McCarthy & Stone Investment Properties No. 23 Ltd
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Annual Report 2019

MONDAY
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COMPANIES HOUSE

Operational Highlights

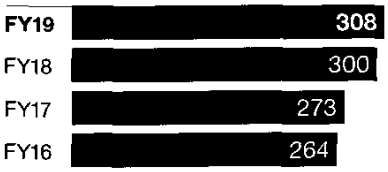
14 months to 31 October 2019

Legal completions[1]
Units

2,301 Units

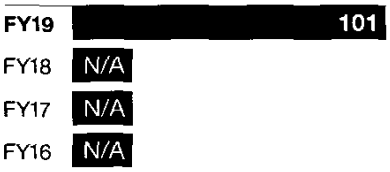
Average selling price
£k

£308k



Rental completions[2]
Units

101 Units



Land bank
Units

7,695 Units

Build cycle time
Months

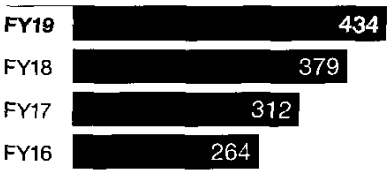
14 Months

First occupations
Number of developments

53 Developments

Developments under management
Number of developments

434 Developments

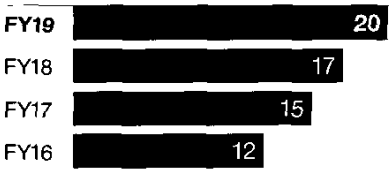


Customer satisfaction3
%

92.8%

Customers
of Management, Care and Wellbeing Services
Number in c.000s

c.20k



All comparatives are to the 12 month financial years ending 31 August unless otherwise stated

1 Includes Outright Ownership completions and Shared Ownership completions. Includes a bulk sale of 113 units (FY18: 68 units)

2 Excludes rent to buy units

3 Survey of new homeowners by the NHBC and HBF 2019

Financial Highlights

14 months to 31 October 2019

Revenue
£m

£725m

Operating profit
£m

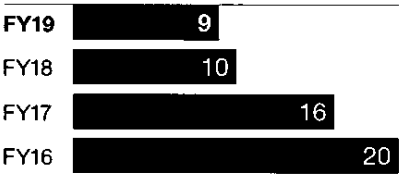
£48m

Underlying operating profit[3]
£m

£68m

Underlying operating profit margin[1, 3]
%

9%



Profit before tax
£m

£43m

Year end net cash/(debt)[2, 3]
£m

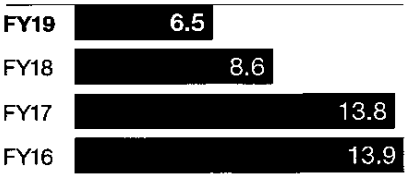
£25m

Return on capital employed[1, 3]
%

10%

Earnings per share
Pence

6.5p



Dividend per share
Pence

5.4p

All comparatives are to the 12 month financial years ending 31 August unless otherwise stated

1 *Underlying operating profit margin and Return On Capital Employed have been reconciled within note 7 to the consolidated financial statements*

2 *Net cash/(debt) has been reconciled within note 25 to the consolidated financial statements*

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 3 to the financial statements*

Contents

Strategic Report

Our Purpose	02
Our Strategy update	04
Chairman's Statement	06
Chief Executive Officer's operational review	10
Our Market	14
Our Communities	18
Our Business Model	35
Financial Review	46
Risk Management	50

Corporate Governance

Board of Directors	58
Corporate Governance Statement	60
Nomination Committee Report	68
Risk and Audit Committee Report	72
Directors' Remuneration Report	78
Directors' Report	108
Statement of Directors' Responsibilities	116

Financial Statements

Independent Auditor's Report	120
Consolidated Statement of Comprehensive Income	128
Consolidated Statement of Financial Position	129
Consolidated Statement of Changes in Equity	130
Consolidated Cash Flow Statement	131
Notes to the Consolidated Financial Statements	132
Company Statement of Financial Position	164
Company Statement of Changes in Equity	165
Notes to the Company Financial Statements	166
Warning to Shareholders	170
Historical Statistics	171
General Information	172
Glossary	174

Front cover developments:

Top: **Swinden Court**, Darlington, County Durham
Middle: **The Boathouse**, Southampton, Hampshire
Bottom: **Neptune and Triton House**, Worthing, West Sussex

Graphic removed

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Magpie Court, Bristol
Magpie Court, opened by Fred Dineage of 'How' fame

Strategic Report

Our Purpose	**02**
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Financial Review	**46**
Risk Management	**50**

Our Purpose

Graphic removed

Our Purpose

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

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Our Vision

To create even deeper and longer lasting relationships with our customers

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Community
Independence
Support
Convenience
Affordability

Graphic removed

Our Strategy

To become the UK's leading developer and manager of retirement communities

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Our Initiatives

Choice
- Multi-tenure options

Affordability
- Streamlined, contemporary and compact architectural designs at mass market prices

Flexibility
- Flexible, future proofed services evolving with customers' needs
- Variety of payment options

*Above left: **Watson Place**, Chipping Norton, Oxfordshire*
*Above right: **Chiltern Place**, Amersham, Buckinghamshire*

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Creating communities

Putting our customers at the heart of everything we do

We will increase our customer appeal, diversify our revenue streams and reduce our exposure to market cyclicality by focusing our approach on what our customers value[1]: **Independence**, **Support**, **Convenience**, **Community**, **Affordability**.

Our Business Model

Targeted Land Acquisition

Effective Planning and Design

High Quality and Safe Construction

Specialist Sales and Marketing

Management, Care and Wellbeing Services

Our Positive Impact

Customers

- Improved quality of life
- Convenience
- Enhanced security
- Sense of community
- Increased independence
- Reassurance for family
- High quality care and support
- New friendships

Society

- Reduced pressure on health and care services
- Unlock the housing market with c.2-3 further moves from each sale or rental[1]
- Support first time buyers
- Reduced loneliness among older people
- Bring life back to town centres with c.80% of our customers using local shops almost daily[2]
- £3.5k saving per person, per year to the NHS and social care[3]
- C.£200k raised for Beanstalk our charity partner

Employees

- Improved satisfaction and wellbeing
- Enhanced loyalty
- Increased knowledge and skills
- Pay and rewards
- Increased employee engagement
- Making a difference to society

Environment

- Highly sustainable form of housing
- Health, safety and environmental statement of intent
- 97% of our sites are on brownfield land
- 97% of construction site waste is recycled
- New Enterprise Car Clubs initiative, reducing overall car usage

Investors

- Strong market fundamentals
- Improved cash utilisation
- Increased market penetration
- New revenue streams
- Robust dividend
- Balanced risk

1 Savilles World Research 2015, Housing and Ageing Population
2 Ball, Metal (2011), Housing Markets in Old Age, Henley Business School, University of Reading
3 WPI (2019)

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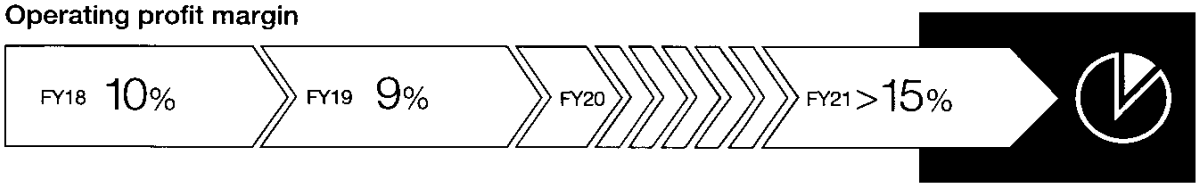
Our Strategy update

On track to deliver our strategic objectives, the Group's main priority this year was to start delivering on its three year programme of business optimisation. The strategy will deliver:

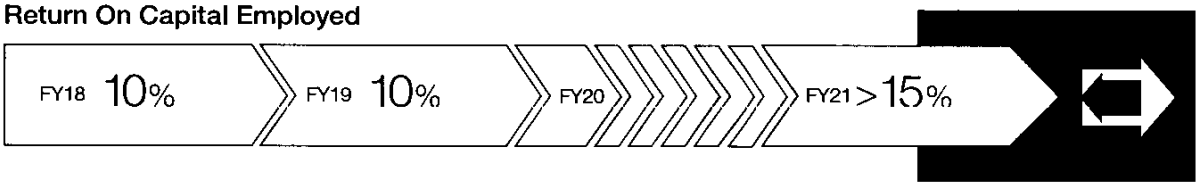
Stage 1 FY19-FY21: Optimisation of operations

Three year programme of business optimisation with focus on delivering >15% ROCE, >15% operating profit margin by FY21 and cumulative cash savings of >£90m across the life of the plan. The Group's strategy is being delivered through four key workstreams - workflow realignment, rightsizing the business, establishing an efficient sales and marketing model and delivering build cost reductions. This strategy remains on track and is expected to deliver c.£40m cost savings which will be weighted towards delivery in FY21 due to its focus on build cost savings.

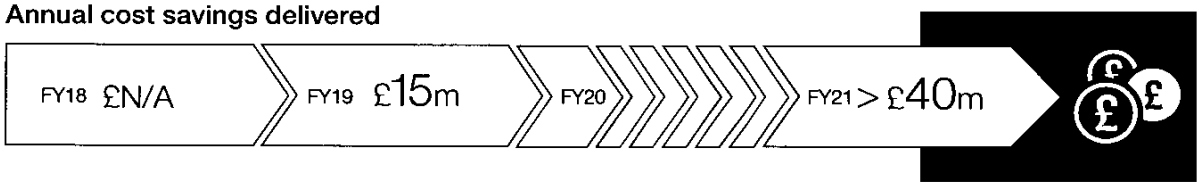
Operating profit margin



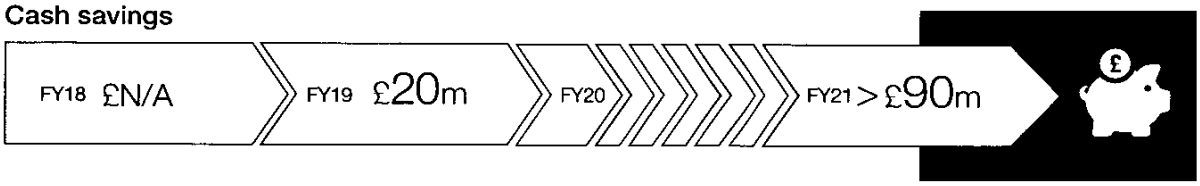
Return On Capital Employed



Annual cost savings delivered



Cash savings



Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Significant progress has been made with our long-term strategic initiatives:

Stage 2 FY19-FY23: Leveraging strategic opportunities

The Group's three long-term strategic initiatives designed to leverage the long-term opportunities in this sector; **Choice of tenure**, where the new rental proposition is gaining significant momentum; **Flexibility of services**, where the Group has now taken full ownership of its care and services operation and is therefore now one of the largest operators in the Housing with Care Sector; and **Affordability of product**, with the Group's first development using Modern Methods of Construction (MMC) set to start construction during FY20.

Developing a new asset class through multi-tenure

Choice

Graphic removed — **Sales*:** 2,301

Graphic removed — **Shared Ownership:** 47

Graphic removed — **Rental:** 101 New professional rental team in place

Growing Management, Care and Wellbeing Services to 5% of Group Revenue

Flexibility

FY18 1% > FY19 2% > FY20 > > > > > > FY23 > 5%

- ✓ YourLife Management services brought fully in-house
- ✓ New services introduced, including bistro restaurants and car clubs
- ✓ Expanded care offering, with flexible care options now also available in select Retirement Living developments

Streamlined, contemporary and compact affordable designs

Affordability

- ✓ New and more contemporary product designs rolled out
- ✓ Volumetric and panelised designs developed
- ✓ Increased market penetration through lower cost product offering
- ✓ Modern methods of construction (MMC) partners being considered

Making a difference

Impact

- ✓ Customers are healthier and happier
- ✓ Reduced burden and costs to the NHS
- ✓ Families feel comforted knowing parents are safe and cared for
- ✓ Unlocks the secondary housing market
- ✓ Brownfield sites are being developed to create beautiful communities
- ✓ Improved local commerce
- ✓ Employment opportunities created
- ✓ Improved margins and increased ROCE by FY23

**Includes Shared Ownership*

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Chairman's Statement

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"Significant progress has been made in both stages of the strategy during the year"

Paul Lester, CBE Group Non-Executive Chairman

Transformation in progress

The last financial year marked the first year of a transformation strategy for McCarthy & Stone as the Group began the implementation of its two-stage strategy to become a developer, owner and manager of retirement communities.

Significant progress has been made in both stages of the strategy during the year. As part of the first stage of operations optimisation (FY19 - FY21), the Group delivered £15m of annualised savings. Overheads were optimised and its structure realigned to drive increased focus on the customer by bringing sales and services closer together and reframing the development part of the business to deliver increased value in our development pipeline. These two core activities are led by our two Chief Operating Officers appointed in January 2019: Mike Lloyd (COO - Services & Customers) and Nigel Turner (COO - Build). There has also been significant focus on improving margins on our FY21 schemes which are now set up to deliver savings in FY21 as planned.

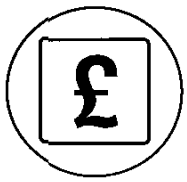
Good progress was also made with the Group's second stage of the strategy focused on leveraging strategic opportunities (FY19 - FY23), through providing customers with Choice of tenure, Flexibility of service and Affordability of products. Following successful incubator trials early in the year, the newly launched rental and multi-tenure offering is gaining strong momentum, with a total of 169 rental and shared ownership transactions having been completed, helping the Group to address a challenging secondary housing market and enabling it to tap into broader demand for retirement housing. Rental and multi-tenure offering is expected to form a larger proportion of overall volumes in FY20 and beyond as the Group progresses towards securing third-party investment and builds a new asset class.

From the outset, the Board has been of the view that the delivery of the Group's strategy and its transformation with greater focus on providing customers with choice of services and tenure, requires an exceptional leadership team with the right skills and capability and the appointment of the two exceptional candidates as COOs were critical to achieving this, as demonstrated by the significant progress made during the first year of the five year strategy.

£725m
Revenue
(FY18: £672m)

£43m
Profit before tax
(FY18: £58m)

5.4p
Dividend per share
(FY18: 5.4p)



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2019 performance

Despite continuing subdued secondary housing market conditions and strategic structural changes to the business, during the 14 month period ended 31 October 2019 the Group delivered revenue of £725m (2018: £672m) reflecting a 3% improvement in average selling price to £308k (2018: £300k) and legal completions of 2,301 units (2018: 2,134).

During the 14 month period, the Group achieved an underlying operating profit of £68m (2018: £68m), while the Group's underlying operating profit margin reduced to 9% (2018: 10%) in line with expectations, primarily as a result of an increased usage of part-exchange and incentives to counteract the subdued secondary housing market.

As we become a more customer led business, the Group is particularly proud to lead the sector on customer satisfaction and continues to be 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 14 consecutive years, in which more than 92.8% of our customers would recommend the Group to a friend.

Sector fundamentals and the UK economic and political environment

The market for retirement communities remains highly attractive, underpinned by high demand and a chronic under-supply of suitable housing options for older people. According to the Office of National Statistics (ONS) national population projection, the number of people aged 65 or over will rise by 43% to 17.4 million and people aged 85 or over by 87% to 3 million by 2043 and yet just c.8,000 new retirement units came to the market across all tenures in 2019 against an estimated demand of up to 30,000 units per year, according to EAC (2019) and Knight Frank (2016) reports. Demand for adult social care services is also set to rise significantly from c.700,000 people in 2020 to c.1.2 million in 2040, according to the PSSRU 2018 report.

In addition, the Group's own annual survey of 3,011 people aged 65 and over living in the UK, undertaken in conjunction with YouGov in 2019, found that 33% would consider downsizing, equating to c.4 million people.

Despite these strong fundamentals, trading conditions during the reporting period remained challenging due to the impact of ongoing political and economic uncertainty on the secondary housing market, which constrains the ability of our customers to sell their own property. Additional uncertainty over potential stamp duty changes also dented transaction levels. The Group's reservation rates were also impacted by five weeks of campaigning ahead of the General Election held on 12 December 2019.

Looking ahead, the results of the General Election are likely to somewhat remove the overhang of political uncertainty, but economic uncertainty linked to the outcome of negotiations on the UK future relationship with the EU is expected to continue throughout the new financial year.

Making a real difference as a responsible and sustainable business

The Group is focused on creating retirement communities, enriching the lives of its customers and employees and this influences all of its activities, from identifying and buying suitable land, to designing, building, selling and managing high quality, age-exclusive communities.

As a result, the Group has a positive impact on its customers and their families by removing burdens and worries of looking after large family homes, providing high quality care and support, helping to build new friendships and giving families peace of mind that their loved ones are cared for.

The Group's land buying activities have a significant positive impact on towns and local communities by bringing life back to town centres. 97% of development sites are brownfields and c.80% of residents in our communities use local shops almost daily.

The Group's care services have also been shown to reduce pressure on the health and social care service, saving c.£3,500 per person per year according to WPI 2019 data.

Through providing appropriate housing for downsizers, the Group also unlocks housing supply, as each sale results in around two to three further moves[1], supporting first time buyers and young families, and increasing stamp duty revenue for the Treasury.

The Group's land buying activities have a significant positive impact on towns and local communities by bringing life back to town centres, 97% of development sites are brownfield and c.80%[2] of customers in our communities use local shops almost daily.

1 *Savilles World Research 2015, Housing and Ageing Population*

2 *Ball, Metal (2011), Housing Markets in Old Age, Henley Business School, University of Reading*

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Chairman's Statement *continued*

The Group is committed to running the business in a responsible and sustainable manner when it comes to the environment. C.97% of construction site waste is currently recycled, new environmentally friendly Modern Methods of Construction are on trial as part of our new transformation strategy and we are looking to optimise parking requirements for all new developments given their central locations. A trial involving an electric shared car pool is also underway with initial favourable customer feedback.

During 2020, there will be an increased Board focus on sustainability through a newly formed Board Corporate and Social Responsibility (CSR) Committee chaired by Geeta Nanda. This will be an independent committee overseeing the work of the existing CSR committee at the Executive level. The Board Committee will be responsible for making recommendations regarding the Group's employees, environmental, societal and community engagement and its sustainability activities. It will also review health and safety arrangements and make any recommendations necessary to the Health and Safety Committee.

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 (2018: 3.5p per share), making the total dividend for the 14 month period 5.4p per share (2018: 5.4p per share). This payment is in line with the dividend paid in the prior year despite the Group's lower profits and signals the Board's confidence in its new strategy.

Board changes

We continue to strengthen our leadership team and have made the following Board changes during the year:

1 January 2019	Mike Lloyd appointed to the Board as COO - Services & Customers
1 January 2019	Nigel Turner appointed to the Board as COO - Build
10 April 2019	Gill Barr was appointed a Non-Executive Director and Chair of The Remuneration Committee
22 May 2019	John Carter, existing Non-Executive Director, assumed the newly formed role of Company designated Non-Executive Director for engagement with the workforce
31 October 2019	Mike Parsons stepped down as Independent Non-Executive Director

Post year end changes

15 January 2020	Geeta Nanda existing Non-Executive Director, assumed the newly formed role of Chair of Corporate and Social Responsibility Committee
20 January 2020	Adam Batty appointed as new General Counsel and Company Secretary

Proposed changes to remuneration policy for FY20-22

The current remuneration policy was put in place at the time of the Company's IPO. Since that time the UK Corporate Governance Code has been updated and market practice and investor views have evolved. The Group also appointed Gill Barr as the new Chair of the Remuneration Committee in April 2019. The policy has therefore been updated to take account of these developments as well as to clarify and refine some of the more widely drawn aspects of the policy that are not required for the next policy period, namely pension contributions, discretion and clawback as well as shareholding requirements for Executive Directors. Full details of the incentive plan payments for FY19 and proposed changes to the remuneration policy can be found in the Remuneration Report in the Annual Report which will be published in February 2020.

In conclusion, I would like to express our gratitude to all stakeholders for their continued support of the Group during these challenging years. McCarthy & Stone has unparalleled knowledge of the market with over 40 years' experience, a highly skilled workforce, a talented leadership team and a national presence, which combined with exceptionally strong fundamentals, a rapidly ageing population and success so far with the new strategy means that the Group has a more resilient business model and is well-placed to respond positively when market conditions improve.

Paul Lester, CBE
Group Non-Executive Chairman
27 January 2020

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Beanstalk

Our charity partner - inspiring the next generation of readers

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Beanstalk are a national children's literacy charity who provide one-to-one support to disadvantaged children who struggle to read. We are delighted to have raised c.£200,000 for our chosen charity partner for the last 12 months and we thank our employees, customers and partners for raising money for this important charity.

As part of this fundraising, we were pleased to raise c.£70,000 in one evening at the McCarthy & Stone 'Supplier Gala Dinner', which was held at Coombe Abbey in Coventry.

Above left: Beanstalk cheque presentation at the North East office Winter Ball
Above right: Ginny Lunn, Beanstalk CEO and John Tonkiss at the 'Supplier Gala Dinner'

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Chief Executive Officer's operational review

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"The Group's strategy has driven a solid FY19 trading performance against a backdrop of another challenging year in the secondary housing market"

John Tonkiss, Chief Executive Officer

Our results

The Group's new strategy has driven a solid FY19 trading performance, against a backdrop of another challenging year in the secondary housing market during the 14 month period ended 31 October 2019. The Group delivered revenue of £725m (2018: £672m), supported by a 3% improvement in average selling price, which increased during the period to £308k (2018: £300k) reflecting improvements in the quality and locations of our developments.

Trading volumes remained resilient during the period, despite more challenging conditions within the secondary housing market, largely due to the continuing political and economic uncertainty, as evidenced by persistently low levels of national housing transactions and a declining consumer confidence index. Additional uncertainty over possible stamp duty changes, which were trialled as part of the Government's plans over the summer, created further customer inertia and impacted transaction levels, making trading conditions more challenging. Despite this, however, the Group delivered 2,301 legal completions during the 14 month period (2018: 2,134).

Market demand

The structural imbalance between supply and demand within the housing market continues to provide us with an exceptional market opportunity over the medium and long-term, and the Group welcomes the recent commitments from the new Government to deliver more homes. This structural imbalance is particularly acute in the market for retirement housing where the demand is estimated at 30,000[1] retirement units per annum against a supply of just c.8,000[2] units across all tenures.

To address this imbalance and as part of our strategy, we see tremendous opportunity in providing a greater choice for customers through multi-tenure solutions. According to the English Housing Survey 2019, around one in five households (19%) in England live in the private rented sector, which is equivalent to 4.5 million households, making it the second largest tenure after home ownership, and a part of the market that has grown significantly in recent years. By comparison, 17% (4 million) live in the social rented sector and 64% (14.8 million) are owner occupiers.

£308k
Average selling price
(FY18: £300k)

7,695units
Land bank
(FY18: 9,797 units)

92.8%
Customer satisfaction
(FY18: 93.5%)

1 EAC (2019)
2 Knight Frank (2016)

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Our own research also suggests that 50% of our customers would also be happy to consider renting, many of whom are currently owner occupiers, which suggests strong demand in this space.

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.20,000 customers within 434 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 update

Stage 1 FY19-FY21: *Optimisation of operations*

The Group's main priority this year was to start delivering on its three year programme of business optimisation with focus on delivering >15% ROCE[1], 15% operating profit margin[2] by FY21 and cumulative cash savings of >£90m across the life of the plan. This strategy remains on track and is expected to deliver c.£40m cost savings which will be weighted towards delivery in FY21 due to its focus on build cost savings. This part of the Group's strategy is being delivered through four key workstreams - workflow realignment, rightsizing the business, establishing an efficient sales and marketing model and delivering build cost reductions. In FY19, we delivered £15m of cost savings and £20m cash savings across these workstreams.

The Group has substantially completed its work to rightsize the business and optimise its operational cost base to deliver steady state volumes, resulting in an annualised cash saving of c.£10m. Additional steps to optimise its operating business in line with the Group's strategy were also taken which will drive increased focus on the customer by bringing sales and services closer together and reframe the development part of the business to deliver increased value in our development pipeline. This realignment consolidates our operational footprint into four development divisions and will help strengthen the Group's oversight as well as reducing costs further.

Additional headcount savings of c.£2m have also been achieved as part of our strategy to optimise the Group's sales operating model and the Group's focus in FY20 now turns to improving off-plan sales and reducing incentive costs via strategic use of part-exchange and shared ownership models. These key initiatives will be supported by the Group's new salesforce CRM system which has now been rolled out across all divisions, further marketing investment and the recent launch of an improved new website.

The build cost reduction initiative is also progressing well delivering £3m savings this year and with key savings already embedded in construction budgets for FY20 sites. Specific plans are now in place to deliver an average improvement of c.£10k per unit across our FY21 schemes. This activity is expected to deliver more than half of the proposed c.£40m cost saving in FY21.

The Group is now focusing on increasing land optionality to ensure that the business is well positioned to respond when market conditions improve.

In line with the Group's strategy to smooth its workflow and legal completions delivery, during the 14 month period the Group delivered 53 high quality first occupations (2018: 68), 38 planning consents (2018: 37), 34 land exchanges (2018: 54) and 40 build starts (2018: 53) during the period. The Group is now focusing on increasing land optionality to ensure that the business is well positioned to respond when market conditions improve.

