will deliver enhanced compliance with GDPR requirements.

Change from previous year

Increased risk *No change* *Decreased risk* *New risk*

Corporate Governance

Graphic removed

2

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1

1 Cardinal Court, Bishophill, York
2 CGI of Cardinal Court

Cardinal Court

Bishophill, York

Located in the heart of York is our stunning new development at Bishophill, a Retirement Living development of 34 two bedroom apartments for the over 60s. The development is located within the historic city walls and is a level walk from the town centre, the Shambles, York Minster and everything the city has to offer.

Known for its festivals and cultural events throughout the year, York's attractions cover everything from history and music, to sport and food.

Board of Directors

Graphic removed

Paul Lester, CBE
Group Non-Executive Chairman

Paul joined the Board in January 2018 and succeeded John White as Chairman following the Company's Annual General Meeting on 24 January 2018.

Paul is currently chairman of Essentra plc and Forterra plc and was formerly a director of Invensys plc. Paul is also the chairman of Knight Square Ltd. Previously, he was group managing director of Balfour Beatty plc before becoming chief executive of VT Group plc in 2002. Paul was also chairman of John Laing Infrastructure Fund until September 2017.

Paul brings a wealth of experience in leading companies. Since his appointment, Paul has demonstrated strong and decisive leadership and he has been instrumental in working with the Executive Board in setting the Group's new strategy.

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

Graphic removed

John Tonkiss
Chief Executive Officer

John Tonkiss became Chief Executive Officer in September 2018, having previously been the Group's Chief Operating Officer. He joined McCarthy & Stone in February 2014 and joined the Board in October 2015.

Prior to joining McCarthy & Stone, John worked for ten years at the Unite Group, the UK's largest provider of purpose-built student accommodation, becoming chief operating officer in 2008. While at Unite, John helped to introduce new models of investment and construction for student housing that transformed the sector, including pioneering a full Modern Methods of Construction approach, and he will be using this experience in the retirement communities sector.

John was also the chief executive of Human Recognition Systems, the UK's leading biometric solutions provider, between 2012 and 2014.

John is responsible for executing the new transformation strategy that was announced in September 2018, having helped formulate it while he was Chief Operating Officer. The new strategy will establish a strong financial platform for the business and leverage the strategic opportunities in its services and product offering. The long-term vision is to create even deeper and longer relationships with our customers by transitioning the business away from being seen as a housebuilder to become the UK's leading developer, owner and manager of retirement communities.

Committees
Member of the Nomination and Disclosure Committees.

Graphic removed

Rowan Baker
Chief Financial Officer

Rowan joined McCarthy & Stone in January 2012 and was appointed Chief Financial Officer on 6 January 2017 having previously held the role of Group Financial Controller.

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 and has an M.A. from the University of Cambridge.

Rowan played a lead role in the Group's successful IPO in November 2015. Rowan has been working extensively with John on formulating the Group's new strategy. She has a wealth of financial experience and technical expertise and a deep and comprehensive understanding of the business.

Committees
Member of the Disclosure Committee.

Graphic removed

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.

Frank is a qualified accountant with over 30 years' experience in the housebuilding, infrastructure and energy sectors. Frank was finance director of Galliford Try plc from 2000 until 2012 and was also responsible for its Private Finance Initiatives and Public Private Partnership activities. Frank 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, and Eurocell plc. Frank is also chairman of a private construction company and also acts as an adviser to certain private businesses.

Frank has significant housebuilding and financial knowledge which makes him an effective member of the Board and a strong chairman for the Risk and Audit Committee. Frank is always prepared to challenge financial performance and to promote good risk management and financial practice.

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

Board of Directors *continued*

Graphic removed

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.

Mike 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 Breezie and Oomph, vice chair of Care England, the care sector trade association, and a non-executive director of Connect Physiotherapy. Mike 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.

Mike's extensive knowledge of the healthcare sector and his experience of sales and marketing through his previous advertising career are valuable skills in respect of the customer facing management services side of our business.

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

Graphic removed

Geeta Nanda, OBE
Independent Non-Executive Director

Geeta joined the Board in April 2015 as a Non-Executive Director.

Geeta has more than 28 years' experience in the property sector and over ten years as a chief executive officer. Having joined Thames Valley Housing Association Limited ('TVH') in 2008 she created the brand leading market rent company Fizzy Living in 2012 and in 2013 was awarded an OBE for her contributions to social housing. In 2017 she joined Metropolitan Housing Association as chief executive officer which then merged with TVH in 2018 to create a 57,000 home organisation delivering 1,500 new homes a year across all tenures.

Geeta has 23 years' experience in non-executive roles and has served on the boards of two housing organisations and national and local charities. Geeta has extensive management expertise and experience of strategy development. She has brought in institutional investment and bonds through the capital markets to fund the development of new products and tenures. She has led organisations through market fluctuations and through turnaround periods.

Committees
Member of the Remuneration, Risk and Audit and Nomination Committees.

Graphic removed

John Carter
Independent Non-Executive Director

John was appointed to the Board as a Non-Executive Director in September 2017.

John is currently the chief executive officer of Travis Perkins plc, a position he has 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 the Travis Perkins Group, the No.1 supplier of building materials in the UK, and responsible for the growth of its UK and European business brands serving retail and B2B customers with international global sourcing operations.

John has 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 in 2010. John was previously a Trustee of the British Research Establishment for three years from 2013 to 2016.

John's commercial and sector related experience brings valuable insight to the Board, particularly in the areas of health and safety and equality and diversity which he champions across the Travis Perkins Group.

Committees
Member of the Remuneration Committee.

Graphic removed

Arun Nagwaney
Non-Executive Director

Arun was appointed to the Board in May 2018 as the Nominee Director under the terms of a Relationship Agreement with Anchorage Capital Group.

Prior to joining Anchorage in 2012, Arun was an executive director and co-founding shareholder at Papierwerke Lenk AG and director and co-founding shareholder at Plastics Capital plc. Arun began his career at McKinsey & Company. Arun received a Ph.D. in Mechanical Engineering from Imperial College at the University of London and a B.A. from the University of Cambridge. Currently, he serves as a board director of some of Anchorage's portfolio companies including PHS Group, Ideal Standard, IVG Immobilien, and Eir.

Arun has a deep understanding of the business and brings additional strategic insight to the Board.

Committees
Member of the Nomination Committee.

Corporate Governance Statement

Graphic removed

Paul Lester, CBE Group Non-Executive Chairman

Dear Shareholder,

As Chairman my principal role is to lead the Board and ensure that it continues to operate effectively to help deliver shareholder value and promote the success of the Group.

The Board recognises the importance of ensuring that high standards of governance and business practice are upheld throughout the Group and are continually reviewed to ensure that they remain relevant to the Group's business values and strategy. The Board has established a corporate governance framework and will continue to focus on improving the framework during FY19 to support the delivery of the Group's new strategy.

Corporate governance requirements continue to evolve, with the announcement of a revised UK Corporate Governance Code ('revised Code') which will first apply to the Group in FY20. The revised Code will bring about significant changes in the requirements for listed companies and the Board are already considering the steps it will be required to take to comply with its provisions.

In this section of the Report we explain how the business is structured and managed to promote high standards of governance across the Group.

Corporate Governance Framework

The Board of Directors

Chairman: **Paul Lester, CBE**

The Board is ultimately responsible for all activities of the Group. It has adopted a schedule of matters reserved for its approval and has delegated some of its responsibilities to the Committees of the Board. In addition, certain Executive Committees have been established to oversee some of the operational activities of the Group, including the Executive Board which meets on a monthly basis to discharge its responsibilities.

Remuneration Committee

Chair: **Mike Parsons**

Responsible for designing and implementing the Group's overall remuneration strategy and policy and for determining the levels of remuneration of the members of the Board and other senior management of the Group.

See pages 102 to 125 for the Remuneration Committee report.

Transformation Committee

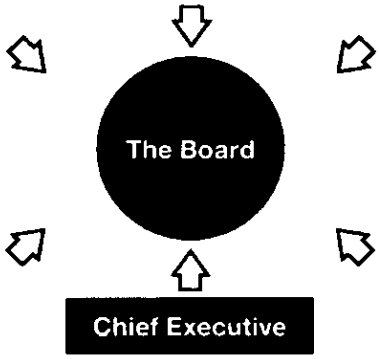
Chair: **John Tonkiss**

Responsible for the transformation of the business from a housebuilder to a developer, manager and owner of retirement communities, with a new, immediate focus on ROCE rather than growth and focus on three pillars of flexibility, affordability and choice for our customers. For further details about the new Group strategy and transformation approach and timeline, please refer to pages 10 to 15.

Disclosure Committee

Chair: **John Tonkiss**

Responsible for timely and accurate disclosure of all information required to be disclosed to meet the Group's legal and regulatory obligations.



Risk and Audit Committee

Chair: **Frank Nelson**

Responsible for monitoring the integrity of the Group's financial statements and the effectiveness of the internal audit function, internal controls, risk management, whistleblowing and fraud systems in place within the Group. It also reviews the effectiveness of the external auditor and the Group's procedures for the identification, assessment and reporting of risks.

See pages 96 to 101 for the Risk and Audit Committee report.

Nomination Committee

Chair: **Paul Lester, CBE**

Assists the Board in reviewing the structure, size and composition of the Board and has responsibility for making recommendations to the Board in respect of appointments to the Board and to the Committees of the Board. It is also responsible for reviewing succession plans for the Board and senior management of the Group.

See pages 92 to 95 for the Nomination Committee report.

Executive Board

Chair: **John Tonkiss**

The Executive Board supports the CEO in implementing Group Strategy and in the management of the day-to-day activities of the Group.

Group Investment Committee

Chair: **Gary Day**

Responsible for reviewing and approving all land acquisitions. Major investment decisions and acquisitions not in the ordinary course of business, or above a certain value, are referred to the Board in accordance with the schedule of matters reserved for determination by the Board.

Health and Safety Committee

Chair: **Darren Humphreys**

Develops the health and safety strategy and ensures that health and safety policies and procedures are adequately implemented and adhered to throughout the Group. Monitors the effectiveness of the Group's health and safety systems and keeps abreast of changes in legislation surrounding health and safety.

Corporate and Social Responsibility Committee

Chair: **Gary Day**

Responsible for making recommendations regarding the Group's employees, environmental and community engagement responsibilities and its sustainability activities. It also reviews health and safety arrangements and makes any recommendations necessary to the Health and Safety Committee.

Corporate Governance Statement *continued*

Compliance statement

Throughout FY18 and to the date of this report the Company has applied the principles and complied with the provisions set out in the UK Corporate Governance Code as revised in April 2016 (the 'Code'). The Code is issued by the FRC and is available for review on the FRC website: **www.frc.org.uk**

The Board considers that this Annual Report, notably this section and the Board committee sections, provides the information shareholders need to evaluate how we have complied with our current obligations under the Code.

The information required by paragraph 13(a), (c), (d), (g), (h) and (i) of schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) is contained in the Directors' Report and included in this statement for cross reference.

Leadership roles and division of responsibilities

Chairman

- Leadership of the Board
- Leading the Board in setting the strategic direction and objectives of the Group
- Leading constructive challenge of the Executive Directors
- Ensuring the Board determines the nature and extent of the Group risk appetite
- Promoting high standards of corporate governance
- Setting the Board agenda
- Facilitates constructive relations between Executive and Non-Executive Directors

Chief Financial Officer

- Provides strategic and financial guidance to ensure the Group's financial commitments are met
- Responsible for the Group's financial, accounting and operational records and systems
- Devises the financial and tax strategies of the Group in line with the agreed risk appetite
- Responsible for producing and delivering the Group budget

Senior Independent Director

- Leads the appraisal of the Chairman's performance
- Supports and deputises for the Chairman and is available to communicate with shareholders in the Chairman's absence

Group General Counsel and Company Secretary

- Advises the Board on matters of corporate governance
- Responsible for ensuring that Board procedures are followed
- Responsible for ensuring that applicable rules and regulations are complied with
- The principal point of contact for investors on matters of corporate governance

Chief Executive Officer

- Overall responsibility for management of the operational activities of the Group
- Development and innovation of the Group's strategy
- Implements the strategies and objectives agreed by the Board to deliver operational performance and success
- Ensures effective communication with shareholders, employees and other stakeholders, in order to understand their issues and concerns, and communicate issues to the Board

Non-Executive Directors

- Review proposals put forward by the Executive Board
- Bring external perspective and independent challenge to the Board
- Monitor Group performance and delivery of the Group strategy

Executive Board

- Supports the CEO in implementing Group strategy
- Supports the CEO in management of the operational activities and performance of the Group
- Oversees employee communication and development of talent

In line with the Code there is a clear division of responsibilities between the Chairman and the Chief Executive Officer, which is set out in writing and has been agreed by the Board.

Graphic removed

Patrick Hole Group General Counsel and 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 private practice for many years and also has a broad range of legal and company secretarial in-house experience.

Committees
Member of the Disclosure Committee.

The Board's Role

The Board is responsible for operational control of the Group, including all strategic, financial, organisational, legal and regulatory matters. Some of the principal responsibilities set out in the schedule of matters reserved for determination by 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
- Approval of major land acquisitions
- Ensuring that a robust risk and control framework is maintained
- Approval of shareholder communications

The types of decisions delegated to management relate to the day-to-day running of the business and execution of the Group strategy. During the year a comprehensive review of the Group's delegated authorities was undertaken designed to ensure clear lines of delegated authority to management and that management act within the appropriate control framework. These delegations of authority will be kept under review to reflect any changes arising from the implementation of the Group's new strategy.

Summary of Board activities and priorities in FY18

The Board provides clear, entrepreneurial and responsible leadership to the Group in order to promote its long-term success whilst ensuring that the Group has an appropriate risk and control framework, adequate resources and appropriate values and standards to deliver its strategy. Specifically, the agenda cycle makes provision for updates on the key areas of the Group's business, including sales and marketing, management services, land and planning, health and safety, IT and HR. The majority of the Board's time in the second half of the year has been focussed on the formulation of the new Group strategy announced to the market on 25 September 2018. Set out below is a summary of key activities covered during the course of the FY18 annual Board cycle:

Strategy

- Formulation of the Group's new strategy
- Determining the Group's approach to the proposed government reform of leasehold and ground rents
- Oversight and approval of strategic land acquisitions

Appointments, succession planning and remuneration

- Chairman, CEO and Non-Executive Director appointments
- Exit terms for Clive Fenton
- Board succession planning
- Salary and incentives for the Board and senior management

Governance and risk management

- Review of health and safety compliance
- Approval of Modern Slavery Act statement
- Review of Board evaluation outputs
- *Review of principal risks*
- Review of effectiveness of the external auditor and approval of new external auditor for FY19

Financial performance

- Review and approval of the half year and year end results
- Review and approval of the annual budget
- Approval of the Annual Report
- Review of going concern and viability status
- Approval of interim dividend and recommendation of final dividend

Meetings and attendance

During FY18 there were nine formal Board meetings. There were also a number of additional meetings as part of the development of the Group's new strategy. All Directors who were eligible to attend attended those meetings. The Directors' attendance at the Board meetings, as well as the meetings of the three main Board Committees are shown in the table below:

Director	Board	Risk and Audit Committee	Remuneration Committee	Nomination Committee
Board meeting attendance[1]	**9**	**4**	**4**	**4**
Paul Lester, CBE[2]	7/7	n/a	3/3	2/2
John White[3]	3/3	n/a	1/1	2/2
Clive Fenton[4]	9/9	n/a	n/a	4/4
John Tonkiss	9/9	n/a	n/a	n/a
Rowan Baker	9/9	n/a	n/a	n/a
Geeta Nanda, OBE	9/9	4/4	4/4	4/4
Frank Nelson	9/9	4/4	4/4	4/4
Mike Parsons	9/9	4/4	4/4	4/4
John Carter[5]	7/8	n/a	3/3	n/a
Arun Nagwaney[6]	4/4	n/a	n/a	1/1

Notes:

1 Meetings attended/total number of meetings eligible to attend. Only attendance of formal members of the meetings is included.

2 Paul Lester, CBE was appointed to the Board with effect from 3 January 2018.

3 John White resigned from the Board with effect from 24 January 2018.

4 Clive Fenton resigned from the Board with effect from 31 August 2018.

5 John Carter was appointed to the Board with effect from 1 October 2017.

6 Arun Nagwaney was appointed to the Board with effect from 17 May 2018.

Board Committees

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 complies with the requirements of the Code and the terms of reference of the Committees are included on our corporate website: **www.mccarthyandstonegroup.co.uk/about-us/corporate-governance**. Details of the Committees and their activities during the year are set out in the separate Committee reports on pages 92 to 125, which are incorporated into the Corporate Governance Statement by reference.

Other Boards and Committees

Executive Board

The role of the Executive Board is to support the CEO in implementing the Group's strategy and to manage the day-to-day operations of the business. As part of the on-going governance improvements within the Group, the membership of the Executive Board has been expanded to include the Chief Information Officer, the Managing Director for Management Services, the Group Production Director and the Divisional Managing Directors. These additional appointments are intended to improve accountability and responsibility across the business, ensuring it is well-placed to deliver the new Group strategy. The Executive Board now consists of the following members:

- Chief Executive Officer
- Chief Financial Officer
- Group Marketing and Customer Experience Director
- Land and Planning Director
- Group General Counsel and Company Secretary
- Human Resources Director
- Director of Communications
- Chief Information Officer
- Divisional Managing Director, South
- Divisional Managing Director, North
- Managing Director for Management Services
- Group Production Director

Group Investment Committee

Decisions on investments and development activities are made by the Group Investment Committee ('GIC') which meets weekly and is chaired by the Land and Planning Director, with major investment decisions being referred to the Board for final approval, in line with the matters reserved for determination by the Board. Given the importance of this Committee to the Group's business activities, the GIC membership was enhanced during the year to include the Group Sales and Marketing Director, Group Production Director and Divisional Managing Directors.

Health and Safety Committee

Responsible for all aspects of health and safety across the Group including relevant policies and procedures and regulatory compliance. Members of the Committee include representatives from Health and Safety, Production, Legal, HR, Marketing and Management Services and is chaired by the Group Production Director.

Disclosure Committee

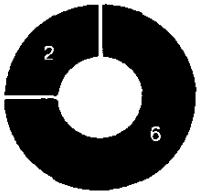
The Board has established a Disclosure Committee with its principal responsibility being the control and management of inside information within the Group. The Disclosure Committee meets as required and met once during the year to discuss entering into a Relationship Agreement on 16 May 2018 with Anchorage Capital Group, LLC ("Anchorage Capital Group") and certain funds managed and advised by Anchorage Capital Group (collectively the "Anchorage Funds", and together with Anchorage Capital Group, "Anchorage") and the appointment of Arun Nagwaney under the terms of that Relationship Agreement. The members of the Disclosure Committee are:

- Chief Executive Officer
- Chief Financial Officer
- Group General Counsel and Company Secretary
- Director of Communications

Board Composition and appointments

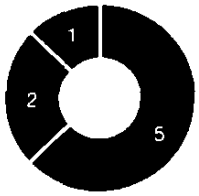
The Company considers there to be an appropriate combination of Executive and Non-Executive Directors, with independent Non-Executive Directors comprising at least half of the Board (excluding the Chairman). The Board currently comprises a Non-Executive Chairman (who was independent on appointment), two Executive Directors, four independent Non-Executive Directors and one other Non-Executive Director who is not independent. The Board has delegated responsibility to the Nomination Committee, to lead the process of selecting new Directors before making recommendations to the Board. The Nomination Committee report can be found on pages 92 to 95. The Directors' service contracts and letters of appointment set out the time commitment expected to fulfil their role. The Board is satisfied that each of the Directors has committed sufficient time and input during the year to enable them to fulfil their duties as evidenced by the high attendance at Board and Committee meetings throughout the year.

Board Diversity



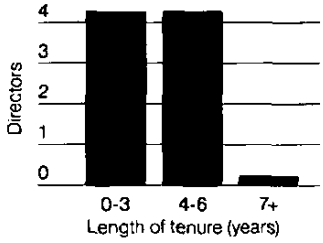
- Male
- Female

Board Composition



- Independent Non-Executive
- Executive Director
- Nominee Director

Board Tenure



Conflicts of interest and independence

No individual or group of individuals dominates the Board's decision-making process. The Board has established a process to review and, if appropriate, authorise any conflict of interest. Directors are excluded from voting on any matters in which they have an interest. During the year the Board authorised the situational conflict of Arun Nagwaney as the Nominee Director under the Relationship Agreement. Under the provisions of the UK Corporate Governance Code, Arun Nagwaney is not considered to be an Independent Non-Executive Director. Any transactional conflicts are reviewed as they arise and there is a standing item at all meetings to review any potential conflict of interest.

At its meeting in November 2017, the Nomination Committee considered the independence and potential conflicts of interest regarding John Carter in his role as chief executive officer of Travis Perkins plc and Paul Lester in his role as chairman of Forterra plc. On recommendation from the Nomination Committee, the Board concluded that both John Carter and Paul Lester are independent notwithstanding their directorships of Travis Perkins and Forterra, both suppliers to the Group, as the level of business between the Group and those companies was not deemed to be material. Relevant safeguards have been put in place to ensure that neither of them will influence any consideration of such business. Paul Lester has confirmed that he will be retiring from the Board of Forterra following its AGM in May 2019.

For the purposes of the Code, the Board considers Frank Nelson, Mike Parsons, Geeta Nanda and John Carter all to be Independent Non-Executive Directors.

Induction, development and support

On joining the Board, each Director is provided with a personalised induction to the business, in order to provide a broader understanding of the business, including meetings with senior management and visits to some of the Group's developments. To assist the Directors in their ongoing understanding of the Group, Board meetings are held at different regional offices throughout the year to provide an opportunity for the Directors to meet local management. They are also provided with access to a detailed information pack covering Group policies, directors' duties and responsibilities as well as other key governance documents, which they can access through an online Board reporting portal. John Carter, Paul Lester and Arun Nagwaney, who were all appointed during the year, have received an induction to the business in line with the above.

All Directors are encouraged to undertake additional training where it is considered appropriate for them to do so. Papers are circulated in a timely manner to enable the Directors to undertake full and detailed consideration of agenda items in advance of meetings. Each of the Directors has access to the services of the Group General Counsel and Company Secretary and independent external legal and professional advice can also be taken when it is necessary to do so.

Board evaluation

An evaluation of the performance of the Board, its members and Committees was externally facilitated in FY18. The Nomination Committee led the process and the findings are included in the Nomination Committee report on pages 92 to 95.

Risk management and internal controls

The Board is responsible for the Group's system of internal controls, which are designed to manage the business risks faced by the Group, and for reviewing the effectiveness of those controls. The Risk and Audit Committee, together with the internal audit function, has identified the principal risks facing the Group and has established a framework and systems for evaluating and managing those risks. The framework and systems have been in place for the whole of the year under review and up to the date of this report. Details of risk management and the principal risks facing the Group are set out on pages 72 to 77. Further information can also be found in the Risk and Audit Committee report on pages 95 to 101.

Relations with shareholders

The Chairman and the Board are committed to open and transparent dialogue with shareholders. Shareholder contact facilitated by the Executive Directors is communicated back to the other Directors primarily through CFO reports to the Board and copies of analysts' research reports. The Chairman, CEO and CFO play an active role in relations with shareholders and have held discussions with a number of the Group's shareholders during the year. In addition, a number of meetings and presentations were held with the Group's largest shareholders as part of discussions surrounding the Group's new strategy.

The AGM provides an opportunity for the Chairman to explain the Group's progress and, along with other members of the Board, to answer any questions raised by shareholders. All of the Directors, who were members of the Board at that time, attended the AGM on 24 January 2018.

On behalf of the Board

Paul Lester, CBE
Non-Executive Chairman
12 November 2018

Nomination Committee Report

Graphic removed

Paul Lester, **CBE** Nomination Committee Chairman

"I am pleased to present the report of the Nomination Committee for the year describing the principal activities of the Committee during the period."

Maintaining the right balance of skills and knowledge is key to achieving the Group's strategic objectives. During the year the main focus of the Committee was securing the appointment of a new Chairman and a new Chief Executive Officer for the Group following the departures of John White and Clive Fenton.

The Committee also facilitated an external evaluation of the performance of the Board and its Committees and each of the Directors as required by the provisions of the UK Corporate Governance Code.

Membership and attendance

FY18 has been a busy period for the Committee with four formal meetings held. The members of the Committee and their attendance during FY18 are shown below.

Director	Nomination Committee Attendance
Paul Lester, CBE[1]	2/2
John White[2]	2/2
Clive Fenton[3]	4/4
Frank Nelson	4/4
Geeta Nanda, OBE	4/4
Mike Parsons	4/4
Arun Nagwaney[4]	1/1

The Senior Independent Director, Frank Nelson, is a member of the Committee as are Geeta Nanda and Mike Parsons, both independent Non-Executive Directors. Arun Nagwaney, the Nominee Director under the terms of the Relationship Agreement with Anchorage, is also a member of the Committee. After John White stepped down from the Board and Committee, Paul Lester was appointed as Chairman of the Committee. Career profiles of the current Committee members can be found in the Board of Directors section on pages 80 to 83.

Summary of key activities during FY18

- Securing the appointment of Paul Lester as the new Chairman of the Group following the departure of John White
- Facilitating the external evaluation of the performance of the Board and the Board Committees and the Directors
- Securing the appointment of John Tonkiss as the new Chief Executive Officer of the Group following the departure of Clive Fenton
- Recruitment of John Carter as an additional Non-Executive Director

1 *Paul Lester, CBE was appointed to the Nomination Committee with effect from 26 February 2018*

2 *John White resigned from the Board and Nomination Committee with effect from 24 January 2018*

3 *Clive Fenton resigned from the Board and Nomination Committee with effect from 31 August 2018*

4 *Arun Nagwaney was appointed to the Nomination Committee with effect from 17 May 2018*

Responsibilities

The key responsibilities of the Committee are set out in its written terms of reference which are available under the Corporate Governance section on the Company's corporate website: **www.mccarthyandstonegroup.co.uk/about-us/corporate-governance** and include:

- Reviewing the structure, size and composition of the Board and its Committees
- Ensuring that the skills and experience of the Board remain appropriate and balanced
- Recommending appointments and re-elections to the Board and Committees
- Succession planning for the Directors and the Group's senior leadership team
- Responsibility for the annual Board evaluation process

Succession planning

Succession planning for a new Chairman, CEO and Non-Executive Director was the principal focus of the Committee's four formal meetings. Disclosures on the recruitment process for John Carter's appointment can be found in the FY17 Annual Report. The Committee has also overseen some of the on-going work in relation to developing the pipeline of talent and ensuring that effective succession plans are in place for those in leadership roles below Executive Director level, including the development of the 'Future Leaders Programme' for potential future senior leaders of the business.

Chairman succession

The Company announced in November 2017 that, having served as Non-Executive Chairman since 2013, John White would step down from the Board following the conclusion of the Company's AGM on 24 January 2018. Korn Ferry, an independent external search firm, were retained to conduct the search process to find a successor. To assist with the process, a detailed role profile for the position of Chairman was produced, taking into account the knowledge, experience, skills and time commitment required for the role. Both internal and external candidates were considered as part of the process.

Shortlisted candidates were interviewed by John White and Mike Parsons and the Committee held two formal meetings in September and November 2017 to discuss the recruitment process. At the November meeting the Committee considered the suitability of each of the candidates in detail, taking into account their experience and bandwidth for the role and the balance of skills, experience and knowledge that they would bring to the role.

Chairman succession continued

The Committee concluded that Paul Lester was the most compelling candidate for the role. The Committee carefully considered Paul's other commitments and external appointments when making their recommendation. Paul has confirmed that he will be stepping down from the board of Forterra plc at the conclusion of its next AGM in May 2019. The Board formally approved Paul's appointment at its meeting held on 8 November 2017 and he assumed the role of Chairman following the conclusion of the Company's AGM on 24 January 2018.

Chief Executive Officer succession

In June 2018, Clive Fenton indicated his wish to retire from the Board and his role as CEO with effect from the end of FY18. While a search was carried out for a successor, John Tonkiss was appointed interim CEO. The Chairman also undertook a more active role with the Executive Board to develop the new strategy for the Group during the interim period.

The Committee engaged Korn Ferry to conduct the search process with a remit to identify both internal and external candidates for the role.

After an extensive search process, Korn Ferry presented a longlist of candidates for consideration by the Committee. A shortlist of candidates was identified by the Committee and Korn Ferry were asked to approach them and assess their suitability and interest for the role. Relevant candidates, which included John Tonkiss, were then interviewed by the Chairman and Arun Nagwaney, who then provided feedback to the Committee. After careful consideration, the Committee recommended that John Tonkiss be appointed to the role. In making their recommendation, the Committee considered John Tonkiss' performance as interim CEO to be an important factor. The Board met on 24 September 2018 to review the recommendation of the Committee and unanimously approved the appointment and internal and external announcements were subsequently made on 25 September 2018.

Diversity

It is in the best interests of the Group and shareholders to establish a cohesive and representative Board with differing backgrounds, viewpoints and approaches. The Board recognises the importance of diversity and the benefits this can bring.

Accordingly, the Committee considers carefully in relation to all appointments to the Board and Committees, the benefits of greater diversity, whilst also ensuring that it fulfils its obligations to shareholders and the Company to recruit the best candidate for the role, on merit. To this end, appointments are not prescriptive to any criteria which do not relate directly to the ability to perform the role.

Taking account of the changes in Board membership during the year, the female representation on the Board at the date of this report is 25% with one independent Non-Executive Director and one Executive Director being female. Diversity is also monitored across the Group including in relation to gender and age, details of which can be found on page 31.

The female representation on the Board at the date of this report is 25% with one independent Non-Executive Director and one Executive Director being female.

Board evaluation process and results

An annual evaluation of performance and effectiveness of the Board and the Board Committees and the Directors is undertaken each year. In line with the requirement of the UK Corporate Governance Code for an external evaluation to take place every three years, the performance evaluation for FY18 was facilitated by an external independent facilitator, MWM Consulting, with input from the Chairman and the Group General Counsel and Company Secretary. The review process involved completion of a questionnaire which focused on the effectiveness of the Board and the Board Committees in terms of structure, organisation, reporting, strategy and communications as well as individual discussions between each Board member and representatives from MWM Consulting. A report on the findings from the evaluation of the Board and its Committees was prepared by MWM Consulting and shared with each of the members of the Board for review and discussion respectively.

The Chairman will also meet with each of the members of the Board to discuss the results.

The Senior Independent Director was responsible for appraising the Chairman's performance.

The findings from the evaluation demonstrate that overall, the Board is an aligned and well-managed team with good dynamics, that provides effective governance of the business. The overall calibre of the Board is seen as adequate with the core capabilities of financial and business expertise, understanding investors' needs and business leadership.

The evaluation highlighted the need for continued review and challenge of the Group's financial performance and implementation of the Group's new strategy.

> The findings from the survey demonstrate that overall, the Board is an aligned, well-managed team with good dynamics, that provides effective governance of the business.

The quality and timely reporting of information to the Board was also identified as an area for improvement and the Group has engaged an external consultant to assist in improving the governance around meeting support, including the quality of reports to the Board, which will be monitored and progressed during FY19.

FY17 Evaluation

One of the areas highlighted from last year's evaluation results was improvement in communication between regional management and the Board. As a result, it was agreed that there should be more Board meetings held in the Group's offices and the Board undertook to hold four such meetings, three in regional offices and one at the Group's head office in Bournemouth. Three meetings were held outside of London during the year. Due to the work of the Board during the year, the remainder of meetings were held in London.

Retirement and re-election of Directors

The Committee considers the performance of each of the Directors standing for re-election at this year's AGM to be fully satisfactory and is of the opinion that they continue to provide invaluable experience, challenge and contribution to the leadership of the Group. Therefore, the Chairman strongly supports their re-election and recommends that shareholders vote in favour of their re-election at the AGM.

Paul Lester, CBE
Nomination Committee Chairman
12 November 2018

Risk and Audit Committee Report

Graphic removed

Frank Nelson Risk and Audit Committee Chairman

"I am pleased to present the FY18 Risk and Audit Committee report. This report describes the Committee's ongoing responsibilities and key activities during the year."

During the year the Risk and Audit Committee has continued to focus significant time and attention on the Group's systems of risk management and internal control, the integrity of financial reporting and the process for the re-tender of the Group's external audit. In this report I describe how the Committee has carried out its responsibilities during the year to ensure we continue to comply with related parts of the UK Corporate Governance Code (the 'Code'), the Listing Rules and other applicable legislation.

Membership and attendance

The members of the Committee and their attendance during FY18 are shown below:

Director	Risk and Audit Committee Attendance
Frank Nelson	4/4
Geeta Nanda, OBE	4/4
Mike Parsons	4/4

There has not been any change to the members of the Committee during the financial year and up to the date of this report. All members of the Committee are Independent Non-Executive Directors and the Board is satisfied that the collective skills and experience of the Committee continue to provide sufficient financial, commercial and sector-related expertise to meet the needs of the Group and requirements of the Code.

Profiles of the Committee members can be found in the Board of Directors section on pages 80 to 83.

In accordance with the Committee's terms of reference, meetings can also be attended by other Directors and members of the internal audit and external audit teams, when deemed appropriate. The Chairman, CEO and CFO attended all four meetings during the year. The Director of Risk and Internal Audit, the Group Financial Controller and the external audit partner attended three meetings during the year. The members of the Committee met with the external auditor without Executive Directors or management present at its November 2017 and April 2018 meetings.

Key responsibilities

The key responsibilities of the Committee are set out in the Committee's written terms of reference which can be found under the Corporate Governance section of the corporate website: **www.mccarthyandstonegroup.co.uk/about-us/corporate-governance**. These include:

- Monitoring the integrity of the financial statements and any other formal announcements relating to the Group's financial position and performance
- Assessing whether management has made appropriate estimates and judgements and providing advice to the Board on whether the Annual Report is fair, balanced and understandable
- Keeping under review, and monitoring the effectiveness of, the Group's internal management and risk controls systems
- Ensuring compliance with the policy on the supply of non-audit services by the external auditor
- Monitoring and reviewing the effectiveness of the risk and internal audit function
- Monitoring and reviewing the effectiveness of the services of the external auditor, including negotiation of the audit fee
- Reviewing the adequacy and security of the Group's procedures on whistleblowing, anti-bribery and corruption and anti-money laundering

The Committee reviewed its terms of reference at each of its meetings during the year and concluded that no changes were required.

Summary of key activities during FY18

There were four Committee meetings during the financial year, organised to coincide with the annual audit cycle and the external audit tender timetable.

Summary of key activities during FY18 included:

- Review of the independence and objectivity of the external auditors
- Review of the integrity of the financial statements and associated disclosures at half year and full year
- Assessment of whether the Annual Report, taken as a whole, is fair, balanced and understandable. The resulting Directors' Responsibilities Statement can be found on pages 132 and 133
- Conducted a formal competitive tendering process for the Group's statutory audit and agreed the external audit fee
- Review of the results of the internal and external audits and continued to monitor the timely implementation of any recommended actions
- Responding to a letter from the conduct committee of the Financial Reporting Council relating to certain disclosures made in the Group's FY17 Annual Report
- Assessment of the Group's goodwill for impairment, going concern status and medium to longer-term viability following the launch of the Group's new strategy. The Viability statement can be found on page 73
- Review of reports on the internal audit programme and findings of internal audits carried out during the year
- Monitoring the General Data Protection Regulation ('GDPR') implementation plan to ensure compliance with GDPR in time for May 2018
- Review of and approval of the annual internal audit plan
- Undertaking the annual review of the effectiveness of the Group's systems of internal controls

Risk and Audit Committee Report *continued*

Evaluation of the Committee

An external evaluation led by MWM Consulting was used during the year to assess the Committee's performance, taking into account its collective skills and experience, the work of the Committee during the year and the effectiveness of its actions in maintaining the Group's risk management process. The Board has reviewed the evaluation findings and concluded that the Committee has operated effectively.

During FY19 the Committee will remain focused on the areas of activity outlined as its key responsibilities with particular focus on monitoring the Group's principal risks, including, amongst others, those relating to the delivery of the Group's new strategy, and the effectiveness of the external audit with the new auditors.

Whistleblowing, fraud and anti-bribery and corruption

During the year, the Committee received regular updates from the Group General Counsel and Company Secretary on compliance with the Group's policies relating to whistleblowing, anti-bribery and corruption, fraud and anti-money laundering. In addition, the Committee reviewed and approved the Group's revised Conflicts of Interest Policy.

Significant financial reporting issues

The Committee is responsible for reviewing whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements in the preparation of the financial statements. The table below sets out the significant financial reporting issues, judgements and areas of estimation uncertainty that the Committee has reviewed during the year and how these were addressed. The associated accounting policies are set out on pages 152 to 157.

Carrying value of goodwill	The Committee considered the basis for goodwill impairment review which was performed by management at 31 August 2018. The review compared the value in use of the business with the carrying value of the tangible and intangible assets and goodwill included a number of judgements around the estimation of future cash flows and the determination of a suitable discount rate to calculate the present value of these cash flows. The value in use was determined by discounting the future cash flows based on the new Group strategy launched in September 2018. These cash flows have been overlaid with several reasonably possible downside scenarios reflecting sensitivities on pricing, volumes, discount rate, delivery of the new Group strategy and the outcome of ground rents legislation. The discount rate used was based on the capital structure of the business, current market assessments of the time value of money and risks attributable to the Group's sector. The Committee agreed with the estimates made by management and concluded that the carrying value of goodwill remains appropriate.
Shared equity receivables	The Committee reviewed the accounting treatment of future receivables 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.

FRC review of FY17 Annual Report and Accounts

In June 2018 the Conduct Committee of the Financial Reporting Council wrote to the Group's Chairman requesting additional information in relation to our FY17 Annual Report.

Prior year comparatives have been restated whereby the repayment of £11.3m of promissory notes, which are classified as borrowings in the balance sheet, has been reclassified. Previously the repayment was classified as an operating cash flow. The restatement arose following an enquiry by the Financial Reporting Council as a result of which the Group concluded that, in order to comply with IAS 7 *'Statement of Cash Flows'*, these movement should be classified as financing activities.

The Group is pleased to report that the Conduct Committee of the Financial Reporting Council were satisfied with the provided responses and confirmed that their review has been closed satisfactorily.

The Group note the inherent limitations of the FRC review. The review conducted by the FRC was based solely on the Group's published Annual Report and does not provide any assurance that the Annual Report is correct in all material respects.

Risk management and internal controls

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 principal risks. The controls and procedures contained within the process are designed to manage, to the extent possible, the risk of failure of the Group to meet its business objectives and, as such, provide reasonable but not absolute assurance against material misstatement or loss. Details of how the Group manages its principal risks are set out on pages 72 and 77.

The Board, on the recommendation of the Committee, have 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. The Board has approved the statement of the Principal Risks and Uncertainties set out on pages 74 to 77 of this Annual Report.

Internal audit

The risk and internal audit function within the Group is responsible for:

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

The principal risks to the business are formally agreed with the Executive Board twice a year and are approved by the Committee. The principal risks form the basis of the annual internal audit plan.

The Director of Risk and Internal Audit attended three Committee meetings during the year and reported on any changes to the risks faced by the business and any areas for improvement. He also regularly met separately with the Risk and Audit Committee Chairman. Other members of the Committee and the Board also met with the Director of Risk and Internal Audit periodically during the year. At each meeting the Director of Risk and Internal Audit also provided an update covering the internal audit activity and the status of, and time to close, management actions, to support the Committee to form a view on internal audit effectiveness.

The Committee, supported by the Director of Risk and Internal Audit, has continued to make progress during the year in assisting the Board in improving risk management. Key activities undertaken were as follows:

- Agreeing the weighting on the new principal risk relating to the expected govenment decision on banning ground rents and delivering the Group's new strategy
- Updating the weighting on principal risks relating to land acquisition and planning
- Updating the Group's Conflicts of Interest Policy and subsequent roll-out of an e-learning module on the revised policy across the business
- Developing an e-learning module on the General Data Protection Regulation

Based on the activities outlined above the Committee is satisfied that the quality, resources, experience and expertise of the internal audit function are appropriate for the Group.

External auditor

The Committee is responsible for the appointment of the external auditor, its fee and the scope of the annual audit. In the FY17 Annual Report the Committee announced that a competitive tender process for the Group's statutory auditor would be initiated prior to the end of 2018. In February 2018 the Committee invited four firms, including the Group's incumbent statutory auditor, Deloitte LLP, to compete for the provision of external audit services. The tender process was planned in a way that ensured all firms had fair and equal access to information to allow them to fully understand the requirements of the audit tender. Once each firm had confirmed their independence and their acceptance to participate in the tender process they were invited to attend meetings with the Risk and Audit Committee Chairman, CEO, CFO, and other relevant members of the senior management team. Following these initial meetings, the firms then met with Committee members. Subsequently, the Committee made the recommendation to the Board that Ernst & Young LLP, led by the firm's audit partner, Peter McIver, should be appointed as the Group's statutory auditor for the period ending 31 October 2019.

The Committee made the recommendation to the Board that Ernst & Young LLP, led by the firms audit partner, Peter McIver, should be appointed as the Group's statutory auditor.

In making their recommendation to the Board the Committee considered Ernst & Young LLP to offer the most professional and competitively priced services, as well as the most detailed and pragmatic approach to transition from the incumbent auditor. The Committee's recommendation to the Board was made objectively free from the influence of any third party and no contractual term of the kind referred to in Article 16(6) of Regulation (537/2014) has been imposed. At its meeting in June 2018 the Board approved the appointment of Ernst & Young LLP as the Group's statutory auditor with effect from FY19. Following the tender of the external audit, as detailed above, Ernst & Young LLP will be put forward for appointment at the AGM on 23 January 2019.

Risk and Audit Committee Report *continued*

Auditor independence and performance

The performance and effectiveness of the auditor and the work it performs are reviewed annually following completion of the external audit. Deloitte LLP is 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.

The Committee assessed the performance of the external auditor and the effectiveness of the external audit for FY18. In coming to its conclusion, the Committee reviewed amongst other matters:

- Feedback on the effectiveness and performance of the external audit from the 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 FY18
- 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 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, professionally and independently. Deloitte LLP's performance as auditor to the Group during FY18 was therefore considered to be satisfactory.

The 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, professionally and independently.

The Group 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

The Committee is aware of the need to ensure that the external auditors remain independent of the Group and the Committee carries out an annual review on the independence of the external auditor. The external auditor is appointed to provide audit and audit-related services, including the annual audit of the Group, the Company and the non-dormant subsidiary financial statements as well as the half year review. It is the Group's practice, whenever possible, to put non-audit work out to tender. The Board only appoint the external auditor to provide non-audit services if they are satisfied that the auditor's objectivity and independence have not been compromised.

A policy on non-audit services has been approved by the Committee and incorporates 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 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. In addition, the Committee considers and approves all the fees that the Group pays for non-audit services from the external auditor.

Audit fees were payable to Deloitte in FY18 in respect of the year end audit and statutory audit of subsidiaries. Audit-related assurance fees were payable to Deloitte in FY18 in respect of the interim review. There were no other non-audit fees payable to Deloitte during the year.

A summary of all fees is detailed in note 5 to the financial statements.

Frank Nelson
Risk and Audit Committee Chairman
12 November 2018

Directors' Remuneration Report

Remuneration Committee Chairman's Annual Statement

Graphic removed

Mike Parsons Remuneration Committee Chairman

Dear Shareholder,

Year of change for McCarthy & Stone

Adapting the business in the challenging market environment

Since the Company's IPO in November 2015, the business has faced a number of market headwinds including political uncertainty following the outcome of the vote to leave the European Union and a lack of Government support for the retirement housebuilding sector. These headwinds have resulted in a challenging economic backdrop, lowering consumer confidence and consequently reducing volumes in the secondary housing market with UK housing transactions showing a decline of c.40% since 2015.

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The Board announced earlier this year that it would be undertaking a strategic review and announced on 25 September 2018 the results of that review which will position the business to succeed in this more challenging market environment.

Key highlights of the transformation

- Shift in business mindset from growth to increasing ROCE and margins
- Realigning the workflow and rightsizing the operational cost base to deliver steady state volumes of c.2,100
- Change of year end to 31 October to decouple from peak holiday season
- Focus on two core products, Retirement Living and Retirement Living PLUS
- Improved offering through increasing affordability, flexibility and choice for our customers

Optimising the Company's operations for strong financial performance across four fundamental pillars:

- Workflow realignment - generating a stable monthly flow of land exchanges, build starts, sales releases and first occupations - fundamental to operational efficiency
- Rightsizing the business - rightsizing the operational cost base to reflect steady state volumes
- Efficient sales and marketing model - a reorganisation of the sales teams and a centralised approach to the Group's marketing function
- Build cost reduction - utilising standard, more efficient designs and optimising subcontract procurement practices

We believe the Group is operating in a market with significant demographic opportunities and our strong operational capability coupled with achieving efficiency in the areas outlined above will lead to generating value for our shareholders.

Board changes

During FY18, the Board has undergone several changes. The Group Chairman, John White, stepped down from the Board following our AGM on 24 January 2018 and was replaced by Paul Lester. The Board would like to thank John for his contributions in overseeing a transformational period for the Company culminating in its successful IPO in 2015. We welcome and look forward to working with Paul who brings with him a wealth of experience in order to support the Executive Board in delivering the Group's new strategy over the coming years.

Paul's fee for chairmanship of the Company is £230,000, in line with that of his predecessor.

The Group CEO, Clive Fenton, retired from the Company on 31 August 2018, stepping down from the Board at the same time. I have worked with Clive since he joined McCarthy & Stone as Group CEO in 2014. Clive successfully steered the Company through its IPO in 2015 and I would like to take this opportunity to thank Clive for his tremendous contribution. Details of Clive's remuneration arrangements on departure are on pages 120 and 121.

It was announced on 25 September 2018 that John Tonkiss was appointed to the role of Group CEO as successor to Clive. John joined McCarthy & Stone in February 2014 as Director of Business Transformation and joined the Board in November 2015. The Board endorses John's appointment as Group CEO and will support him and his team in delivering the new Group strategy.

Major remuneration events during FY18

Determination of the FY18 annual bonus outcome

The FY18 annual bonus was based on profit before tax (70%), cash flow (10%), land exchanges (10%) and customer satisfaction (10%). The Company missed the profit before tax target, therefore this element of the annual bonus will not result in a pay out.

The maximum customer satisfaction element target was met which is a testament to the continued focus on customers throughout the business and to the strength of our brand. We exceeded the bonus target relating to the cash flow element, narrowly missing out on the maximum and the Group missed the land exchanges target.

Based on this performance in the year, the formulaic outcome of the annual bonuses would have delivered bonuses of 29.7% of salary split two-thirds in cash and one-third in shares for John Tonkiss and Rowan Baker (£98.0k and £84.6k respectively). The Committee has, after careful consideration, agreed with John and Rowan that their bonuses will be paid entirely in shares deferred for three years. The rationale for this is:

- As the Company issued a profit warning in June 2018 and the threshold target for the profit before tax element was missed, the Committee felt it was not appropriate to pay cash bonuses
- Awarding the bonus in deferred shares provides further motivation to the Executive Directors to ensure that delivery of the Group's new strategy in the coming years flows through to the Company's share price performance

FY16 LTIP vesting

The performance period for the FY16 LTIP, which was granted in November 2015, ends in November 2018. EPS and ROCE were measured at the financial year end and the threshold target for both of these measures was missed. The TSR performance period concludes in November 2018 and it is anticipated that due to the recent fall in share price, the Company's TSR will be below that of the housebuilder index and therefore we expect nil vesting of the LTIP overall.

In light of the challenges faced by the Company since the grant of the LTIP and the subsequent impact on our share price, the Committee believes it is fair that the LTIP awards do not pay out.

NED and Chairman fees

Having considered the matter carefully, it has been determined that fees for the NEDs and Chairman will remain unchanged for FY19.

Remuneration approach for FY19

Base salaries for FY19

John's salary has been increased from £330,000 to £475,000 to reflect his significant promotion from Chief Operating Officer and the associated increase in scope and accountability. The Committee believes this level of salary reflects the breadth and complexity of his new role as well as John's significant experience. This has also been set below the level of his predecessor's salary of £500,000.