Year end finished stock levels reduced to 1,628 (2018: 1,785) and are expected to reduce further by the end of FY20 given the lower level of planned FY20 first occupations (c.37) (2019: 53) and the increased focus on selling down recently released finished inventory (c.90% of stock is under 2 years old). This is in line with our new strategy and underpins a strong cash position by the end of the year in line with our strategic plan.

1 Return On Capital Employed (ROCE) is calculated by dividing underlying operating profit by the average Tangible Gross Asset Value at the beginning and end of the period. TGAV is calculated as TNAV less net debt

2 Calculated as underlying operating profit divided by revenue for the year

Chief Executive Officer's operational review *continued*

Stage 2 FY19-FY23: *Leveraging strategic opportunities*

During the period, the Group has also made good progress with its three long-term strategic initiatives to provide customers with increased Choice, Flexibility and Affordability and leverage the long-term opportunities in this sector.

Choice

- We made excellent progress with our new multi-tenure offering, giving our customers a choice of ownership, with a professional rental team now in place. This was rolled out to more than 70 developments nationally by the end of the reporting period, following successful trials in the spring that confirmed strong demand for rental across both the Retirement Living and Retirement Living PLUS products.
- As of 26 January 2020, the multi-tenure offering was live across all our developments with 175 rental, 43 rent to buy and 75 part-buy part-rent reservations since this initiative commenced.
- Good progress has been made in building a 'seed investment portfolio' of >100 rentals with attractive gross rental yields[1] of c.6%-8%. The Group has mandated Rothschilds & Co to secure high quality third-party capital partners to co-invest in the Group's retirement rental strategy and to create a portfolio of scale up to an asset value of c.£300m over the next three years with strong yields and low occupancy churn focused entirely on the hugely underserved retirement living sector. This workstream is well progressed and the Group has now received investment proposals from high quality funding partners with commercial negotiations ongoing. We have a strong pipeline with potential to develop into a full Build to Rent (BTR) strategy.
- Following this successful roll out and ramp up in H2 FY19, we now expect an increased proportion of our 2,100 targeted volumes to come from the new rental offering during FY20.

Flexibility

- In July, we took full ownership of our care and services operation and we are therefore now one of the largest operators in the Housing with Care sector. We continue to offer and test new services across our developments while also expanding our care offering into our Retirement Living developments and increasing catering options.
- This represents the first milestone towards the Group's target of generating >5% of Group revenue from management services by providing flexible, future proofed services that evolve with our customers' needs.

Affordability

- We have been working with potential partners in the volumetric and panelised development industry to progress our plans to develop a new and more contemporary product with a more efficient layout utilising Modern Methods of Construction (MMC) to accelerate construction times, improve build quality further, reduce costs and ultimately lower average selling prices to help maintain our mass market appeal.
- As a result, our first development to be built using MMC is set to start construction during FY20.

Land bank

During the 14 month period, we invested £111m (2018: £112m) in land and our landbank now stands at 7,695 units (2018: 9,797 units), which equates to 3.7 years' supply (2018: 4.7 years' supply) based on current unit sales volumes. 34 high quality sites with attractive embedded margins were added to the landbank during the year (2018: 54). This is in line with our new strategy focusing on a more measured trajectory and smoother workflow objectives.

Our focus on quality

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 2019. This marks the fourteenth consecutive year in which we have achieved a five star rating and this year 92.8% of our customers have said that they would recommend us to a friend. We are the only developer 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 during this transformational 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 and I am personally involved in establishing employee engagement plans to support our new strategy, transitioning to a customer centric business with increased proportion of services. In addition, the voice of our employees is now represented at Board level through John Carter, who became Non-Executive Director responsible for engagement with our workforce in May 2019.

1 Gross rental yield: this is Rental Yield on an investment before any associated costs for managing the investment are taken into account

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

During the year, we introduced a structured employee opinion survey with an excellent response rate of 74%, exceeding the industry standard of 60%. Our survey delivered positive Engagement index and Culture and Transformation index scores, and we were pleased that c.80% of respondents said they felt positive about working for the company.

We are in our third year 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 2019 was another 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.

In 2019, 10 (2018: 20) of the Group's Site Managers were quality award winners in the NHBC Pride in the Job Awards. In addition, two of the winners went on to win Seals of Excellence and one colleague went on to receive the Regional Award for the South West. These awards are the most prestigious within the industry and our success is testament to the hard work of all our employees across the Group.

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 remains 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 FY19, we were pleased to receive HNBC Health and Safety Awards: four commended and two highly commended awards. McCarthy & Stone is proud that the Group's high standards of health and safety have been recognised by external inspectors across multiple sites. This reflects a 100% increase in total NHBC awards received compared to last year (2018: 3).

Continuing work with the Government

Throughout the year, we continued to engage with Government departments on a variety of issues, including planning, stamp duty, social care and ground rents, making the case for the retirement community industry as a whole.

We welcomed new national planning guidance for councils on older and disabled people's housing which was published by the Ministry of Housing, Communities and Local Government (MHCLG) on 26 June 2019. It recognised that local authorities should do more to plan for the provision for specialist housing for older people, noting that the need for this form of housing has become 'critical'. In particular, the document confirmed that retirement communities have a different viability model and should be assessed differently to mainstream housing during Section 106 discussions.

We were also pleased to see MHCLG's publication of its response to its October 2018 consultation on ground rents on 27 June 2019, where the government confirmed that the retirement community sector will be given an exemption and permitted to charge an economic ground rent after they are reduced to zero elsewhere. We continue to discuss the detail of the exemption with the Government and will work with them as the proposals pass through Parliament.

Outlook

The Group's new strategy has driven a solid trading performance in a difficult market. Although the result of the General Election in December 2019 eased the political uncertainty, the pre-election period impacted our performance at the start of H1, and our H1 out-turn is expected to be lower than the prior year. Our full year out-turn remains in line with expectations, weighted towards H2.

We expect to see an increased opportunity for multi-tenure, which has made a positive start and is expected to become a more substantial part of the Group's overall volumes in FY20 and beyond.

Our focus on optimising financial performance will continue as the Group's new strategy develops throughout FY20, with the majority of benefits coming from our build cost reduction initiative, which will result in an improved operating margin in FY21.

John Tonkiss
Chief Executive Officer
27 January 2020

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Our Market

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Graphic removed

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Neptune and Triton House, *Worthing, West Sussex*

We have unparalleled knowledge of our market, a highly skilled and experienced workforce and a national presence operating across England, Scotland and Wales.

We lead a sector with exceptionally strong fundamentals, including a rapidly ageing population and a long-term undersupply of high quality and appropriate housing for older people.

Key statistics

- Number of people aged 65 and over in the UK in 2018: **12.2 million**[1]
- Estimated growth in the number of people aged 65 and over by 2043: **43%**[1]
- Number of people aged 65 and over who would consider downsizing: **c.4 million**[2]
- New retirement properties built in 2019: **c.8,000**[3]
- *Estimated annual demand for retirement* properties: **30,000**[4]

An ageing population

The UK's population continues to age rapidly. The number of people aged 65 or over in 2018 stood at 12.2 million, and will rise to 17.4 million by 2043, a 43% increase. Those aged 85 or over will rise from 1.6 million to 3.0 million over this period, an 87% increase[1]. This suggests strong and ongoing demand for retirement communities.

Projected UK population growth[1] (million)

Linked to this, demand for adult social care services is also set to rise significantly, from c.700,000 people in 2020 to c.1.2 million in 2040[5].

Projected number of older service users (thousands) in England 2020-2040

	2020	2025	2030	2035	2040	Change %
Community care						
Direct payments	48	54	62	70	76	58%
Publicly funded care	214	249	299	355	390	82%
Privately funded care	126	135	144	152	167	33%
Residential care						
Publicly funded residents	167	187	202	238	262	57%
Privately funded residents	163	182	221	255	280	72%
Total	718	807	928	1,070	1,175	64%

Source: PSSRU (2018)

1 *ONS National Population Projections (2018-based)*
2 *YouGov Survey for McCarthy & Stone (2019)*
3 *EAC (2019)*
4 *Knight Frank (2016)*
5 *PSSRU (2018)*

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

An under-supply of suitable housing options

Despite this, the UK retirement community market remains under-supplied. Just c.8,000[1] new units came to the market across all tenures in 2019, which is set against demand that is estimated to be up to 30,000[2] units a year. This creates a significant annual shortfall and the number of older people living in the UK far exceeds the supply of suitable retirement housing.

This shortage remains one part of the wider housing crisis. It is estimated that England alone needs c.300,000[3] new homes a year to match demand, but there were just c.241,000[4] net additions in 2018/19.

Specialist retirement housing[2] (units to market in 2019)

Strong demand to downsize

We also continue to see strong demand from potential customers to move. Our annual survey of 3,011 people aged 65 and over in the UK with YouGov in 2019 found that 33%[5] would consider downsizing, equating to more than 4 million people.

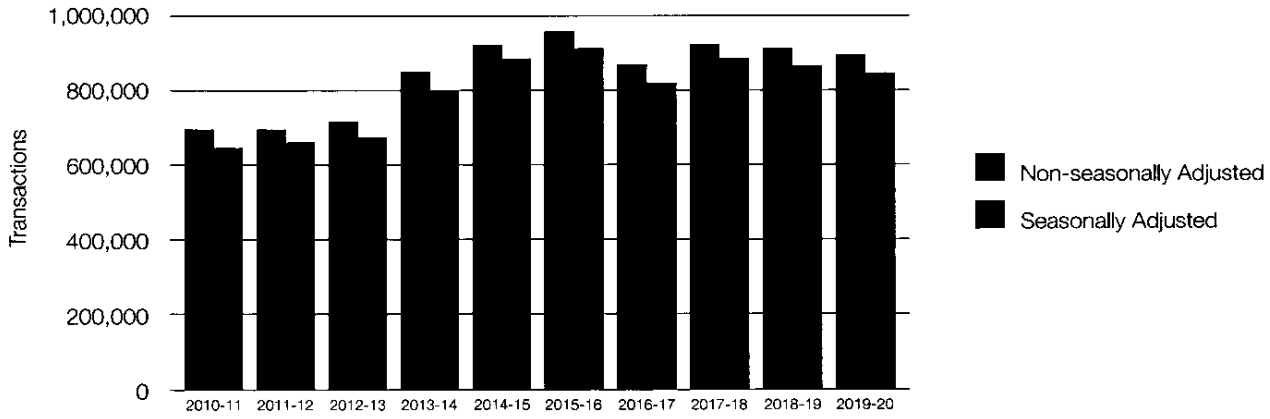
We continue to see strong demand from potential customers to move. In 2019 we found that more than 4 million older people would consider downsizing.

Subdued housing market conditions

Despite these strong fundamentals, trading conditions in FY19 were challenging due to the impact of ongoing political and economic uncertainty on the secondary housing market, which affects the ability of our customers to sell their own property. Additional uncertainty over potential stamp duty changes also dented transaction levels, particularly in the South East.

Residential transactions in 2019 decreased compared to the two previous years[6] and price increases in 2019 were just 0.5%, with prices falling in London[7].

Residential property transactions year-to-date comparison (2010-11 to 2019-20)



1 EAC (2019)
2 Knight Frank (2016)
3 HM Treasury (2017)
4 MHCLG (2019)
5 YouGov survey for McCarthy & Stone (2019)
6 HMRC (September 2019)
7 Savills (2019)

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Our Market *continued*

Tapping into the broader retirement housing market

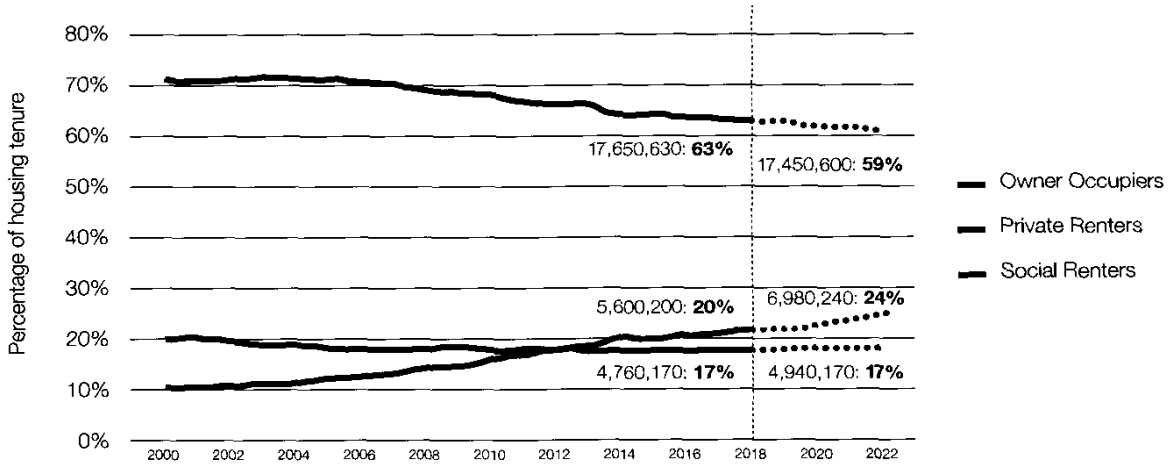
Our new multi-tenure options have helped to address these subdued conditions. Around one in five households (19%) in England live in the private rented sector, which is equivalent to 4.5 million households, making it the second largest tenure after home ownership and this is the part of the market that has grown significantly in recent years. By comparison, 17% (4 million) live in the social rented sector and 64% (14.8 million) are owner occupiers[1].

Our own research suggests that 50% of our customers would also be happy to consider renting, many of whom are currently owner occupiers, which suggests strong demand in this space.

In response, and as part of our strategy, we are maximising this opportunity to provide a greater choice for our customers by offering multi-tenure solutions including:

- Outright ownership
- Shared ownership
- Rental
- Rent to buy

UK housing tenure trends - rise of renting



Source: Jones Lang LaSalle IP Inc, EHS (2016-2017)

30,000
estimated demand for retirement properties[2]

50%
of our customers would be happy to consider renting[3]

£3.5k
savings for the NHS and social care system per year, per person living in *a retirement community*[4]

1 English Housing Survey (2019)
2 Knight Frank (2016)
3 YouGov Survey for McCarthy & Stone (2019)
4 WPI (2019)

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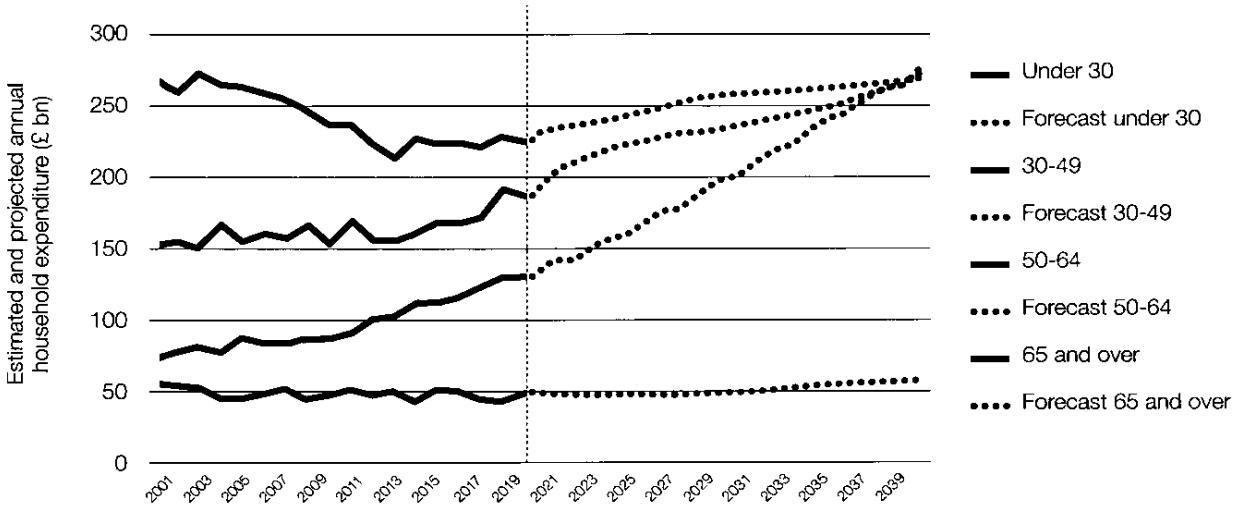
Spending by older consumers

Older households are also set to dominate consumer spending in the years ahead. Their share of total spending in the UK will rise from 54% in 2018 to 63% in 2040. Households aged 65 and over are also the fastest growing consumer group[1].

This supports our strategy to increase revenue from our Management, Care and Wellbeing Services and to set up a range of new services as part of our Flexibility strategic pillar.

2001 to 2040: total household spending, by age groups[1]



Government support

The Government continues to support the supply of retirement communities. There were two key developments in FY19:

- New national planning guidance for councils on older and disabled people's housing was published by the Ministry of Housing, Communities and Local Government (MHCLG) on 26 June 2019. The new guidance recognised that local authorities should do more to plan for the provision for specialist housing for older people, noting that the need for this form of housing has become 'critical'. In particular, the document confirmed that retirement communities have a different viability model and should be assessed differently to mainstream housing during Section 106 discussions.
- On 27 June 2019, MHCLG also published its response to its October 2018 consultation on ground rents. The Government confirmed that the retirement community sector will be given an exemption and permitted to charge an economic ground rent after they are reduced to zero elsewhere. We continue to discuss the detail of the exemption with the government and will work with MHCLG as the proposals pass through Parliament.

To help promote the many benefits of retirement living, we have formed a new consortium with other retirement operators called Homes for Later Living (H4LL). In September 2019, H4LL published *'Healthier and Happier'*, the first of three planned reports on the positive socio-economic impact of retirement communities. The report found that each person living in a retirement community saves the NHS and social care system £3.5k a year[2]. The next two reports, on downsizing and community benefits, will be published in 2020.

Graphic removed

Housing Minister Esther McVey MP, pictured here alongside CEO John Tonkiss celebrating the second anniversary of the opening of Lawson Grange, Wilmslow

1 ILC, 2019, Maximising the longevity dividend
2 WPI (2019)

Our Communities

Graphic removed

How do we help to create communities?

McCarthy & Stone designs and builds homes specifically for people over the age of 60. We provide management, care and wellbeing services for our customers and appreciate that their needs evolve over time.

We are responding to those changing needs within our strategy by providing more flexible services and this allows us to create longer-lasting and deeper relationships with our customers.

We build beautiful homes

- Retirement Living (over 60s)
- Retirement Living PLUS (over 70s)
- Bungalows

We provide flexible services

- Property management
- Outstanding care
- Excellent wellbeing services

We have happier customers

- Welcoming
- Friendly
- Safe
- Healthier

We have passionate people

- A professional workforce
- Customer focused staff
- Determination to provide excellent customer service

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

What makes our communities special?

Our Homes

Graphic removed

- Communities proven to promote happier and healthier lives
- Beautifully designed homes and communal areas
- Fabulous landscaped gardens
- High quality buildings
- Fantastic locations close to local amenities
- Excellent accessibility inside and out
- Energy efficient designs
- Camera door entry

Please refer to page 22-25

Our Services[1]

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- High quality property management
- Dedicated on-site House and Estate Managers providing help, security and reassurance
- A range of activities and social events
- Tailored domestic assistance and personal care support
- Restaurants or bistros run by high quality chefs
- Car clubs in partnership with Enterprise Car Rental, reducing overall car usage
- Tailored exercise classes

Please refer to page 26-27

Our Customers

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- Provide a welcoming environment
- Help make new friendships
- Encourage each other to get involved
- Our biggest advocates
- Engage with the wider local community through our Beanstalk charity support initiative
- Participate in community and social activities

Please refer to page 28-29

Our People

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- A qualified care and support team
- A determined and responsible workforce who put our customers first, providing the highest levels of customer service
- Innovative employees who continually identify ways to improve our services
- All employees follow the McCarthy & Stone ways of working guidelines to ensure a positive environment is embedded within our communities and places of work
- Our 24/7 team within our Retirement Living PLUS developments provide care and reassurance for our customers

Please refer to page 30-31

1 Facilities and services may vary by site
*Top left: **Lantern Court**, Ilfracombe, Devon*
Bottom right: McCarthy & Stone Resales team

Graphic removed

Case study: Ron Daykin, Milward Place, Redditch

"The option to rent was extremely welcome as it allowed me to keep the level of flexibility I desired. While I have a job at the moment and work from home several days a week, at some point in the future I will want to retire. Not yet admittedly!"

Ron Daykin (63), moved to McCarthy & Stone's Milward Place development at the end of October, where he now rents an apartment.

Having lived in the Redditch area for over 40 years, Ron, who previously lived on his own, was keen to move into a community with like-minded people of a similar age. The location of Milward Place was perfect for him as it allowed him to continue his work as a Policy Advisor for a local authority. Homeownership was not an option for Ron, who at 63 did not want to be tied in to another mortgage.

Ron comments, "I lived by myself in a residential apartment where you don't know or see your neighbours. There was a wide range of ages with people at different points in their lives, and I began to feel quite isolated and a bit lonely. The socialisation aspect of McCarthy & Stone was very appealing to me, as it opened up the opportunity to meet new people. The option to rent was extremely welcome as it allowed me to keep the level of flexibility I desired.

"I didn't want to be burdened with having to move again and the stresses this can bring. Taking the decision to move into a retirement community sooner and not waiting until I was slightly older, meant getting myself in the best position, whatever the future might hold.

"It has allowed me to have the perfect balance of private and social life, as well as being able to continue to work. It's the best of both worlds and it's allowed me to get back out there!"

Since moving to Milward Place, Ron has been getting to know the other residents.

"I was one of the very first people to get the keys to their apartment", say Ron. "I have been getting to know names, we've been chatting over a coffee in the shared lounge, and my neighbour has invited me round to their apartment so I'm already starting to see some of the benefits."

Ron was aware of Milward Place before building started there and kept a close eye on its progress. He attended a discovery day at a local hotel where he chatted through the various options available to him with the McCarthy & Stone team, and decided to sign up on the spot.

Ron comments, "The way people all knew each other and would plan activities and events as a community, was really encouraging and gave me confidence that I had made the right choice in renting an apartment at Milward Place."

Making a real difference to our customers

What is the purpose of our communities?

We design homes specifically for people over the age of 60 and with our customers at the heart of our decision making. We create our communities with our customers' long-term interests in mind, as we appreciate their needs will evolve over time. We also have Management, Care and Wellbeing Services to provide our customers with the desired level of care and support to meet their personal needs.

Independence
- To be in close proximity to transport and local services
- Have privacy and their own outdoor space

Support
- Social activities which they can take part in when they want
- Healthcare provision if and when required

Convenience
- Easy to use features which enhance their lifestyle and safety

Community
- Helping our customers to remain an active part of their community

Affordability
- Value for money

We provide choice, flexibility and affordability for our customers

Choice of tenure options made available for customers

What are our tenure options?
- **Ownership** - Purchase a property outright
- **Rent** - A monthly rental charge to live in a property
- **Rent to buy** - An initial rental period for customers with the option to buy a property outright
- **Shared ownership** - Purchasing and owning a percentage of a property, whilst also paying a monthly rental charge

Flexibility of services that respond to changing customer requirements

What are the features of flexibility?
- Extended care offering full support
- Integrated technology enabled services
- New partnerships with gyms and clubs
- Enterprise Car Clubs to reduce car use
- A variety of payment options available including a deferred management fee
- Option to purchase food and beverages from restaurants and bistros in Retirement Living PLUS developments

Affordability enables us to be more competitive and attractive to a wider market

How are we improving?
- More contemporary designs
- Accelerated construction times through Modern Methods of Construction (MMC)
- Reduction in selling price of properties due to more efficient processes
- A wider mass market appeal through more affordable housing being available

Graphic removed

Menus from The Pebble Bistro

Our Communities *continued*

Graphic removed

Case study: Sylvie Morgan, Paxton Court, Tenby

Friendly, bubbly and a volunteer in her local community, Sylvie Morgan embraces a new way of life at McCarthy & Stone's Paxton Court in Tenby.

"After my husband passed away from Parkinson's disease in 2014 there was a realisation on my part that I was now properly alone", says Sylvie.

Believing that she needed to take charge of her life and do something proactive on her own terms, Sylvie organised a trip to Tenby in Wales with her local Parkinson's group, who had supported her throughout her husband's illness. "I went there a couple of months beforehand just to check out the hotel and quite by accident, I came across McCarthy & Stone's development."

"The idea of moving had never crossed my mind but when I saw the retirement properties available there, I felt this sudden rush of excitement. It represented a challenge." Shortly afterwards, Sylvie took the decision to sell her cottage in Tetbury, and move to a two bedroom retirement Living apartment at Paxton Court.

Two years later Sylvie says she has no regrets. "I'm active. I've got a busy social life and a partner. Sometimes my grandchildren tell me I've got a busier social life than them!"