As stated in the 2017 Directors' Remuneration Report, when Rowan Baker was appointed to the Board her salary was set significantly below the market. This was with the intention, that the Committee would keep her package under review and, subject to performance, would award increases in the next few years above that of the all employee population. Rowan has grown to become a fully established and critical member of the management team with an extended remit that now also covers IT, Legal Services and Communication departments. It is on this basis that the Committee has decided to increase her salary from £285,000 to £325,000.

The Committee is mindful of the sensitivity to large increases in base pay levels and considered its proposed approach carefully in the current remuneration environment. The average salary increases across the Group are expected to be 3%, however the Committee believes the FY19 levels are appropriate for the reasons described above. Both Executive Directors have been instrumental in the formulation of the revised Group strategy and are crucial to its delivery and the Committee therefore believes the salary levels are appropriate and in the best interests of the Group.

FY19 annual bonus objectives

In order to ensure alignment to the Group's new strategy, the annual bonus measures and weightings have changed for FY19 and will now be:

- ROCE (25%)
- Operating profit margin (25%)
- Site margin (25%)
- Cash flow (25%)

Whilst operating profit and customer satisfaction have been removed as discrete measures, they will continue to be tested as underpins for any bonus payment to take place. Pay-outs will be subject to a threshold operating profit level below which no bonuses will be paid. Furthermore, bonus pay-outs may be adjusted downwards (but not upwards) in the event of affordability constraints. In addition, the Committee has discretion to pay no bonuses where a customer satisfaction underpin is not met, or where it considers that safety standards have not been adequately satisfied.

Further details of the changes to the annual bonus and the rationale can be found on page 109.

FY19 LTIP

Alongside the review of the annual bonus, the Committee reviewed the effectiveness of the LTIP and was satisfied with the overall structure, particularly following the introduction of the 2 year post-vesting holding period last year.

The Committee also remains of the view that the LTIP should form part of an effective and motivational incentive approach which links the interests of the investors and our Executives. We have therefore reviewed the targets and measures to ensure alignment with the Group's new strategy.

Following consultation with our major shareholders, the Committee decided to remove relative TSR as a LTIP condition and measure EPS and ROCE with equal weighting (50% each) for the FY19 LTIP.

Furthermore, the Committee decided that as a result of the share price performance over the year it was appropriate to reduce the number shares granted under the LTIP to ensure that the Executive Directors do not benefit from the fall in share price. Therefore, rather than receiving the maximum opportunity of 150% of salary, the Executive Directors will receive a reduced number of shares equal to the number of shares granted for the FY18 LTIP adjusted for base salary increases.

Details and the full rationale of the changes to the LTIP can be found on pages 110 and 111.

Pension contributions

The new UK Corporate Governance Code highlighted the importance of Executive pension provision being in line with the wider workforce. With this in mind, pension contributions for the Executive Directors have been reduced from 20% to 15% of salary to reflect emerging best practice.

This represents a reduction in the level of pension benefit for both of the Executive Directors and further reflects the Committee's desire to embrace the Code provisions.

Engagement with our shareholders

The Committee recognises the importance of ongoing dialogue with shareholders on matters of remuneration and consulted with our largest shareholders as well as the main shareholder representative bodies on the implementation of the policy.

Overall, shareholders responded positively to the proposed changes with overwhelming support of the decision to remove TSR as a performance condition from the LTIP. Shareholders recognised that ROCE is the key metric for measuring the success of the Group's new strategy and agreed that the increased weighting of 50% for the FY19 LTIP was appropriate.

In addition, shareholders appreciated the Committee exercising its discretion to reduce the number of shares awarded under the FY19 LTIP, as well as the decision to pay the FY18 bonus entirely in deferred shares for John Tonkiss and Rowan Baker rather than paying a portion in cash. Both decisions were made to ensure that executive pay better reflected the shareholder experience over the year and we are happy that shareholders agreed with this.

A minority of shareholders raised concerns regarding Rowan's base salary increase, given her increase last year. Whilst the Committee is aware of the pressure on executive salary increases in excess of the average employee increase, the Committee balanced this against the focus on gender equality and that after having demonstrated her competence in the role there is no justification for paying her less than her male predecessor. Future rises for Executive Directors and Non-Executive Directors over the policy period will be in line with general employee increases.

The Committee is grateful for the time taken by shareholders to review the proposals and provide meaningful feedback and I would like to thank those who engaged.

New UK Corporate Governance Code

The Committee recognises the significance of the new UK Corporate Governance Code and - whilst the Code does not apply for the Company until FY20 - has taken the following steps to be prepared for the Code and adopt early where possible.

The Company has considered the Code provision for the Board to understand the views of other stakeholders including the workforce. The Company has decided to appoint a designated NED to gather the views of the workforce.

The Committee is working closely with the Company to decide the types of information on which to engage the workforce, how this information will be used in Board discussions and how details of this will be fed back to the workforce.

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
12 November 2018

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 FY18*

At a glance

Introduction

In this section, we report on the remuneration outcomes for FY18, 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 listed 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, which can be found on the Group's website: **www.mccarthyandstonegroup.co.uk**

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 business by delivering a smooth workflow, increasing ROCE and margins
- To deliver long-term sustainable value to shareholders

Strategic priorities

The Group has reviewed its strategy in 2018 and made key changes to the bonus and LTIP metrics for FY19. The key elements of the Group's strategy and how it is linked to the Executive Directors' remuneration are set out in the following table.

		Link to incentives	
Strategic priorities	**Success measurement**	**ABP**	**LTIP**
Aligning our workflow allows us to improve operational efficiency	Improved ROCE	✓	✓
Rightsizing our business allows us to flex resources and align our support functions	Improved margins	✓	✓
Reorganisation of our sales and marketing functions allows us to achieve a more efficient sales and marketing model	Cost savings	✓	✓
	Cash savings	✓	✓
Reducing our build costs allows us to tackle the affordability of our properties	Reducing capital employed	✓	✓

Remuneration priorities	**SIP and SAYE**	**Minimum shareholding**	**ABP**	**LTIP**
To ensure top executives are attracted, retained and motivated to deliver the strategy	✓		✓	✓
To deliver long-term sustainable value to shareholders	✓	✓	✓	✓

FY18 outcomes

The outcomes outlined in this section reflect the remuneration and performance measures and targets in place during FY18 and their level of satisfaction. These were in line with the Remuneration Policy approved in January 2017.

The table below shows the total remuneration paid or payable to each of the Executive Directors in respect of FY18. These include the bonus amounts payable as detailed in the following table.

Total remuneration for our Executive Directors	FY18[1]	FY17
Clive Fenton - CEO	**£804,275**	£753,169
John Tonkiss - COO	**£509,897**	£462,231
Rowan Baker - CFO	**£449,096**	£223,594[2]

1 John Tonkiss' and Rowan Baker's FY18 bonus will be paid entirely in deferred shares. Clive Fenton's FY18 bonus will be paid two-thirds in cash and one-third in deferred shares

2 Rowan Baker became an Executive Director on 6 January 2017 and amounts shown are in respect of her time as an Executive Director

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 FY18 were (a) profit before tax (70%); (b) cash flow (10%); (c) land exchanges (10%); and (d) customer satisfaction (10%).

The table below shows the total bonus payable to each of the Executive Directors in respect of FY18 outcomes.

Annual bonus outcomes for our Executive Directors	FY18[1]	FY17
Clive Fenton - CEO	**£148,500**	£143,412
John Tonkiss - COO	**£98,010**	£88,800
Rowan Baker - CFO	**£84,645**	£29,631[2]

1 John Tonkiss' and Rowan Baker's FY18 bonus will be paid entirely in deferred shares. Clive Fenton's FY18 bonus will be paid two-thirds in cash and one-third in deferred shares

2 Rowan Baker became an Executive Director on 6 January 2017 and amounts shown are in respect of her time as an Executive Director

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, John Tonkiss has significant shareholdings in the Company, providing him 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. During FY18, Clive Fenton met the 200% shareholding requirement. The table below shows their interest in the Company as a percentage of their salary as at 31 August 2018.

	Clive Fenton	John Tonkiss	Rowan Baker
Shareholding requirement	200%	200%	200%
Value of beneficially owned shares	375%	199%	7%
Value of/gain on interests over shares (i.e. unvested/unexercised awards)	275%	263%	172%

The table on page 120 shows the interests of each Executive Director in the shares of the Company at year end.

Implementation of the remuneration policy in FY19

For FY19, the proposed remuneration will be as set out below. This is in accordance with our Remuneration Policy.

Base salary	For FY19, the base salaries for the Executive Directors will be: John Tonkiss £475,000 (44% increase with effect from 25 September 2018) Rowan Baker £325,000 (14% increase with effect from 1 November 2018) On 25 September 2018 it was announced that John Tonkiss was appointed to the role of Chief Executive Officer. His salary was increased from £330,000 to £475,000 to reflect this significant promotion from Chief Operating Officer and the associated increase in scope and accountability. The Committee believes the proposed salary reflects the breadth and complexity of his new role as well as John's significant experience. This has also been set below the level of his predecessor's salary of £500,000. As stated in the Remuneration Committee Chairman's annual statement, Rowan Baker's salary was set below the market on her appointment to the Board with the intention of reviewing her salary on an ongoing basis to ensure that it reflects her performance and growth in the role. Rowan has grown to become a fully established and critical member of the management team with an extended remit that now also covers IT, Legal Services and Communication departments. It is on this basis that the Committee has decided to increase her salary from £285,000 to £325,000. The Committee is mindful of the sensitivity to increases in base pay levels and considered its proposed approach carefully in the current remuneration environment. Both Executives Directors have been instrumental in the formulation of the Group's new strategy and are crucial to its delivery and the Committee therefore believes that the salary levels are appropriate and in the best interests of the business. Clive Fenton retired from the Board on 31 August 2018. Full details of Clive's leaving terms are set out on pages 120 and 121.
Pension	The maximum contribution into the defined contribution plan or a salary supplement in lieu of pension will be 15% of gross base salary, reduced from 20% of gross base salary in previous years.
Benefits	Standard benefits will be provided including private medical insurance, life insurance and a car or car allowance.

Annual bonus plan ('ABP')
Cash and deferred shares

For FY19 the maximum bonus opportunity is 150% of salary.

A number of changes have been made for the FY19 annual bonus in order to create greater alignment with and support delivery of the Group's new strategy. The changes are centred on driving efficiency in the business and adapting to adverse market conditions which are not expected to change in the short-term. Below we explain these changes and the supporting rationale.

The performance conditions and their weightings for the FY19 annual bonus are as follows:

- ROCE (25%)
- Operating profit margin (25%)
- Site margin (25%)
- Cash flow (25%)

1. Introduction of ROCE
   - Improved efficiency is at the core of the Group's new strategy
   - The Group's new strategy is focused on improving the ROCE through the efficient use of limited capital resources
   - The use of ROCE in the annual bonus will help ensure that the business is successful in implementing the strategy in the short-term
2. Introduction of operating profit margin and site margin
   - Both of these measures are aimed at improving our competitiveness and efficiency, including progress towards cost reductions which, as previously explained, are a key part of the Group's new strategy
   - These measures also support the imperative need to drive future profits in a targeted manner
3. Changing how we reward customer satisfaction
   - Customer satisfaction has been a measure against which performance has been strong since the IPO
   - The Committee recognised the continued strategic importance of customer satisfaction, but determined that operating the customer satisfaction metric as an underpin to the bonus was more appropriate at the present time
4. Removal of operating profit as a discrete measure
   - Recognising the continued importance of strong profits, the proposed FY19 annual bonus contains a threshold profit level below which no bonus will be paid and the ability to adjust downward (but not upward) the bonus outcomes if insufficient profit is generated by the business. This ensures that any bonuses will be affordable and self-funding
5. Increased Cash flow weighting
   - Cash flow remains central to our plans and in the short-term we are proposing to increase the weighting on this element from 10% to 25%

The Committee also has the discretion not to pay bonuses where it considers that safety standards have not been adequately satisfied.

Our view is that these changes create an annual bonus structure which more effectively supports the key elements of our Group's new strategy.

One-third of any bonus earned will be in the form of deferred shares, which will be deferred for three years.

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 is 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.

The ABP contains clawback and malus provisions.

Long Term Incentive Plan ('LTIP')

The FY19 LTIP awards are assessed over a three-year performance period. Any vested awards will be subject to a two-year holding period during which Executives cannot sell vested shares other than for tax purposes.

Under the terms of the FY19 LTIP, 25% of the award will vest for achieving threshold performance, 50% will vest for achieving target performance, increasing to 100% for achieving maximum performance. Achievements between these points are calculated on a straight line basis. 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.

In addition to the changes to the LTIP performance metrics (outlined below), the Committee has considered the impact on our shareholders of the share price performance during the year. As a result, the Committee has determined that the number of shares to be awarded to Executives should be reduced to reflect the share price performance since November 2017 when the previous (FY18) LTIP awards were made.

The objective of this exercise of discretion is to avoid Executives benefitting from a fall in the share price by receiving a larger than anticipated number of shares under the LTIP. As such, the number of shares awarded will be in line with those awarded in FY17, adjusted to take account of the base pay levels of the two Executive Directors when the FY19 LTIP awards are made.

The final number of shares will be determined with reference to the share price at grant and the share price when the FY18 awards were granted (£1.635). As an illustration, based on the current share price of £1.400 when this Annual Report was written (7 November 2018), the LTIP awards would be 128.4% of salary rather than 150%.

The FY19 LTIP proposed performance measures, weightings and targets are outlined in the table below alongside those operated in respect of the previous LTIP award in FY18.

Performance measures	FY18 weightings and targets	FY19 weightings and targets
Earnings per Share ('EPS')	Weighting: 37.5% FY20 EPS Threshold: 21.8p Max: 27.8p	Weighting: 50% FY21 EPS Threshold: 11.9p Target: 14.2p Max: 16.6p
Return on Capital Employed ('ROCE')	Weighting: 37.5% Threshold: 20.0% Max: 25.0%	Weighting: 50% Threshold: 14% Target: 17% Max: 20%
Relative Total Shareholder Return ('TSR')	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% / upper quartile of FTSE 250	Removed from the FY19 LTIP

On 25 September 2018, the Group announced it was targeting ROCE of more than 15% in FY21 and more than 20% by FY23. These figures were on the basis that the Group would no longer benefit from ground rents. The government's proposal to award an exemption for retirement housebuilders was welcome, however there is still a degree of uncertainty surrounding the implications of this and the financial impact it could have on the Group.

In this context, the Committee believes that the targets set out above are appropriately calibrated to the Group's new strategy and are sufficiently stretching.

Furthermore, the Committee has chosen to set 'target' ROCE at 17% which is more stretching than the 'straight line' basis calculation ensuring that management are not excessively rewarded for external factors such as the positive impact of the decision on ground rents. The level of stretch in the EPS target range reflects the stretch in the ROCE targets and the Committee considered analyst forecasts as well as the business plan in determining that these targets are appropriate.

Changes to FY19 performance measures and rationale for change:

1. Removal of TSR from the LTIP
   - Following a thorough review, the Committee believes that relative TSR is no longer an appropriate metric for the LTIP
   - A key challenge for the Company was selecting a relevant peer group against which to measure TSR. For the first two LTIP awards (FY16 and FY17) granted since IPO, TSR was measured against a housebuilder index, and for FY18 awards the FTSE 250 was introduced as a second comparator group
   - The introduction of the FTSE 250 peer group sought to recognise that we are not well aligned to the broader housebuilding sector. While the FTSE 250 peer group presented the opportunity to measure against a broader set of companies, the Committee believes that this is not the optimal approach
   - The unique business model which we operate differentiates us from other housebuilders in several areas. Our strategy, including offering customers a choice of tenure approach will, we believe, increase this underlying difference. In addition, whilst Brexit had an impact on all housebuilders' performance, others were in a better position to recover as a result of the Government's Help to Buy scheme which does not benefit the Company
   - As a result of this analysis, the Committee concluded that continuing to operate a relative TSR performance measure significantly reduces the incentive effect of the LTIP and dilutes the linkage to delivery of the revised Group strategy. This approach will apply to the next two LTIP grants and will be reviewed after that
   - As a result of the removal of relative TSR, the remaining metrics (EPS and ROCE) will each receive a 50% weighting in the FY19 LTIP award
2. EPS weighting is now 50% of the LTIP
   - EPS remains important to the Company as a measure of its profitability
   - EPS as a performance measure is motivational for management as they have strong 'line of sight' and a greater influence over the outcome
   - The EPS targets can be derived directly from our business plans over the medium-term
3. ROCE weighting is now 50% of the LTIP
   - As previously described in the context of the annual bonus, improved capital efficiency is a key pillar of the new Group strategy and including this in the LTIP will help drive performance over the long term
   - Coupling ROCE with EPS is an effective way to test the quality of the long-term earnings of the Company
   - Similarly to EPS, the ROCE targets can be derived from our business plans over the medium-term

NED fees

The fees for FY19 for the Non-Executive Director roles are unchanged:

- Chairman: £230,000
- Board fee: £54,600
- SID additional fee: £10,000
- Committee Chairman fee (per committee): £10,000

Fairness, diversity and wider workforce considerations

McCarthy & Stone is committed to creating an inclusive working environment and to rewarding our employees throughout the organisation in a fair manner. Although the new UK Corporate Governance Code does not apply to the Company until FY20, the Remuneration Committee is already taking initial steps to become compliant with the Code.

In making decisions on executive pay, the Remuneration Committee considers wider workforce remuneration and conditions. We believe that employees throughout the Company should be able to share in the success of the Company. We have, since our IPO, operated a Sharesave scheme ('SAYE') and a Share Incentive Plan ('SIP'). Our intention is to continue this and to investigate additional opportunities for employee share ownership going forwards.

As part of our commitment to fairness, we have introduced this section into our remuneration reporting which sets out more information on our wider workforce pay conditions, our change in CEO pay compared with employees' pay changes, our Gender Pay statistics, and our Equality and Diversity policy. Whilst we recognise there is much work still to do, we believe that transparency is an important first step towards making improvements in relation to these important issues.

Area	Considerations
Competitive pay and cascade of incentives	The Committee ensures that pay is fair throughout the Company and makes decisions in relation to the structure of executive pay in the context of the cascade of incentives throughout the business. The Committee's remit extends down to senior executives and senior management for which it recommends and monitors the level and structure of remuneration.

Level	Annual bonus participation	Sharesave / SIP participation	LTIP participation
Executive Directors	✓	✓	✓
Senior executives	✓	✓	✓
Senior managers	✓	✓	
Managers	✓	✓	
Employees	✓	✓	

Statement of considerations of employment conditions elsewhere in the Company

The Remuneration Policy for all employees is determined in line with best practice and aims to ensure that the Company is able to attract and retain the best people. This principle is followed in the development of our Remuneration Policy. The Company's remuneration strategy has been designed to ensure that all employees share in its success through performance-related remuneration and the potential for share ownership. Awards under both the Annual and Deferred Bonus Plan and the Long-Term Incentive Plan will provide alignment between senior leaders and our shareholders based on overall performance of the business.

For all employees, the Company has in place a SAYE and SIP. Currently, under these plans all employees have the opportunity to purchase shares in the Company subject to certain restrictions.

The Company uses a number of remuneration comparison measurements to assess fairness of pay structures across the Group. In setting the remuneration policy for Directors, the pay and conditions of other employees of the Company are taken into account to ensure consistency of approach throughout the Group, including data on the remuneration structure for management level tiers below the Executive Directors, average base salary increases awarded to the overall employee population and the cascade of pay structures throughout the business.

Pay comparisons

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 was a constituent of the FTSE 250 during the financial year, the Committee considers this is an appropriate index. The comparison is from the date of listing on 11 November 2015 to 31 August 2018.

Graphic removed

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 above.

	FY18	FY17	FY16
CEO total single figure	**£804,275**	£753,169	£628,024
Annual bonus payment level achieved (% of maximum opportunity)	**19.8%**	19.7%	10.0%
LTIP vesting level achieved (% of maximum opportunity)[1]	**0%**	-	-

1 *The performance period for the LTIP granted in November 2015 is due to conclude in November 2018. The EPS and ROCE targets were missed resulting in nil vesting for these elements and the estimated vesting of the TSR element is nil. Therefore, the overall vesting is £nil*

Change in Chief Executive Officer's remuneration compared with employees

The following table illustrates the change in CEO salary, benefits and bonus between FY17 and FY18 compared with other employees in the Group taken as a whole.

	% change FY17 to FY18		
	Base salary	Benefits	Annual bonus
Chief Executive Officer	3%	9%	4%
Other Group employees	4%	7%	34%

The annual bonus increase shown for the CEO is largely as a result of the increase in base salary in the year of 3.2%. The increase to the average employee bonus reflects the retentive nature of the bonuses paid to motivate employees as the business implements the new strategy.

Gender pay

The gender pay gap legislation requires all companies with more than 250 employees to report annually on their pay. The McCarthy & Stone Group has three employing entities with more than 250 employees, namely McCarthy & Stone Retirement Lifestyles Limited, McCarthy & Stone Management Services Limited and YourLife Management Services Limited. Our 2017 gender pay gap report is available on our corporate website: **www.mccarthyandstonegroup.co.uk**

As well as the statutory disclosures required for the above three companies, we also published aggregated data across all the Group companies (except YourLife Management Services Limited, which is administered by our joint venture partner, Somerset Care Limited).

The following table shows the mean and median hourly pay gaps as at 5 April 2017 as well as our mean and median bonus gaps (based on bonus and commission rates for the period 6 April 2016 to 5 April 2017). Our mean hourly pay gap of 34.3% and our median hourly pay gap of 37.6% reflects the fact that we have a higher proportion of males in more senior roles, where the pay is higher. However, if each gender were reported equally by job level, our mean hourly pay gap would reduce to 4.6% and our mean bonus gap would become 3.9% in favour of our female employees.

Unlike most of the major housebuilders, the majority of our site-based workers (who are predominantly male) are sub-contractors and are therefore not included in this analysis.

Gender pay gap data

	Mean	Element due to gender mix[1]	Remaining (excluding elements due to gender mix)	Median
Hourly pay	34.3%	29.7%	4.6%	37.6%
Bonus	19.8%	23.7%	(3.9%)[2]	73.5%

1 This is the amount of gender pay gap which is due to there being higher numbers of men or women in a particular job role or job level.

2 This means that if gender mix is removed, women earned more mean bonus and commission than men.

Proportion of male and female employees in each pay quartile

	Percent of male employees	Percent of female employees
Lower quartile	30.0	70.0
Lower middle quartile	40.1	59.9
Upper middle quartile	58.2	41.8
Upper quartile	74.2	25.8

Proportion of male and female employees receiving a bonus

	Percent of male employees	Percent of female employees
Employees who received a bonus or commission in the 12 month period	81.1	77.7

We are confident that our pay and bonus gaps, where they occur, are based on the distribution of men and women across our business and not because of our pay policies, which are robust, fair and consistent. We have an even balance of male and female employees across the business and are taking action to increase the representation of women at senior levels. In the period from January 2016 to February 2018 the proportion of women at Director level increased from 15.3% to 19.8%. Over the same period the proportion of women in senior management roles increased from 17.8% to 21.1%.

We continue to work with the Home Builders Federation and other housebuilders to improve the image of the construction industry in order to attract a more diverse range of candidates.

Diversity

Please refer to the Directors' report on page 129 for details of our Equality and Diversity Policy.

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 FY18 and FY17. Further explanation of each of the elements are set out below and in the following sections of this report:

Name	Period	Base salary	Taxable benefits	Annual Bonus[2]	LTIP[3]	Pension[4]	Other[5]	Total
Clive Fenton	**FY18**	**£497,417**	**£32,913**	**£148,500**	**£0**	**£99,483**	**£25,962**	**£804,275**
	FY17	£482,917	£30,257	£143,412	None	£96,583	0	£753,169
John Tonkiss	**FY18**	**£325,000**	**£29,769**	**£98,010**	**£0**	**£57,118**	**0**	**£509,897**
	FY17	£296,667	£24,626	£88,800	None	£52,138	0	£462,231
Rowan Baker[1]	**FY18**	**£285,000**	**£22,451**	**£84,645**	**£0**	**£57,000**	**0**	**£449,096**
	FY17	£151,641	£6,183	£29,631	None	£36,139	0	£223,594

1 Rowan Baker was appointed to the Board with effect from 6 January 2017. The amounts for FY17 relate only to the period since she joined the Board and do not cover the period from 1 September 2016 to 5 January 2017

2 One-third of the FY17 annual bonus for Clive Fenton and John Tonkiss was in the form of deferred shares. Rowan Baker's bonus for FY17 was all in cash with no deferred shares. For FY18, the annual bonus for John Tonkiss and Rowan Baker will be paid entirely in deferred shares. Clive Fenton's FY18 bonus will be paid two-thirds in cash and one-third in deferred shares. The deferred shares included in the annual bonus figures above are deferred for three years and are not subject to any performance conditions

3 The performance period for the LTIP granted in November 2015 is due to conclude in November 2018. The EPS and ROCE targets were missed resulting in nil vesting for these elements and the estimated vesting of the TSR element is nil. Therefore, the overall estimate vesting is £nil

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

5 Other relates to accrued annual holiday which Clive Fenton did not take prior to retiring from the Company

Base salary

As reported in the FY17 Annual Report, the base salary for the CEO and the COO were increased with effect from 1 November 2017 (Rowan Baker's base salary was increased with effect from 1 September 2017). The table below shows the base salary for each of the Executive Directors during the year.

Executive Director	Position	Period	Salary
Clive Fenton	Chief Executive Officer	1.9.17 - 31.10.17	£484,500
		1.11.17 - 31.8.18	£500,000
John Tonkiss	Chief Operating Officer	1.9.17 - 31.10.17	£300,000
		1.10.17 - 31.8.18	£330,000
Rowan Baker	Chief Financial Officer	1.9.17 - 31.8.18	£285,000

Benefits (audited)

The Executive Directors typically receive private medical insurance, life insurance, company car or cash in lieu of the company car, 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 FY18, the performance conditions and their weightings for awards under the ABP were:

- Profit before tax (70%)
- Full year cash flow (10%)
- Land exchanges (10%)
- Customer satisfaction (10%)

Under the terms of the FY18 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 each Executive Director was 150% of base salary and one-third of any bonus earned was in the form of deferred shares, which is deferred for three years.

The bonus awards payable to the Executive Directors in respect of FY18 were agreed by the Remuneration Committee, having reviewed the Group's results and the extent to which the performance conditions were met. The results are shown in the following table:

		Performance Targets					Annual bonus value achieved		
Performance conditions	Weighting of each condition		Performance targets required	Maximum weighting per target	Actual Performance	Percentage of maximum performance achieved	Clive Fenton	John Tonkiss	Rowan Baker
Profit before tax	70%	Threshold	£107.0m	17.5%	£62.1m	0%	-	-	-
		Target	£114.5m	35%					
		Maximum	£123.0m	70%					
Cash flow	10%	Threshold	£0m	2.5%	£28.3m	98%	£73,500	£48,510	£41,895
		Target	£14.5m	5%					
		Maximum	£29.0m	10%					
Land exchanges	10%	Threshold	2,680	2.5%	2,413	0%	-	-	-
		Target	3,000	5%					
		Maximum	3,320	10%					
Customer satisfaction	10%	Threshold	90%	2.5%	95.5%	100%	£75,000	£49,500	£42,750
		Target	93%	5%					
		Maximum	95%	10%					
Total	100%					19.8%	£148,500	£98,010	£84,645

The formulaic outcome of the annual bonuses would have delivered bonuses of 29.7% of salary split two-thirds in cash and one-third in shares for John Tonkiss and Rowan Baker (£98.0k and £84.6k respectively). As explained in the annual statement, the Committee decided to pay the bonus entirely in shares. The rationale for this decision is:

- As the Company issued a profit warning in June 2018 and the threshold target for the profit before tax element was missed, the Committee felt it was not appropriate to pay cash bonuses
- Awarding the bonus in deferred shares provides further motivation to the Executive Directors to ensure that delivery of the revised strategy in the coming years flows through to the Company's share price performance

As previously communicated in the Section 430(2B) statement made on 25 July 2018, Clive Fenton's bonus will be paid two-thirds in cash and one-third in deferred shares.

LTIP awards vesting

The FY16 LTIP granted on 25 November 2015 is due to vest on 25 November 2018. The performance period for the EPS and ROCE metrics concluded at the year end and the threshold targets were not met. The TSR performance period concludes on 25 November 2018, however, based on performance to date we estimate that there will be no vesting under this element. Hence, the values reported in the single figure table for the award are nil.

The table below summarises the targets and outcomes:

Measure	Weighting	Threshold performance	Maximum performance	Actual performance	Vesting
Cumulative EPS	30%	61.4p	69.8p	36.3p	0%
FY18 ROCE	30%	22%	25%	10%	0%
TSR vs householder index	40%	Equal to index	Index + 7.5% p.a.	Below Index	0%
Total	100%				0%

LTIP awards (audited)

During FY18, LTIP awards of 150% of salary were granted to the Executive Directors. 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') measured against two groups (equally weighted) - the unweighted average TSR of a housebuilder peer index (comprising Barratt, Bovis, Bellway, Crest Nicholson, Persimmon, Redrow and Taylor Wimpey); and constituents of the FTSE 250 Index (excl. Financial Services and investment trusts). All three measures are assessed over a three year performance period. Vested awards are subject to a two year post vesting holding period. The LTIP contains clawback and malus provisions.

The performance conditions and targets for the FY18 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
FY20 EPS	37.5%	21.8 pence	27.8 pence
FY20 ROCE	37.5%	20.0%	25.0%
Relative TSR	25.0%	Equal to housebuilder index / median of FTSE 250	Housebuilder index + 7.5% p.a. / Upper quartile of FTSE 250

The following LTIP awards were made during FY18:

Executive Director	Date	Number of shares awarded	Basis of award granted (% of basic salary)	Face value of award[1]	% of award vesting at threshold	Maximum percentage of the face value that could vest	Performance Period[2]
Clive Fenton	17.11.17	458,716	150%	£750,000	25%	100%	3 years
John Tonkiss	17.11.17	302,752	150%	£495,000	25%	100%	3 years
Rowan Baker	17.11.17	261,468	150%	£427,500	25%	100%	3 years

1 The face value is calculated using the closing share price on 16 November 2017 (£1.635)

2 The performance period runs for three years from the date of grant. Relative TSR will be measured from 17 November 2017 over a three year period. EPS and ROCE will be measured based on financial year end figures as at the end of the FY20 financial year

As at 12 November 2018, no awards have been granted in respect of FY19.

Pension entitlements (audited)

During FY18 the Group operated a Group personal pension scheme under which Executive Directors were 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.

Directors' Remuneration Report *continued*

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	Period	Fees	Benefits[1]	Total	Role
Paul Lester[2], CBE	**FY18**	**£141,950**	-	**£141,950**	Non-Executive Chairman
Frank Nelson	**FY18**	**£74,333**	**£147**	**£74,480**	Senior Independent Director
	FY17	£73,000	£107	£73,107	
John Carter[3]	**FY18**	**£50,050**	-	**£50,050**	Independent Non-Executive Director
Arun Nagwaney[4]	**FY18**	-	-	-	Non-Executive Director
Geeta Nanda, OBE	**FY18**	**£54,333**	-	**£54,333**	Independent Non-Executive Director
	FY17	£53,000	-	£53,000	
Mike Parsons	**FY18**	**£64,333**		**£64,333**	Independent Non-Executive Director
	FY17	£63,000	-	£63,000	
John White[5]	**FY18**	**£92,590**	**£617**	**£93,207**	Former Non-Executive Chairman
	FY17	£230,000	£2,670	£232,670	

1 Benefits relate to taxable travel expenditure

2 Paul Lester was appointed to the Board on 3 January 2018 and became Chairman at the conclusion of the 2018 AGM on 24 January 2018

3 John Carter was appointed to the Board on 1 October 2017

4 Arun Nagwaney was appointed to the Board on 17 May 2018 as a representative of Anchorage Capital Group, our largest shareholder. He does not receive a fee for his role

5 John White stepped down from the Board at the conclusion of the 2018 AGM on 24 January 2018

Non-Executive Directors' fees

The Non-Executive Directors' fees, which applied during FY18 were:

Role	Fees
Chairman	£230,000
Non-Executive Director's Board fee	£54,600
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 Sharesave.

Executive 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 2018 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							
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
LTIP	17.11.17	458,716	-	-	nil	17.11.20	17.11.27
Sharesave	10.12.15	10,752	-	-	1.674	28.01.19	28.07.19
ABP	20.11.17	28,741	-	-	nil	20.11.20	20.11.27
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
LTIP	17.11.17	302,752	-	-	nil	17.11.20	17.11.27
Sharesave	10.12.15	10,752	-	-	1.674	28.01.19	28.07.19
ABP	20.11.17	17,796	-	-	nil	20.11.20	20.11.27
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
LTIP	17.11.17	261,468	-	-	nil	17.11.20	17.11.27
Sharesave	10.12.15	10,752	-	-	1.674	28.01.19	28.07.19

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 FY18, John Tonkiss met his 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 2018. No options were exercised during the year. There has not been any change since the year end.

Directors	Shares beneficially owned	Shares subject to performance conditions	Shares not subject to performance conditions	Options vested but unexercised	Options unvested (LTIPs)	Options unvested (Sharesave)	Options unvested (ABP)	Shares beneficially owned as % of salary[1]	Shareholding requirement met?
Executive Directors									
Clive Fenton	1,681,389	n/a	n/a	n/a	1,194,520	10,752	28,741	375%	Yes
John Tonkiss	588,763	n/a	n/a	n/a	750,515	10,752	17,796	199%	Yes
Rowan Baker	17,768	n/a	n/a	n/a	429,794	10,752	n/a	7%	No
Non-Executive Directors									
Paul Lester	66,500	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
John Carter	Nil	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Arun Nagwaney	Nil	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Geeta Nanda	Nil	n/a	n/a	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	n/a	n/a
Mike Parsons	173,270	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
John White[2]	1,750,192	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

1 *This is based on a closing share price of £1.114 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 *John White stepped down from the Board at the conclusion of the 2018 AGM on 24 January 2018*

Payments to past Directors (audited)

There were no payments in the financial year.

Payments for loss of office (audited)

In line with the shareholder approved Remuneration Policy, Clive Fenton's cessation of employment qualifies for good leaver status due to his retirement with the consent of the Company. The Remuneration Committee has, therefore, made the following determinations consistent with this status:

Ongoing remuneration

Fixed

The announcement on 19 June 2018 explained that Clive would be retiring from the Company at the end of the financial year on 31 August 2018 with his 12 month notice period starting on 30 June 2018. He remained an employee of the Company until 31 August 2018. During this period he continued to receive his current salary, benefits and pension contribution. The annual rates for these fixed elements of the remuneration package are set out in the table below.

Element	Annual Rate (£)
Salary	£500,000
Pension allowance	£100,000
Estimated value of benefits (variable based on benefits taken up)	£23,000

Pay in lieu of notice

Following his retirement on 31 August 2018, for the 10 month balance of his notice period, Clive will receive monthly payments in respect of the above salary and pension amounts until 30 June 2019. He will also continue to receive his contractual benefits (private medical insurance, life insurance and company car or cash allowance) during this period. Clive will receive outplacement for 12 months following his retirement date on 31 August 2018.

FY18 bonus

Clive Fenton has been employed for the full financial year and therefore qualifies for a bonus based on the level of satisfaction of the performance conditions (see page 116 for full details of the performance conditions, targets, their level of satisfaction and the resulting bonus earned for the year). The maximum bonus opportunity for Clive for the financial year was 150% of salary of which 29.7% was earned, resulting in a total bonus of £148,500. The Committee applied its normal procedure in determining bonuses, with bonuses payable to all participants, including Clive, following the end of the financial year in November 2018. Two-thirds of the bonus earned will be paid in cash and one-third paid in shares subject to a three year vesting period.

FY19 bonus

Clive Fenton will not be eligible to receive a bonus for FY19.

FY19 LTIP

There will be no award to Clive Fenton in respect of FY19 to reflect his retirement during the year. Details of the treatment of existing share awards are set out below.

Existing share awards

Clive Fenton holds a number of existing awards under the following Company share plans:

- The Annual and Deferred Bonus Plan ('ABP')
- The Long-Term Incentive Plan ('LTIP')

FY17 ABP deferred share awards

The performance conditions for the deferred share award were satisfied at the date of grant with the only ongoing condition being continued employment at the vesting date. Dividend equivalents will be provided on vesting on the number of shares vested. In line with the policy for good leavers, the FY17 deferred share award did not lapse on Clive's cessation of employment but will vest on the original vesting date. The following table sets out details of the award:

Date of grant	Number of shares
20.11.2017	28,741

FY16, FY17 and FY18 LTIP awards

In line with the policy, the Committee has determined that the following treatment will apply to these awards:

- The maximum number of shares capable of vesting will be pro-rated by the number of whole months of the performance period completed on the date of Clive's cessation of employment, being 31 August 2018
- The number of shares vesting will be calculated based on the level of satisfaction of the performance conditions at the end of the original performance period
- For the FY18 LTIP, a two year holding period will apply to shares post vesting
- Dividend equivalents will be provided on vested shares on the vesting date

The following table sets out details of the LTIP awards:

LTIP Award	Date of grant	Vesting date	Number of shares granted	Pro-rated number of shares capable of vesting (subject to performance conditions)
FY16	25.11.15	25.11.18	263,888	241,897
FY17	22.12.16	22.12.19	471,916	262,175
FY18	17.11.17	17.11.20	458,716	114,679

SAYE

Clive holds 10,752 options in the 2015 SAYE plan with an exercise price of £1.674, which he is entitled to exercise within six months of cessation of employment in line with the good leaver treatment outlined in the rules of the plan.

There were no payments for loss of office made to the Directors in the financial year other than those in relation to Clive Fenton described above.

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.

Performance graph and CEO single total figure table

The TSR performance graph and history of single figure for the Chief Executive Officer are contained in the section headed *Fairness, diversity and wider workforce considerations on page 113*.

Percentage change in remuneration of Director undertaking the role of Chief Executive Officer

This information is set out in the section headed Fairness, diversity and wider workforce considerations on page 113.

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:

	FY18	FY17	% change
Overall spend on pay including Executive Directors[1]	£79.8m	£76.2m	5%
Profit distributed by way of dividends	£29.0m	£29.0m	0%

1 The FY17 overall spend on pay including Executive Directors' figure has been updated to present the correct amount following the identification of an error reflecting a double counting of an adjustment in the prior year

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. The Company consults with key shareholders in respect of the policy and the introduction of new incentive arrangements.

The members of the Committee during FY18 and up to the date of this Report are:

Mike Parsons (chair of the Committee)

Frank Nelson

Geeta Nanda, OBE

Paul Lester, CBE (appointed to the Committee on 26 February 2018)

John Carter (appointed to the Committee on 26 February 2018)

John White (stepped down from the Committee on 24 January 2018)

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

Advisers 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 LLP ('PwC') as independent remuneration adviser.

During FY18 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 £40,000 (FY17: £36,000) were paid to PwC during the year in respect of remuneration advice given to the Committee.

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 in 2016 as well as consulting with our major shareholders in respect of any changes to the remuneration policy and any material changes to incentive arrangements.

The Directors' Remuneration Policy was put to a binding vote and approved at the Annual General Meeting on 24 January 2017. We put a resolution to approve the FY17 Annual Remuneration Report to our members at our Annual General Meeting in January 2018. The voting outcomes are set out below:

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
Percent of votes cast	92.8%	7.2%		
Annual Report on Remuneration:				
Number of votes cast	404,575,261	1,388,234	405,963,495	12,245
Percent of votes cast	>99.99%	<0.01%		

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

Executive Directors

Name	Date of Service contract	Nature of contract	Notice periods		Compensation provisions for early termination
			From company	From director	
Clive Fenton	30 January 2014	Rolling	12 months	12 months	At the discretion of the Company
John Tonkiss	15 October 2018	Rolling	12 months	12 months	
Rowan Baker	15 October 2018	Rolling	12 months	12 months	

Non-Executive Directors

Name	Date of letter of appointment
Paul Lester, CBE	8 November 2013
Frank Nelson	11 November 2013
John Carter	18 September 2017
Arun Nagwaney	16 May 2018
Geeta Nanda, OBE	4 March 2015
Mike Parsons	28 October 2013

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: they are appointed by letters of appointment. Each 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 Directors' positions are subject to their re-election by the Company's shareholders at each AGM.

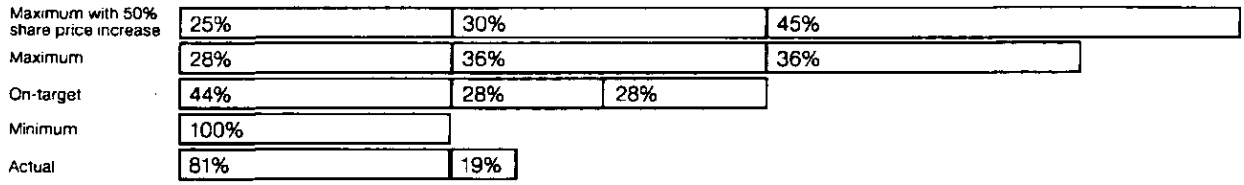
In accordance with the UK Corporate Governance Code, all Directors seek annual re-election by shareholders.

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

Illustrations of the application of the Remuneration Policy

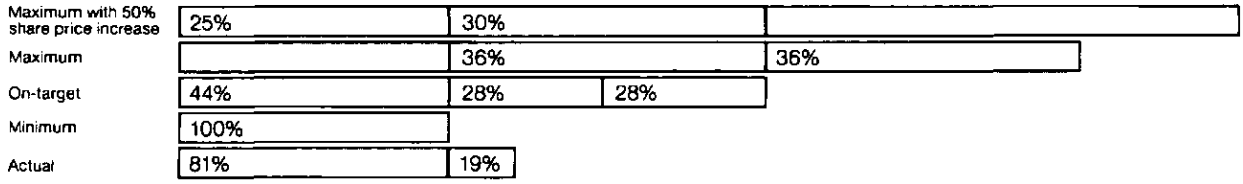
The charts below illustrate the remuneration that would be paid to each of the Executive Directors, based on salaries at the start of FY19, under three different performance scenarios: (i) minimum; (ii) on-target; and (iii) maximum. The table below these charts sets out the assumptions used to calculate 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. In line with the new regulations on policy scenarios, we have also included an additional reference point to show the maximum remuneration receivable assuming a share price appreciation of 50%. For the purposes of comparison, we have included the actual single figure of remuneration for the Executive Directors for FY18.

Chief Executive Officer (John Tonkiss)



■ Fixed ■ Bonus ■ LTIP

Chief Financial Officer (Rowan Baker)



■ Fixed ■ Bonus ■ LTIP

Element	Description	Minimum	Target	Maximum	Maximum (with share price growth)
Fixed	Salary, benefits[1] and pension	Included	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	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	100% of the maximum award assuming 50% share price appreciation

1 Based on FY18 benefits payments as per the single figure table. The actual benefits paid for FY19 will only be known at the end of the financial year. See page 115 for the single figure table and the accompanying notes

2 Dividend equivalents have not been added to the deferred shares and LTIP awards

Mike Parsons
Remuneration Committee Chairman
12 November 2018

Directors' Report

Introduction

The Directors present their report and audited financial statements for the year ended 31 August 2018 in accordance with section 415 of the Companies Act 2006 ('Directors' Report').

The information that fulfils the requirements of the corporate governance statement for the purposes of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority ('DTRs') can be found on pages 84 to 125 (all of which form part of this Directors' Report) and in this Directors' Report. Certain disclosure requirements for inclusion in the Directors' Report have been incorporated elsewhere within the Annual Report. In addition, this Report should be read in conjunction with likely future developments set out on pages 74 and 77.

The Directors' Report, together with the Strategic Report on pages 2 to 77, forms the Management Report for the purposes of DTR 4.1.5R requirements.

Dividends

An interim dividend of 1.9p (FY17: 1.8p) per ordinary share was paid on 8 June 2018 to those shareholders on the register on 4 May 2018. Subject to shareholder approval at the 2019 AGM, the Directors are proposing a final dividend for the financial year ended 31 August 2018 of 3.5p (FY17: 3.6p) per ordinary share. This brings the total dividend for the year to 5.4p (FY17: 5.4p) per ordinary share, in line with the prior year.

Directors

The names of the Directors who were Directors at the end of FY18 are set out on pages 80 and 83. John White stepped down from the Board on 24 January 2018 and Clive Fenton stepped down from the Board on 31 August 2018. Both John and Clive served for the entire financial year up to the date of their cessation of office. Paul Lester, John Carter and Arun Nagwaney were all appointed during the course of FY18 as follows:

Director	Date of appointment
John Carter	1 October 2017
Paul Lester, CBE	3 January 2018
Arun Nagwaney	17 May 2018

Directors' Interests

Details of the Directors' interests in the share capital of the Company are set out in the Directors' Remuneration report on page 120. No Director had any dealings in the shares of the Company between 31 August 2018 and the date of this Report.

Directors' Powers

Subject to the Company's Articles of Association, the Companies Act 2006, any directions given by the Company by special resolution and any relevant statutes and regulations, the business of the Company, including in relation to the allotment and issuance of ordinary shares, is managed by the Board which may exercise all the powers of the Company. Matters reserved for determination by the Board are set out on page 88 of the Corporate Governance Report.

Directors' insurance and indemnities

During FY18 and to the date of this Report qualifying third party indemnity provisions governed by the Companies Act 2006 were in place, under which the Group has agreed to indemnify the Directors, former Directors and the Group General Counsel and Company Secretary, together with those who have held or hold these positions as officers of other Group companies or of associate or affiliated companies, to the extent permitted by law and the Articles, against all liability arising in respect of any act or omission in the course of performing their duties.

The Group maintains at its expense a directors' and officers' liability insurance policy to provide cover for legal action brought against the Directors. The policy does not provide cover where the Director or officer has acted fraudulently or dishonestly.

A review is carried out on an annual basis to ensure that the Board remains satisfied that an appropriate level of cover is in place. 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. In general terms, the indemnities protect Directors to the extent permissible by law from all costs and expenses incurred in the defence of any civil or criminal proceedings in which judgment is given in their favour or the proceedings are otherwise disposed of without finding fault or where there is a successful application to court for relief from liability.

Articles of Association

The Company's Articles of Association contain regulations which deal with matters such as the appointment and removal of Directors, Directors' interests and proceedings at general and Board meetings.

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

At 31 August 2018 and at 31 August 2017 there were 537,329,434 ordinary shares of 8p nominal value in issue. No shares have been issued or bought back and cancelled during the year. There are no shares held in treasury.

The Company has one class of share: 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. The rights and obligations attached to the ordinary shares are governed by UK law and the Company's Articles of Association.

Ordinary shareholders are entitled to receive notice of, and to attend and speak at, general meetings. On a show of hands, every shareholder present in person or by proxy (or a duly authorised corporate representative) shall have one vote and, on a poll, every member who is present in person or by proxy (or a duly authorised corporate representative) shall have one vote for every share held by that member.

There are no restrictions on the transfer of the Company's 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. Apart from the Relationship Agreement described below, 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.

Details of the Company's share capital are set out on page 170 in note 23 to the consolidated financial statements.

Relationship Agreement with Anchorage Capital Group

On 16 May 2018 the Company entered into a Relationship Agreement with Anchorage. Under the terms of the Relationship Agreement, for as long as its shareholding in the Company is more than 15 per cent, Anchorage is entitled to nominate one Non-Executive Director (the 'Nominee Director') to the Board of the Company and to nominate one Board observer. On 17 May 2018 Arun Nagwaney was appointed as the Nominee Director. In accordance with the terms of the Relationship Agreement, Arun Nagwaney has also been appointed to the Nomination Committee. Arun Nagwaney is not entitled to payment of any fees in connection with his directorship.

The right of Anchorage to appoint a Nominee Director and a Board Observer will fall away if Anchorage's shareholding falls below 15 per cent.