31**
developments brought to market in FY19 (FY18: 44)*

1,272
units sold in FY19 (FY18: 1,412)*

48
units rented in FY19 (FY18: n/a)*

28
units part bought part rented (shared ownership) in FY19 (FY18: 2)*

**Retirement Living homes*
***Includes sites which were originally Lifestyle Living developed*

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Our Homes - Retirement Living

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Swinden Court, *Darlington, County Durham*

Graphic removed

Swinden Court, Communal Lounge

Our Retirement Living homes feature either 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' needs in mind, including slip-resistant flooring in bathrooms, lever taps for easier usage and electric plug sockets at a convenient height.

They also feature generous communal spaces to help develop a sense of community. This includes a shared lounge, a guest suite to accommodate friends and family visiting and landscaped grounds. They also include a camera door entry and a 24-hour emergency call system with pendant alarms.

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 a range of social activities.

Key features

- For those aged 60+
- On-site House Manager
- Communal lounge
- Guest suite
- Extensive landscaped grounds
- Typically, between 30-50 homes per site
- Bungalows and cottages are an option at selected sites[1]

1 Facilities and services may vary by site

Our Communities *continued*

Graphic removed

Case study: Mary Jones, with her daughter Julie, at Lambrook Court, Bath

Bath retiree, Mary Jones, made McCarthy & Stone's Lambrook Court development her home last year at the age of 90. Having settled into her new Retirement Living PLUS apartment, Mary says it was definitely the best move for her.

Already aware of McCarthy & Stone and having considered the option of downsizing from her three bedroom home, Mary visited Lambrook Court in Bath with her two daughters to meet the team and see for herself what life would be like at the development.

After Mary had experienced a fall at home, her daughters Julie and Tracey wanted to ensure their mother could maintain her independence in safe surroundings - in a community of like-minded retirees, where bespoke support and care was available when needed. Commenting on her move to Lambrook Court, Mary said, "My daughter, Julie, lives in Bath and it was important for me to stay close to her.

"There is a great community and plenty of different activities to get involved in, such as coffee mornings, film nights and even exercise classes - there's always something to join in with. I really like that, by having your own apartment, you can choose when you want to spend time with others and be part of activities - and when you want time to yourself.

"All of the staff at Lambrook Court are marvellous, I really couldn't fault them. Our Estate Manager is very helpful, kind and I know she is available to help me if I ever need it."

Mary decided at 91 years of age that she no longer wants to cook for herself, and so the on-site bistro is perfect for her to enjoy a range of different foods, without lifting a finger!

Commenting on her mother's move, Julie said, "Life has changed for Mum since she joined the community at Lambrook Court. She has become much more independent and has noticeably gained in confidence, which is fantastic. There is someone on site round the clock, which gives me peace of mind that she is in a safe environment."

14
developments brought to market in FY19 (FY18: 18)*

865
units sold in FY19 (FY18: 583)*

53
units rented in FY19 (FY18: n/a)*

16
Retirement Living PLUS units part bought part rented (shared ownership) in FY19 (FY18: 1)*

**Retirement Living PLUS homes*

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Our Homes - Retirement Living PLUS

Graphic removed

Graphic removed

Hawkesbury Place, Stow-on-the-Wold, Gloucestershire

Graphic removed

The Pebble Bistro

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 while 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 a secure mobility scooter store room.

As with Retirement Living, 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.

Key features

- For those aged 70+
- House or Estate Manager and on-site team
- Communal lounge
- Restaurant/bistro - some with a fully licensed bar
- Wellbeing suite
- Built to Wheelchair Accessibility Standards
- Mobility scooter store
- CQC registered, 24-hour support
- Typically, between 50-60 homes per site
- Bungalows as an option at selected sites[1]

1 Facilities and services may vary by site

Our Communities *continued*

Our Management, Care and Wellbeing Services

Management, Care and Wellbeing Services are provided to make a positive difference to the lives of our customers. Our service offering is at the heart of our ethos, operating our communities to enrich the quality of life for our customers and enable them to live their retirement to the full. We feel this service offering epitomises why we are more than just a housebuilder.

What we offer

	Features*	Benefits
Management Services Our high quality property management services reduce concerns around maintenance	***General Maintenance*** • Cleaning - windows/spring cleans • Landscaped areas and scenic gardens • Lifts • Plumbing and drainage • Electrical testing and routine maintenance **Management of accounts and service charges** • Development accounting • Service charges managed	✓ Remove worries over property maintenance, while appreciating the beautiful surroundings, including gardens and communal spaces ✓ A safe, clean and hygienic environment ✓ Reassurance to our customers by preparing transparent accounts and a clear breakdown of the service charge
Care Services Our care services support our customers' evolving needs. We provide the right level of care and support for our customers when required	**Care and Support Services** • Medication reminder visits • On-site treatments • 24-hour emergency call system • Care when needed • Support with dressing, shopping and assistance with personal care • Rehabilitation assistance	✓ Services that are readily accessible ✓ Reassurance for customers that their health needs are being adequately catered for ✓ Families happy knowing loved ones are cared for
Wellbeing Services Wellbeing services enhance our customers' lives through innovative activities and services. We are determined that our customers feel safe and comfortable within our developments	**Social** • Social activities including book clubs, coffee clubs and day trips • Voluntary activities in the community • Digital skills training • Tailored exercise classes **Catering** • Restaurants and bistros • Meal planning and nutrition	✓ Engaged in their community ✓ Healthy and active ✓ New friendships ✓ Wide variety of choice with food and beverages

**Available at selected sites*

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Our Services

Developing our services for the future

Graphic removed

Technology-backed care

- ✓ Began a pilot with industry experts MySense, who have developed an artificial intelligence-powered wellbeing system
- ✓ Monitors a customer's daily pattern identifying any change in health
- ✓ The MySense wristband tracks information such as step count and heart rate
- ✓ Passive sensors fitted in apartments, monitors a change in behaviour and alerts loved ones or the McCarthy & Stone team if action is required
- ✓ We will also be embedding Appello emergency call systems into our developments in FY20

Graphic removed

Transportation

- ✓ New car club partnership with Enterprise Car Rental to reduce car usage
- ✓ First all-electric car club introduced in March 2019
- ✓ Rolling out an additional 20 Car Clubs for FY20

Graphic removed

Pebble

A new generation of Pebble Bistros were launched in Worthing at Neptune House and Triton House in FY19.

Pebble offers:

- ✓ Longer opening hours
- ✓ A barista coffee service
- ✓ A licensed bar
- ✓ A newly designed menu
- ✓ A monthly gastronomic supper club

Graphic removed

Fit for life

- ✓ Partnered with Oomph Wellness with support from Sport England, who deliver tailored exercise classes
- ✓ Feedback from customers tell us there is a positive contribution to customers' wellbeing

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Our Communities *continued*

Graphic removed

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Left: Wingfield Court Book Club, Sherborne, Dorset
Right: Lionel Peters, Goldwyn House, Boreham wood, Hertfordshire

What our customers want

We are centring our approach on what our customers value:

Independence
Like proximity to transportation, privacy and outdoor space.

Support
During life transitions, including social activities and healthcare.

Convenience
Customers value features that are easy to use and enhance their lifestyle and safety.

Community
"I don't want to be isolated, if you are older and you don't have good health, the community is vital".

Affordability
Affordable housing and flexible care.

91% of our customers have good access to local amenities and facilities[1]

c.9/10 customers take part in organised events within our communities[2]

94% of our customers feel their new property is easy to maintain[3]

c.7/10 customers have made new friends and socialise more[4]

c.4/5 are not concerned about service costs and half would consider renting[5]

c.9/10 of our customers said their new property improved their quality of life[6]

92.8% of our customers would recommend us to a friend[7]

83% of our customers said they experienced a sense of community in their new property[8]

96% of our customers said they feel safe and secure in their new property[9]

c.20,000 customers that make our communities come alive[10]

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Our Customers

Our customers make our communities and our communities are making a real difference to them and their families

Customer satisfaction is our priority

Our commitment to quality and customer service continues to be recognised by our customers. In March 2019, we again received the full five star rating for customer satisfaction from the independent industry survey by the Home Builders Federation and NHBC.

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, care and wellbeing teams' expertise that ensure customers and their families are supported and guided through the purchasing process and receive all the support they need while living with us.

Our customers are our community

Our beautiful homes, passionate people and excellent wellbeing services set the scene for the creation our communities. However, it is our customers who are the vital component needed to make our communities thrive.

Our customers help each other, they learn new skills together, they engage with their communities and they:

- Participate in social and wellbeing events
- Supporting the wider community and engaging with charitable events such as Beanstalk, our charity of the year
- Learn new skills, including art, design and dance

During the year, many community and charitable events were organised. They included:

- Story Readers' Day
- Raising money for Beanstalk
- Silver Sunday - many of our developments participated in this national event to celebrate with older people

Communicating with our customers - Emerald Magazine

The Emerald magazine, published quarterly for our customers, is packed with stories, ideas, events and future activities to fill our customers' diaries. The levels of participation in these events within our communities is a testament to how valued our communities are to our customers.

Graphic removed

Inspiring a new generation of readers - Beanstalk, our 2019 charity

Graphic removed

Keeping fit and active with "Oomph!"

Our customers and their families - making a real difference

Before

- Often living alone, family and friends moved away
- Maintenance concerns
- Concerned about their parents
- Providing informal care
- Feelings of guilt

After moving in

- New friendships
- Remove burdens and worries
- Care and support on hand
- Families have confidence parents are cared for
- Peace of mind

1, 2, 3, 4, 9 Homeowner Survey for McCarthy & Stone (2017)
5 McCarthy & Stone Non take-up research (2017)
6 HBF new home customer satisfaction survey (2018)
7 Survey of new homeowners by the NHBC and HBF (2019)
8 McCarthy & Stone homeowners survey (2017) and research by Demos (2016)
10 Internal Reporting

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Our Communities *continued*

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Top left: Sycamore Court, Scarborough, charity walk. Top right: Beck House, Isleworth sales team
Above left: Waverley Court, Carlisle, charity walk. Above right: North London Beanstalk bike ride

Culture

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

Passion
Responsibility
Innovation
Determination
Excellence

PRIDE

We celebrate and recognise employees who demonstrate our values and 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 PRIDE champions. During FY19, 696 PRIDE awards (FY18: 681) including 79 quarterly awards (FY18: 53) were presented.

As always, our thanks go to all the hard working people at McCarthy & Stone.

16,500
recorded visits on iLearn in H2 of FY19

93%
of employees used iLearn

c.100
current members of staff will be undertaking a care worker apprenticeship

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Our People

Enabling employees to have a voice and listening to them

Employee communication has grown in importance as a key part of supporting our people. We have been implementing major strategic changes in 2019 and recognise the importance of ensuring our employees remain positively engaged throughout a process of business transformation.

We ran a structured employee opinion survey in April this year with an excellent response rate of 74%, better than the industry benchmark of c.60%. The survey concentrated on the key issues of maintaining employee engagement and on leading people through our transformational changes. In both regards we were pleased to see good results. Our survey delivered positive Engagement, Culture and Transformation index scores. Overall, we were pleased to see that 80% of respondents said they were very happy about working for McCarthy & Stone.

We introduced a structured employee opinion survey in April this year with an excellent response rate of 74%, better than the industry benchmark of c.60%.

The survey highlighted the need for employees to feel better informed of change and how the business is performing. Actions have been put in place to address this, including intranet based performance updates and monthly videos from the CEO which are available to all employees.

During FY19 we formed a network of formal staff survey groups to help us understand how the results can lead to opportunities to improve both the way we support our people and our ways of working.

Half yearly employee opinion surveys are planned for FY20 and we have set targets to help improve our results.

The Board appointed John Carter as the dedicated Non-Executive Director for engagement with the workforce with responsibility for championing the employee voice. His role includes bringing the key feedback from our employee survey groups to the Board. John was appointed to our Board in 2017, having previously been CEO of Travis Perkins plc. He brings a wealth of leadership experience in this area.

John has already held a number of sessions with employees around the business and fed back to the Board the insight gained.

From equal opportunities to equality, diversity and inclusion for all

The Group has established a strong reputation for treating people fairly and providing all its employees with equal opportunities to develop their careers. We have built on this by launching a new menopause support procedure and Equality, Diversity and Inclusion (EDI) Policy which is overseen by our EDI Champion Nigel Turner. The policy underlines our commitment to creating an environment that enables every individual employee to be themselves, feel valued and able to perform to their best.

Gender Diversity at McCarthy & Stone

The charts below show that we have a higher proportion of men in senior management positions than women. We launched a number of initiatives to address this including improvements to maternity pay, a women's leadership network group and leadership development training for women.

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

Female (FY19)	Male (FY19)
21 (26%)	61 (74%)

Female (FY18)	Male (FY18)
29 (22%)	103 (78%)

It can also be seen that female staff represent 75% of our workforce. Our Management, Care and Wellbeing Services business employ significantly more females than males.

Total Employees of the Group
(excluding Non-Executive Directors)

Female (FY19)	Male (FY19)
1,904 (75%)	619 (25%)

Female (FY18)	Male (FY18)
1,736 (69%)	776 (31%)

During FY19 we introduced a new enhanced maternity and paternity policy to help address our gender balance and support new parents.

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Our People *continued*

Gender Diversity at McCarthy & Stone continued

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

Employees by age analysis (FY19)

Total employees of the Group aged 25 and under (FY18: 189)

149 (6%)

Total employees of the Group aged 26 - 49 (FY18: 1,227)

1,208 (48%)

Total employees of the Group 50 and over (FY18: 1,096)

1,166 (46%)

Employee split by business area

FY19

Management, Care and Wellbeing Services	**1,684 (67%)**
Development	**839 (33%)**

FY18

Management, Care and Wellbeing Services	**1,418 (56%)**
Development	**1,094 (44%)**

Our standards of working

We are also 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. In addition, we also have a confidential, externally provided whistleblowing hotline.

The Group's policy statement in relation to slavery and human trafficking as required under the Modern Slavery Act 2015 is available to view on our website.

Achievements and Awards

HBF five star Customer Satisfaction Award[1]

The Group sustained industry leading levels of customer satisfaction and is proud to be the only developer of any size or type to receive the full five star rating from the HBF for 14 consecutive years.

EAC Housing Awards[2]

We were delighted to receive three national silver awards and 19 regional awards at the EAC (Elderly Accommodation Counsel) housing awards. These awards represent the best specialist housing for older people.

Sharon Gratton, one of our House Managers, was also recognised as one of nine heroes by the EAC based on her significant contribution to the quality of life in our Rockhaven Court development in Bolton.

NHBC Health and Safety Awards[3]

We were very pleased to receive four commended and two highly commended awards this year. We are proud that our high standards of health and safety have been recognised by external inspectors across multiple sites. This reflects a 100% increase in total NHBC awards received compared to last year (FY18: three).

NHBC Pride in the Job Awards[4]

In 2019, 10 of the Group's Site Managers were quality award winners in the NHBC Pride in the Job Awards. We are proud that our high standards are recognised externally.

In addition, two of the winners went on to win Seals of Excellence. Furthermore, Jeff Blackman went on to receive the Regional Award for the South West and was a nominee for the National Awards.

These awards are the industry's most prestigious awards programme. They recognise the Site Managers who achieve the highest standards of housebuilding and demonstrate excellent qualities in workmanship, leadership, technical expertise and health and safety awareness.

HBF/Housebuilder Awards[5]

We were finalist for three awards as well as being commended for the Best Community Initiative for our intergenerational project. This project aims to encourage customers to spend time with children from their local primary school.

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WeQual Awards 2019[6]

The WeQual awards recognises the top 24 female senior managers who are direct reports to an executive committee member in a FTSE 250 company. We are proud that Lisa Greenwood, our Director of Organisational Development, was ranked in the top 24 female senior managers.

1 2 3

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4 5 6

Learning and Professional Development

Opportunities for development

We have an ongoing commitment to training and professional development. Performance against objectives is reviewed regularly and provides our employees with the opportunity to discuss their learning requirements and self-development. This improves effectiveness in their current roles and supports career progression.

All employees have access to a range of both internal and external training and professional qualification courses.

Apprenticeship Schemes

We recognise the importance of developing our people to ensure continuous improvement in the quality of service we offer to our customers and high levels of employee engagement. In support of this objective, we have launched a core apprenticeship scheme. We have identified over 100 people who work in our developments and live in the surrounding communities to be funded through a level 2 and level 3 lead adult care worker apprenticeship. This is not a Care Quality Commission (CQC) requirement but we strongly believe in providing industry leading care for our customers, whilst providing our employees with the opportunity to gain qualifications which support their professional development.

We are funding 12 new entry apprentices in 2020 in our build division, who will rotate through our construction, commercial and development functions. On completion of their apprenticeship, they will be given the opportunity to specialise in their chosen discipline, while completing both a Higher National Certificate (HNC) and a Chartered Management Institute (CMI) qualification.

We are mindful of the skills shortage in the construction industry and are actively involved in the Home Builders Federation (HBF) Skills Partnership initiative, including working with women in construction to develop pathways into the industry, providing placements and opportunities to join our apprenticeship programmes.

Placement students

The Group acknowledges the importance of identifying capable individuals with the potential to develop and progress at McCarthy & Stone. We have a number of placement students in a wide spectrum of functions across the business. We place value on supporting the development of students, recognising the opportunity to enhance their knowledge in the construction and care industries from a young age. We hope from their experience at McCarthy & Stone they will return once they have finished their studies.

iLearn

In May 2019, an online platform was created by McCarthy & Stone for our employees to help with their learning and professional development.

- C.93% of employees actively used iLearn in H2 of FY19
- C.1,300 available training topics
- C.20,000 visits were recorded over H2 of FY19

CMI Centre

McCarthy & Stone are an approved CMI Centre, meaning we can deliver CMI qualifications. People attending management development workshops have the chance to continue their development and progress to a Level 3 or Level 5 CMI Certificate or a Diploma in Leadership and Management.

Professional qualifications

We provide our employees with the opportunity to study and complete their job specific qualifications. We currently fund over 20 employees to undertake Association of Accounting Technicians (AAT), Association of Chartered Certified Accountants (ACCA) and Chartered Institute of Management Accountants (CIMA) qualifications, as well as payroll qualifications. We are also supporting a number of employees, who are enrolled on the Chartered Institute of Personnel Development (CIPD) and the Chartered Institute of Marketing (CIM).

1 HBF five star Home Builder Customer Satisfaction Award
2 EAC (Elderly Accommodation Counsel) Housing Awards
3 NHBC Health and Safety Awards
4 NHBC Pride in the Job Awards
5 HBF/Housebuilder Awards
6 WeQual Awards 2019

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

How we create communities

How we fund our business

Our business is funded from cash generated through renting and selling retirement properties, freehold reversions and providing management, care and wellbeing 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 matures in March 2023.

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

How we operate

'The McCarthy & Stone Way' will significantly improve business performance by ensuring that we:

- Support our people
- Work consistently and continue to improve
- Develop our brand
- Meet our objectives

A customer led business

By ensuring that our customers are at the heart of our business and by creating longer-term relationships, we will continue to create value for all our stakeholders.

How we create value

- Invest in and create communities for our customers
- Pay dividends to our shareholders
- Provide employment, pay, reward and professional development for our employees
- Support local and national suppliers, subcontractors and consultants
- Pay taxes to national and local Government
- Improve environments in which we operate

How we manage risk

Risk management is a fundamental aspect of our business model and is embedded within every aspect of our organisation.

Responsibility for risk management sits with every employee across our entire business and they are helping to identify, assess and manage risks that are facing the Group.

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Our Business Model

How we create our communities

Our business model is built on five important core components - each designed to provide the very best properties and services for our customers.

By ensuring that our customers are at the very heart of what we do, we will continue to evolve the business model as their needs and values change over time.

The McCarthy & Stone Way

'The McCarthy & Stone Way' describes the approach we take to improve business performance through consistent ways of working, ensuring that:

- Everything we do is focused on what our customers value
- Customers are at the heart of everything we do
- We operate efficiently, effectively and in a safe environment

We work together to promote our vision to create even deeper and longer-lasting relationships with our customers.

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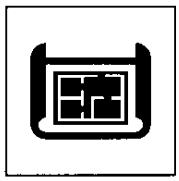
36

Targeted Land Acquisition



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38

Effective Planning and Design

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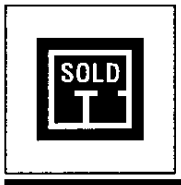
40

High Quality and Safe Construction



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42

Specialist Sales and Marketing

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44

Management, Care and Wellbeing Services

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Our Business Model *continued*

Graphic removed

Scott Place, Lichfield, Staffordshire

Graphic removed

Hardwick Grange, Penwortham, Lancashire

Our Process

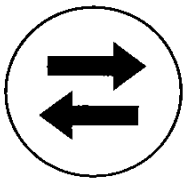
We identify and secure high quality sites to create retirement communities that are located within towns and cities, close to amenities and which meet the needs of our customers and their families.

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 from our peer group:

1. Less competition for our sites from housebuilders, who tend to be focused on larger, usually greenfield locations
2. Significant planning and design expertise in developing homes for older people which helps assess the risk at the point of land acquisition and promote sustainable bids
3. Strict site purchase criteria:
   - Optimised development density through reduced on-site parking and amenity space
   - Limited on-site affordable housing requirements and mitigated impact of Section 106 and Community Infrastructure Levy ('CIL') payments
4. Conditionality of our purchase agreements

34
Number of land exchanges
(FY18: 54)



7,695
Number of land bank units
(FY18: 9,797)

£111m
Investment in land during the year
(FY18: £112m)

3.7
Number of years of land supply[1]
(FY18: 4.7)

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Targeted Land Acquisition

Highlights in the year

34 high quality sites were added to the land bank in FY19 (FY18: 54). The 34 sites secured in the year accord with the more measured trajectory and smoother workflow objectives in line with the Group strategy.

Of the 34 land exchanges, 14 sites were secured by means of low cost Option Agreements and 20 sites were secured under conditional contracts (the principal condition being obtaining a satisfactory planning consent) with seven of these having a non-viability clause and/or other flexibility in the contract terms enabling termination at our discretion.

Although investment in land during the financial year was £111m (FY18: £112m), land bank units reduced to 7,695 (FY18: 9,797), following the strategic review of the land held, this equates to 3.7 years of supply[1] (FY18: 4.7 years).

In June 2019, the Government issued a report providing its response to the extensive consultation undertaken on its proposed reforms to the leasehold system and to the abolition of ground rents. While that response re-confirmed the Government's intention to proceed with the proposal to exempt retirement housing from the restriction of new ground rent, the Government still needs to bring forward legislation to Parliament in order to embed the changes. We have therefore continued with a more cautious approach towards land buying, with all sites secured in the year making no allowance for ground rents in the financial appraisals. We will continue to adopt caution in our land acquisition appraisals until the Government has passed the appropriate legislation.

In line with our vision to create even deeper and longer relationships with our customers, an additional site has been acquired in Otley, West Yorkshire, which will be developed to create a community that includes Retirement Living, Retirement Living PLUS, bungalows and a care home to cater for the evolving needs of our customers throughout their time with McCarthy & Stone.

A Managing Director of Special Projects & Strategic Partnerships was appointed at the end of FY19, with the focused objective of identifying and managing new types of land aimed at developing opportunities in the affordable housing market and our multi-tenure offering which will help to expand our market penetration and increase our appeal to more customers.

Strategic focus - workflow realignment

As part of the Group strategy, a comprehensive review of our land bank has been completed. Sites that failed to meet increased hurdle rates have been deemed unviable and subsequently written off at a cost totalling £7.2m.

Increase land optionality to ensure that the business is well positioned to respond when market conditions improve.

Our strengths that differentiate us

- ✓ Significant local knowledge through established agency networks
- ✓ Comprehensive understanding of our customers' needs and aspirations in terms of locality, community and amenities
- ✓ Well established and tailored approach to land acquisition
- ✓ Expertise in securing optionality in conditional land acquisition contracts
- ✓ Ability to make best use of constrained centrally located brownfield sites

Our impact

- ✓ 97% of sites acquired are brownfield (previously developed), reducing pressure for greenfield sites
- ✓ Convenience for our customers due to locality of land purchased and convenient accessibility to essential services
- ✓ Rejuvenation of land, buildings and high streets
- ✓ Highly sustainable use of developments with optimised densities on brownfield sites
- ✓ Payment of taxes and charges to Government including Stamp Duty on land acquisitions

Our risks, challenges and uncertainties

Turn to pages 50-55

Our objectives

- ✓ Leverage our data and customer insights to build competitive advantage in land buying
- ✓ Optimise the balance sheet and cash flow by smoothing land exchanges and build starts during the year
- ✓ Reduce the time taken between land exchange and build start through volume and optionality in land contracts
- ✓ Increase land buying activities at higher hurdle rates and optionality

1 *Calculated by dividing the number of units in the land bank by the strategic objective of 2,100 units to be completed on a smoothed annual basis*

Our Business Model *continued*

Graphic removed

The Boathouse, Southampton, Hampshire

Graphic removed

Hawkesbury Place, Stow-on-the-Wold, Gloucestershire

Our Process

We operate an effective planning process and design high quality homes which meet our customers' evolving needs and improve their quality of life.

Our plans and designs integrate with the surroundings and foster both the community in which we build new homes and deeper and longer-lasting relationships with our customers.

The Group's in-house specialist planning team deals with all aspects of the planning process, including monitoring and influencing emerging relevant national and local planning policies, informing, preparing and executing its planning applications and addressing appeals when necessary.