While the Relationship Agreement is in place, Anchorage has agreed that it will not acquire any shares in the Company which would result in it (and its concert parties) being interested in excess of 29.9 per cent of the total voting rights of the Company. In addition, Anchorage will not solicit any proxies or votes from any other shareholders or actively co-operate with others to obtain, or consolidate control of the Company.

As Anchorage's interest in the voting rights of the Company is less than 30 per cent, it is not a controlling shareholder.

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 the Company's ordinary shares.

The Group intends to renew the Directors' powers to issue and buy back shares at each AGM. At the Group's AGM on 24 January 2018 the Directors were authorised to issue shares up to a maximum nominal amount of £14,328,783 and empowered to issue shares on a non pre-emptive basis up to a maximum nominal amount of £2,149,317 for general use and a further £2,149,317 for use in connection with an acquisition or other capital investment.

The Directors were also authorised to buy back up to 53,732,943 shares representing 10% of the Company's issued share capital. No purchases have been made pursuant to this authority and a resolution will be put to shareholders at the 2019 AGM to renew the authority, in accordance with relevant institutional guidelines. The Directors will only purchase the Company's shares in the market if they believe it is in the best interests of shareholders generally.

Substantial shareholdings

As at 31 August 2018 and as at 12 November 2018, the Company had received formal notification of the following holdings in its shares under the DTRs[1].

Name of notifying entity/nature of holding[1]	Number of shares disclosed as at 31 August 2018	% interest in voting rights as at 31 August 2018	Number of shares disclosed as at 12 November 2018	% interest in voting rights as at 12 November 2018
Anchorage Capital Master Offshore Limited (indirect)[2]	156,023,665	29.04	156,023,665	29.04
Prudential plc group of companies (indirect)[3]	51,812,848	9.64	51,812,848	9.64
The Goldman Sachs Group, Inc (indirect)	49,829,532[4]	9.27	47,001,096[5]	8.75
Royal London Asset Management Limited (direct)	43,063,863	8.01	42,394,191	7.88
Investec Asset Management Limited	27,684,132	5.15	27,684,132	5.15

Information provided to the Company under the DTRs is publicly available via the regulatory information service and on the Company's website.

Note:

1 *Notification is only required when the next applicable percentage threshold is crossed, meaning these holdings may have changed since notification was last required*

2 *Includes contracts for difference ('CfDs') representing 48,785,237 voting rights*

3 *Includes right to recall 2,000,000 loaned shares*

4 *Includes open stock loan of 2,922,975 shares and Swaps/CfDs representing 36,004,050 voting rights*

5 *Includes open stock loan of 2,327,187 shares and swaps/CfDs representing 34,952,726 voting rights.*

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, a supplemental agreement dated 23 May 2016 and further amended by a supplemental agreement dated 21 February 2018). Agreements for the revolving credit facility and the Group's 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.

In the event of a takeover or change of control (excluding an internal reorganisation) outstanding awards under the Group's LTIP, ABP and Sharesave plans may, subject to any performance conditions, vest and become exercisable.

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.

Political donations

By way of a special resolution approved at the AGM on 24 January 2018, 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 potential expenditure. Although the Group has no intention of making any political donations or incuring any potential expenditure it is possible that certain routine activities may unintentionally fall within the broad scope of the Companies Act 2006 provisions relating to political donations and expenditure. As in previous years, the Directors are therefore seeking renewal of the authority at the forthcoming AGM, in accordance with relevant institutional guidelines.

Human Rights

The Group supports the United Nations' Universal Declaration of Human Rights and has policies and processes in place to ensure that the Group acts 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 the Group's Modern Slavery Policy which was implemented in FY17.

The Group's slavery and human trafficking statement required under the Modern Slavery Act 2015 is available to view on our website: **www.mccarthyandstonegroup.co.uk**

Equal opportunities and diversity

The Group regards equality and fairness as a fundamental right of all of its employees regardless of status, religious belief, gender, sex, sexual orientation, age, colour, race or ethnic origin. The Group believes that employees should be treated with dignity and respect and everyone is given an equal opportunity to reach their potential. It is the Group's firm intention to create a climate free from bullying and harassment and in which all employees feel confident in raising concerns of this kind and have them dealt with quickly, sensitively and effectively. Every employee is required to support the Group to meet its commitment to provide equal opportunities in employment and avoid unlawful discrimination. The Group does not tolerate any acts of discrimination at any level and has an Equality and Diversity Policy underpinned by an Equality and Diversity Statement to reflect this. The policy and statement are communicated to all employees and are available on the Group's intranet.

It is also the Group's policy that people with disabilities have full and fair consideration for all vacancies and disability is not seen to be an inhibitor to employment or career development. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. In the event of any employee becoming disabled while with the Group, their needs and abilities would be assessed and, where possible, we would work to retain them and seek to offer alternative employment to them if they were no longer able to continue in their current role.

Employee engagement

The Group currently operates two share schemes which are open to all employees, a Sharesave plan and a Share Incentive Plan, both of which are designed to provide employees with the opportunity to participate in the performance and success of the Group. Neither scheme is subject to performance conditions.

Throughout the year the Group continued to provide employees with regular updates through an all-employee quarterly newsletter. The Group also held a number of business updates during the year, led by the CEO, where employees were made aware of financial and economic factors affecting the performance of the Group and were provided with the opportunity to feed back to senior management.

Following the announcement of the Group's new strategy on 25 September 2018, the CEO and CFO visited each of the Group's regional offices to present the new strategy to the business and seek direct feedback from employees.

The Group is also intending to conduct an employee survey to canvass views from the workforce in 2019. The survey will enable the Group to assess employee engagement and identify any issues that need to be addressed.

In light of the new UK Corporate Governance Code which will apply to the Group in FY20, the Board are already considering ways to ensure effective engagement with the workforce including the possibility of establishing a more formal employee forum to canvass views and the designation of a specific Non-Executive Director to be responsible for stakeholder engagement.

Financial Risk Management

Details of the Group's financial instruments and its exposure to price risk, credit risk, liquidity risk and cash flow risk are set out in note 27 to the financial statements on pages 172 to 176.

Going concern

The Directors have assessed the Group's business activities and the factors likely to affect future performance in light of current and anticipated economic conditions. In making their assessment the Directors have reviewed the Group's latest budget and forecasts and considered reasonably possible downside sensitivities in performance and mitigating actions. 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. Further information on the going concern judgement can be found in note 1 to the financial statements on page 152.

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 Director 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.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Greenhouse gas emission reporting

This section has been prepared in accordance with the Group's regulatory obligation to report greenhouse gas ('GHG') emissions pursuant to Section 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

During the period from 1 September 2017 to 31 August 2018, the Group's total Scope 1 and 2 (location-based) emissions from the combustion of fuels and the purchase of electricity purchased were 17,678 tCO_2e. Scope 3 emissions totalled 1,241 tCO_2e.

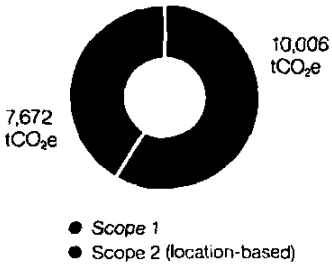
The Group's Scope 1 and 2 (location-based) emissions increased by 8% in the year, as a result of improved data availability, meaning the scope of reporting increased to now include YourLife Management Services. This is the first year the Group has disclosed its Scope 3 emissions from business travel and waste disposal.

The table below shows the Group's GHG emissions for the year ended 31 August 2018.

Greenhouse gas emissions in tCO_2e	FY18
Combustion of fuels (Scope 1)	10,006
Electricity purchased for our own use (Scope 2: location-based)	7,672
Electricity purchased for our own use (Scope 2: market-based)	3,013
Business travel (indirect scope 3)	1,157
Waste (Indirect scope 3)	85

Scope 2 emissions calculated using the market-based approach use supplier specific emission factors and are calculated and reported in tCO_2.

Total Emissions 2017-2018 (tCO_2e)



Methodology

The Group quantifies and reports its organisational GHG emissions according to the methodology set out in the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard published by the World Resources Institute. The Group works with its sustainability consultant, Carbon Credentials, to convert its activity data to tonnes of carbon dioxide equivalent using the UK Government 2018 Conversion Factors for Company Reporting.

This report has been prepared in accordance with the amendment to the GHG Protocol's Scope 2 Guidance; the Group has 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 the Group has made during the reporting period.

When quantifying emissions using the market-based approach the Group has 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.

The Group has also chosen to report its emissions in relation to the number of managed developments (379).

Greenhouse gas emissions (tCO_2e)	Location-based approach FY18	Market-based approach FY18
Total Scope 1 and 2	17,678	13,019
Total Scope 1, 2 and 3	18,919	14,260
tCO_2e per Managed Development	46.6	34.4

The emissions intensity calculation is based on total scope 1 and 2 emissions and a figure of 379 managed developments for the period 1 September 2017 to 31 August 2018

Reporting boundaries and limitations

The Group consolidates its organisational boundary according to the operational control approach. Emissions for all significant sites have been disclosed, which includes the Group's offices, construction sites and developments.

The GHG sources that constitute the Group's operational boundary for FY18 are:

- **Scope 1:** Natural gas combustion within boilers, diesel combustion within generators and road fuel combustion within vehicles
- **Scope 2:** Purchased electricity consumption for the Group's use
- **Scope 3:** Emissions from transport in vehicles not owned or operated by the Group and the disposal of the Group's waste

The Group has been unable to gather sufficient information on refrigerant consumption across the organisation and business travel from YLMS, therefore these are excluded from the disclosure.

Assumptions and estimations

Improving the Group's data collection processes has been a key priority this year, however several assumptions have been applied where activity data is missing or not currently collected.

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.

Mileage information for the Group's business travel (indirect scope 3) was also not available at the time of reporting. An estimation was made using cost data.

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

Improving performance

The Group monitors energy consumption at its MSMS and YLMS sites in detail to identify opportunities to improve energy performance. The Group has begun a process of collecting more accurate data for construction sites and offices. This will help the Group to understand more about consumption and energy use, and to reduce emissions going forward. FY18 was the first year the Group has reported on YLMS. The Group are engaged with ESOS phase 2 and are building on the outcomes of its involvement in ESOS Phase 1.

Post balance sheet events

There were no events after the reporting period that required adjustment in the FY18 financial statements.

On 25 September 2018 the Group announced its new strategy aimed at improving margins, rightsizing the operational cost base and evolving the business model to meet the changing needs of our customers. Total exceptional costs or c.£25m are expected across the life of the business transformation programme.

For further information please refer to the Strategy section of this Report and to note 31 within notes to the financial statements on page 180.

Annual General Meeting

The 2019 AGM will be held on Wednesday 23 January 2019. Details of the Company's AGM and the resolutions to be proposed will be set out in a separate Notice of Meeting sent to shareholders and available on the Group's corporate website:
www.mccarthyandstonegroup.co.uk/investors/shareholder-centre

The Directors' Report was approved by the Board of Directors on 6 November 2018.

Signed on behalf of the Board

Patrick Hole
Group General Counsel and Company Secretary
12 November 2018

Statement of Directors' Responsibilities

Financial statements and accounting records

The Directors are responsible for preparing the Annual Report including the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the Group financial statements under IFRS as adopted by the European Union 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.

The financial statements are also required by law to be properly prepared in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and the Group for that period.

In preparing the 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

International Accounting Standard 1 requires that financial statements present fairly for each financial year the relevant entity's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS.

Directors are also required to:

- 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 IFRS 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 and the Group's (as the case may be) 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 and the Group's transactions on an individual and consolidated basis and disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 the Group 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 Group'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 considers, on the advice of the Risk and Audit Committee, that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position, performance, business model and strategy.

Directors' responsibility statement

Each Director confirms that, to the best of his or her knowledge:

a) the Group and Company financial statements in this Annual Report, which have been prepared in accordance with the applicable financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the Group taken as a whole; and

b) the Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 6 November 2018 and is signed on its behalf by:

John Tonkiss
Chief Executive Officer
12 November 2018

Rowan Baker
Chief Financial Officer
12 November 2018

Financial Statements

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1 Fairway View, Brough, East Yorkshire
2 CGI of Fairway View

Fairway View

Brough, East Yorkshire

Located in the lovely town of Brough, Fairway Court consists of 35 one and two bedroom apartments designed exclusively for the over 60's. The development is located within easy level walking distance of local shops and amenities.

There are frequent buses to the nearby village of Elloughton and regular train services to Hull, Doncaster, Leeds and York.

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 of McCarthy & Stone plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 August 2018 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
- The 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 which comprise

- The consolidated statement of comprehensive income
- The consolidated and Company statements of financial position
- The consolidated and Company statements of changes in equity
- The consolidated cash flow statement
- The related notes 1 to 31 of the consolidated financial statements and notes 1 to 10 of the Company financial 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 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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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 the 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

Key audit matters	The key audit matters that we identified in the current year were: • *Cost capitalisation of overheads* • Valuation of shared equity receivables • Carrying value of goodwill Cost capitalisation of overheads and valuation of shared equity receivables were also identified as key audit matters in the prior year. Carrying value of goodwill was identified as a key audit matter in the current year due to the heightened risk of impairment arising from the ongoing difficult trading conditions and the strategic review announced on 25 September 2018 which moves away from a growth strategy and instead targets a greater return to respond to the current challenging market environment.
Materiality	We determined materiality for the Group financial statements at £3.0m (FY17: £4.6m) representing 5% of profit before tax and exceptional administrative expenses (FY17: 5% of profit before tax). In the current year, we excluded exceptional administrative expenses when determining the basis for materiality because the costs, principally costs of the strategic review, do not form part of the underlying trading performance of the business.
Scoping	We performed full scope audits on the four largest group entities: • McCarthy & Stone plc • McCarthy & Stone (Developments) Limited • McCarthy & Stone Retirement Lifestyles Limited • McCarthy & Stone (Extra Care Living) Limited These are the principal entities within the Group and account for 100% of the Group's revenue, 100% of the Group's profit before tax and 98% of the Group's net assets.
Significant changes in our approach	Apart from the addition of a key audit matter relating to carrying value of goodwill and change in basis for materiality as described above, there were no other significant changes in our approach during the year.

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

Conclusions relating to principal risks, going concern and viability statement

Going concern

We have reviewed 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's and Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- The disclosures on pages 74-77 that describe the principal risks and explain how they are being managed or mitigated
- The Directors' confirmation on page 73 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' explanation on page 73 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

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

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.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Cost capitalisation of overheads *Refer to page 98 (Report of the Risk and Audit Committee) and note 3 (Critical accounting judgements and key sources of estimation uncertainty).* Inventory comprises land held for development, sites in the course of construction and finished stock. The value of inventory as at 31 August 2018 is £817.5m (FY17: £760.4m) which represents the most significant item in the Consolidated Statement of Financial Position. During the year overheads totalling £23.6m (FY17: £23.2m) were capitalised, representing 4.7% (FY17: 5.1%) of inventory additions (excluding part-exchange properties). Amounts released to cost of sales totalled £20.6m (FY17: £20.7m). On an annual basis management perform a detailed exercise to determine the proportion of departmental costs which relate directly to site developments versus general business overheads. We consider the allocation and recognition of overhead costs within inventory to represent an area of risk on account of the level of judgement involved in: • Identifying which costs are capable of being capitalised versus expensed in accordance with the criteria set out in IAS 2 *'Inventories'* • Determining the proportion of Planning, Design, Commercial, Construction and Health & Safety costs incurred in bringing inventories to their present location and condition Specifically this judgement set out above impacts the valuation of inventory in the Consolidated Statement of Financial Position and the gross margin recognised on each unit sale. Given the level of judgement applied and the potential for manipulation, we consider this to represent a fraud risk.	Our procedures to address this key audit matter involved: • Assessing the design and implementation of relevant controls regarding the determination of the capitalisation rates applied by management • Liaising with senior departmental management to understand the structure and nature of their department and the process deployed in determining the allocation of cost • Performing a review of all departments within the business and assessing the nature of the related costs against the criteria for capitalisation of overheads under IAS 2 *'Inventories'* • Testing a sample of personnel included within the capitalisation rate calculations to validate whether the capitalisation rates were appropriate and consistent with job roles • Reviewing personnel data to identify any individuals or roles omitted from the capitalisation rate calculations • Analysing spend by department in the year based on changes in headcount and department profile • Checking the mechanical accuracy of the calculations to identify anomalies and performing a recalculation of the total costs capitalised by department • Performing sensitivity analysis over the capitalisation rates applied by management • Assessing the completeness and accuracy of disclosures within the financial statements and in accordance with IFRS	The results of our audit work were satisfactory and we concurred with the valuation of overheads capitalised into inventory.

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

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Valuation of shared equity receivables *Refer to page 98 (Report of the Risk and Audit Committee), note 3 (Critical accounting judgements and key sources of estimation uncertainty) and note 27 (Financial risk management).* The Group has historically offered shared equity based arrangements via a number of different schemes to its customers. While all remaining schemes were closed to new additions in FY17, a receivable totalling £25.0m (FY17: £28.9m), representing the net present value of the Group's interest, is held on the Consolidated Statement of Financial Position. Of this amount, £17.7m (FY17: £19.3m) was held within the *New Shared Equity Scheme*. The Group's assessment and supporting calculation of the valuation of the receivable is dependent on a number of assumptions, which are inherently judgemental due to their forward-looking nature. Assumptions include: • Future house price inflation • Discount rate • Expected maturity date • Adjustments to reflect new build premiums Of these assumptions, we consider future house price inflation and the discount rate applied by management to represent significant areas of judgement whereby marginal movements could result in a material change in the valuation of the receivable recognised within the Consolidated Statement of Financial Position and the associated movements recorded in the Consolidated Statement of Comprehensive Income. Given the level of judgement applied and the potential for manipulation, we consider this to represent a fraud risk.	Our procedures to address this key audit matter involved: • Assessing the design and implementation of relevant controls regarding the determination of assumptions applied and the calculation and review of the fair value adjustment recorded • Consulting with internal real estate specialists to identify applicable trends within the housing market and obtaining relevant independent sector data (e.g. Office for National Statistics) on which to benchmark the assumptions and methodology applied by management • Comparing the cash received on a sample of redemptions within the year to the carrying value of the receivable (as an indicator of whether carrying value reflects fair value) • Checking the mechanical accuracy of the fair value adjustment calculation • Performing sensitivity analysis over the future house price inflation and discount rate applied by management • Assessing the completeness and accuracy of disclosures within the financial statements and in accordance with IFRS	The results of our audit work were satisfactory and we concurred with the valuation of the shared equity receivables.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Carrying value of goodwill *Refer to page 98 (Report of the Risk and Audit Committee), note 3 (Critical accounting judgements and key sources of estimation uncertainty), note 12 (Goodwill) and note 15 (Impairment Testing).* As at 31 August 2018 the Group held a goodwill balance of £41.7m (FY17: £41.7m) which could be at risk of impairment due to the ongoing difficult trading conditions and the strategic review announced on 25 September 2018 which moves away from a growth strategy and instead targets a greater return to respond to the current challenging market environment. For the purpose of goodwill allocation and impairment testing, management has identified a single group of all cash-generating units (known collectively as the CGU). The valuation of these assets is considered biannually with the recoverable amount determined via a discounted cash flow (value in use) model. The model includes a number of assumptions, which are inherently judgemental due to their forward-looking nature. Assumptions include: • Forecast cash flows • Discount rate • Long-term growth rate Of these assumptions, we determined that certain aspects of the forecast cash flows assumptions (specifically the reduction in build spend, the consistent sales volume and the consistent unit sales price) represented the key assumptions within the model and an area of potential fraud due to the level of sensitivity.	Our procedures to address this key audit matter involved: • Assessing the design and implementation of relevant controls in regards to the determination of the recoverable amount of the CGU • Challenging management on the existence of external impairment indicators including the market capitalisation at 31 August 2018 against net assets • Involving internal valuation specialists to identify an acceptable range of discount rates using market comparable information • Inquiring of internal and external parties involved in the strategic review process to understand the rationale for the forecast cash flows, including the key cash savings that drive future performance • Comparing long-term forecast performance to industry data to challenge the feasibility of management's forecasts • Checking the arithmetical accuracy of the recoverable amount calculations • Reviewing the sensitivity analysis prepared by management and the impact on the recoverable amount of the CGU, including challenging the reasonably possible scenarios on which the analysis was based • Assessing the completeness and accuracy of disclosures within the financial statements and in accordance with IFRS	The results of our audit work were satisfactory and we concluded that the assumptions applied in the model were within an acceptable range. We concurred with management that there is sufficient headroom such that no impairment to goodwill is required.

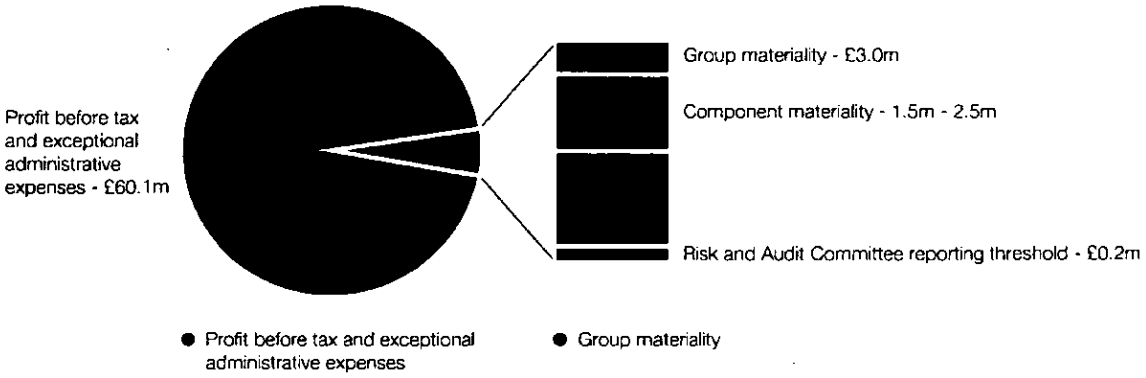
Independent Auditor's Report to the Members of McCarthy & Stone plc *continued*

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 financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	£3.0m (FY17: £4.6m)	£2 4m (FY17: £3.7m)
Basis for determining materiality Materiality	5% of profit before tax and exceptional administrative expenses (FY17: 5% of profit before tax). Details of the exceptional administrative expenses are disclosed in note 5 to the financial statements.	0.5% (FY17: 0.7%) of net assets of the Company, capped at 80% (FY17. 80%) of Group materiality.
Rationale for the benchmark applied	Profit before tax and exceptional administrative expenses was selected as the basis for materiality as this is the measure by which stakeholders and the market assess the performance of the Group. In the current year, we excluded exceptional administrative expenses when determining the basis for materiality because the costs, principally costs of the strategic review, do not form part of the underlying trading performance of the business.	The Company is non-trading and contains the investment in all of the trading components in the Group. Company materiality was capped at a percentage of group materiality to reflect the overall risks associated with the Group.



We determined 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 £2.1m (FY17: £3.2m), representing 70% (FY17: 70%) of Group materiality.

We agreed with the Risk and Audit Committee that we would report to the Committee all audit differences in excess of £0.2m (FY17: £0.3m), as well as differences below that threshold that, which 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.

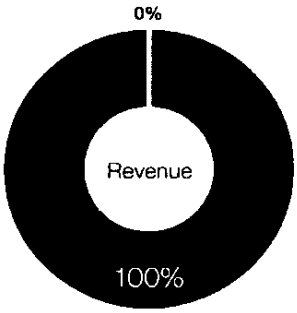
An overview of the scope of our audit

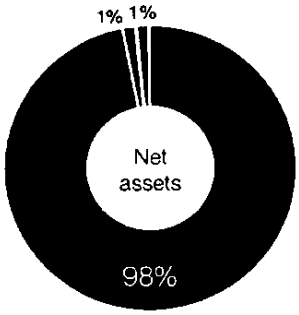
The Group has operations across the United Kingdom, split between three geographic divisions and nine regional offices. All subsidiaries of the Group are managed from the head office in Bournemouth and are subject to a common control environment. We scoped the audit by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment, the scope of our audit was focused on the four largest entities within the Group:

- McCarthy & Stone plc
- McCarthy & Stone (Developments) Limited
- McCarthy & Stone Retirement Lifestyles Limited
- McCarthy & Stone (Extra Care Living) Limited

These are the principal entities within the Group and account for 100% (FY17: 100%) of the Group's revenue, 100% (FY17: 98%) of the Group's profit before tax and 98% (FY17: 98%) of the Group's net assets. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.





- Full audit scope
- Specified audit procedures
- Review at Group level

- Full audit scope
- Specified audit procedures
- Review at Group level

- Full audit scope
- Specified audit procedures
- Review at Group level

Our audit procedures were performed to levels of materiality ranging from £1.5m to £2.5m (FY17: £3.5m to £4.1m).

We performed audit procedures on specified account balances within:

- McCarthy & Stone (Home Equity Interests) Limited
- McCarthy & Stone (Equity Interests) Limited

In addition, we performed desktop review procedures over all highly immaterial entities not included in the above. Our audit of the Company included procedures to test the consolidation process, including carrying out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of these components.

The Group audit is performed centrally and includes coverage of all nine regional offices within the Group. As part of the audit we visit three regional offices on a rotational basis with reference to size and complexity amongst 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 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 taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and 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 Risk and Audit 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 directors

As explained more fully in the Directors' Responsibility Statement, 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 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 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- Enquiring of central and regional management, Internal Audit and the Risk and Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance
  - Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud
  - The internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations
- Discussing amongst the engagement team and involving relevant internal specialists, including real estate, tax, valuations and IT specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas:
  - The judgement made in determining of the capitalisation rates in calculating the proportion of overheads to be capitalised into inventory
  - The derivation of the house price inflation and discount rates used in the calculation of the fair value of the *New Shared Equity Scheme* shared equity receivable
  - The reduction in build spend, consistent sales volume and consistent unit sales price assumptions within the cash flow forecasts used in calculating the recoverable amount of the CGU
- Obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group

  The key laws and regulations we considered in this context included:
  - The Companies Act 2006
  - *The Listing Rules*
  - UK tax legislation

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

Extent to which the audit was considered capable of detecting irregularities, including fraud *continued*

Audit response to risks identified

As a result of performing the above, we identified cost capitalisation of overheads, valuation of shared equity receivables and carrying value of goodwill as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above
- Enquiring of central and regional management, the Risk and Audit Committee, in-house legal counsel and external legal firms concerning actual and potential litigation and claims
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud
- Inspecting minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with tax authorities
- Engaging specialists with specific knowledge on the residential housing market and market risk to provide insight on the assumptions used in valuing shared equity receivables and calculating the recoverable amount of the CGU respectively
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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 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 Company, or returns adequate for our audit have not been received from branches not visited by us
- The 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 24 January 2018 to audit the financial statements for the year ending 31 August 2018. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 10 years, covering the years ending 31 August 2009 to 31 August 2018.

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).

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.

Jacqueline Holden FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP

Statutory Auditor
London, United Kingdom

12 November 2018

Consolidated Statement of Comprehensive Income

For the year ended 31 August 2018

	Notes	2018 £m	2017 £m
Continuing operations			
Revenue	4	**671.6**	660.9
Cost of sales		**(567.0)**	(530.2)
Gross profit		**104.6**	130.7
Other operating income	7	**11.3**	8.9
Administrative expenses		**(44.0)**	(38.8)
Other operating expenses		**(8.4)**	(6.6)
Operating profit		**63.5**	94.2
Amortisation of brand	5	**(2.0)**	(2.0)
Exceptional administrative expenses	5	**(2.0)**	-
Underlying operating profit		**67.5**	96.2
Finance income	8	**0.4**	1.6
Finance expense	9	**(5.8)**	(3.7)
Profit before tax	5	**58.1**	92.1
Income tax expense	10	**(11.6)**	(17.7)
Profit for the year from continuing operations and total comprehensive income		**46.5**	74.4
Profit attributable to			
Owners of the Company		**46.2**	74.2
Non-controlling interests		**0.3**	0.2
		46.5	74.4

Notes 1 to 31 form part of the financial statements shown above. All trading derives from continuing operations.

Earnings per share			
Basic (p per share)	11	**8.6**	13.8
Diluted (p per share)	11	**8.6**	13.8
Adjusted measures			
Underlying operating profit	5	**67.5**	96.2
Underlying profit before tax	5	**62.1**	94.1

Consolidated Statement of Financial Position

As at 31 August 2018

	Notes	2018 £m	2017 £m
Assets			
Non-current assets			
Goodwill	12	**41.7**	41.7
Intangible assets	13	**26.1**	27.6
Property, plant and equipment	14	**2.1**	2.4
Investments in joint ventures		**0.4**	0.4
Investment properties		**0.2**	0.2
Trade and other receivables	17	**27.8**	32.1
Total non-current assets		**98.3**	104.4
Current assets			
Inventories	16	**817.5**	760.4
Trade and other receivables	17	**22.4**	9.5
Cash and cash equivalents	25	**57.0**	40.7
Total current assets		**896.9**	810.6
Total assets		**995.2**	915.0
Equity and liabilities			
Capital and reserves			
Share capital	23	**43.0**	43.0
Share premium		**101.6**	101.6
Retained earnings		**617.5**	600.1
Equity attributable to owners of the Company		**762.1**	744.7
Non-controlling interests		**1.3**	1.0
Total equity		**763.4**	745.7
Current liabilities			
Trade and other payables	19	**114.9**	85.4
UK corporation tax		**6.5**	6.7
Land payables	20	**56.9**	67.4
Total current liabilities		**178.3**	159.5
Non-current liabilities			
Long-term borrowings	21	**51.4**	8.0
Deferred tax liability	18	**2.1**	1.8
Total liabilities		**231.8**	169.3
Total equity and liabilities		**995.2**	915.0

Notes 1 to 31 form part of the financial statements shown above.

These financial statements were approved by the Board on 12 November 2018 and signed on its behalf by:

John Tonkiss
Chief Executive Officer

Rowan Baker
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 August 2018

	Notes	Share capital £m	Share premium £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 September 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	28	-	-	0.9	**0.9**	-	**0.9**
Dividends	23	-	-	(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**
Profit for the year		-	-	46.2	**46.2**	0.3	**46.5**
Total comprehensive income for the year		**-**	**-**	**46.2**	**46.2**	**0.3**	**46.5**
Transactions with owners of the Company:							
Share-based payments	28	-	-	0.8	**0.8**	-	**0.8**
Dividends	23	-	-	(29.6)	**(29.6)**	-	**(29.6)**
Balance at 31 August 2018		**43.0**	**101.6**	**617.5**	**762.1**	**1.3**	**763.4**

Notes 1 to 31 form part of the financial statements shown above.

Consolidated Cash Flow Statement

For the year ended 31 August 2018

	Notes	2018 £m	Restated 2017 £m
Net cash flow from operating activities	25	**14.8**	7.5
Investing activities			
Purchases of property, plant and equipment	14	**(0.8)**	(0.7)
Purchases of intangible assets	13	**(1.1)**	(0.4)
Proceeds from sale of property, plant and equipment		**-**	0.1
Net cash used in investing activities		**(1.9)**	(1.0)
Financing activities			
Issue of long-term borrowings		**250.0**	202.0
Repayment of long-term borrowings		**(217.0)**	(258.3)
Dividends paid		**(29.6)**	(28.5)
Net cash from/(used in) financing activities		**3.4**	(84.8)
Net increase/(decrease) in cash and cash equivalents		**16.3**	(78.3)
Cash and cash equivalents at beginning of year		**40.7**	119.0
Cash and cash equivalents at end of year		**57.0**	40.7

Prior year comparatives have been restated whereby the repayment of £11.3m of promissory notes, which are classified as borrowings in the Statement of Financial Position, has been reclassified. Further details can be seen in note 25.

Notes 1 to 31 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 public Company limited by shares incorporated in England and Wales under the Companies Act 2006. 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 certain joint ventures where the Group has power over the relevant activities of the entity through its power to appoint the majority of Directors. The 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.

Going concern

The Directors consider that the Group is well placed to manage business and financial risks in the current economic environment and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, a period not less than 12 months from the date of this report. In February 2018 the Group extended its Revolving Credit Facility from £200m to £250m for a period of 12 months (existing facility of £200m ends in May 2021). As at the year end date a total of £43.0m (2017: £10.0m) has been drawn down with a further £57.0m (2017: £40.7m) held on the Consolidated Statement of Financial Position in cash, offset by promissory notes of £10.0m (2017: £nil), resulting in net cash of £4.0m (2017: £30.7m). The level of drawdown on the RCF fluctuates during the year however the Group operates within a minimum headroom requirement of £50.0m throughout the year. If headroom were at risk, management can take mitigating action by aborting uncommitted land purchases and related build costs.

In making our assessment as to the Group's ability to continue as a going concern and managing the related funding risk, we have considered forecast net debt levels reflecting on interest cover, gearing and tangible net asset value covenants with no breaches identified. Accordingly, the Directors continue to adopt the going concern basis in preparing these Consolidated Financial Statements. Further information on the Group's borrowings is given in note 21.

Basis of consolidation

The consolidated financial statements incorporate the results of the Company and its subsidiaries. For the purposes of consolidation, subsidiaries are entities which are controlled by the Group. The Group controls an entity when:

- It has power over the entity through existing rights that give the ability to direct the relevant activities of the entity
- It is exposed to, or has rights to, variable returns from its involvement with the entity
- It has the ability to use its power over the entity to affect the amount of the investor's returns

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 from 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.

For the purpose of impairment testing, goodwill is allocated to McCarthy & Stone (Developments) Limited, which consolidates all cash-generating units ('CGUs') of the Group. This is the lowest level at which goodwill is monitored internally. Goodwill arose on acquisition in 2009 of the assets and liabilities of Monarch Realisations 1 plc and therefore management consider it appropriate to allocate goodwill across the business in aggregate. The CGU 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.

1. Significant accounting policies continued

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.

Revenue recognised in the Consolidated Statement of Comprehensive Income but not yet invoiced is held on the 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 'Trade and other payables'.

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 and bungalows and is recognised on legal completion, being the point at which the transfer of risks and rewards of ownership has substantially occurred. 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') revenue

FRIs 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.

Segmental analysis

IFRS 8 'Operating Segments' establishes standards for reporting information about operating segments and related disclosures, products and services, geographical areas and major customers. 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 developments for any reporting period presented herein.

Other operating income

Other operating income includes management services income, net rental income, customer extras, income from insurance claims, profits arising from the disposal of undeveloped land sites and profits arising from the realisation of shared equity receivables.

Management services income relates to the management of service charge trusts, estate management and the provision of care and domestic assistance to residents within our developments. Income is recognised as these services are provided.

Finance income

Income 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. Cost of sales are recognised on a unit-by-unit basis, by reference to the forecast future margin across the development.

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.

1. Significant accounting policies continued

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, in addition to exclusion of amortisation of brand, allows review of the underlying trading position of the Group through the Alternative Performance Measures. Exceptional items are detailed further in note 5.

Leases

The Group enters into a number of lease arrangements for buildings and vehicles, none of which transfer substantially all the risks and rewards of ownership, nor control, to the lessee. Accordingly, all such leases are classified as operating leases.

Rentals payable under operating leases are charged to the Consolidated Statement of Comprehensive 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.

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 assets are reviewed at the end of each reporting period and maintained to the extent that there are probable sufficient future taxable profits available to allow all or part of the asset to be recovered.

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.

1. Significant accounting policies continued

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 basis:

Fixtures, fittings and equipment	3-10 years

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.

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.

Intangible assets - software

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.

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 expenditures that do not meet the criteria are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised over their estimated useful lives using the straight-line method, which do not exceed ten years. Development expenditure relating to software has been capitalised and is detailed in note 13 to the financial statements.

Impairment of tangible and intangible assets excluding goodwill

At each reporting 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.

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 the Consolidated Statement of Comprehensive Income.

1. Significant accounting policies continued

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 initially recognised at the fair value on the acquisition date, as 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.

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 a provision is 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.

Provisions are established to write down land where the forecast net sales proceeds, less costs to complete, exceed the carrying value of the land. These provisions are adjusted as selling prices and costs to complete change over time.

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. 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.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group only held shared equity receivables (measured at 'fair value through profit or loss' ('FVTPL')), secured mortgages (measured at 'amortised cost') and 'loans and receivables'.

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.

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 27.

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 on 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 due to them being held at fair value. 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' views of an appropriate discount rate, a new build premium, 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.

1. Significant accounting policies continued

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, 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 borrowings due to 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.

Further details regarding the schemes are set out in note 28.

Alternative Performance Measures ('APMs')

Within the Annual Report, the Directors have adopted various APMs. *These measures are not defined by International Financial* Reporting Standards ('IFRS').

The Directors are of the opinion that the separate presentation of these items provides helpful information about the Group's underlying business performance.

The APMs that the Group has used are as follows:

- Underlying operating profit
- Underlying earnings per share
- Underlying operating profit margin
- Net cash
- Underlying profit before tax
- Return On Capital Employed ('ROCE')

All 'underlying' items refer to the adjusted measure being reported before 'exceptional' and 'adjusted cost' items. Specifically, the exceptional items are one-off, and their inclusion does not present consistent and comparable results. The amortisation of brand is a non-trading factor and its inclusion is not useful in determining the trading profits of the Group. ROCE is used as a metric to ensure efficient and effective use of capital and is a key metric for determining Director remuneration (including LTIP targets). ROCE is also a comparable metric used by our peer housebuilder group.

A full reconciliation between the statutory results and the underlying measures and a ROCE calculation can be seen within note 5. Net cash has been defined and calculated within note 22. Adjusted cost and exceptional items have been defined within note 5.

2. Outlook for adoption of future standards (new and amended)

The following new standards, amendments to standards and interpretations ('Standards') are applicable to the Group and are mandatory for the first time for the financial year which began on 1 September 2017: Amendments to IAS 7 *'Statement of Cash Flows - Changes in Liabilities arising from Financing Activities'* and Amendment to IAS 12 *'Recognition of Deferred Tax Assets for Unrealised Losses'*. These Standards have not had a material impact on the results of the Company for the year ended 31 August 2018.

At the date of approval of the financial statements, the following standards, interpretations and amendments to standards have been issued, but are not yet effective for the year ended 31 August 2018:

- IFRS 9 *'Financial Instruments'* replaces IAS 39 *'Financial Instruments: Recognition and Measurement'* and is effective for the Group from 1 September 2018. The Group does not presently hold any complex financial instruments. The principal area of consideration for IFRS 9 is applying the new "expected credit loss" model introduced for bad debt provisions. However, as the Group's accounting policy is not to recognise revenue until legal completion and trade receivables are not held as part of normal trade, no material bad debt provisions are anticipated. The Group continues to assess the impact and application of the new standard however we do not anticipate the new standard will have a material impact on the Group's reported results and financial position.
- IFRS 15 *'Revenue from Contracts with Customers'* is effective for the Group from 1 September 2018. 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 based upon the transfer of control. Revenue and profit on the sale of units is recognised when substantially all the risks and rewards of ownership have transferred to the customer, which is deemed to occur at legal completion. There is no change to this accounting treatment under the recognition criteria within IFRS 15.

  Part-exchange properties - Currently 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. The subsequent sale of the property will be accounted for as a separate contract, with the income and associated costs being recognised within other operating income and expenditure. The impact on the Group for FY18 if IFRS 15 was adopted would be a decrease to cost of sales of £1.8m, but an increase to other expenditure of £1.8m. This change is presentational only and has no impact on profit.

  The full impact of this change on the Group will be re-stated using the full retrospective transition method.

  The above items will have no impact on the Group's cash flows.
- IFRS 16 *'Leases'* replaces IAS 17 *'Leases'* and is effective for the Group from 1 November 2019. This standard 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 Statement of Financial Position of the lessee. In the Statement of Comprehensive Income 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 expenses. 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.

  It is expected that the implementation of the standard will increase both the assets and liabilities of the Group. The impact of the standard continues to be assessed but is not expected to be material to the net assets or profit of the Group.

Amendment to IFRS 2 *'Share-based Payments'*, Amendment to IFRS 4 *'Insurance Contracts'* regarding the implementation of IFRS 9 *'Financial Instruments'*, and Annual Improvements 2014-2016, all effective from 1 January 2018, do not have a significant impact on the Group's financial statements.

Annual Improvements 2015-2017, Amendment to IAS 28 *'Investments in Associates and Joint Ventures'*, IFRIC 23 *'Uncertainty over Income Tax Treatments'*, and Amendments to IAS 19 *'Employee Benefits on Plan Amendment, Curtailment or Settlement'*, all effective from 1 January 2019, are not expected to have a significant impact on the Group's financial statements.

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, 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.

3. Critical accounting judgements and key sources of estimation uncertainty continued

Critical judgements in applying the Group's accounting policies

In applying the Group's accounting policies, one critical judgement has been made in relation to exceptional items. A judgement has been made that the items in FY18 are of significant cost, non-recurring and unusual to the normal activity of the Group and therefore a decision was made to reclassify these items separately on the face of the Consolidated Statement of Comprehensive Income.

No other critical judgements are deemed to have been made that have a material effect on the amounts recognised in the financial statements.

Assumptions and other sources of estimation uncertainty

The following are assumptions the Group makes about the future, and other sources of estimation uncertainty at the end of the reporting period.

Critical assumptions and major sources of estimation uncertainty

The Group does not have any key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other assumptions and sources of estimation uncertainty

These assumptions and sources of estimation uncertainty carry risk of resulting in a material adjustment to the carrying amounts of assets and liabilities over the longer-term.

Impairment of goodwill

Goodwill is tested to determine whether the estimation of the value in use of the CGU is greater than the carrying value of the asset. The value in use calculation includes an estimate of the future forecast cash flows and requires the determination of a suitable discount rate in order to calculate the present value of the cash flows. Details of the impairment review calculation and sensitivity analysis performed are included in note 15.

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 flow from assets. Further information regarding the assumptions and sensitivity effects of a reasonable possible change across all schemes can be seen within note 27. The significant risk is specifically pinpointed to the Group's substantially largest shared equity scheme which was offered between FY12 and FY17 of which the revaluation is driven by changes in discount rates and house price inflation. Should both of these assumptions be impacted by a reasonably possible change of a 1% increase or decrease, the effect has been illustrated below:

	Increase assumptions by 1% £m	*Decrease* assumptions by 1% £m
Discount rate	(1.7)	1.9
House price inflation	1.9	(1.7)

Cost capitalisation of overheads

Within inventory there are a number of areas of estimation uncertainty, including determination of site margin, of which cost capitalisation of overheads is the most significant. 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 69-85% (2017: 77-93%) for the various functions. Overhead costs capitalised at 31 August 2018 amount to £23.7m (2017: £23.2m). If the prior year cost capitalisation rates were to be used, the value of the overhead costs capitalised would have increased by £0.2m.

4. Revenue

	2018 £m	2017 £m
Unit sales	**642.8**	631.8
FRI revenue	**28.8**	29.1
	671.6	660.9

All unit sales revenue arose from the sale of properties. All revenue was generated within the UK. No individual customer is significant to the Group's revenue in any period.

Proceeds received from the disposal of part-exchange properties, which are not included in revenue were £88.1m (2017: £11.6m). 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 loss on disposal of these properties was £1.0m (2017: profit of £0.1m).

5. Profit before tax

Profit before tax has been arrived at after charging:

	Notes	2018 £m	2017 £m
Amortisation of intangibles	13	**2.6**	2.4
Depreciation of property, plant and equipment	14	**1.1**	1.1
Operating lease arrangements	24		
Land and buildings		**1.7**	1.4
Plant and machinery		**2.6**	2.5
Cost of inventories recognised as an expense		**480.0**	457.1
Staff costs	6	**94.0**	88.4
Share-based payments charge to profit or loss	28	**0.8**	0.9
Movement in inventory provision (including part-exchange properties)		**1.5**	1.2

5. Profit before tax continued

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 quantitively or qualitatively 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 to underlying operating profit and underlying profit before tax given the Directors do not believe this cost reflects the underlying trading of the business.

Exceptionals

			Exceptional	Adjusted cost	
Year ended 31 August 2018	Notes	Statutory £m	Administrative costs £m	Amortisation of brand £m	Underlying £m
Operating profit		**63.5**	**2.0**	**2.0**	**67.5**
Finance income	8	**0.4**	**-**	**-**	**0.4**
Finance expense	9	**(5.8)**	**-**	**-**	**(5.8)**
Profit before tax		**58.1**	**2.0**	**2.0**	**62.1**
Income tax expense		**(11.6)**	**(0.4)**	**(0.4)**	**(12.4)**
Profit for the year		**46.5**	**1.6**	**1.6**	**49.7**
Attributable to non-controlling interest		**0.3**	**-**	**-**	**0.3**
Attributable to owners of the Company		**46.2**	**1.6**	**1.6**	**49.4**
Earnings per share					
Basic (p per share)		**8.6**	**0.3**	**0.3**	**9.2**
Diluted (p per share)		**8.6**	**0.3**	**0.3**	**9.2**

The exceptional administrative costs in 2018 represent third-party advisory fees and redundancy costs incurred in relation to the strategic review. Total costs for the strategic review are expected to be c.£25.0m and therefore deemed to be a material exceptional item (see note 31).

The net cash outflow from exceptional administrative expenses described above was £0.4m (2017: £nil).

			Exceptional	Adjusted cost	
Year ended 31 August 2017	Notes	Statutory £m	Administrative costs £m	Amortisation of brand £m	Underlying £m
Operating profit		94.2	-	2.0	96.2
Finance income	8	1.6	-	-	1.6
Finance expense	9	(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		74.4	-	1.6	76.0
Attributable to non-controlling interests		0.2	-	-	0.2
Attributable to owners of the Company		74.2	-	1.6	75.8
Earnings per share					
Basic (p per share)		13.8	-	0.4	14.2
Diluted (p per share)		13.8	-	0.4	14.2

5. Profit before tax continued

Key profit related metrics, underlying operating profit margin and return on capital employed ('ROCE'), have been reconciled below:

Underlying operating profit margin: calculated as underlying operating profit (being operating profit adding back amortisation of brand and exceptional administrative expenses) divided by revenue.

ROCE: calculated by dividing underlying operating profit by the average of opening and closing tangible gross asset value ('TGAV' - calculated as tangible net asset value less net cash) in the year.

	2018 £m	2017 £m
Revenue	**671.6**	660.9
Operating profit	**63.5**	94.2
Operating profit margin	**9%**	14%
Amortisation of brand	**2.0**	2.0
Exceptional administrative expenses	**2.0**	-
Underlying operating profit	**67.5**	96.2
Underlying operating profit margin	**10%**	**15%**
Opening net assets	**745.7**	698.1
Opening goodwill (note 12)	**(41.7)**	(41.7)
Opening intangible assets (note 13)	**(27.6)**	(29.6)
Opening tangible net asset value	**676.4**	626.8
Opening net cash (note 22)	**(30.7)**	(52.8)
Opening tangible gross asset value	**645.7**	574.0
Closing net assets	**763.4**	745.7
Closing goodwill (note 12)	**(41.7)**	(41.7)
Closing intangible assets (note 13)	**(26.1)**	(27.6)
Closing tangible net asset value	**695.6**	676.4
Closing net cash (note 22)	**(4.0)**	(30.7)
Closing tangible gross asset value	**691.6**	645.7
Average tangible gross asset value	**668.7**	609.9
Underlying operating profit	67.5	96.2
ROCE	**10%**	**16%**

Auditor's remuneration

	2018 £m	2017 £m
Fees payable to the Group's auditor		
Audit of the Company and Consolidated Financial Statements	**0.2**	0.2
Audit of the Company's subsidiaries	**-**	-
Audit-related assurance services	**-**	-
Other services	**-**	-
	0.2	0.2

Audit of the Company's subsidiaries amounted to £30,000 (2017: £30,000). Audit-related assurance services amounted to £37,500 (2017: £35,000) in respect of a review of the half year results. Other services amounted to £1,600 (2017: £nil) in respect of room hire at the Deloitte Academy. There were no other fees payable to the Group auditor in the year.