Our planners are involved in a site from the initial high level suitability appraisal and then work with our design team to develop proposals for beautiful homes for our customers that will achieve a planning consent as quickly as is possible.

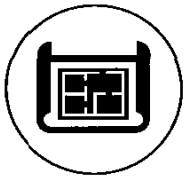
The Government is increasingly recognising the role of housing for older people in addressing the national housing shortfall through efficiently providing more housing and unlocking existing supply. There is also increasing understanding of the health and social benefits that come with it and in turn 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", this remaining the only form of housing that is referred to in this way.

Through our public affairs initiatives and our representations on emerging policy, the Group continues to work closely with Government to achieve even greater appreciation of the social and economic benefits of retirement housing and to reduce some of the barriers that can hamper delivery.

The Group has continued to work with some of our competitors, pooling expertise and resources to present a combined response to emerging Government policies on behalf of the industry.

The planning system currently hinders achieving timely planning permissions, the ground rent issue, a lack of resources in local planning authorities and the increasing emphasis on design and viability assessments have all contributed to additional reviews of our proposals and submitted schemes and subsequently, delays in planning approval.

38
Detailed planning consents
(FY18: 37)



19.7
Development cycle time in months[1]
(FY18: 18.3)

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Effective Planning and Design

Highlights in the year

In line with our strategic objectives, planning applications have been reduced to 45 (FY18: 56).

A new and more contemporary apartment design has also been finalised resulting in a simplified product line, more efficient layouts and optimised accommodation space.

During FY19, 38 detailed planning consents were granted, compared with 37 in FY18.

The development cycle time increased from 18.3 months for FY18 to 19.7 months' for FY19, as a direct result of the business performing a comprehensive review of land held and sites in the pipeline to ensure they achieve the increased hurdle rates, fit with our strategic objectives and meet the needs of our customers. In addition, the planning system also adversely impacts the development cycle time due to extended delays for approving applications.

The 'Homes for Later Living' consortium has been set up with other retirement developers to promote greater choice, availability and quality of housing specifically for older people by making representations to Government and to ensure a stronger hearing and influence.

The consortium produced the report 'Healthier and Happier', an analysis of the fiscal and wellbeing benefits of building more homes for later living which has been positively received.

Strategic focus - build cost reduction

New contemporary product designs have been developed with more efficient layouts that promote the use of Modern Methods of Construction (MMC). These designs will reduce the average selling price of our homes and help promote the Group's mass market appeal without compromising on quality.

These more efficient designs have been implemented across new sites acquired during FY19. All sites in the pipeline have been subject to a design review panel to ensure best practice and design assurance in line with the new efficient solutions and are expected to reduce cost per apartment by c.£10k by 2021.

Strategic partnerships are being developed to drive forward the roll out of MMC across future sites. A light gauge steel fully panelised approach and volumetric designs are being developed, which will significantly reduce defects, build time and cost. It will also have a positive impact on the environment in which we operate through reduced wastage.

Our strengths that differentiate us

- ✓ Specialist in-house planning team with a strong reputation with central and local Government
- ✓ Comprehensive local knowledge
- ✓ Increased Government recognition of the social and economic benefits of our products
- ✓ Design teams that understand the needs of our customers, with significant industry experience
- ✓ Planning team inputs on site specific planning strategies at pre-land acquisition

Our impact

- ✓ Designs include communal areas for customers which provide for more social interaction and reduce loneliness
- ✓ Environmental ergonomics are considerably improved for both customers and communities
- ✓ Climate friendly designs, by reducing car parking spaces and promoting communal living
- ✓ Optimisation of centrally located brownfield sites, including regeneration of underutilised land

Our risks, challenges and uncertainties

Turn to pages 50-55

Our objectives

- ✓ To achieve the best possible planning consents while ensuring an appropriate balance between our workflow, margin objectives and customer requirements
- ✓ Build cost reduction through simplified designs that support MMC
- ✓ Affordable and fully compliant product designs offering which appeals to the mass market
- ✓ Creation of new in-house Design Bureau
- ✓ Formalise relationship with MMC strategic partner

1 Calculated as the time taken between land exchange and build starts for our developments

Our Business Model *continued*

Graphic removed

Graphic removed

Linden Place, Solihull, West Midlands

Our Process

We consistently deliver exceptional build quality while maintaining robust health and safety standards and operating in a socially responsible, sustainable and ethical way.

Health and Safety

Health and safety continues to be our top priority. We *encourage 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. 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), Reporting of Injuries, Diseases and Dangerous Occurrences Regulations *(RIDDORs) reportable events and our performance against the* NHBC All Advisor Average.

McCarthy & Stone's AIIR was 337 for the year until 31 March 2019, a 47% improvement on the year ending 31 March 2018 (FY18: 643) and eight RIDDORs (FY18: 20). This significant *reduction in accidents during the year is as a direct result* of our "Raising the Bar" campaign which focused on key areas and activities to reduce incidents, including improved construction manuals, video inductions and focused training for staff and contractors.

NHBC carry out monthly independent health and safety inspections on all our live construction sites and report their findings. The data these reports provide allow us to compare our sites against other housebuilders through their system of All Advisor Average comparison.

Reducing injuries in the workplace Annual Injury Incidence Rate

	2019	2018
McCarthy & Stone	**337**	643
Homebuilder Peer Group[1]	**287**	328
HSE Construction Industry Average	**366**	358

40
Build starts in the year
(FY18: 53)

14.2
Build cycle in months
(FY18: 13.9)

337
Annual Injury Incidence Rate (AIIR)
(FY18: 643)

5 Star
Retained customer satisfaction rating
(FY18: 5 Star)

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

High Quality and Safe Construction

Environmental Policy

The Group's Environmental Policy is designed to minimise our impact on the environment and promote a sustainable and ethical approach to managing business activities.

There are clear environmental and business benefits to designing energy efficient homes, using responsibly sourced and efficient materials and minimising the amount 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 levels of waste generated by our construction sites as this brings both financial and environmental benefits. Of the 21,592 tonnes of waste generated in FY19 (FY18: 26,655), just 658 tonnes went to landfill (FY18: 485). This equates to 3% (FY18: 2%) with the remainder being recycled. We continue to work with our waste management companies to try and improve this figure, as well as with our suppliers to reduce waste further up the supply chain.

Highlights in the year

The high quality of our constructions and the after care provided is the driving force behind McCarthy & Stone being the only developer of any type to achieve a five star rating in the HBF Customer Satisfaction Surveys for the last 14 years since its inception.

During FY19, construction commenced on 40 sites compared to 53 in FY18, reflecting our strategy to smooth workflow and volume requirements. Also, as part of the strategy, new standard ways of working have been introduced across all sites which resulted in an increase in the build cycle time to 14.2 months (FY18:13.9), this is expected to improve during FY20 when the new procedures are fully embedded.

Strategic focus - build cost reduction

During FY20, we will commence with our first Modern Methods of Construction development, which is a cost-effective, efficient and quality building solution that will drive improvements to the build process, accelerate build timescales, reduce build costs and enhance margins in line with our build cost reduction strategic objective.

Fundamental to operational efficiency, workflow will continue to be smoothed in line with the Group strategy to ensure steady volumes and stock of finished homes are in line with forecasts.

The McCarthy & Stone Way was introduced during the year and provides best practice guidance for use on all our sites, including new construction manuals, commercial ways of working processes and standards required to meet health and safety, quality and environmental targets.

Volumes of stock reduced from 1,785 in FY18 to 1,628 in FY19, which is in line with our strategic objectives.

Our strengths that differentiate us

- ✓ Significant experience building quality homes for our customers
- ✓ Five star customer satisfaction rating for our homes over 14 consecutive years
- ✓ Network of experienced subcontractors and an established supply chain

Our impact

- ✓ Provision of employment for local contractors
- ✓ Payment of VAT on supplies, employment related and indirect taxes

Our risks, challenges and uncertainties

Turn to pages 50-55

Our objectives

- ✓ Provide quality and more affordable homes that enrich the quality of life for our customers and their families
- ✓ Deliver build cost savings in line with strategic timeline
- ✓ Streamline procurement practices
- ✓ Ensure steady state workflow and volumes
- ✓ Develop a new estimating approach
- ✓ Progress finished stock levels to strategic targets
- ✓ Panelised scheme build to start in FY20

1 *Home Builders Federation*

Our Business Model *continued*

Graphic removed

Our Process

Our approach to sales and marketing is focused on ensuring our customers are at the heart of what we do and that they have the best possible experience, from expressing an interest in a McCarthy & Stone home and our services, right the way through to moving in and enjoying living in the years to come.

Whether customers choose to rent, buy or take advantage of our shared ownership scheme in order to move into a new home, they and their families are fully supported throughout the whole process by our dedicated on-site sales consultants.

Our sales consultants can help make the process as streamlined as possible by offering additional support in the way of our part-exchange scheme and a smooth move, which helps with the packing and moving. Both schemes take away some of the hassle associated with moving.

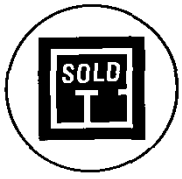
Other services available include:

- Financial contribution towards estate agency and legal fees
- Try before you buy
- Property resales

£308k
average selling price
(FY18: £300k)

2,301
legal completions (units)
(FY18: 2,134)

38%
off-plan reservation rate
(FY18: 49%)



101
rental completions
(units)

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Specialist Sales and Marketing

Highlights in the year

During FY19, we made substantial changes to our sales and marketing operating model in order to make it more cost effective and efficient for our customers to move into their new home.

We piloted and rolled out salesforce as our core Customer Relationship Management (CRM) and sales platform. Salesforce has enabled us to improve quality standards and control and offer an enhanced customer experience.

Salesforce also provides up to the minute data to our marketing team and is driving smarter, more efficient decisions with enhanced customer insight as well as improved and focused marketing activity.

The Group delivered full year revenue of £725m (FY18: £672m), supported by a 3% improvement in average selling price, which increased during the year to £308k (FY18: £300k) and 2,301 legal completions (FY18: 2,134).

Included within the 2,301 completions, there were 47 units sold on our shared ownership scheme. In addition, a further 101 units were rented and 21 occupied on a rent to buy scheme.

113 units were in a bulk sale and lease back transaction with Waverstone LLP, where McCarthy & Stone is a non-controlling member and these unit sales are also included within the 2,301 completions.

Continued economic uncertainty coupled with a slower secondary housing market and softening of pricing, particularly in the South East, impacted the volumes, increased the use of discounting and sales incentives at 8% (FY18: 7%) and had an adverse impact on our off-plan reservation rates at 38% which reduced from 49% in FY18.

Strategic focus - efficient sales and marketing

A core part of the Group strategy has been to increase the capacity and utilisation of our part-exchange scheme. This scheme allows us to purchase customers' current property, enabling them to move into a new McCarthy & Stone home ahead of marketing and selling their own property. This has been a great success, with 1,130 customers opting to use our part-exchange scheme during FY19 (FY18: 753).

Our focus on providing choice to our customers saw the pilot and roll-out of our multi-tenure options. Customer demand and take-up has been stronger than anticipated, with 101 rental completions by the end of FY19. Strong growth into FY20 is anticipated across these options as we roll-out multi-tenure choices for our customers across all our developments and integrate the offer within our marketing campaigns for FY20.

The Group's in-house resales team has generated 283 sales of customer owned properties during the year, helping to secure good resale values for them and their families.

Our strengths that differentiate us

- ✓ Comprehensive customer insight and knowledge with significant experience of fulfilling our customers' and their families' needs
- ✓ Market leader with unrivalled customer satisfaction ratings
- ✓ No pressure sales techniques and priority to ensure our customers are supported throughout the sales journey

Our impact

- ✓ We help our customers to make the right decisions
- ✓ 283 resale completions on behalf of our customers and their families
- ✓ Creating liquidity in the housing market

Our risks, challenges and uncertainties

Turn to pages 50-55

Our objectives

- ✓ Invest in building a deeper understanding of our customers
- ✓ Complete brand review and refresh marketing strategy
- ✓ Leverage data and investment to drive direct response marketing
- ✓ Provide flexibility to our customers with new ways to pay for our proposition and services
- ✓ Improve off-plan sales rates and reduce incentive costs
- ✓ Deliver our rental, re-rental and shared ownership strategy

Our Business Model *continued*

Graphic removed

Our Process

Our services business is at the heart of delivering our customer led ethos and the operation of our retirement communities to enrich the quality of life for our customers.

Three core functions make up our management, care and wellbeing services business:

- Property management and maintenance
- Technology enabled care services
- Community and wellbeing

All management, care and wellbeing services are provided by our dedicated in-house teams. Our care services business is known as YourLife Management Services.

At both our Retirement Living and Retirement Living PLUS developments, our House or Estate Managers act as our eyes and ears. They are the friendly faces taking care of the practicalities of running the development. But just as importantly, they are also there to help facilitate the social activities our customers can choose to get involved with, while living their later years to the full.

We work with local tradespeople to deliver first class maintenance and beautiful gardens for all our managed developments. Additionally, we have a number of national contracts for our maintenance services for specialist items such as lifts and health and safety equipment.

434
developments under management (FY18: 379)

c.20,000
customers supported by Management, Care and Wellbeing services (FY18: c.17,000)

96%
CQC score rated "Good" (FY18: 98%)[1]

c.9/10
customers say that their quality of life has improved after living with us for nine months[2]

1 CQC
2 Survey of new homeowners by the NHBC and HBF (2018)

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Management, Care and Wellbeing Services

Highlights in the year

Our services business has focused on the creation of a flexible offering that enhances the sense of community within our developments and supports our customers to maintain their independence.

We worked with our customers at a selection of developments to co-create and test service improvements and new product offerings across a wide range of categories.

In FY19, our management, care and wellbeing teams provided our customers with over:

- C.38,000 hours of care and support per month
- C.76,300 meals prepared monthly by our in-house chefs
- C.10,000 social events and activities per month

From July 2019, all regulated care, domestic support and property management services provided in our 99 Retirement Living PLUS developments have been delivered directly by McCarthy & Stone after we concluded our successful partnership with Somerset Care. Our partnership with Somerset Care helped us to become one of the largest operators in the housing with care sector and made a profound difference to the quality of life of thousands of our customers.

Now that our care service is at significant scale and the partnership with Somerset Care has concluded, we have an exciting opportunity to develop the next generation of products and services in line with our strategy. In order to facilitate this, we have a new partnership with Appello to improve the technology support and attention for our customers.

We launched our Regulated Qualifications Framework (RQF) apprenticeship programme in which 11 of our care team have now enrolled on the level two and level three Adult Care worker and Lead Adult Care worker programmes. We hope to train a further c.100 team members over the next two years, demonstrating our commitment to providing quality care for our customers.

In total, we help and support c.20,000 customers across 434 developments and are proud to have achieved a CQC 'Good' rating of 96% (FY18: 98%).

Strategic focus - flexibility for our customers

In FY20, we will continue 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 our developments for wider community use.

Our strengths that differentiate us

- ✓ Well respected brand and customer satisfaction rating
- ✓ High quality services with 96% of RLP sites achieved "Good" CQC ratings
- ✓ 1,684 team members providing management, care and wellbeing services across our estate
- ✓ One of the largest housing with care providers in the UK

Our impact

- ✓ Removal of the burdens and worries of property maintenance
- ✓ Care and support on hand and confidence parents are safe and cared for
- ✓ C.£3.5k saving per person per year to the NHS and social services
- ✓ Employment and significant use of local tradespeople and professionals

Our risks, challenges and uncertainties

Turn to pages 50-55

Our objectives

- ✓ Growth in Management, Care and Wellbeing Services revenue
- ✓ Increased choice for our customers with new ways to pay for our proposition and services
- ✓ Develop a new charging model
- ✓ Unlock demand for our existing services
- ✓ Developing our food and beverage offer
- ✓ Increase the use of technology to improve the quality of life for our customers and their families
- ✓ Implement a more robust operational platform to deliver our management, care and wellbeing services more efficiently

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Financial Review

Graphic removed

"The Group maintained ROCE at 10% and delivered £68m underlying operating profit during the 14 month period (2018: £68m)"

Rowan Baker, Chief Financial Officer

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. FY19 was the first financial year reported to 31 October and therefore was a 14 month period of account.

Our performance

During the 14 month period ended 31 October 2019, the Group delivered a solid trading performance despit the challenging underlying trading conditions resulting from the impact of ongoing political and economic uncertainty on the secondary housing market. Additional uncertainty over potential stamp duty changes also dented transaction levels, particularly in the South East, resulting in higher discount and incentive levels compared to the prior year.

Revenue

During the 14 month period ended 31 October 2019, the Group delivered revenue of £725m (2018: £672m), reflecting a 3% improvement in average selling price to £308k (2018: £300k) and legal completions of 2,301 units (2018: 2,134) supported by higher opening stock levels and an increased use of part-exchange. Our revenue for the 14 month period included Freehold Reversionary Interest (FRI) revenue of £30m (2018: £29m).

As a result of the Group adopting IFRS 15 *'Revenue from Contracts with Customers'* at the start of FY19, there have been presentational changes regarding the treatment of part-exchange properties. Under the new standard, any provisions against the purchased part-exchange properties have been accounted for as a deduction from the completions revenue. Due to their ancillary nature, the proceeds from the subsequent resale have been reclassified as other operating income, while the associated costs have been reclassified as other operating expenses. The adoption of the new standard resulted in re-classifying of certain customer incentive costs from cost of sales to a reduction against revenue. Total adjustments resulted in c.£10m reduction in revenue to £725m. As the adjustments were solely presentational, comparatives were not restated.

£725m
Revenue
(FY18: £672m)

£48m
Operating profit
(FY18: £64m)

10%
ROCE
(FY18: 10%)

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

The Group delivered 2,301 (2018: 2,134) legal completions during the period, including the sale and lease back of 113 sales offices and show flats to Waverstone LLP, where McCarthy & Stone is a non-controlling member. In addition, the Group delivered 101 rental transactions together with a further 21 rent to buy and 47 shared ownership transactions.

Profit

Underlying operating profit for the 14 month period was £68m (2018: £68m), whilst our underlying operating profit margin decreased to 9% (2018: 10%). This reduction in margin percentage was mainly driven by an increased usage of part-exchange and incentives to counteract subdued market conditions.

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.

During the period, the Board approved an increase in the Group's in-house part-exchange capacity to 15% of TNAV (previously 10%). This continues to be a key tool in converting reservations to sales more quickly and cost effectively in the current challenging market. We therefore saw an increase in the volume of part-exchange transactions to 49% of legal completions (2018: 35%). 783 of these transactions were on balance sheet PX (2018: 335) resulting from the increased national roll-out of in-house part-exchange solutions. This translated into a saving of c.£13m (2018: c.£7m) compared to the use of third-party PX with average capital employed of £53m (2018: £27m) over the financial year. 783 properties (2018: 335 properties) were purchased during the year at an average of 97% (2018: 96%) of market value with 648 properties (2018: 302 properties) re-sold within the year. The average time taken to resell these properties was 12.3 weeks (2018: 13.1 weeks) which is well within our internal target of 13 weeks. Strict part-exchange controls have been maintained within the business, with processes now centralised to support the increased roll out.

Total administrative expenses for the 14 month period amounted to £44m (2018: £40m), excluding exceptional items and amortisation of brand and remained at the same proportion of revenue as last year of 6% (2018: 6%).

Statutory operating profit for the 14 month period decreased to £48m (2018: £64m) impacted by £17m (2018: £2m) of exceptional costs incurred in relation to delivering our business transformation programme. This in turn impacted our statutory operating profit margin which decreased to 7% (2018: 9%).

Similarly, underlying profit before tax for the 14 month period increased to £63m (2018: £62m) whilst the statutory profit before tax of £43m (2018: £58m) has also been impacted by £17m (2018: £2m) of exceptional costs incurred in FY19 to deliver our business transformation programme.

Investment properties

During the second half of FY19, the Group launched a multi-tenure approach, offering a rental product to new customers alongside the option to buy or part-buy part-rent (shared ownership). As at 31 October 2019, the Group held a portfolio of 101 let retirement rental units. This portfolio of rental assets has been accounted on the balance sheet as investment properties and valued at c.£28m based on a valuation carried out by independent valuation consultants. The associated revaluation uplift of £5.9m (2018: £nil) has been recognised within 'other operating income' in the Statement of Comprehensive Income.

The Group has mandated Rothschilds & Co to secure high quality third-party capital partners to co-invest in rental proposition with clear path to grow to c.£300m portfolio over 3 years. Initial proposals received from high quality funding partners with commercial negotiations ongoing.

Capital structure and interest

The Group saw its tangible gross asset value decrease to £678m (2018: £692m). This was primarily driven by a £93m decrease in inventory, in line with the Group's strategy to establish a more measured growth trajectory, achieve a smooth workflow and reduce the levels of finished stock.

A decrease in trade and other receivables due in less than one year from £22m in FY18 to £13m in FY19, primarily reflects a receivable balance due from heylo housing for the bulk sale transaction at the end of FY18. An increase in trade and other receivables due in greater than one year from £28m in FY18 to £43m in FY19 is due to a receivable balance with Waverstone LLP for the bulk sale of show flats and sales offices which took place prior to the period end. Trade and other payables have decreased from £115m in FY18 to £95m in FY19 due to a lower level of accruals resulting from the lower level of build activity at the end of FY19.

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Financial Review *continued*

Capital Structure and Interest continued

The Group has a strong balance sheet and maintains a continuing focus on careful cash management. This careful cash management helped us close the period with a net cash of £25m (2018: £4m) as at 31 October 2019, notwithstanding higher levels of part-exchange and a seed portfolio of 101 rentals on the balance sheet. This resulted in a negative gearing of 3% (2018: 2%) at the end of the period.

In April 2019, the Group extended the maturity date of its existing £200m revolving credit facility from May 2021 to March 2023 with Barclays, HSBC and RBS. The nominal interest rate of this facility has increased from a 1, 3 or 6 month LIBOR + 1.6% to a 1, 3 or 6 month LIBOR + 1.7% depending on the length of the drawdown. The level of drawdown fluctuated during the 14 month period with the maximum drawdown of £145m in June 2019 (2018: £195m in June 2018), reflecting the Group's working capital requirements to fund our investment in land, build and sales and marketing expenditure. The average drawdown during the period was £102m (2018: £137m).

The Group's net finance expenses during the 14 month period remained at £5m (2018: £5m).

Exceptional costs

Exceptional costs of £17m (2018: £2m) were incurred during FY19. They represented the cost of land which will no longer be developed net of any residual land value to be recovered of £7m, redundancy costs of £4m and consultants' fees in relation to the strategic review of £6m.

Taxation

The effective tax rate was close to the statutory rate during the 14 month period. The total tax charge for the period was £9m (2018: £12m) which represented an effective tax rate of 20% (2018: 20%) based on a profit before tax for the 14 month period of £43m (2018: £58m).

Earnings per share and dividend

Underlying basic earnings per share increased by 3% to 9.5p (2018: 9.2p) reflecting an increase in underlying profit before tax from £62m in FY18 to £63m in FY19. Basic earnings per share for FY19 were 6.5p (2018: 8.6p). Details of the calculation of underlying earnings per share and earnings per share can be found in notes 7 and 13 to the financial statements.

The Directors are proposing a final dividend of 3.5p (2018: 3.5p) per share. This follows the interim dividend of 1.9p (2018: 1.9p) per share, giving a total dividend for the year of 5.4p per share (2018: 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 1.8 times by FY19 earnings (2018: 1.7 times) and this reflects the Board's intention to grow the ordinary dividend cover to around 2x earnings over the medium-term. Subject to shareholder approval at the Annual General Meeting ('AGM'), the dividend will be paid on 3 April 2020 to shareholders on the register at 6 March 2020.

The cost of the dividends paid within the financial period amounted to £29m (2018: £30m).

Target returns

The Group maintained ROCE at 10% (2018: 10%) and a stable capital turn at 1.0x (2018: 1.0x). Our strategy remains on track to deliver the targets set out below, but it is the Board's expectation that this improvement will be heavily weighted towards FY21.

Our FY21 strategic targets as reported on 25 September 2018 are as follows:

- ROCE improvement to greater than 15%
- Improvement in operating margins to more than 15%
- Total cost savings of more than £40m per annum
- 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

Related party transaction

During the year, the Group completed the sale of a portfolio of 113 show flats and sales offices to Waverstone LLP and subsequent leaseback for a maximum of 12 months. Waverstone LLP is an entity between Waverley Investments Limited and McCarthy & Stone Extra Care Limited, where McCarthy & Stone Extra Care Living Limited holds a non-controlling 49% equity interest and therefore has been treated as an associate in the Group financial statements. Waverstone LLP was created to facilitate the purchase, management and disposal of various assets built by the Group. Waverstone LLP has appointed McCarthy & Stone Management Services Limited a property manager and a sales agent.

The transaction resulted in an additional FY19 cash flow for the Group of c.£17m with the remaining balance of c.£16m expected to be paid over 2 years. FY19 underlying operating profit for the Group includes c.£3m profit from the transaction, after taking account of unrealised profit and fair value adjustments in relation to the outstanding receivable balance.

Outlook

- Total volume expectations remain unchanged at c.2,100 at an ASP of c.£300k
  - Increased proportion of c.2,100 target volumes expected to come from rental offering during FY20
  - We will continue to allocate a proportion of the balance sheet to rental until investment partner secured
  - Cash and profit impact expected to be similar to tranche sales with further guidance provided once rental investment secured
- C.37 first occupations expected in FY20 with all sites under construction
- FRI sales assumed to go ahead as planned
- House price inflation expected to remain subdued and build cost inflation expected to remain at c.3-4% level
- Total exceptional costs of c.£25m still anticipated across the life of the transformation program with c.£19m incurred to FY19
- Intention to grow ordinary dividend cover to around 2x underlying earnings over the medium-term
- Continued focus on cash generation with FY20 year end net cash position expected to be in excess of FY19
- H1 out turn expected to be lower than prior year, impacted by slower start to the financial year due to the General Election
- Full year out turn expected to remain in line with market expectations, weighted towards H2

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.

Rowan Baker
Chief Financial Officer
27 January 2020

Risk Management

Principal Risks and Uncertainties facing the Group

Risk management is integral to the successful delivery of our strategy and could also have *an adverse impact on our stakeholders and the Group reputation if not managed effectively*

Risk management overview

Risk is managed through a robust Risk Management framework, which incorporates a five step risk management process, led by the Board, supported by the Risk and Audit Committee and managed through the Risk and Internal Audit team and Operational Management.

The maintenance of formal risk dashboards, risk scorecards, the management of key control frameworks, the monitoring of risk indicators against agreed risk appetites 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.

Divisional management perform a regular assessment of its exposure to risk, uncertainties and emerging threats and opportunities and this information is escalated up through the organisation to the Board.

Principal risks, uncertainties and appetite for these are formally identified, reviewed and agreed by the Executive Committee every six months using a risk scoring methodology. Each risk is categorised based on likelihood and potential impact. Once agreed with the Executive Committee, 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 Executive Committee have carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten our reputation, business model, achievement of strategic objectives, solvency and liquidity.

The Executive Committee monitor on a monthly basis the status of risk exposure to identify whether any principal risks are approaching or are beyond the pre-determined risk appetite and determine actions that are required to address the position.

Assurance is provided over the effective design and operation of the risk framework through a formal programme of assurance activity performed by the Risk and Internal Audit team and functional key control testing.

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

How we manage the risks to our business

Emerging and reducing risks

The business has continued to face a number of market headwinds including government policy and economic uncertainty following the outcome of the vote to leave the European Union (EU) and the failure to leave the EU at the end of March 2019.

These headwinds have resulted in a challenging economic backdrop, lower consumer confidence and reduced volumes in the secondary housing market since 2015.

Additionally, uncertainty over potential stamp duty changes continue to hinder sales rates.

The introduction of and fast take up of multi-tenure choices for our customers to move into a McCarthy & Stone home also introduces enhanced pressures on cash liquidity which are actively managed through forecasting and engagement with lenders. The number of units available and let for rent or shared ownership are monitored on a frequent basis to ensure there is no breach in limits set for both volumes and pricing.

The introduction of and fast take up of multi-tenure choices for our customers to move into a McCarthy & Stone home introduces enhanced pressures on cash liquidity which are actively managed through forecasting and engagement with lenders.

The effects of climate change and associated future legislative requirements may potentially have an impact on our business model and the way we work in the future, therefore, the Executive Committee will consider further the inclusion of Climate Change as a principal risk during FY20.

Regulatory changes are expected from Government in relation to ground rents. The changes have already been considered and are unlikely to have a significant negative impact on the Group, consequently, this risk has decreased in severity.

Viability statement

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 land pipeline 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.

Our land pipeline 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 volumes and pricing, rental pricing, build costs, planning risk and FRI income. 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 has been extended until March 2023.

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.

Risk Management *continued*

Economic conditions

Risk description

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 or rent 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.

Mitigating actions

The Group closely monitors industry indicators and assesses the potential impact of different economic scenarios. Decisions to allocate capital to land, build and investment property 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, product or service type.

The operation of an in-house part-exchange scheme is subject to strict controls tender covenants and divisional limits.

The roll out of multi-tenure, 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	36	Planning & Design	38
Construction	40	Sales & Marketing	42
Services	44		

Government legislation

Risk description

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.

Mitigating actions

MHCLG published its response to its October 2018 consultation on ground rents on 27 June 2019, where the Government confirmed that the retirement community sector will be given an exemption and permitted to charge an economic ground rent after they are reduced to zero elsewhere. We continue to discuss the detail of the exemption with the Government and will work with them as the proposals pass through Parliament.

The Group has carried out an impact assessment of lower and no ground rents and reviewed its land appraisal process accordingly.

Business area impacted

Land Buying	36	Planning & Design	38
Construction	40	Sales & Marketing	42
Services	44		

Liquidity and funding

Risk description

The Group requires appropriate facilities for its short term liquidity and long term funding in order to deliver its strategic objectives and stakeholder value.

Mitigating actions

Clear and concise forecasts and budgets are agreed at Board level, suitable banking and finance facilities with covenants and adequate headroom are in place and reviewed routinely and regular communication with investors and lenders is maintained.

During the financial period the revolving credit facility was extended to March 2023.

Business area impacted

Land Buying	36	Planning & Design	38
Construction	40	Sales & Marketing	42
Services	44		

Delivery of strategic objectives

Risk description

Prolonged business disruption and/or failure to achieve the targeted savings could result in adverse financial deterioration and insufficient level of funding required to support working capital, which may negatively impact the viability of the Group.

Mitigating actions

Clear and concise objectives have been developed to deliver the targets as defined in the Group strategy. The Transformation Committee which is chaired by the CEO closely monitor progress against the objectives, holds COOs and divisional management to account and takes remedial action in order to ensure delivery against agreed timelines and objectives.

Business area impacted

Land Buying	36	Planning & Design	38
Construction	40	Sales & Marketing	42
Services	44		

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Principal Risks

Land acquisition and planning

Risk description

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.

Mitigating actions

Divisional land buying teams are in place providing local knowledge and expertise. These teams are targeted on land exchange and completion as part of their reward structure.

Land is acquired with a high degree of conditionality, so as to not commit to purchase without having appropriate planning agreements in place.

Divisional planning teams have the support and oversight of the COO for build and the Group Investment Committee.

Business area impacted

Land Buying 36 Planning & Design 38

Build programmes and cost

Risk description

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.

Significant potential for cost reduction through standardisation, design efficiencies and procurement practices have been identified as part of the Group's strategy. Achievement of the build cost reduction will be critical to the Group delivering on its strategic objectives.

Mitigating actions

Build progress and costs are reviewed regularly by dedicated divisional commercial teams, as well as being reported to divisional management at formal Division Board meetings and the Executive Committee. The Group Investment Committee has oversight over all construction budgets and independent assurance is provided by the internal audit team who perform commercial internal audits of developments under construction to assess whether risks are being effectively managed. Framework agreements have been established with key subcontractors and suppliers to provide greater certainty of price and supply.

Business area impacted

Construction 40

Workflow

Risk description

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.

Mitigating actions

The Group is re-aligning workflow towards a steady state production through the following actions:

- Targeting a stable monthly flow of land exchanges
- Ensuring stable monthly flow of build starts and first occupations
- Reducing the number of sites in development
- Introducing an incentive scheme designed to deliver smoothened workflow

Workflow is closely monitored by divisional management, the Executive Committee and the Board.

Business area impacted

Land Buying 36 Planning & Design 38
Construction 40 Sales & Marketing 42

Sales performance

Risk description

The Group's business plan assumes selling and charging for its products and services at attractive prices. Any volume shortfall or pricing weakness could have a significant impact on the Group's financial performance.

Mitigating actions

Detailed, regular and efficient reporting enables the Group to monitor sales volumes, revenue and pricing at a development, site and unit level. Performance against expectation is reviewed by the COO for Services and Customers and the Commercial Director with Divisional Sales Directors at monthly Divisional Revenue Board meetings and at the Executive Committee meetings to ensure performance is being effectively managed and action taken in order to address any potential performance issue.

A strict approval process exists for pricing adjustments and the awarding of discounts and incentives in excess of certain thresholds.

Business area impacted

Sales & Marketing 42 Services 44

Risk Management *continued*

Employees

Risk description

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.

Mitigating actions

The Group has put in place attractive reward mechanisms and provides extensive opportunities for professional 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 strategic objectives.

Investment in learning and development across the Group will also help to reduce the risk associated with employee retention.

Business area impacted

Land Buying	36	Planning & Design	38
Construction	40	Sales & Marketing	42
Services	44		

Carrying value of inventory and investment property

Risk description

The net realisable value of inventory and investment property 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.

Mitigating actions

Whenever possible, contracts to purchase land are via option agreement or are conditional on the Group obtaining detailed planning consent and/or a commercial viability clause.

The Group performs impairment reviews in line with International Financial Reporting Standards ('IFRS') requirements, on a half yearly basis to ensure the value of inventory and investment property is correctly reported.

Regular independent valuations of investment property are also performed to ensure carrying values are accurate.

Business area impacted

Land Buying	36	Planning & Design	38
Construction	40	Sales & Marketing	42

Health and Safety

Risk description

Construction sites are inherently risky and could expose individuals to the risk of serious injury or fatality.

Customers in the developments the Group manages are ageing and sometimes frail, with the risk that they can be more susceptible to injury.

Mitigating actions

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. Regular reporting on key metrics and emerging issues are reviewed monthly by the COO-Build and submitted to the Executive Committee for further review.

Care Quality Commission inspections are performed across all Retirement Living PLUS developments and actions are tracked to address any potential weaknesses in process.

Business area impacted

Planning & Design	38	Construction	40
Services	44		

Cyber Attack / IT failure

Risk description

Failure of the Group's IT systems, in particular those relating to customer data and other market sensitive information such as surveying and inventory or investment property valuations, could adversely impact the performance and reputation of the Group.

Mitigating actions

The Group maintains central IT systems and has a robust cyber security programme in place. Dedicated resources and regular reviews seek to reduce the risk of successful cyber attacks and a disaster recovery programme is in place and regularly tested. Compliance with the GDPR legislation forms a core part of our policies and procedures.

Business area impacted

Land Buying	36	Planning & Design	38
Construction	40	Sales & Marketing	42
Services	44		

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Principal Risks

Reputation and customer satisfaction

Risk description

The Group builds, sells and rents a quality product to an ageing and sometimes frail customer base and provides ongoing management, care and wellbeing 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.

Mitigating actions

The Group enforces strict procedures over the handover of developments for occupation and the handover of specific apartments to individual customers. Ongoing management, care and wellbeing services are provided within a robust framework of controls which are closely monitored.

The Care Quality Commission (CQC) inspects our Retirement Living PLUS developments and provides constructive feedback which is also used to ensure that we are meeting applicable care standards.

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.

Business area impacted

Land Buying	36	Planning & Design	38
Construction	40	Sales & Marketing	42
Services	44		

Operational

Risk description

The risk of loss to the Group from inadequate or failed processes, systems, human factors or due to external events, for example fraud.

Mitigating actions

Key Control framework and associated controls are operated and tested on a routine basis with assurance obtained on a quarterly basis to ensure effectiveness and operation of all operational key controls.

Business area impacted

Land Buying	36	Planning & Design	38
Construction	40	Sales & Marketing	42
Services	44		

Risk Management Key

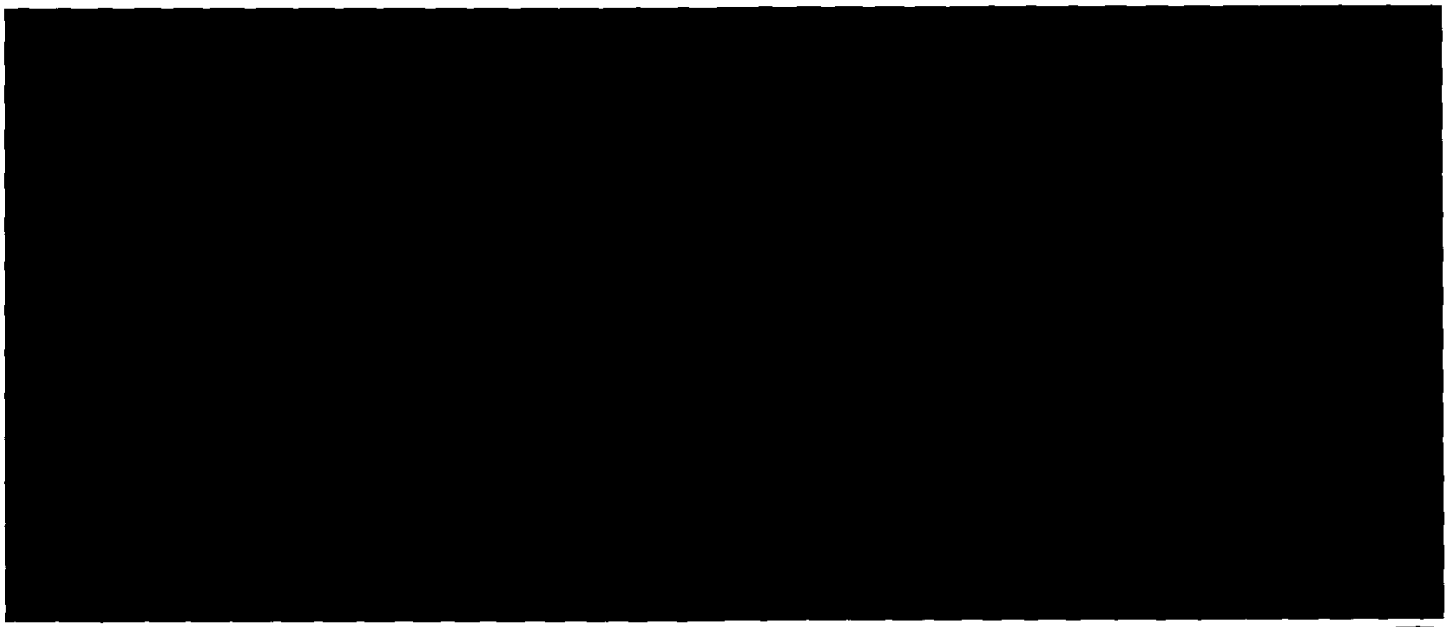
Change from previous year

Increased risk

No change

Decreased risk

New risk



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Linden Place, Solihull, West Midlands
Edward Place, Walton-on-Thames, Surrey

Graphic removed

Graphic removed

Brooke Dene Court, Cleckheaton, West Yorkshire
Brooke Dene Court, opened by David Harper of Antiques Roadshow

Corporate Governance

Board of Directors	**58**
Corporate Governance Statement	**60**
Nomination Committee Report	**68**
Risk and Audit Committee Report	**72**
Directors' Remuneration Report	**78**
Directors' Report	**108**
Statement of Directors' Responsibilities	**116**

Board of Directors

Paul Lester, CBE

Group Non-Executive Chairman

Appointed: 3 January 2018

Committees: Chair of the Nomination Committee and a member of the Remuneration and Disclosure Committees

1

Experience

Paul is a highly experienced Chairman and is currently also the Chairman of Essentra PLC, Readypower Ltd, FirstPort Ltd and Appello Ltd. Formerly a director of Forterra PLC, Invensys PLC and Group Managing Director of Balfour Beatty PLC before becoming Chief Executive of the support services company VT Group PLC in 2002. Paul was also Chairman of the John Laing Infrastructure Fund until September 2017.

Skills and Contribution

• Leadership • Strategic • Sector

Paul brings a wealth of experience in leading companies. Since his appointment, Paul has delivered strong and decisive leadership, which has reset the tone of Board discussions, encouraging open debate and constructive challenge. He has been instrumental in working with the Board in setting the Group's strategy.

John Tonkiss

Chief Executive Officer

Appointed CEO: September 2018

Appointed: 5 November 2015

Committees:

Member of the Nomination, Disclosure, Allotment and Health and Safety Committees

2

Experience

John worked for ten years for The Unite Group, the UK's largest provider of purpose-built student accommodation, becoming Group Chief Operating Officer in 2008. While at Unite he introduced new models of investment and construction for student housing that transformed the business. *John was previously Chief Executive Officer of* Human Recognition Systems, the UK's leading biometric solutions provider. John joined McCarthy & Stone in 2014 and held a number of roles including Group Chief Operating Officer.

Skills and Contribution

• Sector • Leadership • Strategic

John brings extensive skills and industry experience to McCarthy & Stone, which have been gained in senior operational and strategic roles.

Rowan Baker

Chief Financial Officer

Appointed: 6 January 2017

Committees:

Member of the Disclosure and Allotment Committees

3

Experience

Before joining McCarthy & Stone, Rowan held various roles in industry and private practice, most notably at Barclays plc and PricewaterhouseCoopers.

Rowan built a deep understanding of the business through previous roles held including Group Financial Controller. Rowan is a fellow of the Institute of Chartered Accountants of England and Wales and an associate of the Chartered Institute of Taxation.

Skills and Contribution

• Financial • Technical • Strategic

Rowan brings a wealth of financial experience and technical expertise to the Board.

Rowan played a lead role in the Company's successful IPO in 2015 and has a deep and comprehensive understanding of the business.

1 2 **Graphic removed** 3 4 5

Mike Lloyd

Chief Operating Officer
Services and Customers

Appointed: 1 January 2019

4

Experience

Mike is an experienced Director and has worked with a wide range of businesses and across sectors.

Prior to joining McCarthy & Stone, Mike was Chief Executive of AA Insurance Services and Chief Commercial Officer of The AA. He led a number of the AA's divisions, as well as its sales contact centres, marketing and digital functions.

Mike started his career at Oliver Wyman, which he joined in 2001 and became a Partner in 2011 until 2014.

Skills and Contribution

• Services Operations • Transformation
• Sales and Marketing

Mike brings to McCarthy & Stone a deep knowledge and understanding of consumer businesses, with focus on sales and marketing, services operations and broader transformation and strategy.

Nigel Turner

Chief Operating Officer
Build

Appointed: 1 January 2019

Committees:

Chair of the Health and Safety Committee

5

Experience

Nigel has more than 30 years of leadership and delivery experience in the real estate and services sectors. Previously the Developments Property Services Director and a board member at Kier Group plc, responsible for Kier's development and residential activities, strategy, asset management and procurement. Prior to joining Kier, *Nigel was Development Director at Laing Property* Limited where he led the development of a new industrial business stream. Nigel is a member of the Royal Institution of Chartered Surveyors.

Skills and Contribution

• Sector • Strategic • Operational

Nigel has considerable experience in the property and asset management sectors. His industry expertise has enabled him to make a valuable contribution to the execution of the Group's strategy, in particular driving down build costs and achieving more standardised and efficient designs.

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

John Carter

6

Independent Non-Executive Director

Appointed: 1 October 2017

Committees:
Member of the Remuneration and Nomination Committees, Company designated Non-Executive Director for engagement with the workforce

Experience

John was the Chief Executive of Travis Perkins plc until August 2019, a position he held since 2014. Having joined Travis Perkins in 1978, he was appointed to the Board in 2001 and was the driving force behind the creation and growth of Travis Perkins plc sector leading global sourcing and supply chain functions. John was heavily involved in driving a broader and more diverse workforce, creating a better and safer working environment and led the integration of Travis Perkins' three largest strategic acquisitions of Keyline, Wickes and BSS.

Skills and Contribution

• Sector • Operational • Colleague Wellbeing

John's commercial and sector experience brings valuable insight to the Board, particularly in the areas of leadership, change management and people related issues, such as engagement, health and safety, diversity and equality. He is also able to apply these skills and experiences to his formal role of designated Non-Executive Director for engagement with the workforce.

Arun Nagwaney

7

Non-independent Non-Executive Director

Appointed: 17 May 2018

Committees:
Member of the Nomination Committee

Experience

Arun is the Managing Director and Global Head of Portfolio Group at Anchorage. Prior to joining Anchorage, Arun was Director and Co-Founding Shareholder at Papierwerke Lenk AG and Director and Co-Founding Shareholder at Plastics Capital Plc. During that time, Arun was also the Vice-Chair of the Supervisory Board at Beta Systems Software AG. Prior to Lenk and Plastics Capital, he was a Principal at KKR Capstone Europe. Arun serves as a board director at some of Anchorage's portfolio companies including PHS Group and Ideal Standard.

Skills and Contribution

• Commercial • Strategic • Transformation

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

Gill Barr

8

Independent Non-Executive Director

Appointed: 10 April 2019

Committees: Chair of the Remuneration Committee and a member of the Nomination and Risk and Audit Committees

Experience

Gill has held senior strategic, marketing and business development positions at John Lewis, Kingfisher, KPMG and MasterCard. Most recently, she was Group Marketing Director of The Co-operative Group. Gill is currently a Non-Executive Director and Chair of the Remuneration Committee at N Brown Group plc and a Non-Executive Director and a member of the Remuneration Committee at PayPoint plc and Wincanton plc. Gill was previously a Non-Executive Director at Morgan Sindall plc and chaired their Remuneration Committee.

Skills and Contribution

• Strategy • Sales and Marketing • Remuneration

Gill brings a focus on executive remuneration, customer strategy, proposition development and communication including effective use of digital channels which adds to the skillset of the Board.

6 7 **Graphic removed** 8 9 10

Frank Nelson

9

Senior Independent Director

Appointed: 18 November 2013

Committees: Chair of the Risk and Audit Committee and a member of the Remuneration and Nomination Committees

Experience

Frank is a qualified accountant with 30 years' experience in the housebuilding, infrastructure and energy sectors. He was Finance Director of Galliford Try plc from 2000 until 2012 and was also responsible for its PFI/PPP activities. He was previously Finance Director of the 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.

Skills and Contribution

• Financial • Risk Management • Sector

Frank's significant housebuilding and financial knowledge make him an effective member of the Board and a strong Chair for our Risk and Audit Committee. He is always prepared to challenge financial performance and to promote good risk management and financial practice.

Geeta Nanda, OBE

10

Independent Non-Executive Director

Appointed: 1 April 2015

Committees:
Chair of Corporate, Social and Responsibility Committee, Member of the Risk and Audit, Remuneration and Nomination Committees

Experience

Geeta has more than 30 years' experience in the housing sector and as a Chief Executive Officer of Metropolitan Thames Valley Housing Association Limited ('TVHA'). In 2013, Geeta was awarded an OBE for her achievements to social housing.

Geeta is a Director of Fizzy Enterprises which she launched in 2012, as a branded market rent proposition. She has 24 years' experience in non-executive roles.

Skills and Contribution

• Sector • Societal • Leadership

Having extensive experience in the public and private housing sectors, Geeta has significant knowledge of strategy, operations and organisational change and her varied experience allows her to bring a different perspective to Board discussions.

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Corporate Governance Statement

Graphic removed

"The Board provides clear, *entrepreneurial and responsible* leadership in order to promote the long term success of the Group, whilst ensuring a robust risk and internal control framework, adequate resources and appropriate values and standards are *in place to deliver its strategic objectives*"

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

Governance and Culture

The Board recognises the importance of ensuring that high standards of governance and business practice are upheld throughout the Group and welcomes the Financial Reporting Council's 2018 Corporate Governance Code (the 'new Code'). The new Code brings about significant changes in the requirements for listed companies and the Board and its Committees have spent significant time during FY19 considering how to build upon and further strengthen the existing governance framework to meet the requirements of the new Code. Actions that have been undertaken and ongoing by the Board to ensure compliance with the new Code include:

- Strengthening the Board's direct engagement with our workforce. The Board feels that a designated Non-Executive Director is the most appropriate method for engagement at this time and has appointed John Carter, Independent Non-Executive Director, to take up the role
- Feedback relating to workforce engagement and other key information will be reported to the Board and its Committees
- Changing primary responsibility for monitoring whistleblowing arrangements from the Risk and Audit Committee to a matter reserved for the Board
- Practical steps are also being considered to embed our obligations relating to section 172 of the Companies Act 2006 which will apply to the Group for the first time in FY20. The Board intends to review the content of Board papers to ensure it is getting the information it needs to discharge its section 172 duties. The Company Secretary will update the Board of its obligations under section 172 and facilitate a compliance action plan
- Directors are now also required to inform the Board and seek approval before taking on any additional board level responsibilities
- During 2020, there will be increased focus on sustainability and corporate responsibility through a reformed Corporate and Social Responsibility Committee structure. Geeta Nanda will chair the Committee at Board level on a quarterly basis and this Committee will be supported at an operational level by a monthly Committee meeting chaired by John Tonkiss.

Board Changes

The Board has undergone some significant changes during the year and up to the date of this report. As part of succession planning and to drive the execution of the strategy, two Chief Operating Officers were appointed on 1 January 2019. Mike Lloyd, who is responsible for services and customers and Nigel Turner, who is responsible for build, including health and safety.

Gill Barr commenced her Board role on 23 May 2019, following her appointment on 10 April 2019 as an independent Non-Executive Director and she brings with her considerable board level and remuneration committee experience. Mike Parsons left the Board at the end of October 2019 and a search is underway to find a suitable replacement.

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

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 and Senior Management. In addition, certain Committees have been established to oversee some of the operational activities of the Group, including the Executive Committee which meets on a monthly basis to discharge responsibilities delegated to it by the Board and execute the Group's strategy.

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.