6. Staff costs

Staff costs for the year include Directors' emoluments, which are detailed within this note:

	2018 £m	2017 £m
Wages and salaries[1]	**79.8**	76.2
Social security costs	**8.4**	8.0
Other pension costs	**4.1**	2.6
Share-based payments	**0.8**	0.9
Termination payments	**0.9**	0.7
	94.0	88.4

[1] The 2017 wages and salaries figure has been updated in the table above following the identification of an error reflecting a double counting of an adjustment in the preparation of this note in the prior year.

The average monthly number of persons, including Executive Directors, employed by the Group during the year was as follows:

	2018 Number	2017 Number
Office management and staff	**995**	902
House managers	**1,166**	1,024
Construction staff	**241**	219
	2,402	2,145

Staff costs include an average of 942 persons employed during the year from YourLife Management Services Limited (2017: 823), a 50% subsidiary held by the Group.

At 31 August 2018 the Group employed 2,512 people (2017: 2,264).

Directors' emoluments

Amounts recognised in respect of Board Directors' emoluments:

	2018 £m	2017 £m
Wages and salaries	**1.9**	1.7
Social security costs	**0.3**	0.2
Share-based payments	**-**	0.3
Other pension costs[1]	**0.2**	0.2
Termination payments	**0.5**	-
	2.9	2.4

[1] Includes salary supplements in lieu of pension

The emoluments of the highest paid Director was £1.3m (2017: £1.0m), including pension contributions of nil (2017: nil). The number of Directors in the Company pension plan was one (2017: two).

7. Other operating income

	2018 £m	2017 £m
Net rental income	**0.3**	0.3
Other income	**9.5**	7.7
Non-core business revenue	**1.5**	0.9
	11.3	8.9

Other income arises on the services provided by Group subsidiaries to manage certain developments. Non-core business revenue relates to income such as customer extras. Within net rental income, there are gross ground rents received and paid of £5.6m (2017: £4.4m).

8. Finance income

	2018 £m	2017 £m
Gain in fair value of shared equity receivables	**0.3**	1.5
Interest income received	**0.1**	0.1
	0.4	1.6

9. Finance expense

	2018 £m	2017 £m
Loan interest and overdraft fees	**3.6**	3.1
Promissory note interest and fees	**0.1**	0.1
Refinancing issue costs	**0.6**	0.5
Loss in fair value of shared equity receivables	**1.5**	-
	5.8	3.7

The total interest expense, determined using the effective interest method, for financial liabilities that are not classified as at fair value through profit of loss was £3.0m (2017: £2.3m).

10. Income tax expense

	Notes	2018 £m	2017 £m
Corporation tax charges			
Current year		**11.3**	17.7
Adjustments in respect of prior years		**-**	(0.3)
Deferred tax charges			
Current year	18	**0.3**	0.3
		11.6	17.7

The tax charge for each year can be reconciled to the profit before tax per the Consolidated Statement of Comprehensive Income as follows:

	2018 £m	2017 £m
Profit before tax	**58.1**	92.1
Tax charge at the UK corporation tax rate of 19.00% (2017: 19.58%)	**11.0**	18.0
Tax effect of		
Expenses that are not deductible in determining taxable profit	**0.3**	0.1
Income not taxable in determining taxable profit	**-**	(0.1)
Adjustments in respect of previous periods	**-**	(0.3)
Share options timing difference	**0.3**	0.2
Other reconciling items	**-**	(0.2)
Tax charge for the year	**11.6**	17.7

The rate of corporation tax was lowered to 19% from 1 April 2017 and to 17% with effect from 1 April 2020. The UK deferred tax liabilities at 31 August 2018 have been calculated based on the appropriate rate at which the liability will unwind.

11. Earnings per share

Basic earnings per share is calculated as the profit for the financial period attributable to owners 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 2018 was 537.3m for the basic and 538.6m for the diluted calculations, giving a statutory earnings per share for the year ended 31 August 2018 of 8.6p for basic and 8.6p for diluted.

	2018	2017
Profit attributable to owners of the Company (£m)	**46.2**	74.2
Weighted average no. of shares (m)	**537.3**	537.3
Basic earnings per share (p)	**8.6**	13.8

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 2018, the Company had two categories of potentially dilutive ordinary shares: 5.8m nil cost share options under the LTIP and 4.1m 167.4p share options under the SAYE.

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.

	2018	2017
Profit used to determine diluted EPS (£m)	**46.2**	74.2
Weighted average number of shares (m)	**537.3**	537.3
Adjustments for		
Share options - LTIP (m)	**1.3**	0.3
Shares used to determine diluted EPS (m)	**538.6**	537.6
Diluted earnings per share (p)	**8.6**	13.8

12. Goodwill

	£m
Cost	
At 1 September 2016 and 31 August 2017 and 2018	**41.7**
Carrying amount	
At 1 September 2016 and 31 August 2017 and 2018	**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. As the goodwill relates to the business as a whole, it is allocated to the single CGU as defined in note 1. For key assumptions in determining recoverable amounts in goodwill impairment testing, refer to note 15.

13. Intangible assets

	Brand £m	Software £m	Total £m
Cost			
At 1 September 2016	41.4	4.3	45.7
Additions	-	0.4	0.4
At 31 August 2017	41.4	4.7	46.1
Additions	-	1.1	1.1
At 31 August 2018	**41.4**	**5.8**	**47.2**
Amortisation			
At 1 September 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)
Charge for the year	(2.0)	(0.6)	(2.6)
At 31 August 2018	**(19.3)**	**(1.8)**	**(21.1)**
Carrying amount			
At 31 August 2017	24.1	3.5	27.6
At 31 August 2018	**22.1**	**4.0**	**26.1**

Brand assets represent the McCarthy & Stone brand name purchased as part of the business combination in 2009. Brand assets have 10 years and 7 months of useful life remaining.

All amortisation charged is recognised in administrative expenses in the Consolidated Statement of Comprehensive Income.

14. Property, plant and equipment

	£m
Cost	
At 1 September 2016	7.2
Additions	0.7
Disposals	(0.1)
At 31 August 2017	7.8
Additions	0.8
Disposals	(2.4)
At 31 August 2018	**6.2**
Accumulated depreciation and impairment	
At 1 September 2016	(4.3)
Charge for the year	(1.1)
Eliminated on disposals	-
At 31 August 2017	(5.4)
Charge for the year	(1.1)
Eliminated on disposals	2.4
At 31 August 2018	**(4.1)**
Carrying amount	
At 31 August 2017	2.4
At 31 August 2018	**2.1**

15. 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, as defined in note 1.

The recoverable amount (value in use) was determined by discounting the forecast future cash flows of the CGU. Three years of net operating cash flows were calculated using the Group's three year business plan for FY19-21. The cash flows for FY22 reflected additional investment in land and build compared to FY21 and were extrapolated in perpetuity assuming no growth rate in line with the new steady state business strategy. The key assumptions for the value in use calculation were:

- Discount rate: this is a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the business. Accordingly, the rate of 10.0% (FY17: 11.3%) is considered by the Directors to be the appropriate pre-tax risk adjusted discount rate, being the Group's estimated long-term pre-tax weighted average cost of capital
- Sales completion volumes: these are calculated on a site-by-site basis for the first three years dependent upon regional market conditions, taking into account historic sales curves and expected reservation rates
- Expected changes in selling prices: these are calculated on a site-by-site basis for the first three years dependent upon regional market conditions, pricing for existing pipeline sites and product type. Consistent with FY18, no house price inflation has been assumed
- FRI income: this is based on the assumption that the Group will continue selling FRI during FY19-21
- Expected build costs: these are calculated on a site-by-site basis for the first three years dependent upon the expected costs of completing all aspects of each individual development and management best estimate to deliver build cost reductions as part of the new strategy. Build cost inflation is expected to continue at 3-4%

These assumptions are reviewed and revised annually in light of current economic conditions and the future outlook for the business.

The result of the value in use exercise concluded that the recoverable amount of the CGU exceeded its carrying value by £407.8m and there has been no impairment to goodwill.

Management has modelled two scenarios by applying reasonably possible downsides to each of the key assumptions applied in the value in use calculations.

Scenario 1: Management have performed a sensitivity analysis based on an increase in the pre-tax discount rate by 1% reflecting a potential change in the market assessments of the time value of money. This sensitivity analysis showed that no goodwill impairment would arise under this scenario.

Scenario 2: Management have performed a sensitivity analysis by combining several downsides assuming that the appropriate steps are taken to mitigate the impact of the downsides. These were as follows:

- Based on continuing subdued secondary housing market and current reservation rates, management have applied 10.3% volume downside in FY19 and 5.4% downside in FY20-21
- Management have applied a 7.5% downside on pricing in the South East and North London region from March 2019, reflecting pressures in the market in these geographical regions and a 2.5% downside in all other regions in FY20 and FY21
- Additionally, management have modelled the removal of FRI income in FY20 and FY21 given the uncertainty over the long-term sustainability of this revenue stream
- All build cost savings targeted as part of the strategic review have been removed from the model
- Management have assumed that this scenario will be mitigated by aborting uncommitted land purchases and related build costs

This sensitivity analysis showed that no goodwill impairment would arise under this scenario.

No impairment charges were recorded on items of property, plant and equipment throughout the current or prior year.

16. Inventories

	2018 £m	2017 £m
Land held for development	**99.6**	148.6
Sites in the course of construction	**290.3**	341.2
Finished stock	**385.9**	238.7
Part-exchange properties	**41.7**	31.9
	817.5	760.4

Days in inventory amounted to 590 days in 2018 (2017: 582 days).

Inventory days are calculated by taking year end inventory (excluding part-exchange properties) divided by cost of inventories recognised as an expense.

17. Trade and other receivables

	2018 £m	2017 £m
Trade and other receivables due in less than one year		
Trade receivables	**11.9**	2.1
Other debtors and prepayments	**10.5**	7.4
	22.4	9.5

	2018 £m	2017 £m
Trade and other receivables due in greater than one year		
Secured mortgages	**2.8**	3.2
Shared equity receivables	**25.0**	28.9
	27.8	32.1

Secured mortgages disclosed above are classified as loans and receivables and are measured at amortised cost. Shared equity receivables are classified as financial assets measured at fair value through profit or loss.

The Directors consider that the carrying amounts of trade and other receivables and non-current receivables approximates their fair value.

18. Deferred tax

The following are the major deferred tax liabilities recognised by the Group:

	Other temporary differences £m	Total £m
At 1 September 2016	(1.5)	(1.5)
Statement of Comprehensive Income charge	(0.3)	(0.3)
At 31 August 2017	(1.8)	(1.8)
Statement of Comprehensive Income charge	(0.3)	(0.3)
At 31 August 2018	**(2.1)**	**(2.1)**

The movement in other temporary differences mostly relate to tax and accounting differences in the treatment of share-based payments.

Deferred tax assets of £0.1m (2017: £0.1m) in relation to capital losses carried forward of £0.3m (2017: £0.3m) were not recognised as, despite there being no expiry date for these losses, there is insufficient evidence that they will ever be utilised.

19. Trade and other payables

	2018 £m	2017 £m
Trade payables	**25.9**	22.7
Other taxes and social security costs	**2.1**	1.9
Accrued expenses	**58.0**	42.6
Other creditors and deferred income	**28.9**	18.2
	114.9	85.4

Trade payables and accrued expenses principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases was 18 days during 2018 (2017: 20 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 and customer deposits. The Directors consider that the carrying amount of trade payables approximates their fair value.

No trade payables are purchased on extended payment terms.

20. Land payables

	2018 £m	2017 £m
Land payables	**56.9**	67.4

Land payables relate to payments due in respect of land which has been purchased under an unconditional contract.

21. Borrowings

Long-term borrowings	2018 £m	2017 £m
Loans (Revolving Credit Facility)	**43.0**	10.0
Unamortised issue costs	**(1.6)**	(2.0)
Promissory notes	**10.0**	-
	51.4	8.0

		Outstanding at 31 August	
	Maturity	2018 £m	2017 £m
Revolving Credit Facility	May 2021	**43.0**	10.0

The Group has in place a Revolving Credit Facility ('RCF') which during the year has been extended from £200m to £250m for a period of 12 months from February 2018 and matures in May 2021.

The RCF imposes financial covenants which test the Group's 'interest cover', 'net tangible assets' and 'gearing' all of which the Group is compliant with.

The nominal interest rate of the £250m RCF is 1, 3 or 6 month LIBOR + 1.6% (2017: 1, 3 or 6 month LIBOR + 1.6%) depending on the length of the drawdown. As at 31 August 2018, £43.0m (2017: £10.0m) 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.

A reconciliation of liabilities arising from financing activities has been detailed below:

2017 £m		Cash flow	Non-cash changes		
	At 1 September 2016	Net cash flow	Amortisation of issue costs	Issue of promissory notes	At 31 August 2017
Long-term borrowings					
Loans	55.0	(45.0)	-	-	10.0
Unamortised issue costs	(2.5)	-	0.5	-	(2.0)
Short-term borrowings					
Promissory notes	11.3	(11.3)	-	-	-
Total liabilities from financing activities	**63.8**	**(56.3)**	**0.5**	**-**	**8.0**

2018 £m		Cash flow	Non-cash changes		
	At 1 September 2017	Net cash flow	Amortisation of issue costs	Issue of promissory notes	At 31 August 2018
Long-term borrowings					
Loans	10.0	33.0	-	-	43.0
Unamortised issue costs	(2.0)	-	0.4	-	(1.6)
Promissory notes	-	-	-	10.0	10.0
Total liabilities from financing activities	***8.0***	***33.0***	***0.4***	***10.0***	***51.4***

22. Net cash

	2018 £m	2017 £m
Loans and borrowings	**51.4**	8.0
Add back unamortised issue costs	**1.6**	2.0
Cash and cash equivalents	**(57.0)**	(40.7)
Net cash	**(4.0)**	(30.7)
Add back land-related promissory notes	**(10.0)**	-
Net cash excluding land-related promissory notes	**(14.0)**	(30.7)

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).

23. 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	2018 £m	2017 £m
8p each fully paid: 537,329,434 ordinary shares (2017: 537,329,434)	**43.0**	43.0

Allotment of shares during the year	2018 Number '000	2017 Number '000
At 1 September	**537,329**	537,314
Issuance to satisfy early exercises under the SAYE	**-**	15
At 31 August	**537,329**	537,329

Dividends on equity shares

The interim dividend of 1.9p (2017: 1.8p) was approved by the Board on 10 April 2018 and paid on 8 June 2018 to all ordinary shareholders on the register of members at the close of business on Friday 4 May 2018. The ex-dividend date was 3 May 2018. The final dividend proposed by the Board is 3.5p (2017: 3.6p) per share resulting in a total ordinary dividend for the year of 5.4p (2017: 5.4p). It will be paid on 1 February 2019 to those shareholders who are on the register at 4 January 2019 subject to approval at the Company's Annual General Meeting. The ex-dividend date is 3 January 2019. These financial statements do not reflect the final dividend payment.

The cost of the dividends paid within the financial year amounted to £29.6m (2017: £28.5m).

24. Operating lease arrangements

	2018 £m	2017 £m
Minimum lease payments under operating leases recognised as an expense during the year	**4.3**	3.9

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

	2018 £m	2017 £m
Within one year	**4.2**	4.3
In the second to fifth years inclusive	**5.5**	6.9
After five years	**1.0**	1.1
Outstanding commitments for future minimum lease payments	**10.7**	12.3

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.

25. Notes to the cash flow statement

	Notes	2018 £m	Restated 2017 £m
Profit for the financial year		**46.5**	74.4
Adjustments for			
Income tax expense	10	**11.6**	17.7
Amortisation of intangible assets	13	**2.6**	2.4
Share-based payments charge	28	**0.8**	0.9
Depreciation of property, plant and equipment	14	**1.1**	1.1
Finance expense	9	**5.8**	3.7
Finance income	8	**(0.4)**	(1.6)
Operating cash flows before movements in working capital		**68.0**	98.6
(Increase)/decrease in trade and other receivables		**(9.8)**	0.1
Increase in inventories		**(47.1)**	(74.6)
Increase in trade and other payables		**19.1**	5.4
Cash generated by operations		**30.2**	29.5
Interest received		**0.1**	0.1
Interest paid		**(4.0)**	(2.9)
Income taxes paid		**(11.5)**	(19.2)
Net cash flow from operating activities		**14.8**	7.5
Cash and cash equivalents			
Cash and bank balances		**57.0**	40.7

Prior year comparatives have been restated whereby the repayment of £11.3m of promissory notes, which are classified as borrowings in the balance sheet, has been reclassified. Previously the repayment was classified as an operating cash flow. The restatement arose following an enquiry by the Financial Reporting Council as a result of which the Group concluded that, in order to comply with IAS 7 *'Statement of Cash Flows'*, these movement should be classified as financing activities.

The review conducted by the FRC was based solely on the Group's published Annual Report and does not provide any assurance that the report and financial statements are correct in all material respects.

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 increase in trade and other payables includes the movement in land payables.

26. Retirement benefit schemes

The Group operates a 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 period represents contributions payable to the benefit scheme and amounted to £4.1m for the year ended 31 August 2018 (2017: £2.6m). Unpaid contributions amounted to £0.4m as at 31 August 2018 (2017: £0.3m).

27. 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	2018 £m	2017 £m
Financial assets		
Fair value through profit or loss		
Shared equity receivables	**25.0**	28.9
Loans and receivables		
Cash and cash equivalents	**57.0**	40.7
Trade and other receivables	**13.3**	2.7
Secured mortgages	**2.8**	3.2
	98.1	75.5
Financial liabilities		
Other financial liabilities		
Trade and other payables	**89.5**	77.2
Land payables	**56.9**	67.4
Loans	**41.4**	8.0
Land-related promissory notes	**10.0**	-
	197.8	152.6

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 RCF 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 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.

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 and the Land & Planning Director
- The Group aims to maintain a geographical 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

27. Financial risk management continued

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 2018 if UK house prices were 1% 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 £1.7m (2017: £2.1m) 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.

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 an apartment. 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 though 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.

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 to third parties.

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 forecasts.

The maturity of the financial liabilities of the Group at 31 August 2017 and 2018 are as follows:

	2017			
	Carrying value £m	Contractual cash flows £m	Within 1 year £m	1-5 years £m
Loans (net of borrowing costs)	8.0	15.2	1.4	13.8
Financial liabilities carrying no interest	144.6	144.6	144.6	-
Total	152.6	159.8	146.0	13.8

	2018			
	Carrying value £m	Contractual cash flows £m	Within 1 year £m	1-5 years £m
Loans (net of borrowing costs)	**41.4**	**48.7**	**2.2**	**46.5**
Other financial liabilities carrying interest	**10.0**	**10.3**	**0.2**	**10.1**
Financial liabilities carrying no interest	**146.4**	**146.4**	**146.4**	**-**
Total	**197.8**	**205.4**	**148.8**	**56.6**

Other financial liabilities carrying interest are promissory notes, which attract avalisation 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.

27. Financial risk management continued

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 2018, 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 £0.7m (2017: £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.

27. Financial risk management continued

Fair value measurements recognised in the Consolidated Statement of Financial Position

All financial instruments are grouped into Levels 1 to 3 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 are the shared equity receivables which are measured at fair value through profit or loss using methods associated with Level 3. At the year ended 31 August 2018, these were valued at £25.0m (2017: £28.9m).

Financial assets are recorded at fair value, being the estimated amount receivable by the Group, discounted to present day values.

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	2018	2017
Discount rate	**3.8 to 4.4%**	3.8 to 4.4%
New build premium	**0 to 5%**	0 to 5%
House price inflation	**0 to 6%**[1]	0 to 5.75%
Timing of receipt	**5 to 11 yrs**	5 to 14 yrs

[1] We apply future HPI over the next five years based on industry forecasts. The 2019 HPI used in the calculation varies between 2.5 - 3.5% dependent upon geographical location.

Sensitivity-effect on value of other financial assets (less)/more	2018 Increase assumptions by 1%/1 year £m	2018 Decrease assumptions by 1%/1 year £m
Discount rate	**(2.0)**	**2.2**
New build premium	**(0.2)**	**0.2**
House price inflation	**1.9**	**(1.7)**
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%/1 year change is representative of our best estimate of a reasonably possible change based on management's expectations of changes in economic conditions.

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/expense.

27. Financial risk management continued

The following tables present the changes in Level 3 instruments for the years ended 31 August 2017 and 2018:

	2017
	Shared equity receivables £m
Opening balance	29.3
Additions	0.8
Disposals	(2.7)
Revaluation gains recognised in the statement of comprehensive income	1.5
Closing balance	28.9

	2018
	Shared equity receivables £m
Opening balance	**28.9**
Additions	**-**
Disposals	**(2.7)**
Revaluation gains and (losses) recognised in the statement of comprehensive income	**(1.2)**
Closing balance	**25.0**

28. Share-based payments

Equity-settled share-based payment plans

The Group operates three 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 LTIP grants are earnings per share ('EPS'), comparative total shareholder return ('TSR') and return on capital employed ('ROCE'). The EPS and ROCE performance conditions are priced using the Black-Scholes model. 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	FY18 LTIP	FY17 LTIP	FY16 LTIP	Total
Date of grant	**17 November 2017**	21 December 2016	25 November 2015	
Options granted	**1,916,777**	1,933,352	1,930,524	
Fair value at measurement date* (£)	**1.49**	1.32	2.12	
Share price on date of grant (£)	**1.65**	1.56	2.32	
Exercise price (£)	**-**	-	-	
Vesting period	**3 years**	3 years	3 years	
Expected dividend yield	**n/a**	n/a	n/a	
Expected volatility	**40.00%**	29.21%	26.07%	
Risk free interest rate	**0.82% p.a.**	0.23% p.a.	0.80% p.a.	
Valuation model	**Black-Scholes and Monte Carlo**	Black-Scholes and Monte Carlo	Black-Scholes and Monte Carlo	
Movements in the year:				
Options at beginning of the year	**-**	1,876,209	1,508,310	3,384,519
Granted during the year	**1,916,777**	-	-	1,916,777
Exercised during the year	**-**	-	-	-
Lapsed during the year	**(43,232)**	(153,449)	(183,330)	(380,011)
Expired in the year	**-**	-	-	-
Options at the end of the year	**1,873,545**	1,722,760	1,324,980	4,921,285
Exercisable at end of the year	**-**	-	-	-

* *This is the average fair value for the three tranches of the LTIP scheme*

For the FY16 LTIP and FY17 LTIP, due to the fact that there was limited share price history for McCarthy & Stone, the Company's share price volatility was estimated as an average of the volatilities of the FTSE 250 over a historic period commensurate with the expected life of each award immediately prior to the date of grant.

For the FY18 LTIP, there is now sufficient share price history for McCarthy & Stone and therefore the expected volatility uses the Company's share price volatility between the date of listing (5 November 2015) and the date of grant.

28. Share-based payments continued

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.

SAYE			Total
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	26.07%	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	1,897,215	926,846	2,824,061
Granted during the year	-	-	-
Exercised during the year	-	-	-
Lapsed during the year	(604,774)	(229,203)	(833,977)
Expired in the year	-	-	-
Options at the end of the year	**1,292,441**	**697,643**	**1,990,084**
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.

Share Incentive Plan ('SIP')

The SIP allows all employees to purchase 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. 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 2018 three Executive Directors were participating in the scheme. For the year ended 31 August 2018, one-third of the bonus earned by the previous CEO and 100% of the bonus earned by the CFO and the newly appointed CEO in the financial year, totalling £0.2m (2017: £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:	**2018 £m**	2017 £m
Equity-settled share-based payments		
SAYE	**0.8**	0.5
LTIP	**-**	0.4
	0.8	0.9

29. Related undertakings

The entities listed below are subsidiaries or joint ventures of the Company or Group in accordance with section 409 of the Companies Act 2006. All entities, unless noted below, are registered in England and Wales with a registered address of: 4th Floor, 100 Holdenhurst Road, Bournemouth, Dorset, BH8 8AQ.