Corporate and Social Responsibility Committee

Chair: **Geeta Nanda, OBE**

Responsible for making recommendations regarding the Group's employees, environmental, societal 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.

Transformation Committee

Chair: **John Tonkiss**

Responsible for the execution of the Group's strategy and transformation programme.

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 and fraud systems in place within the Group. It also reviews the effectiveness of the external auditors.

The Board

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.

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 are referred up to the Board in line with the matters reserved schedule.

Executive Committee

Chair: **John Tonkiss**

The Executive Committee supports the CEO in the execution of the Group's strategy and in the management of the day-to-day activities of the Group.

Remuneration Committee

Chair: **Gill Barr**

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

Operations Board

Land and Development

Chair: **Nigel Turner**

Responsible for delivery of operational and strategic objectives for land and development.

Health and Safety Committee

Chair: **Nigel Turner**

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 up-to-date with changes in legislation surrounding health and safety.

Operations Board

Services and Customers

Chair: **Mike Lloyd**

Responsible for delivery of operational and strategic objectives for services and customers.

**The term Senior Management used in this report refers to the Executive Committee and their direct reports*

Corporate Governance Statement *continued*

Compliance statement

Throughout the financial year ended 31 October 2019 and to the date of this report the Group has applied the principles and complied with the provisions set out in the UK Corporate Governance Code as revised in April 2016 (the 'Code'), except as disclosed below. The Code is issued by the FRC and is available for review on the FRC website: **www.frc.org.uk**

Following the launch of the Group's strategy in September 2018 the need for additional Executive Director support was identified. A search was undertaken and on 1 January 2019 Nigel Turner and Mike Lloyd both joined the Group and Board as Chief Operating Officers. Although these appointments resulted in the Group's Board not being compliant with Provision B.1.2 of the Code, the Board felt it was justified as these appointments were crucial to the effective execution of the Group's strategy. The Board commenced an immediate search for a suitably experienced independent Non-Executive Director to bring the Board in compliance with the Code and on 10 April 2019 Gill Barr was appointed and commenced her Board responsibilities from 23 May 2019. However, on 31 October 2019 Mike Parsons stepped down from the Board meaning the Group was again not in compliance with Provision B.1.2 of the Code. The Board is mindful of its responsibilities under the Code and a search is currently underway to find a suitable replacement to bring the Group in compliance with the Code. Other than as disclosed above the Group has been compliant with the Code throughout the financial year ended 31 October 2019 and to the date of this report.

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

Leadership roles and division of responsibilities

Chairman

- Leadership of the Board in setting the Purpose, Vision, Strategic direction of the Group and Board agenda
- Leading constructive challenge of the Executive Committee
- Ensuring the Board determines the nature and extent of the Group's risk appetite
- Promoting high standards of corporate governance
- Facilitates constructive relations between Executive and Non-Executive Directors

Non-Executive Directors

- Review proposals put forward by the Executive Committee
- Bring external perspective and independent challenge to the Executive Directors
- Monitor the Group's performance and execution of the Group's strategy

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
- Monitors the Group's performance
- Ensures effective communication with all stakeholders, in order to understand their issues and concerns, and communicate findings to the Board

Chief Operating Officers

- Responsible for the execution of the Group's strategy
- Drive efficiency and effectiveness initiatives
- Ensure McCarthy & Stone maintains its Customer Satisfaction ratings

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

General Counsel and Company Secretary[1]

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

Chief Financial Officer

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

Executive Committee

- Supports the CEO in execution of the Group's strategy
- Supports the CEO in management of the operational activities and risk management of the Group
- Supports the CEO in monitoring Group's performance and delivery of the Group's financial performance
- Oversees employee communication and development of talent

1 Patrick Hole resigned from McCarthy & Stone on 31 December 2019. Rowan Baker was the interim Company Secretary until Adam Batty the new General Counsel and Company Secretary started on 20 January 2020

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Summary of Board activities and priorities in FY19

The Board provides clear, entrepreneurial and responsible leadership to the Group in order to promote its long term success, whilst ensuring the Group has in place a robust risk and internal control framework, adequate resources and appropriate values and standards to deliver its strategic objectives. Specifically, the agenda cycle makes provision for updates on the key areas of the Group's business model and functions, including Human Resources, IT and Finance. Set out below is a summary of key activities covered during the course of the FY19 Board cycle and to the date of this report:

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.

Strategy

- Monitoring the implementation and execution of the Group's strategy through regular Transformation Committee updates
- Determining the Group's approach to the proposed government reform of leasehold and ground rents
- Oversight and approval of strategic land acquisitions
- Monitoring company culture and introducing the 'McCarthy & Stone Way'
- Reviewing Investor Perceptions Report
- Monitoring Group's engagement with Government, MPs, officials and journalists
- Approval of the transaction with Waverstone LLP

Governance and risk management

Review and approval of the:

- Modern Slavery Act statement
- Equality, Diversity and Inclusion policy
- Cyber security arrangements
- Principal risks, including Brexit and mitigation planning
- The risk and control environment
- The effectiveness of the external auditor
- Board evaluation outputs
- Whistleblowing reports
- Gender pay report

Director appointments

Review and approval of the:

- Board succession planning and appointment of the new NED and COOs
- Salary and incentives for the Board and Senior Management
- NED appointment to the role of Company designated Non-Executive Director for engagement with the workforce in accordance with the revised Code
- Appointment of NED as Chair of reformed CSR Committee

Financial performance

Review and approval of the:

- Group's new Accounting Reference date
- Half year and year end results
- Annual budget
- Revised three year plan
- Annual Report
- Going concern and viability status
- Interim dividend and recommendation of final dividend
- Group's Capital Allocation policy
- Remuneration Committee recommendations

Corporate Governance Statement *continued*

Meetings and attendance

During FY19, there were ten formal Board 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[1,6]				
Paul Lester	10/10	n/a	4/4	5/5
Gill Barr[2]	4/4	2/2	3/3	n/a
John Tonkiss	10/10	n/a	n/a	5/5
Rowan Baker	10/10	n/a	n/a	n/a
Mike Lloyd[3]	8/8	n/a	n/a	n/a
Nigel Turner[4]	8/8	n/a	n/a	n/a
Geeta Nanda	9/10	4/5	4/4	4/5
Frank Nelson	10/10	5/5	4/4	5/5
Mike Parsons[5]	6/10	3/5	1/4	3/5
John Carter	10/10	n/a	4/4	n/a
Arun Nagwaney	10/10	n/a	n/a	5/5

Notes:

1 *Meetings attended/total number of meetings eligible to attend. Only attendance of formal members of the meetings are included*
2 *Gill Barr was appointed with effect from 10 April 2019 and commenced Board activities from 23 May 2019*
3 *Mike Lloyd was appointed to the Board with effect from 1 January 2019*
4 *Nigel Turner was appointed to the Board with effect from 1 January 2019*
5 *Mike Parsons has resigned from the Board with effect from 31 October 2019*
6 *Pre-existing commitments resulted in a number of meetings being held without full attendance, in such cases comments and feedback were provided by Directors prior to the meeting taking place*

The Board's Role

The Board is responsible for operational control of the Group, including all strategic, financial, organisational, legal and regulatory matters. These responsibilities are set out in the schedule of matters reserved for the Board which is updated and approved annually and includes:

- Approval of the Group's strategy, objectives, values and standards
- Approval of the business model
- Oversight of the Group's operations to ensure sound, competent and prudent management
- Approval of major changes to the Group's structure and internal control environment
- Ensuring that an effective system of internal control and risk management is maintained
- Approval of shareholder communications
- Approval of major land acquisitions

The types of decisions delegated to Senior Management relate to the day-to-day running of the business and execution of the Group's strategy.

Board Committees

In accordance with the Code, the Board has established three 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 68 to 106, which are incorporated into the Corporate Governance Statement by reference.

Executive Committee

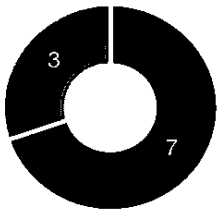
The role of the Executive Committee is to support the CEO in delivering the Group's strategy and to manage the day-to-day operations of the business. A review of Executive Committee membership was undertaken during the year and in order to improve its effectiveness, the membership has been reduced and now consists of the following members:

- Chief Executive Officer
- Chief Financial Officer
- Chief Operating Officer - Build
- Chief Operating Officer - Services and Customers
- Group General Counsel and Company Secretary
- Group Human Resources Director

Board composition and appointments

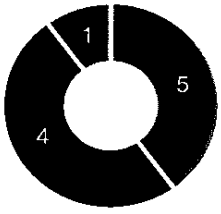
The Board currently comprises a Non-Executive Chairman (who was independent on appointment), four Executive Directors, four independent Non-Executive Directors and one other Non-Executive Director who is not independent. A search is currently underway to recruit an additional independent Non-Executive Director. Notwithstanding this, the Company considers there to be an appropriate combination of Executive and Non-Executive Directors. 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 68 to 71. 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[1]



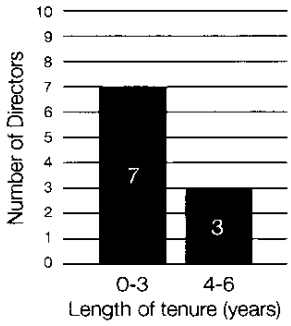
- Male
- Female

Board Composition[1]



- Executive Director
- Independent Non-Executive
- Nominee Director

Board Tenure[1]



1 Excludes Mike Parsons who resigned from the Board with effect of 31 October 2019

Conflicts of interest and independence

No individual or group of individuals dominates the Board's decision making process. The Board has an established 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.

Paul Lester resigned from the board of Forterra plc on 20 May 2019 and John Carter resigned as CEO of Travis Perkins with effect from 5 August 2019. The Board no longer considers there to be a potential conflict of interest for either Paul or John regarding their previous directorships.

For the purposes of the Code the Board considers Frank Nelson, Geeta Nanda, Gill Barr and John Carter 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 including meetings with Senior Management and visits to some of the Group's developments in order to provide a broader understanding of the business. In order to assist the Directors in their ongoing understanding of the Group, Board meetings are held across different divisional offices throughout the year to provide an opportunity for the Directors to meet local management. They are 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 also access through an online Board reporting portal. Mike Lloyd, Nigel Turner and Gill Barr, who were all appointed during the year, have received an induction to the business in line with the above.

Board meetings are held across different divisional offices throughout the year to provide an opportunity for the Directors to meet local management and assist the Directors in their understanding of the Group.

All Directors are encouraged to undertake additional training where it is considered appropriate for them to do so and a summary of relevant training opportunities is communicated to the Directors annually.

Board 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 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 FY19. The Nomination Committee led the process and the findings are included in the Nomination Committee report on pages 68 to 71.

Promoting the Company's success is the driving factor behind all decisions made by the Board. Decision making processes are structured to enable directors to evaluate the merit of proposed business activities and the likely consequences of its decisions over the short, medium and long term.

Promoting the success of the Company

Promoting the Company's success is the driving factor behind all decisions made by the Board. Decision making processes are structured to enable directors to evaluate the merit of proposed business activities and the likely consequences of its decisions over the short, medium and long term. The Board carefully considers the impact of the business on the communities and environments in which the Group operates. Due consideration is paid to the Group's stakeholders, including but not limited to our customers, suppliers, business partners, employees, shareholders and also the wider environmental and societal impacts. In all its activities, and those of the Group, the Board requires that our employees and partners conduct business with the highest ethical and professional standards.

Risk management and internal control

The Board is responsible for the Group's overall internal control environment and risk management framework which are designed to manage the risks faced by the Group. The Executive Committee, Risk and Audit Committee and the risk and internal audit function identified the principal risks facing the Group and established a framework and systems for evaluating and managing those risks. The framework and internal control procedures have been in place for the entire year under review and up to the date of this report. They are designed to manage rather than eliminate risk and can only provide reasonable and not absolute assurance against material misstatement or loss. Details of risk management and the principal risks facing the Group are set out on pages 50 to 55. Further information can also be found in the Risk and Audit Committee report on pages 72 to 77.

Relations with shareholders

The Chairman, Board and the Executive Directors are committed to open and transparent dialogue with shareholders. Although most direct shareholder contact is facilitated by the Executive Directors, feedback is communicated to the other Directors primarily through reports to the Board, feedback from brokers and external advisors and copies of analysts' presentations.

The Chairman, Senior Independent Director and other members of the Board are available to meet with institutional investors if required. During the year, a number of meetings and presentations were held with the Company's largest investors as part of discussions surrounding the Group's strategy. In addition, in her capacity as Chair of the Remuneration Committee and as part of her induction to the role, Gill Barr met with a number of key investors shortly after her appointment in April 2019.

The AGM provides an opportunity for the Chairman to explain the Company'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 in January 2019.

On behalf of the Board

Paul Lester, CBE
Group Non-Executive Chairman
27 January 2020

Nomination Committee Report

Graphic removed

"The Board has been through a period of transition and has evolved considerably during FY19"

Paul Lester, CBE *Chair of the Nomination Committee*

I am pleased to present the report of the Nomination Committee (the 'Committee') in respect of FY19 and a summary of the on going work of the Committee.

The Board has been through a period of transition and has evolved considerably during FY19. Two new Executive Directors have been appointed to strengthen the leadership team and provide additional leadership bandwidth and capability in order to deliver the Group's strategy.

A new independent Non-Executive Director with significant remuneration committee experience was also appointed during the year, addressing one of the key opportunities identified as part of last year's Board evaluation exercise.

Mike Parsons resigned from the Group with effect from 31 October 2019, we are currently in the process of recruiting a replacement independent Non-Executive Director.

Additionally, I have now been Chairman for nearly two years and Arun Nagwaney has been on the Board for over one year as the representative of our largest shareholder, Anchorage Capital Group 'Anchorage'. Maintaining the right balance of skills and knowledge is key to achieving the Group's strategic objectives and in light of these changes the Committee has again engaged external consultants to facilitate the Board evaluation this year.

Looking ahead, Committee members are mindful of the developments made in relation to the new Code, particularly those in relation to purpose and culture, and this will form an important part of the Committee's activity over the next year.

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Membership and attendance

FY19 has been a busy period for the Committee with five formal meetings held. The members of the Committee and their attendance during FY19 is shown below:

Director	Nomination Committee attendance[2]
Paul Lester	5/5
Frank Nelson	5/5
Geeta Nanda	4/5
Mike Parsons[1]	3/5
Arun Nagwaney	5/5
John Tonkiss	5/5

In accordance with the Code, a majority of members of the Committee are independent Non-Executive Directors.

Career profiles of the Committee members can be found in the Board of Directors section on pages 58 and 59.

Summary of key activities during FY19

Recruitment and appointments

- New Chief Operating Officers appointed
- Additional Non-Executive Director appointed
- Considered and changed the Committee's composition
- Recommended Directors for election or re-election
- Appointment of designated Non-Executive Director for engagement with the workforce
- Commenced search for replacement Non-Executive Director following Mike Parsons' resignation
- Appointment of NED to Chair the CSR Committee

Board evaluation

- Participated in and reviewed the output of the 2019 external Board evaluation process
- Considered Board members' external appointments, in particular any potential overboarding or risk of conflict

Succession planning

- Considered succession planning arrangements
- Reviewed current initiatives in respect of the wider talent pipeline
- Ensured sufficient contingencies are in place to respond to sudden or unexpected unavailability of Directors and Senior Management

Diversity

- Considered ongoing internal initiatives in respect of diversity and inclusion
- Reviewed and implemented new Equality, Diversity and Inclusion Policy
- Considered gender diversity of Executive Directors and Senior Management

1 Mike Parsons resigned from the Nomination Committee with effect from 31 October 2019

2 Due to pre-existing commitments a number of meetings did not have full attendance, in such instances Directors provided comments and questions in advance of the meeting they were unable to attend

Nomination Committee Report *continued*

Key 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-election to the Board and its Committees
- Succession planning for the Directors and Senior Management
- Reviewing the results of the Board and Committee performance evaluation

Succession planning

This year the Committee has continued to focus on succession planning and in light of its increased responsibility under the new Code has focused on the quality and development of the Group's wider Senior Management pipeline. At its June meeting, the Committee reviewed and was satisfied with the arrangements in place for succession for the Executive Directors and Senior Management.

Emergency succession

During the year, the Committee also considered emergency succession arrangements in the event of sudden changes in the availability of Executive Directors and key members of Senior Management. Historically, the business has successfully promoted from within the Group to key Senior Management and Executive Director positions. As part of its succession planning arrangements, during the year the Committee was able to clearly identify, in most cases, potential candidates to immediately cover for key personnel should the need arise. However, the use of external recruitment would be utilised where there was no obvious existing immediate cover within the business.

Board appointments

The Committee adopts a formal and transparent procedure for the appointment of new Directors to the Board. External consultants are used to assist in identifying suitable Board candidates, based on a written specification for each appointment. In accordance with the Code, the Nomination Committee is led by the Senior Independent Director when dealing with the appointment of a successor to the Board chairmanship.

Much of the Committee's time during FY19 and up to the date of this report was spent on the recruitment and induction of one new Non-Executive Director and the two new COOs.

Disclosures on the recruitment process for John Tonkiss' appointment as CEO in September 2018 can be found in the FY18 Annual Report.

Taking account of the changes in Board membership during the year, the female representation on the Board at the date of this report is 30%.

COO Appointments

Following the announcement and launch of the Group's strategy in September 2018, the Board identified a need for additional executive leadership to deliver the strategy. Accordingly, Korn Ferry an independent external search firm undertook a search to identify two new Executive Directors. Internal and external candidates were considered as part of the process and a shortlist of candidates was identified.

The Committee recommended that Mike Lloyd and Nigel Turner be appointed to the roles of COO - Services and Customers and Build respectively. In making their recommendation, the Committee considered the knowledge, experience and skills required for the roles. The Board met on 6 November 2018 to review the recommendations of the Committee and unanimously approved the appointments. On 7 December 2018, the Group announced the appointment of Nigel Turner and Mike Lloyd as Chief Operating Officers and they formally joined the Board on 1 January 2019.

Non-Executive Director Appointment

Following the FY18 Board evaluation, a need was identified to address a lack of remuneration committee experience on the Board. Korn Ferry were again retained to conduct a search which was undertaken in the first half of FY19 to identify a suitable candidate. The Committee concluded that Gill Barr was the most compelling candidate for the role and formally approved her appointment at its meeting held on 9 April 2019. The Group announced her appointment on 10 April 2019 and Gill commenced Board activities from 23 May 2019. She was also appointed as Chair of the Remuneration and as a member of the Risk and Audit Committee with effect from the same date.

Diversity

It is in the best interests of the Company and shareholders to establish a cohesive and representative Board with differing backgrounds, viewpoints and approaches. 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.

The Committee also recognises the importance of diversity across the Group as a whole and as such, diversity has been a key consideration throughout the year, not only in relation to new appointments to the Board, but also in relation to the Executive Committee and below.

Taking account of the changes in Board membership during the year, the female representation on the Board at the date of this report is 30% with two independent Non-Executive Directors 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 pages 30 and 33.

The Committee also recognises the importance of diversity across the Group as a whole and as such, diversity has been a key consideration throughout the year, not only in relation to new appointments to the Board, but also in relation to the Executive Committee and below.

Board evaluation

The Board and its Committees undertake an annual evaluation of their performance and effectiveness. Given the number of changes to the Board over the year, the Committee decided to engage MWM Consulting, an external independent facilitator, to conduct the Board evaluation. Input was sought from the Chairman and Company Secretary to ensure that questions were appropriately tailored to the Group. A report on the findings from the evaluation of the Board and its Committees was prepared by MWM Consulting and shared with the Board and its Committees for review and collective discussion respectively.

The findings from the FY19 evaluation demonstrates that the Board is aligned, well managed and has developed further to be a collegiate, open and constructive environment that provides for effective governance of the business.

The evaluation highlighted the opportunity for the Board to enhance its focus on the longer term strategic direction of the Group and on developing talent, capability and culture within the organisation.

The findings from the FY19 evaluation demonstrates that the Board is aligned, well managed and has developed further to be a collegiate, open and constructive environment that provides for effective governance of the business.

FY18 Evaluation

One of the areas highlighted from last year's evaluation results was a need to improve the quality and timely reporting of information to the Board. The Group engaged an external consultant, Board Intelligence, to assist in improving the governance around meeting support, including the quality of reports to the Board. The results from the FY19 Board evaluation show that the Board feel they are now getting more timely and accurate reporting.

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 Chair
27 January 2020

Risk and Audit Committee Report

Graphic removed

"The Committee has continued to support the Board in fulfilling its responsibilities, with specific focus on the Group's framework for risk management, internal control and monitoring the integrity of financial reporting"

Frank Nelson, Risk and Audit Committee Chair

I am pleased to present the FY19 Risk and Audit Committee (the 'Committee') report. This report describes the Committee's ongoing responsibilities and key activities during the year.

With the introduction of new accounting standards, the transition to new auditors, new financial year end and the ongoing transformation of McCarthy & Stone from being a housebuilder to the UK's leading developer and manager of retirement communities, 2019 has been a busy year for the Committee. The Committee has considered in detail the implications of the strategic initiatives on funding and financial disclosures, with significant attention to detail when reviewing and agreeing on the accounting for exceptional items, investment properties and joint arrangements with third parties.

The Committee has continued to support the Board in fulfilling its responsibilities, with specific focus on the Group's framework for risk management, internal control and monitoring the integrity of financial reporting.

Following her appointment during the year, I am pleased to welcome Gill Barr to the Risk and Audit Committee.

Gill commenced her duties on the Committee from 23 May 2019.

In this report, I describe how the Committee has carried out its responsibilities during the year to ensure that we continue to comply with relevant sections of the UK Corporate Governance Code, the Listing Rules, legislation and the impact of new IFRS accounting standards.

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Membership and attendance

The members of the Committee and their attendance during *FY19 are shown below:*

Director	Risk and Audit Committee attendance[3]
Frank Nelson	5/5
Geeta Nanda	4/5
Mike Parsons[1]	3/5
Gill Barr[2]	2/2

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.

Career profiles of the Committee members can be found in the Board of Directors section on pages 58 and 59.

In accordance with the Committee's terms of reference, meetings can also be attended by other Directors and members of the internal and external audit teams, when deemed appropriate. The Chairman, CEO and CFO attended all five meetings during the year. The Director of Risk and Internal Audit attended three meetings and the Group Financial Controller and external audit partner attended four meetings during the year. The members of the Committee met with the external auditor without Executive Directors or management present at its November 2018, April 2019 and October 2019 meetings.

Key responsibilities

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

- Monitor the integrity of the financial statements and any other formal announcements relating to the Group's financial performance and position, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain, having regard to matters communicated to it by the external auditor
- Assess whether management has made appropriate estimates and judgements and to provide advice to the Board on whether the Annual Report and financial statements are fair, balanced and understandable
- Keep under review and monitor the effectiveness of the Group's risk management and internal control framework
- Monitor and review the effectiveness of the risk and internal audit function
- *Monitor and review the effectiveness of the services of the* external auditor, including negotiation of the audit fee
- Ensure compliance with the policy on the supply of non-audit services by the external auditor
- Review the adequacy and security of the Group's policies and procedures on anti-bribery, corruption, fraud and anti-money laundering

The Committee undertook its annual review of its terms of reference at its meeting in April 2019 and concluded that no changes were required. Responsibility for monitoring whistleblowing arrangements have subsequently been reserved as a matter for the Board.

Activities during the year

There were five Committee meetings during the financial year, organised to tie in with the annual internal audit cycle and external audit timetable.

Summary of key activities during FY19:

- Reviewed and approved the financial statements and associated disclosures at the half year and full year
- Assessed whether the Annual Report, taken as a whole, is fair, balanced and understandable, taking into consideration key accounting judgements made by management. The resulting Directors' Responsibilities Statement can be found on pages 116 and 117
- Assessed the Company's going concern status and medium to longer term viability. The associated Viability Statement can be found on page 51 in the Strategic Report
- Reviewed and approved the annual internal and external audit plans
- Reviewed the results of the internal and external audits and monitored the timely implementation of any recommended actions
- Reviewed the impact assessment of new accounting standards (IFRS 9, IFRS 15, IFRS 16), treatment of exceptional costs, accounting for investment properties and the transaction with Waverstone LLP
- Monitored the Group's arrangements for whistleblowing (until responsibility transferred to the Board), anti-bribery and anti-money laundering
- Undertook the annual review of the effectiveness of the Group's frameworks for internal control and risk management, which the Committee also monitors throughout the year
- Approved the external audit fees
- Considered the effectiveness of the Committee

1 Mike Parsons resigned from the Board and the Risk and Audit Committee with effect from 31 October 2019

2 Gill Barr joined the Committee with effect from 23 May 2019

3 Due to pre-existing commitments a number of meetings did not have full attendance, in such instances Directors provided comments and questions in advance of the meeting they were unable to attend

Risk and Audit Committee Report continued

Evaluation of the Committee

An external evaluation led by MWM Consulting was undertaken 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 framework. The Board has reviewed the evaluation findings and concluded that the Committee has operated effectively.

During FY20, the Committee will remain focused on the areas of activity outlined within this report with particular focus on monitoring the Group's principal risks.

Compliance with whistleblowing, fraud, anti-bribery and corruption and anti-money laundering policies

During the year, the Committee received regular updates from the Company Secretary on compliance with the policies across the business on whistleblowing, anti-bribery and corruption, fraud and anti-money laundering. No incidents have been raised during the year and to the date of this report.

Responsibility for monitoring compliance with whistleblowing was transferred to the main Board during the year.

Significant financial reporting issues

The Committee is responsible for reviewing whether suitable accounting policies have been adopted and whether management have made appropriate estimates and judgements in the preparation of the financial statements. Set out below are 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 133 to 139.

1) Revenue Recognition Risk

The Committee monitors the effectiveness of the internal controls exercised over the key processes employed by the Group to ensure the accuracy of revenue recognition and associated disclosures. Misstatements that occur in relation to revenue recognition could materially affect the revenue in the income statement, particularly in relation to revenue being recorded in the wrong period, due to cut off errors or management bias.

As outlined under 6) Impact of new accounting standards, IFRS 15 - Revenue from Contracts with Customers, became effective from 1 September 2018. Management reviewed the application of the new standard to its current business practices. Revenue included in the Consolidated Statement of Comprehensive Income now reflects the fair value of consideration received or receivable on the sale of part exchange properties, in addition to the previously reported fair value of the consideration received or receivable on the legal completion of a newly built property sale.

2) Inventory Valuation and Profit Recognition

Considerable judgement is required from management in assessing whether carrying amounts for land, sites in the course of construction, finished stock and part-exchange properties should be written down so that inventories can be held at the lower of cost and net realisable value (NRV). Furthermore, the determination of cost of sales is based on the forecast margin for each site and judgement is required in assessing this, including key assumptions regarding expected revenues and costs at each site.

Misstatements that occur in relation to inventory balances and profit recognition would affect the amounts held on the statement of financial position and the associated cost of sales on the income statement. There is also a risk that the carrying value of inventory could be subject to impairment write downs should market conditions deteriorate significantly.

The Committee received a proposal from management confirming the split of overhead costs relating to planning, commercial, construction, product and design, interior design 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.

The carrying value of inventory is determined by reference to a number of assumptions which are subject to management estimation and is assessed by management for impairment by reference to current market inputs and assumptions. The Committee continues to monitor the Group's key processes pertaining to its investment in site development activities and the valuation of work in progress and the effectiveness of the internal controls exercised over those processes.

During the year, management have refined the methodology for releasing land and build costs into cost of sales. These costs were previously released on an equalised margin basis using a calculation that reflected actual and forecast part-exchange incentive costs, bulk discounts, rental valuation and part-exchange provisions across the life of the development. This led to a distorted result due to the volume of rental and bulk sales. The revised method excludes these costs and reduces the level of judgement on margin forecast by removing the incentive costs, bulk discounts, rental valuation and part-exchange provisions from this calculation and basing it on the forecast list prices and land and build costs.

3) 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 and gains or losses incurred on historic redemptions.

4) Related party transaction

a. Acquisition of Somerset Care's interest in YLMS

On 29 July 2019, McCarthy & Stone Management Services (MSMS) acquired from Somerset Care Limited the remaining 50% shareholding of YourLife Management Services Limited (YLMS).

McCarthy & Stone had control of the business and as a result treated it as a subsidiary prior to the acquisition. The acquisition has been treated as an equity transaction under IFRS 10.

b. Sale and leaseback transaction with Waverstone LLP

Prior to the year end, the Group completed a transaction with Waverstone LLP, where McCarthy & Stone is a non-controlling member. The transaction included a sale and lease back for 12 months of 113 sales offices and show flats.

The Risk and Audit Committee has considered in detail the commercial rationale for the transaction, the external accounting advice, as well as any accounting and disclosure aspects. It was considered to generate positive ROCE and cash flow benefits for the Group and at the same time reduced the level of finished stock held on the balance sheet.

5) Accounting considerations in relation to the business transformation

a. Carrying value of goodwill and intangibles

Carrying value of goodwill and intangibles has been considered in the context of delivering the Group's strategy. Detailed impairment testing was carried out as part of the FY19 year end close.

As a result of the review (including downside sensitivities), it was concluded that there is sufficient headroom within the calculation and there are no other factors that would indicate impairment.

b. Multi-Tenure - Rental Portfolio

The launch of the rental proposition during the financial period as part of the Group's strategy has resulted in 101 investment properties on the Group's balance sheet at the year end. The value of these properties was based on an external valuation carried out by independent real estate consultants.

c. Exceptional costs

The Group's policy in relation to exceptional items follows the provisions of IAS1. The Risk and Audit Committee has carefully reviewed the costs incurred in relation to the delivery of the new strategy and the treatment of these costs as exceptional items.

6) Impact of new accounting standards

During the year, the Committee reviewed the impact of the new accounting standards on reporting our business as usual activities and have concluded that the level of impact is expected to be immaterial. With the introduction of these new standards, additional disclosures are required in the Group's financial statements.

a.* IFRS 9 *'Financial Instruments'

IFRS 9 *'Financial Instruments'* replaces IAS 39 *'Financial Instruments: Recognition and Measurement'* and expands the disclosure requirements of IFRS 7 *'Financial instruments: Disclosures'*. The Group has applied this standard in preparing FY19 financial statements.

The Group does not presently hold any complex financial instruments. The principal impact area for the Group is in applying the 'expected credit loss' (ECL) model introduced for bad debt provisions. However, as the Group's accounting policy is not to recognise revenue until a legal completion has taken place, no credit losses are expected. This will continue to be reviewed as the Group's new multi-tenure offerings develop.

Occasionally, the Group will sell in bulk a portfolio of apartments to an institutional investor. As part of these arrangements, there can be deferred payment terms. Where payments are deferred, the Group will apply the ECL model at each reporting date and this approach has been reviewed by the Committee.

On 29 October 2019, the Group entered into a sale and leaseback transaction with a related party, Waverstone LLP for cash and deferred consideration. Under IFRS 9, the Group has made a prudent expected credit loss provision against the amount owed by Waterstone LLP at the year end. This provision is subject to review at each reporting date.

Other financial instruments impacted by IFRS 9 are already held at fair value through profit or loss and therefore we do not expect changes in their valuation or presentation.

b.* IFRS 15 *'Revenue from Contracts with Customers'

IFRS 15 *'Revenue from Contracts with Customers'* replaces IAS 18 *'Revenue'* and IAS 11 *'Construction Contracts'* and impacts the Group from 1 September 2018 and for the FY19 year end.

The Group recognises revenue on the sale of units when substantially all the risks and rewards of ownership have transferred to the customer, which is deemed to occur at legal completion. IFRS 15 has not changed this recognition criteria at the point of transfer of control.

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term and is included in revenue. There is no change to this accounting treatment under IFRS 15.

The application of IFRS 15 does result in a presentational change to the treatment of the provision held against the value of on balance sheet part-exchange properties. Under IAS 18 the income and costs associated with part-exchange properties were recognised on a net basis within cost of sales. Under IFRS 15, the requirement is to present the part-exchange property provision as a reduction to revenue.

Upon the subsequent resale of the property, there is a requirement to present the proceeds from resale on a gross basis, within "other operating income" and the associated costs within "other operating expenses".

Additional presentational change arises in respect of Stamp Duty Land Tax (SDLT) costs paid on behalf of customers. Under IFRS 15, this cost is deducted from revenue rather than included within cost of sales.

The Group reviewed the transition options and opted to apply IFRS 15 using the cumulative effect method due to the only adjustment for the Group being presentational, and therefore the comparative information has not been restated.

c. IFRS 16 *'Leases'*

IFRS 16 *'Leases'* will impact the Group for the period commencing 1 November 2019 and will replace the current standard IAS 17 *'Leases'*. The standard 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, which are currently recognised within operating profit, will be replaced by a depreciation charge against the right-of-use asset and an interest cost in relation to the lease liability which will be recognised within finance expenses.

The Group have opted to apply IFRS 16 using the modified retrospective transition approach, whereby the Group will measure right-of-use assets at an amount equal to the lease liabilities on the date of transition. As a result, we do not expect a significant impact upon the adoption of IFRS 16.

Risk management and internal audit

The Board of Directors recognises its overall responsibility for the Group's frameworks for risk management and internal control and for monitoring their effectiveness. There is an ongoing process for identifying, evaluating and managing risk. 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 50 to 55.

The Board, on the recommendation of the Committee, have remained satisfied that the risk management process and internal control environment continued to be effective in identifying, assessing and ranking the various risks facing the Group, and in monitoring and reporting progress in mitigating their potential impact on the business.

A risk framework has been in place for the period under review and up to the date of approval of the Annual Report. The Board has reviewed and approved the report on the Principal Risks and Uncertainties set out on pages 50 to 55 of this Annual Report.

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

- The design and implementation of a robust framework for risk management and internal control 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 are formally agreed with the Executive Committee twice a year and are subsequently 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 out of the five Committee meetings during the year and reported on any changes to the risks faced by the business, any areas for improvement and he also regularly met separately with the Risk and Audit Committee Chair. Other members of the Committee and the Board also met with the Director of Risk and Internal Audit periodically during the year and at each meeting he provided an update covering the internal audit activity, the status of, and time to close management actions which supported the Committee in forming a view on internal audit effectiveness. For the meetings that the Director of Risk and Internal audit could not attend, a member of the internal audit team attended in his place.

The Committee, supported by the risk and internal audit team, has continued to make progress during the year in assisting the Board in improving risk management. Key activities undertaken were as follows:

- Reviewing and agreeing on new and updated principal risks faced by the Group and the weighting of them
- Reviewing and monitoring key risk indicators and the timeliness of closure of audit actions
- Reviewing new policies and procedures which will enhance the financial control environment of the Group

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

External auditor

The Committee is responsible for recommending to the Board the appointment, re-appointment and removal of the external auditor. A resolution proposing the appointment of Ernst & Young LLP as the Group's external auditor for FY19 was approved by shareholders at the AGM held on 23 January 2019. A resolution for their re-appointment will be put forward at the AGM to be held on the 25 March 2020.

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. Ernst & Young LLP are required to disclose any significant facts and matters that may reasonably impact on their independence or on the objectivity of the lead partner and the audit team. No disclosures have been made during the period and up to the date of this report.

The Committee assessed the performance of the external auditor and the effectiveness of the external audit for FY19. In coming to its conclusion, the Committee reviewed amongst other matters:

- Feedback on the effectiveness and performance of the external audit from the CFO and the Group Financial Controller, who were closely involved in both the half year and full year reporting process
- Ernst & Young LLP's fulfilment of the agreed audit plan for FY19
- Reports highlighting the material issues and accounting judgements that arose during the conduct of the audit
- Ernst & Young 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. Ernst & Young LLP's performance as auditor to the Group during FY19 was therefore considered to be satisfactory.

The Group has complied throughout the reporting period 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 Ernst & Young LLP within FY19 in relation to the interim review, year end audit and statutory audits of subsidiaries are detailed in note 7 to the financial statements. There were no non-audit fees paid to Ernst & Young LLP during the year.

Frank Nelson
Risk and Audit Committee Chair
27 January 2020

Directors' Remuneration Report

Remuneration Committee Chair's Annual Statement

Graphic removed

"As the new Committee Chair, I will ensure that we will continue with the robust approach taken by the Committee in the past. We have considered carefully the new policy following extensive consultations with major shareholders"

Gill Barr, Remuneration Committee Chair

Dear Shareholder,

On behalf of the Board I am pleased to present the 2019 Directors' Remuneration Report, my first since becoming Committee Chair.

At the 2020 AGM, we must seek shareholder approval for a new remuneration policy, the current policy having run its three year course. Alongside the binding shareholder vote on the new policy there will be the usual advisory vote to approve the Annual Report on remuneration. Since my appointment I have had introductory meetings with our largest investors and the policy review has been the subject of a full investor consultation. These conversations have provided very helpful context and input for the Committee in reviewing our policy and we remain committed to receiving strong shareholder support for both our policy and annual remuneration resolution relating to our Directors' pay approach.

As the new Committee Chair, I have reviewed how we have operated our policy in previous years and have noted the robust approach taken by the Committee, as highlighted in last year's report. That approach will continue and the Committee will ensure that Executive Directors have effective incentive plans that align to the business strategy and only reward for the delivery of results against KPIs that are in the long term interests of shareholders.

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Review of performance for FY19 and incentive plan payments

As explained elsewhere in this Annual Report our financial year end was extended from 31 August 2019 to 31 October 2019. The Committee considered carefully the impact on the performance conditions for the annual bonus plan and adjusted the target ranges to neutralise the impact of this two months extension to the year. As it happened, the performance over the 14 month period fell short of the minimum thresholds for the performance criteria and considering this performance there have been no annual bonus payments to the CEO or CFO (who had their entire bonus based on financial performance).

The COOs joined the business four months into the financial year (and after the 2018 Remuneration Report was signed off). In light of the ongoing restructuring of the business and the desire to accelerate the execution of the strategy in relation to services and customers (led by Mike Lloyd) and build (led by Nigel Turner), the annual bonus plan was based 50% on the same financial performance criteria that were set for the Chief Executive and Chief Financial Officer and 50% based on individual bonus objectives set for the remainder of the year. This provided a sharper first-year incentive to focus them on the critical initial strategic objectives which they were recruited to deliver.

As noted above, their financial performance element failed to achieve the minimum performance thresholds, resulting in a zero bonus under this element. However, performance against the strategic objectives element was very strong, reflecting the immediate impact made by the two COOs in delivering the new organisational design and Group strategy. This strong individual performance resulted in a near maximum payment of this element of the bonus. The Committee is comfortable with the bonus payments recognising that the achievement of these strategic objectives will lay the foundation for future years' performance. One third of the bonus has been paid in deferred shares in line with the policy. Furthermore, recognising the shortfall in financial performance and to ensure that the COOs make a strong start on achieving their shareholding requirements, both have invested the entire remaining two thirds cash element in shares.

This was a one year arrangement as the COOs joined part way through the year. They will participate in the normal executive bonus plan from FY20.

For the 2016 Long Term Incentive Plan (LTIP), the Company's three year performance in relation to EPS, ROCE and TSR performance was below the minimum threshold for vesting and so the awards lapsed.

The Committee is comfortable that there has been an appropriate link between reward and performance and that discretion has not needed to be used.

Proposed changes to our remuneration policy for FY20-22

The current remuneration policy was put in place at the time of the Company's IPO and was widely and flexibly drafted. Since that time the UK Corporate Governance Code has been updated and market practice and investor views have evolved. Our new policy has been updated to take account of these developments as well as to clarify and refine some of the more widely drawn aspects of our policy that are not required for the next policy period.

The Board has been clear that the delivery of our strategy is predicated on having in place an exceptional leadership team with the right skills and capability. The appointment to the Board of our two new Chief Operating Officers on 1 January 2019 was critical to this and they have already increased focus on the key drivers of value. The Committee has now carried out a full and detailed review of the current remuneration policy to ensure that the new policy and its operation for FY20 drives, supports and rewards this critical leadership team to achieve our strategy both operationally and over the longer term providing sustainable returns for our investors.

The Committee has concluded that fundamental changes to the structure of the remuneration policy are not required and, accordingly, there is no change to the quantum or structure of incentives. However, we are taking the opportunity to tidy up some aspects of the policy to ensure it is in line with current investor expectations, the UK Corporate Governance Code and best practice, as well as to clarify some of the policy detail.

Set out below is a summary of the proposed policy changes:

Pension

- Pension is currently capped at a maximum of 20% of salary. Executive Directors voluntarily reduced their employer pension contribution from 20% to 15% of salary in 2018 (without compensation). As part of the policy review the Committee has looked at taking a longer term view on its executive pension strategy and has decided to introduce a plan, with the agreement of management, to reduce the pension contribution by 2.5% of base salary each year (again without compensation) until it is at the same rate as that of the majority of the workforce. This is currently 5% but is subject to a future review. Accordingly, the first 2.5% reduction took effect from 1 November 2019 and will then reduce by the same amount in subsequent years, until it achieves parity with the workforce rate
- New appointments will have a pension contribution which is the same as the pension contribution receivable by the majority of the workforce (currently 5% of base salary)

Discretion and clawback

- Our clawback and malus provisions have been broadened to cover corporate failure and failure of risk management in addition to the current circumstances of misstatement, error, fraud, gross misconduct and reputational damage. Our policy wording has been updated to reflect these new additions. Plan rules, bonus and LTIP award documentation have also been reviewed to ensure the provisions are watertight and enforceable
- We have removed the ability for the Committee to waive performance conditions on bonus and LTIP awards

Shareholding requirements

- The current shareholding requirement for Executive Directors of 200% of salary will be maintained. The new policy will clarify that the Executive Directors are expected to achieve the requirement through the retention of at least 50% of deferred bonus shares and LTIP shares (following the expiry of the holding period). The five year period to achieve the requirement will be removed
- A post-cessation of employment shareholding requirement will be introduced. This will require the Executive Directors to hold the lower of the shares they hold on cessation and 200% of salary for two years post cessation. Shares purchased by the Executive Directors with their own funds will be excluded from the requirement. The Committee will retain discretion to adjust the requirement in exceptional circumstances

How we will apply the new policy in FY20

Base salaries will increase by 2.5%, in line with the average workforce increase of 2.5%. The employer pension contribution rate will be 12.5% of salary, as noted above.

Maximum bonus opportunity will remain at 150% of salary for all Executive Directors. Following a review of current bonus measures, these will be simplified for FY20 and focus on our key measures of underlying operating profit and cash flow. In addition, we are introducing a strategic objective element to support the strategic imperatives as we refocus the business. The measures and weighting will be 40% underlying operating profit, 40% cash flow and 20% on strategic objectives. The target ranges for underlying operating profit and cash flow are likely to be lower than the ranges used for the FY19 annual bonus. However, they are stretching in light of the business plan and market forecasts and the sliding scale ranges will be changed to reduce the level of threshold payment from 25% to zero.

ROCE will be removed from the annual bonus but will continue to be measured in the long term incentive, removing an element of duplication where management could be rewarded twice for the same outcome. In light of the enhanced Committee discretion to adjust the formulaic outturn of the bonus, the specific operating profit and customer satisfaction underpins that were in place for FY19 will not apply, although these matters will be considered in detail as part of the Committee's annual review of the bonus outturn.

LTIP award levels will return to the normal award level of 150% of salary for all Executive Directors. Award levels were reduced for FY19 reflecting the Committee's concern over share price performance during the year. The Committee is comfortable that award levels for FY20 should return to normal levels, subject to any significant share price reduction before awards are granted.

Vesting will continue to be determined 50% by EPS growth and 50% by ROCE, with performance conditions set out later in this report.

NED and Chairman fees

Fees for the Chairman will remain unchanged for FY20. NED fees have been increased in relation to the Chair roles for the Remuneration and Risk and Audit Committees and a new fee has been introduced for the NED role responsible for engagement with the workforce as well as the NED role responsible for chairing the Corporate, Social Responsibility Committee.

Appointment of new Chief Operating Officers

The Board has been clear that the delivery of our strategy is predicated on having in place an exceptional leadership team with the right skills and capability. The appointment to the Board of our two new Chief Operating Officers was critical to this.

Mike Lloyd and Nigel Turner joined the Board on 1 January 2019 as Chief Operating Officers, responsible for Services and Customers and Build respectively. These roles are critical to the delivery of our strategy and comprise both strategic and operational elements, Mike's role is entirely new and shows our commitment to place the customer at the heart of everything we do. Nigel's role unites for the first time the land, design, planning, commercial and construction teams under one leader. The Chief Operating Officers' remuneration packages reflect the significance of their roles to the delivery of our strategy as well as their calibre, skills and experience in a very competitive recruitment market. Our new Chief Operating Officers joined us on a base salary of £375,000, pension of 15% of salary (since reduced as part of a plan to align to the workforce rate) and annual bonus and LTIP awards within the normal policy limits (prorated for the proportion of the financial year worked). The Committee is always mindful of its responsibilities to shareholders and to be judicious in setting salaries and overall remuneration levels. The salary levels were equivalent to those they received at their previous employer and other firm opportunities that they could have pursued instead of joining us and were considered carefully against external benchmarks. We will continue to ensure that stretching targets are set and that bonus payments and LTIP vesting is reflective of shareholder experience.

Disclosure in this report: UK Corporate Governance Code and new reporting requirements

We have taken the opportunity to streamline the Directors' Remuneration report this year, whilst at the same time complying early with the new disclosure and reporting requirements under the new Code and reporting regulations. I hope that you find this report concise and clear.

Membership of the Committee

During the year Mike Parsons stepped down as a NED and member of this Committee. I should like to thank Mike for his contribution to the Board and for Chairing this Committee since the IPO.

I hope that you are supportive of our approach on Directors' remuneration and I welcome any feedback from the Company's shareholders.

Gill Barr
Remuneration Committee Chair
27 January 2020

Directors' Remuneration Report *continued*

Remuneration Policy

Introduction

In accordance with the remuneration reporting regulations, the policy as set out below will, subject to shareholder approval at the 2020 AGM on 25 March 2020, become effective at the conclusion of that meeting and is intended to apply for the period of up to three years from the date of approval.

Our policy and its link to our Group strategy

The Group's strategy is laid out between pages 10 and 13 within the Annual Report 2018 and on our corporate website: **www.mccarthyandstonegroup.co.uk**

The changes to the current policy are summarised in the Chair's Statement on Page 79.

Element of remuneration: Base salary

How it supports the Group's short and long term strategic objectives	Operation	Maximum opportunity	Performance metrics
Provides a base level of remuneration to support recruitment and retention of Executive Directors with the necessary experience and expertise to deliver the Group's strategy.	When determining an appropriate level of salary, the Committee considers: • Remuneration practices within the Group • The general performance of the Group • Salaries within the ranges paid by similar companies • Any change in scope, role and responsibilities • The economic environment	In general, salary increases for Executive Directors will be in line with the increase for employees unless the scope of the role has changed or to apply salary progression for a recently recruited Executive Director.	None

Element of remuneration: Benefits

How it supports the Group's short and long term strategic objectives	Operation	Maximum opportunity	Performance metrics
Provides a market competitive benefits package to enable the Company to recruit and retain Executive Directors and ensure business continuity.	The Executive Directors typically receive private medical insurance, life insurance and a car or car allowance. The Committee retains the flexibility to provide other benefits. Additional benefits may be offered such as relocation allowances on recruitment.	The maximum will be set at the cost of providing the benefits described.	None

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Element of remuneration: Pensions

How it supports the Group's short and long term strategic objectives	Operation	Maximum opportunity	Performance metrics
Provides a market competitive pension provision to enable the Company to recruit and retain Executive Directors.	The Executive Directors are entitled to receive an employer contribution into the Group Personal Pension scheme or a salary supplement in lieu of pension.	The maximum contribution into the Group Personal Pension scheme or a salary supplement in lieu of pension will be 12.5% of base salary, reducing each year over the policy period by 2.5%. New Executive Director recruits will receive a pension contribution in line with the rate applying to the majority of the workforce.	None

Element of remuneration: Annual and Deferred Bonus (ABP)

How it supports the Group's short and long term strategic objectives	Operation	Maximum opportunity	Performance metrics
The ABP provides an incentive linked to achievement in delivering goals that are closely aligned with the Group's strategy and the creation of value for shareholders. Part payment in deferred shares enables Executive Directors to build a shareholding and provides alignment of interest with shareholders.	The Committee will determine the bonus to be awarded following the end of the relevant financial year. One third of any bonus will be deferred in shares which must be held for three years. Dividend equivalents will be payable on shares or awards to the extent that they vest. The ABP contains clawback and malus provisions which will be rigorously enforced.	The maximum bonus (including any part of the bonus deferred into shares) deliverable under the ABP will not exceed 150% of a participant's annual base salary. Percentage of maximum bonus earned for levels of performance: • Threshold: up to 25% of maximum bonus • On target: 50% of maximum bonus	Subject to satisfying financial, strategic, operational or personal performance conditions, normally measured over a period of one financial year. A minimum of 50% of the bonus shall be based on financial performance measures. The Committee retains the discretion to make downward or upward adjustments to the amount of bonus earned resulting from the application of the performance measures, if the Committee believe that the bonus outcomes are not a fair and accurate reflection of business performance and other relevant factors.

Directors' Remuneration Report *continued*

Remuneration Policy

Element of remuneration: LTIP

How it supports the Group's short and long term strategic objectives

The LTIP incentivises, retains and rewards Executive Directors in relation to long term performance and achievement of the Group's strategy.

Payment in shares enables Executive Directors to build a shareholding and provides alignment of interest with shareholders.

Operation

Awards are granted annually in the form of a conditional share award or a nil-cost option.

Awards will vest at the end of a three year period subject to:

- The Executive Director's continued employment at the date of vesting
- Satisfaction of the performance conditions

Dividend equivalents will be payable on awards to the extent that they vest.

Vested awards will be subject to a holding period of two years.

The LTIP contains clawback and malus provisions which will be rigorously enforced.

Maximum opportunity

Normal annual maximum value of 150% of annual base salary, based on the market value at the date of grant set in accordance with the rules of the LTIP.

In exceptional circumstances the Committee may grant an award with a maximum of 200% of annual base salary.

25% of the award will vest for threshold performance.

Performance metrics

Performance conditions will be linked to the long term business KPIs or stock market based measures.