Name	Notes	Company number	Principal activity	2018 % of shares owned	2017 % of shares owned
McCarthy & Stone (Developments) Limited		06622183	Holding company	**100**	100
McCarthy & Stone Retirement Lifestyles Limited		06622231	Developer	**100**	100
McCarthy & Stone (Equity Interests) Limited		05663330	Property investment	**100**	100
McCarthy & Stone (Home Equity Interests) Limited		05984851	Property investment	**100**	100
McCarthy & Stone Investment Properties No. 23 Limited	1	06496130	Property investment	**100**	100
McCarthy & Stone (Total Care Living) Limited	1	06069509	Property investment	**100**	100
McCarthy & Stone (Alnwick) Limited	1	07517819	Property investment	**100**	100
McCarthy & Stone (Extra Care Living) Limited		06897363	Property investment	**100**	100
McCarthy & Stone Total Care Management Limited		06897301	Property investment	**100**	100
McCarthy & Stone Rental Interests No. 1 Limited	1	06897272	Property investment	**100**	100
McCarthy & Stone Management Services Limited		07166051	Development management	**100**	100
McCarthy & Stone Lifestyle Services Limited	1	07165986	Holding company	**100**	100
McCarthy & Stone Financial Services Limited	1	07798214	Financial services	**100**	100
Keyworker Properties Limited		04213618	Dormant	**100**	100
McCarthy & Stone Estates Limited	1	07165952	Dormant	**100**	100
YourLife Management Services Limited	5	07153519	Development management	**50**	50
McCarthy & Stone Properties Limited	1, 2	01925738	Dormant	**100**	100
The Planning Bureau Limited	1, 2	02207050	Dormant	**100**	100
Ortus Homes Limited	1, 2	08658235	Dormant	**100**	100
McCarthy & Stone Resales Limited	1	10716544	Property resales	**100**	100
Linden Court Limited	4	04322139	Dormant	**n/a**	100
Kindle Housing (Christchurch) Limited	3, 5	04737739	Affordable housing rental	**50**	50
Kindle Housing (Exeter) Limited	3, 5	05692813	Affordable housing rental	**50**	50
Kindle Housing (Worthing) Limited	3, 5	04239574	Affordable housing rental	**50**	50
Kindle Housing Limited	3, 5	04088162	Affordable housing management	**50**	50
Advantage Apartments Limited	2, 3, 5	03697251	Dormant	**50**	50
Advantage Housing Limited	2, 3, 5	03697230	Dormant	**50**	50
Advantage Homes Limited	2, 3, 5	03697079	Dormant	**50**	50

1 *These subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 August 2018*

2 *These subsidiaries are considered dormant for the year ended 31 August 2018 and have taken advantage of the section 394A exemption from preparing individual financial statements*

3 *These subsidiaries are registered at Cosmopolitan House, Old Fore Street, Sidmouth, Devon, EX10 8LS*

4 *This subsidiary has been dissolved during the financial year*

5 *These entities are joint ventures*

McCarthy & Stone (Developments) Limited is directly owned by the Company. All other subsidiaries and joint ventures are indirectly owned by McCarthy & Stone plc.

Each of the shareholdings gives the immediate parent company 100% voting rights unless stated above. YourLife Management Services Limited provides the parent with 50% of the voting rights, but also has the power to appoint the majority of the Directors. Accordingly, this gives the Group power over the relevant activities of this entity

All shares above are classified as 'ordinary'.

30. Related party transactions

Balances and transactions between the 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 Board and the Executive Board, including Non-Executive Directors. 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'*.

	2018 £m	2017 £m
Short-term employee benefits	**2.8**	2.7
Social security costs	**0.4**	0.4
Share-based payments	**-**	0.4
Pension contributions	**0.4**	0.3
Termination payments	**0.5**	-
	4.1	3.8
Aggregate emoluments of the highest paid director	**1.3**	1.0

31. Events after the balance sheet date

The following events after the reporting period required disclosure in the financial statements:

On 25 September 2018 the Group announced its new business strategy aimed at improving margins, rightsizing the operational cost base and evolving the business model to meet the changing needs of our customers. Total exceptional costs of c.£25.0m are expected across the life of the business transformation programme, with £2.0m already incurred in FY18. The majority of the exceptional costs are expected to come through in the first half of FY19, representing the cost of land that will no longer be developed, redundancy costs and further consultants' fees.

There were no events after the reporting period that required adjustment in the FY18 financial statements.

Company Statement of Financial Position

As at 31 August 2018

	Notes	2018 £m	2017 £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	**50.0**	77.3
UK corporation tax		**-**	0.6
Total current assets		**50.0**	77.9
Total assets		**489.4**	517.3
Equity and liabilities			
Capital and reserves			
Share capital		**43.0**	43.0
Share premium		**101.6**	101.6
Retained earnings		**337.8**	367.4
Equity attributable to owners of the Company		**482.4**	512.0
Current liabilities			
Trade and other payables	6	**7.0**	5.3
Total current liabilities		**7.0**	5.3
Total liabilities		**7.0**	5.3
Total equity and liabilities		**489.4**	517.3

Notes 1 to 10 form part of the financial statements shown above.

The Company has elected to take exemption s408 of the Companies Act 2006 not to present the Company Statement of Comprehensive Income. The Company recorded a loss for the year of £0.8m (2017: profit of £0.7m).

These financial statements of McCarthy & Stone plc (06622199) were approved by the Board on 12 November 2018 and signed on its behalf by:

John Tonkiss
Chief Executive Officer

Rowan Baker
Chief Financial Officer

Company Statement of Changes in Equity

For the year ended at 31 August 2018

	Share capital £m	Share premium £m	Retained earnings £m	Total £m
Balance at 1 September 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	-	-	0.9	0.9
Dividends	-	-	(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**
Loss for the year	-	-	(0.8)	(0.8)
Total comprehensive loss for the year	**-**	**-**	**(0.8)**	**(0.8)**
Transactions with owners of the Company:				
Share based payments	-	-	0.8	0.8
Dividends	-	-	(29.6)	(29.6)
Balance at 31 August 2018	**43.0**	**101.6**	**337.8**	**482.4**

Notes 1 to 10 form part of the financial statements shown above.

Notes to the Company Financial Statements

1. Accounting policies

McCarthy & Stone plc is a public Company limited by shares incorporated in England and Wales. 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.

The Company is exempt from the requirement to present its own Statement of Comprehensive Income. The Company recorded a loss for the year of £0.8m (2017: profit of £0.7m).

As permitted by FRS 102, the Company has taken advantage of the disclosure exemptions available in relation to presentation of a Cash Flow Statement, standards not yet effective and related party transactions.

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.

Further details regarding the schemes are set out in note 28 to the consolidated financial statements.

Dividend distribution

Dividend distributions to McCarthy & Stone plc'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. 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 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, 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.

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 period.

3. Staff costs

The Company had no employees during the period covered by these financial statements (2017: no employees). A management fee relating to time incurred by Directors for Group activities is recharged to McCarthy & Stone plc.

4. Investment in subsidiaries

Cost	2018 £m	2017 £m
Opening	**439.4**	439.4
Additions	**-**	-
Closing	**439.4**	439.4
Net book value	**439.4**	439.4

Investment in subsidiary undertakings relate to a 100% ownership interest in McCarthy & Stone (Developments) Limited.

The Group's subsidiary undertakings are listed in note 29 to the consolidated financial statements.

5. Trade and other receivables

	2018 £m	2017 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**50.0**	77.3
	50.0	77.3

Amounts repayable from McCarthy & Stone Retirement Lifestyles Limited are repayable on demand and carry interest of 2.2% (2017: 2.2%) at the year end date.

6. Trade and other payables

	2018 £m	2017 £m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	**5.9**	5.3
Other creditors and deferred income	**1.1**	-
	7.0	5.3

Amounts payable to McCarthy & Stone (Developments) Limited are repayable on demand and carry interest of 2.2% (2017: 2.2%) at the year end date.

7. 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	2018 £m	2017 £m
8p each fully paid: 537,329,434 ordinary shares (2017: 537,329,434)	**43.0**	43.0

Allotment of shares during the year	2018 Number '000	2017 Number '000
At 1 September	**537,329**	537,314
Issuance to satisfy early exercises under Sharesave plan	**-**	15
At 31 August	**537,329**	537,329

Dividends on equity shares

The interim dividend of 1.9p (2017: 1.8p) was approved by the Board on 10 April 2018 and paid on 8 June 2018 to all ordinary shareholders on the register of members at the close of business on Friday 4 May 2018. The ex-dividend date was 3 May 2018. The final dividend proposed by the Board is 3.5p (2017: 3.6p) per share resulting in a total ordinary dividend for the year of 5.4p (2017: 5.4p). It will be paid on 1 February 2019 to those shareholders who are on the register at 4 January 2019 subject to approval at the Company's Annual General Meeting. The ex-dividend date is 3 January 2019. These financial statements do not reflect the final dividend payment.

8. Financial instruments

The Company has the following financial instruments:

	2018 £m	2017 £m
Financial assets		
Loans and receivables measured at amortised cost:		
Trade and other receivables	**50.0**	77.3
Cash and bank balances	**-**	-
	50.0	77.3
Financial liabilities		
Loans and payables measured at amortised cost:		
Trade and other payables	**7.0**	5.3
	7.0	5.3

The Company has no derivative financial instruments. The fair value of the financial instruments is equal to their carrying values.

9. Related party transactions

The Company is exempt from disclosing related party transactions with other companies that are wholly owned within the Group, under FRS 102 33.1A. See note 30 to the consolidated financial statements.

Remuneration to key management personnel has been disclosed within note 30 to the consolidated financial statements.

10. Events after the balance sheet date

Events after the balance sheet date have been disclosed within note 31 to the consolidated financial statements.

Warning to Shareholders

Share, bond and boiler room scams

The Financial Conduct Authority ('FCA') advises that share and bond scams are often run from 'boiler rooms' where fraudsters cold-call investors offering them worthless, overpriced or even non-existent shares or bonds. Boiler rooms use increasingly sophisticated tactics to approach investors, offering to buy or sell shares in a way that will bring a huge return. But victims are often left out of pocket - sometimes losing all of their savings or even their family home. Even seasoned investors have been caught out, with the biggest individual loss recorded by the police being £6m.

How share and bond scams work

Share and bond fraud usually comes out of the blue, with scammers cold-calling investors after taking their phone number from publicly available shareholder lists. The high-pressure sales tactics can also come by email, post, word of mouth or at a seminar. These scams are sometimes advertised in newspapers, magazines or online as genuine investment opportunities. They may even offer a free research report into a company, or a free gift or discount on their dealing charges. You will often be told that you need to make a quick decision or miss out on the deal.

The scammers might also try to sell you shares or bonds in a company that doesn't exist. If you already own shares in a company, you may receive a call from someone offering to buy them at a higher price than their market value. The scam will request the money upfront as a bond or other form of security, which they say they'll pay back if the sale doesn't go ahead - but you'll never hear from them again.

Beware of clone firms

Many bogus trading and brokerage firms will use the name, 'firm registration number' ('FRN') and address of firms and individuals who are FCA authorised. This is called a 'clone firm'. The scammers then give their own phone number, address and website details, sometimes claiming that a firm's contact details on the Register are out of date. Scammers might also claim to be an overseas firm, which don't always have their full contact and website details listed on the Register. Scammers may even copy the website of an authorised firm, making subtle changes such as the phone number.

How to protect yourself

FCA-authorised firms are unlikely to contact you out of the blue with an offer to buy or sell shares or bonds.

You should only deal with financial services firms that are authorised by the FCA and check the FCA register to ensure they are. You can also check the FCA Warning List of firms to avoid at: **www.scamsmart.fca.org.uk/warninglist/** You should check the firm isn't a clone firm by asking for their firm reference number ('FRN') and contact details and then calling them back on the switchboard number on the Register - never use a link in an email or website from the firm offering you an investment. Always be wary if you're contacted out of the blue, pressured to invest quickly or promised returns that sound too good to be true.

You should seriously consider seeking financial advice or guidance before investing. You should make sure that any firm you deal with is regulated by the FCA and never take investment advice from the company that contacted you, as this may be part of the scam. The Money Advice Service has information on investing and about how to find a financial adviser at: **www.moneyadviceservice.org.uk/en/articles/choosing-a-financial-adviser#how-to-find-a-financial-adviser**. Alternatively, you could get further information from a group that represents advisers such as **The Personal Investment Management and Financial Advice Association ('PIMFA'). www.pimfa.co.uk/**

Read more about how to find a financial adviser at: **www.thepfs.org/yourmoney/find-an-adviser/**

If you have been scammed

You can report the firm or scam to the FCA by contacting the FCA Consumer Helpline on: **0800 111 6768** or using the FCA reporting form at: **www.fca.org.uk/consumers/report-scam-unauthorised-firm**

If you have already invested in a scam, fraudsters are likely to target you again or sell your details to other criminals. The follow-up scam may be completely separate or related to the previous fraud, such as an offer to get your money back or to buy back the investment after you pay a fee.

If you have any concerns at all about a potential scam, contact the FCA at: www.fca.org.uk

If you have already paid money to share fraudsters you should contact Action Fraud on: **0300 123 2040** or report via: **www.actionfraud.police.uk/Report-a-fraud-including-online-crime-questions**

Historical statistics

	FY18	FY17	FY16[1]	FY15[1]	FY14[1]
Legal completions[2]	**2,134**	2,302	2,296	1,923	1,677
Average selling price	**£300k**	£273k	£264k	£245k	£222k
Revenue	**£671.6m**	£660.9m	£635.9m	£485.7m	£387.8m
Profit before tax	**£58.1m**	£92.1m	£92.9m	£80.9m	£57.1m
Shareholders' funds	**£762.1m**	£744.7m	£697.3m	£541.8m	£477.2m
ROCE	**10%**	16%	20%	20%	17%
Tangible gross asset value	**£691.6m**	£645.7m	£574.1m	£513.5m	£451.2m
Tangible net asset value	**£695.6m**	£676.4m	£626.8m	£469.1m	£402.3m
Basic earnings per share	**8.6p**	13.8p	13.9p	13.5p[4]	n/a[4]
Dividends for the year[3]	**5.4p**	5.4p	4.5p	nil	nil
Number of shares in issue	**537,329,434**	537,329,434	537,314,069	n/a[5]	n/a[5]
Number of shareholders	**747**	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 *Excludes 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 proposed*

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):
213800CEJ4OQ5YPU8Z37

International Securities Identification Number (ISIN):
GB00BYNVD082

Ticker Symbol: **MCS**

Advisers

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**

2 Divisions
7 Regions

NORTH DIVISION
Ian Wilkins Divisional Managing Director
Ian.wilkins@mccarthyandstone.co.uk

SOUTH DIVISION
Brendon O'Neill Divisional Managing Director
Brendon.oneill@mccarthyandstone.co.uk

NORTH EAST
Aspen House
Wykeham Road
Northminster Business Park
Upper Poppleton
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Tel: **01904 444 200**

Graphic removed

NORTH WEST
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Altrincham Business Park
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Tel: **01619 416 255**

EAST MIDLANDS
Orion House, Orion Way
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Tel: **01536 220 700**

WEST MIDLANDS
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Harry Weston Road
Binley Business Park
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NORTH LONDON
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Hatfield AL9 5DA
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SOUTH EAST
2 Genesis Business Park
Albert Drive
Woking GU21 5RW
Tel: **01483 908 600**

HEAD OFFICE
4th Floor, 100 Holdenhurst Road
Bournemouth, Dorset BH8 8AQ
Tel: **01202 292 480**

SOUTHERN
Southern House
1 Embankment Way
Ringwood BH24 1EU
Tel: **01425 322 000**

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
'BSG'	the Building Safety Group is a not-for-profit organisation which specialises in providing Health, Safety and Environmental advice for the construction industry
'Capital turn'	calculated by dividing revenue by the average opening and closing tangible gross asset value in the year
'CGU'	cash generating unit
'CIL'	the Community Infrastructure Levy of the Community Infrastructure Levy Regulations 2010
'Company'	McCarthy & Stone plc
'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
'DCLG'	the Department for Communities and Local Government
'EPS'	profit attributable to ordinary shareholders (excluding exceptional items) divided by the weighted average number of ordinary shares in issue during the financial year
'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
'FTSE'	the Financial Times Stock Exchange
'Gearing'	gearing is calculated by dividing net debt by net assets
'Group'	the Company and its consolidated subsidiaries and subsidiary undertakings
'Interest cover'	calculated by dividing a underlying operating profit before depreciation and intangibles amortisation by the net interest expenses (excluding revaluations) for the same period
'IPO'	Initial Public Offering
'Land bank'	includes owned sites and exchanged sites
'LIBOR'	the London interbank offered rate
'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
'Net assets'	net assets is calculated as total assets less total liabilities
'Net debt/cash'	cash and cash equivalents less long-term and short-term borrowings (excluding unamortised debt issue costs)
'NHBC'	National House Building Council
'PRS'	Private Rented Sector
'ROCE'	return on capital employed - calculated by dividing underlying operating profit by the average opening and closing tangible gross asset value in the year
'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
'TGAV'	tangible gross asset value - calculated as TNAV less net debt/cash
'TNAV'	tangible net asset value - calculated as net assets excluding goodwill and intangible assets
'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
'Underlying profit before tax'	calculated by adding amortisation of brand and exceptional administrative expenses to profit before tax
'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

Financial KPI's	Definition	Why we use
'Revenue'	Represents the consideration received from the sale of leasehold interetst in retirement apartments, freehold interests in houses and bungalows and income from the sale of freehold reversionary interests. Revenue is recognised on legal completion	Key driver for the business. Tracks progress on strategy
'Underlying operating profit margin %'	Calculated by dividing underlying operating profit for the year by revenue See note 5 to the consolidated financial statements for reconciliation	Details profitabilty of our business before finance costs, tax and exceptional items. Measures the efficiency of our business operations
'Underlying operating profit'	Calculated by adding amortisation of brand and exceptional administrative expenses to operating profit for the year See note 5 to the consolidated financial statements for reconciliation	Details profitabilty of our business before finance costs, tax and exceptional items. Measures the efficiency of our business operations
'Profit before tax'	Profit before tax of the Group including share of profits from joint ventures	Measures the profitability of the business after adminstrative costs and other operating income and expenditure
'Return on capital employed %'	Calculated by dividing underlying operating profit for the previous 12 months by the average TGAV at the beginning and end of the 12 month period See note 5 to the consolidated financial statements for reconciliation	Ensures efficient and effective use of capital and is a key measure for assessing the performance of the Executive Directors
'TGAV'	Tangible gross asset value, calculated as TNAV less net debt See note 5 to the consolidated financial statements for reconciliation	Represents total amount of physical assets owned by the Group
'TNAV'	Tangible net asset value, calculated as net assets excluding goodwill and intangible assets See note 5 to the consolidated financial statements for reconciliation	Represents total amount of physical assets owned by the Group minus liabilities
'Year end net cash/(debt)'	Calculated as cash and cash equivalents less total borrowings See note 22 to the consolidated financial statements for reconciliation	To ensure effective liquidity and cash management is a focus of the business to fund its ongoing operational commitments
'Earnings per share'	Calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year See note 5 to the consolidated financial statements for reconciliation	Shows profit attributable to each share and used to calculate the amount of dividend per share. Also used as a key measure for assessing performance of the Executive Directors
'Operating profit margin'	Operating profit divided by total revenue, expressed as a percentage	Demonstrates profitability of our business before finance costs and tax. Used to assess the efficiency of our operations
'Cost saving'	Reduction in costs incurred on existing operations compared to the previous period	Demonstrates whether we are on track to optimise our operations for strong financial performance
'Cash saving'	Reduction in cash spent on existing operations compared to the previous period	Demonstrates whether we are on track to optimise our operations for strong financial performance

Glossary *continued*

Non-Financial KPI's	Definition	Why we use
'Legal completions'	The Group recognises a legal completion at the point of completion of a sale of a property to a purchaser	Reflects sales activity and growth of the business and also used as a method by which the business capacity is monitored
'Average selling price'	Average list price less cash discounts and part-exchange top-ups	A driver of revenue, reflects competitive position against other homebuilders and change in regional and product mix
'Land bank'	Includes owned sites and exchanged sites	Drives the ownership of the optimum amount of land to support the business and long term prospects and sustainability
'First occupation'	A milestone in a cycle of our development being the date of the first legal completion within a given development	Demonstrates the efficiency of the development and build cycles of the business and effectively increases stock turn
'Build cycle time'	Defined as the length of time from the date of build start to the date of first occupation	The measure is used to determine the efficiency and effectiveness of the build process and the draw on working capital
'Customer Satisfaction'	Customer satisfaction survey of new homeowners by the National Housebuilder Council and Home Builders Federation. The percentage of homebuyers who would recommend McCarthy & Stone to a friend	Used as a benchmark against our peers in relation to build quality, customer satisfaction and is also used as a measure for Executive Remuneration. Customer satisfaction is of the highest importance to the Group
'Growth of Management and Care services'	Revenue generated by the Management and Care Services function as a percentage of total Group revenue	Management and Care Services is fundamental to achieving our vision and purpose
'Shared ownership offering'	Number of properties sold on a shared ownership basis as a percentage of total completions during a given period	Shared ownership is part of the multi tenure offering and strategic objective of capitalising on wider market opportunities
'Rental offering'	Number of McCarthy & Stone properties occupied on a rental basis as a percentage of total completions during a given period	Rental option is part of the multi tenure offering and strategic objective of capitalising on wider market opportunities
'Lower cost product'	A product range reflecting streamlined, contemporary and compact design at mass market average prices	Lower cost product is part of our strategic objective to improve product affordability
'Meals served'	Number of meals served to our customers at Retirement Living PLUS developments to existing customers	Demonstrates the number and growth of customers who are benefiting from our Management and Care services
'Number of residents'	Number of customers currently residing in the developments that are managed by McCarthy & Stone	Demonstrates the number and growth of customers that are living in one of our developments
'Developments under management'	Number of developments which are managed by our in-house Management and Care Services function	Demonstrates the number and growth of developments that are currently being managed by our in-house Management and Care Services
'Hours of care and support'	Number of hours that have been provided to customers for care and support within our developments by our in-house Management and Care Services function	The number and growth of hours that have been provided to customers for care and support within our developments by our in-house Management and Care Services function
'New Retirement Living developments sales releases'	Shows the number of new Retirement Living sites that have become available for reservation by the prospective customers during the given period	Demonstrates the capacity, efficiency and effectiveness of our Development and Build cycles and effective use of our working capital for our Retirement Living sites

Non-Financial KPI's	Definition	Why we use
'Retirement Living units sold'	Units legally completed during the given period at our Retirement Living developments	Reflects sales activity and growth of the business and also used as a method by which the business capacity is monitored at Retirement Living product level
'New Retirement Living PLUS developments sales releases'	Shows the number of new Retirement Living PLUS sites that have become available for reservation by the prospective customers during the given period	Demonstrates the capacity, efficiency and effectiveness of our Development and Build cycles and effective use of our working capital for our Retirement Living PLUS sites
'Retirement Living PLUS units sold'	Units legally completed during the given period at our Retirement Living PLUS developments	Reflects sales activity and growth of the business and also used as a method by which the business capacity is monitored at Retirement Living PLUS product level
'Number of land exchanges'	Number of land sites for which purchase contracts have been exchanged but not legally completed	Demonstrates the capacity and efficiency of our land buying function
'Investment in land'	Represents the amount of capital invested in the purchase of land	Demonstrates how we use our capital and is an indicator of the amount of investment in land
'Detailed planning consents'	Planning consent from local planning authorities required in the UK in order to be allowed to build on land or change the use of land or buildings. Detailed planning consents grant permission for all aspects of a proposed development, generally subject to the local planning authorities conditions (such as undertakings regarding environmental or noise issues), as opposed to outline planning consents which do not give permission to all aspects of a proposed development and typically represent an agreement in principle without a determination of the particular form of design or layout of the proposed development	Demonstrates effectiveness of our planning process and workflow
'Development cycle time'	Time taken between land exchange and build start for our developments	Demonstrates efficiency of our planning and design process for our developments and working capital draw
'Build starts in the year'	Defined as the number of sites where building has commenced during the year	Indication of our workflow compared to previous years
'Off plan reservations'	Number of properties that have been sold subject to contract prior to first occupation	Indicator of effectiveness of our Sales and Marketing function and an indicator of the desirability and demand of our units
'Customer Quality Care (CQC) score'	Public body independent inspection of health and social care standards of our Management and Care function	Important regulatory score of our compliance with Health and Social care standards used to ensure we are compliant with applicable standards

Notes

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