The Committee retains the discretion to make downward or upward adjustments to the amount vesting under the LTIP, resulting from the application of the performance measures if the Committee believe that the outcomes are not a fair and accurate reflection of business performance and other relevant factors.

Element of remuneration: All employee share plans - SIP and Sharesave

How it supports the Group's short and long term strategic objectives

The SIP and Sharesave are all employee share ownership plans which have been designed to encourage all employees to become shareholders in the Company and thereby align their interests with shareholders.

Operation

Executive Directors are eligible to participate in both the SIP and Sharesave.

Maximum opportunity

The maximum level of participation set by legislation from time to time.

Performance metrics

In accordance with the legislation, the Company may impose objective performance conditions and/or length of service/hours worked/level of remuneration to determine the level of awards made under the SIP.

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Element of remuneration: Minimum shareholding requirement

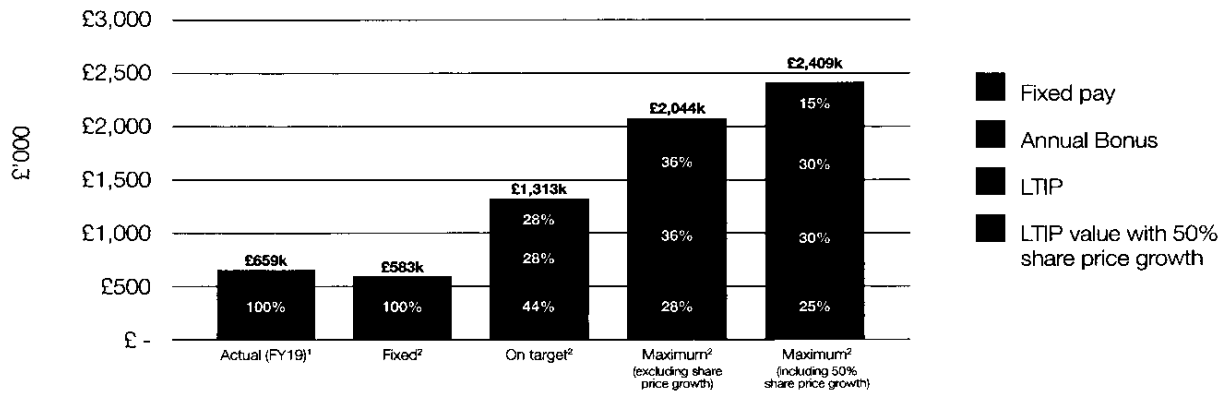
Executive Directors will be required to build and maintain a shareholding equivalent to 200% of base salary. Until this threshold is achieved Executive Directors are required to retain at least 50% of deferred bonus shares and LTIP shares (following the expiry of the holding period).

A post-cessation of employment shareholding requirement will require the Executive Directors to hold the lower of the shares they hold on cessation and 200% of salary for two years post cessation. Shares purchased by the Executive Directors with their own funds will be excluded from the requirement. The Committee will retain discretion to adjust the requirement in exceptional circumstances.

Illustrations of the application of the Policy

The charts below illustrate the remuneration that would be paid to each of the Executive Directors, based on salaries at the start of FY20, under four different performance scenarios: (i) minimum; (ii) on-target; (iii) maximum; and (iv) maximum with 50% share price growth. 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 (including deferred bonus); and (iii) LTIP. For the purposes of comparison, we have included the actual single figure for remuneration for the Executive Directors for FY19.

CEO - John Tonkiss



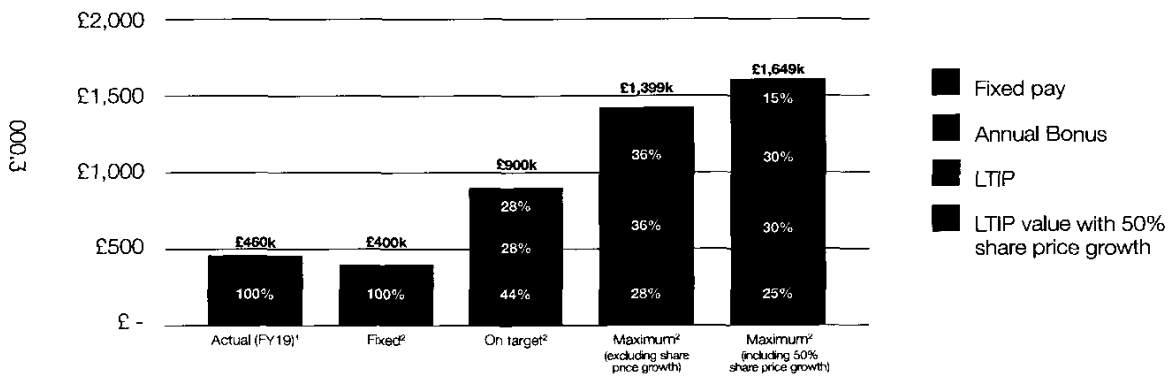
1 FY19 relates to the 14 month period of 1 September 2018 to 31 October 2019

2 Based on salaries at the start of FY20 for a 12 month period

Directors' Remuneration Report *continued*

Remuneration Policy

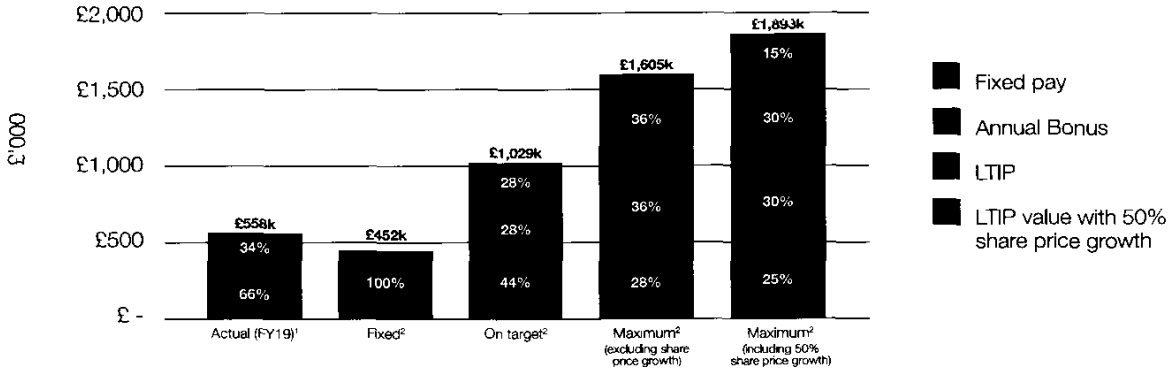
CFO - Rowan Baker



1 FY19 relates to the 14 month period of 1 September 2018 to 31 October 2019

2 Based on salaries at the start of FY20 for a 12 month period

COO - Nigel Turner

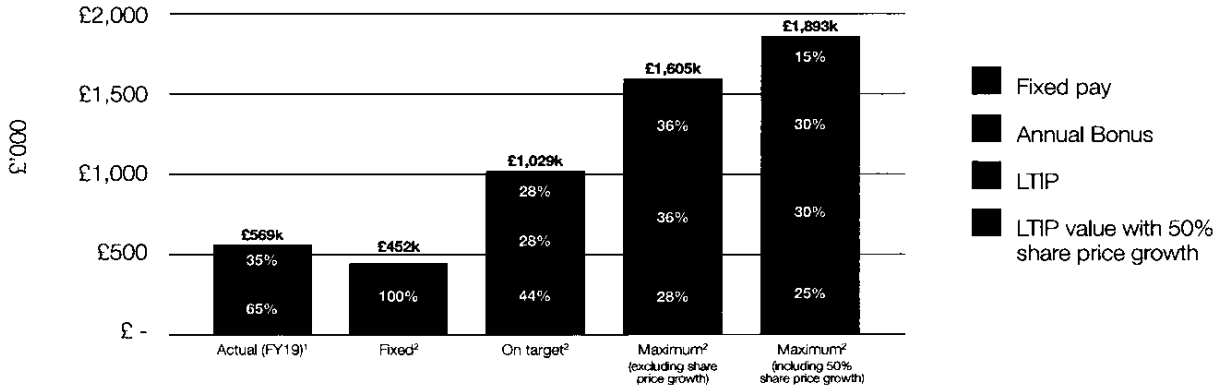


1 FY19 relates to the 10 month period of 1 January 2019, the date Nigel Turner was appointed to the Board, to 31 October 2019

2 Based on salaries at the start of FY20 for a 12 month period

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

COO - Mike Lloyd



1 FY19 relates to the 10 month period of 1 January 2019, the date Mike Lloyd was appointed to the Board, to 31 October 2019

2 Based on salaries at the start of FY20 for a 12 month period

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 bonus payable	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 LTIP payable	50% of the LTIP award vests	100% of the LTIP award vests	100% of the maximum award, assuming 50% share price appreciation

1 Based on FY19 benefits payments as per the single figure table prorated for 12 months. The actual benefits for FY20 will only be known at the end of the financial year

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

Directors' Remuneration Report *continued*

Remuneration Policy

How performance measures are chosen

Performance measures for incentive plans are chosen carefully to align to the business strategy and provide a rounded assessment of performance.

Measures and weightings may flex in future years to ensure they remain optimised to strategic priorities.

Malus and clawback

In line with best practice, the ABP and the LTIP include malus and clawback provisions in order to ensure that payments are not made to Executive Directors in circumstances which are subsequently deemed to not have warranted a payment (or have warranted a reduced payment).

Malus is the adjustment of unpaid (cash bonus and deferred shares) under the ABP and outstanding LTIP awards as a result of the occurrence of one or more circumstances listed below. The adjustment may result in the value being reduced to zero.

Clawback is the recovery of payments or vested awards under the ABP and vested LTIP awards as a result of the occurrence of one or more circumstances listed below. Clawback may apply to all or part of a participant's award and may be effected, among other means, by requiring the transfer of shares, payment of cash or reduction of awards or bonuses.

The circumstances in which malus and clawback could apply are as follows:

- The discovery of a material misstatement resulting in an adjustment in the audited consolidated financial statements of the Company
- The discovery that the assessment of any performance target or condition in respect of an ABP or LTIP award was based on error, or inaccurate or misleading information
- Actions leading to corporate failure or serious reputational damage
- The action or conduct of a holder of an ABP or LTIP award which, in the reasonable opinion of the Committee, amounted to fraud or gross misconduct
- Events or behaviour of a holder of an ABP or LTIP award leading to the censure of the Company by a regulatory authority or having a significant detrimental impact on the reputation of the Group, provided that the Committee is satisfied that the relevant holder of an ABP or LTIP award was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to him or her

Committee Discretion

The Committee has discretion in several areas of policy as set out in the policy table.

The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules and in relation to the SIP and Sharesave, as permitted by the relevant legislation. In addition, the Committee has the discretion to amend the policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

Any use of discretion will, where relevant, be explained in the Annual Report on Remuneration for the following year.

Recruitment policy

The Company's principle is that the remuneration of any new recruit will be assessed in line with the same principles for the Executive Directors, as set out in the policy. However, the flexibility provided by the recruitment policy will allow the Company to attract the best talent by providing an appropriate package. The Committee is mindful that it wishes to avoid paying more than it considers necessary to secure a preferred candidate of the appropriate calibre and with the appropriate experience needed for the role.

The Company's detailed policy when setting remuneration for the appointment of new Executive Directors is summarised in the table below:

Remuneration element	Overview of recruitment policy
Principles	Where an existing employee is promoted to the Board, the policy would apply from the date of promotion but there would be no retrospective application of the Policy in relation to subsisting incentive awards or remuneration arrangements. Accordingly, prevailing elements of the remuneration package for an existing employee would be honoured and form part of the ongoing remuneration of the person concerned. These would be disclosed to shareholders in the Annual Report on Remuneration for the relevant financial year.
Salary, benefits and pension	In line with the Company's policy for existing Executive Directors.
Annual bonus	In line with the Company's policy for existing Executive Directors with part year performance measurement if necessary.
LTIP	In line with the Company's policy for existing Executive Directors with part period performance measurement if necessary.
'Buyout' of incentives forfeited on cessation of employment	Where the Committee determines that the individual circumstances of recruitment justifies the provision of a buyout, the equivalent value of any incentives that will be forfeited on cessation of an Executive Director's previous employment will be calculated taking into account the following: • The proportion of the performance period completed on the date of the Executive Director's cessation of employment • The performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied • Any other terms and conditions having a material effect on their value The Committee may then grant up to the same value of any incentives forfeited, where possible, under the Company's incentive plans. To the extent that it is not possible or practical to provide the buyout within the Company's existing incentive plans, a bespoke arrangement will be used.

The Company's policy when setting fees for the appointment of new Non-Executive Directors is to apply the policy which applies to the current Non-Executive Directors.

Cessation of employment

If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. There is no agreement between the Company and its Executive Directors or employees, providing for compensation for loss of office or employment that occurs because of a takeover bid.

The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

Aside from contractual terms the incentive plans contain the following leaver provisions. A good leaver reason is defined as cessation in broadly compassionate circumstances such as ill health, injury, redundancy or in other similar circumstances at the discretion of the Committee. Otherwise departing Executive Directors will be treated as a bad leaver.

Remuneration element	Overview of cessation of employment policy
Principle	If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case.
Salary, benefits and pension	These will be paid during the notice period. A provision is retained to make a payment in lieu of notice, which would be phased over the remaining notice period. The Company is entitled to dismiss an Executive Director without notice in certain specified circumstances, such as gross misconduct or following any serious or persistent breach of any of the terms of the relevant service contract.
ABP cash awards	**Good leavers:** Performance conditions will be measured at the bonus measurement date. Where the individual is eligible for a bonus, it will normally be prorated for the period worked during the financial year. **Other leavers:** No bonus payable for year of cessation.
ABP share awards	**Good leavers:** All subsisting deferred shares will normally vest at the end of the original deferral period. **Other leavers:** Lapse of any unvested deferred shares.
LTIP	**Good leavers:** Performance conditions assessed in respect of each subsisting LTIP award and normally prorated for time. Awards would normally vest at the normal time and remain subject to a holding period. **Other leavers:** Lapse of any unvested LTIP awards.

Non-Executive Director remuneration

Element of remuneration	How it supports the Group's short and long term strategic objectives	Operation	Opportunity	Performance Metrics
Non-Executive Director and Chairman fees	Provides a level of fees to support recruitment and retention of Non-Executive Directors and a Chairman with the necessary experience to advise and assist with establishing and monitoring the Group's strategic objectives.	Non-Executive Directors are paid an annual fee and additional fees as chair of Committees or assuming the role of Senior Independent Director or Company designated Non-Executive Director for engagement with the workforce. The Chairman does not receive any additional fees for membership of Committees. Fees are reviewed annually based on responsibility, time commitment and equivalent roles in similar businesses. Non-Executive Directors and the Chairman do not participate in any variable remuneration. If there is a temporary yet material increase in time commitment the Company may pay additional fees.	There is an aggregate limit of £1m on fees, under the Articles of Association. In general the level of fee increase for the Non-Executive Directors and the Chairman will be set taking account of any change in responsibility and will take into account general rise in salaries across the UK workforce. The Company will pay reasonable expenses incurred by the Non-Executive Directors and Chairman and may settle any tax incurred in relation to these.	None

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

Executive Directors

The Committee's policy for setting notice periods is that a notice period of up to 12 months will apply for Executive Directors. Details of contractual provisions are set out below:

Name	Date of Service Contract	Nature of contract	Notice Periods From Company	Notice Periods From Director	Compensation provisions for early termination
John Tonkiss	15 October 2018	Rolling	12 months	12 months	Determined by the Committee within contracted terms
Rowan Baker	15 October 2018	Rolling	12 months	12 months	
Mike Lloyd	5 December 2018	Rolling	12 months	12 months	
Nigel Turner	5 December 2018	Rolling	12 months	12 months	

Non-Executive Directors

Name	Date of letter of appointment	Date current term commenced	Notice period
Paul Lester, CBE	8 November 2017	3 January 2018	Three months
Frank Nelson	*11 November 2013*	*11 November 2018*	*Three months*
Gill Barr	10 April 2019	10 April 2019	Three months
Geeta Nanda, OBE	4 March 2015	11 November 2018	Three months
Arun Nagwaney	16 May 2018	16 May 2018	*See note 1*
John Carter	18 September 2017	1 October 2017	Three months

1 The Relationship Agreement between the Company and Anchorage governs the termination procedure for Arun Nagwaney's appointment

The Non-Executive Directors of the Company (including the Chairman) do not have service contracts. The Non-Executive Directors are appointed by letters of appointment. Each independent Non-Executive Director's term of office runs for a three year period terminable by three months written notice from either party.

The terms of the Non-Executive Directors' positions are subject to their re-election by the Company's shareholders at the AGM and to re-election at any subsequent AGM at which the Non-Executive Directors stand for re-election.

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

Considerations of employment conditions elsewhere in the Group and how we hear our employees' voice on remuneration issues

Under expanded terms of reference the Committee has oversight for workforce remuneration and policies and the alignment of incentives and rewards with the Company's culture. The remuneration strategy of the Company has been designed to ensure all employees can share in its success through performance related remuneration and share ownership.

Bonus schemes are operated widely and for all employees, in addition the Company has adopted the Sharesave and the SIP. Under these plans, all employees have the opportunity to purchase shares in the Company on beneficial terms. As part of the policy review the Committee has considered the cascade of the remuneration structure throughout the Group and there has been a significant re-design of the annual bonus plan to ensure stronger alignment to the Executive Directors' ABP.

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

During the year John Carter, the Company's designated Non-Executive Director for engagement with the workforce met employee groups to discuss how executive and workforce pay are aligned, the results from the employee opinion survey and he also provided a comprehensive insight into how the Group is governed. The response from employees was very positive and observations from the sessions fed back to the Board.

How shareholders' views are taken into account

The Committee takes the views of the shareholders seriously and these views are taken into account in shaping the policy and practice. Shareholder views are considered when evaluating and setting the remuneration strategy and the Committee commits to consulting with key shareholders prior to any significant changes to its Policy. The Committee consulted shareholders and proxy agencies extensively in relation to the new policy and incorporated several points of investor feedback, for instance in relation to the Executive Director pension provision.

Directors' Remuneration Report *continued*

Annual Report on Remuneration

Total remuneration payable for FY19 (audited)

The table below sets out the total remuneration for each Executive Director in respect of FY19 and FY18. 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[4]	LTIP[5]	Pension[6]	Total
John Tonkiss	**FY19[1]**	**£544,872**	**£41,011**	**£0**	**£0**	**£72,749**	**£658,632**
	FY18	£325,000	£29,769	£98,010	£0	£57,118	£509,897
Rowan Baker	**FY19[1]**	**£372,500**	**£29,499**	**£0**	**£0**	**£58,250**	**£460,249**
	FY18	£285,000	£22,451	£84,645	£0	£57,000	£449,096
Nigel Turner[2]	**FY19[1]**	**£312,500**	**£16,352**	**£187,500**	**£0**	**£41,191**	**£557,543**
Mike Lloyd[3]	**FY19[1]**	**£312,500**	**£16,308**	**£199,218**	**£0**	**£41,191**	**£569,217**

1 FY19 relates to the 14 month period of 1 September 2018 to 31 October 2019

2 Nigel Turner was appointed to the Board on 1 January 2019

3 Mike Lloyd was appointed to the Board on 1 January 2019

4 In line with the remuneration policy, one third of the bonus earned must be paid in deferred shares. However, recognising the shortfall in financial performance, and to ensure that they make a strong start achieving their shareholder requirement, the COOs have invested the remaining two thirds cash element in shares

5 The performance period for the LTIP granted to John Tonkiss and Rowan Baker in December 2016 concluded in December 2019. The EPS, ROCE and TSR targets were not achieved, resulting in nil vesting

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

The table below sets out the single total figure of remuneration and breakdown for each Non-Executive Director in respect of FY19 and FY18:

Non-Executive Directors	Period	Fees	Benefits[5]	Total	Role
Paul Lester[2]	**FY19[1]**	**£268,333**	-	**£268,333**	Non-Executive Chairman
	FY18	£141,950	-	£141,950	
Frank Nelson	**FY19[1]**	**£87,033**	-	**£87,033**	Senior Independent Non-Executive Director
	FY18	£74,333	£147	£74,480	
Gill Barr[3]	**FY19[1]**	**£36,338**	-	**£36,338**	Independent Non-Executive Director
	FY18	-	-	-	
John Carter	**FY19[1]**	**£65,918**	-	**£65,918**	Independent Non-Executive Director
	FY18	£50,050	-	£50,050	
Arun Nagwaney[6]	**FY19[1]**	-	-	-	Non-Executive Director
	FY18	-	-	-	
Geeta Nanda	**FY19[1]**	**£63,700**	-	**£63,700**	Independent Non-Executive Director
	FY18	£54,333	-	£54,333	
Mike Parsons[4]	**FY19[1]**	**£69,873**	-	**£69,873**	Independent Non-Executive Director
	FY18	£64,333	-	£64,333	

1 FY19 relates to the 14 month period of 1 September 2018 to 31 October 2019

2 Paul Lester was appointed to the Board on 5 January 2018 and became Chairman at the conclusion of the 2018 AGM on 24 January 2018

3 Gill Barr was appointed on 10 April 2019 4 Mike Parsons stepped down from the Board with effect from 31 October 2019

5 Benefits relate to taxable expenditure, typically travel 6 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

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Benefits (audited)

The Executive Directors 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)

For FY19, the annual bonus outturn is summarised in the table below:

			Performance Targets						Annual bonus value achieved		
Performance conditions	Weighting of each condition	Weighting of each condition		Performance targets required	Maximum weighting per target	Maximum weighting per target	Actual Performance	Percentage of maximum performance achieved	CEO, CFO	COO	COO
	CEO, CFO	COOs			CEO, CFO	COOs				Nigel Turner	Mike Lloyd
ROCE	25.00%	12.50%	Threshold	10.50%	6.25%	3.125%	9.9%	0.00%	£0	£0	£0
			Target	11.50%	12.50%	6.250%					
			Maximum	12.20%	25.00%	12.500%					
Underlying operating profit margin	25.00%	12.50%	Threshold	10.10%	6.25%	3.125%	9.4%	0.00%	£0	£0	£0
			Target	10.80%	12.50%	6.250%					
			Maximum	11.30%	25.00%	12.500%					
Site margin	25.00%	12.50%	Threshold	25.50%	6.25%	3.125%	23.6%	0.00%	£0	£0	£0
			Target	26.50%	12.50%	6.250%					
			Maximum	27.00%	25.00%	12.500%					
Cash flow	25.00%	12.50%	Threshold	£65m	6.25%	3.125%	£63.2m	0.00%	£0	£0	£0
			Target	£90m	12.50%	6.250%					
			Maximum	£115m	25.00%	12.500%					
Corporate objectives	0.00%	50.00%	Nigel Turner			50.000%	80.00%	40.00%	£0	£187,500	
			Mike Lloyd			50.000%	85.00%	42.50%			£199,218
Total	100.00%	100.00%							£0	£187,500	£199,218

The COOs joined the business four months into the financial year (and after the 2018 Remuneration Report was signed off). In light of the ongoing restructuring of the business and the rapidly changing business priorities, their annual bonus plan was based 50% on the same financial performance criteria that were set for the Chief Executive and Chief Financial Officer and 50% based on individual strategic bonus objectives set for the remainder of the year. This provided a sharper first year incentive to focus them on the critical initial strategic objectives, which they were recruited to deliver.

As noted above, their financial performance element failed to achieve the minimum performance thresholds, resulting in a zero bonus under this element. However, performance against the strategic objectives element, which they were recruited to deliver was very strong, reflecting the immediate impact made by the two COOs under the new organisational design and Group's strategy. This strong individual performance resulted in a near maximum payment of this element of the bonus. The Committee is comfortable with the bonus payments recognising that the achievement of these strategic objectives will lay the foundation for future years' performance. Furthermore, one third of the bonus has been paid in deferred shares in line with the policy, recognising the shortfall in financial performance and to ensure that both COOs make a strong start on achieving their shareholding requirements, both have invested the entire remaining two thirds cash element in shares.

This was a one year arrangement as they joined part way through the year. The COOs will participate in the normal Executive Director bonus plan from FY20.

Directors' Remuneration Report *continued*

Annual Report on Remuneration

The corporate objectives for each COO and the extent of their achievement is summarised in the table below:

Nigel Turner

Bonus objectives for FY19	Weighting	Assessment of performance	Pay out
• Drive a safety culture within the business and significantly reduce RIDDORs	33.3%	• Significant improvement in safety culture and performance • 48% improvement in AIIRs from 643 as at 01.09.18 to 337 as at 31.10.19 • 31% improvement in AIIRs from 487 as at 31.12.18 to 337 as at 31.10.19	30% out of 33.3%
• Stabilise current build project cost overruns and programme delays	33.3%	• Build project cost overruns reduced from negative in H1 to a % saving in H2	25% out of 33.3%
• Embed Build Cost Reduction process in the business and standardisation of product and ways of working	33.3%	• Build Cost Reduction process embedded in the business • Total identified build cost reduction savings of £48m across 101 schemes	25% out of 33.3%
Total	100%		80% out of 100%

Mike Lloyd

Bonus objectives for FY19	Weighting	Assessment of performance	Pay out
• Develop and embed a core set of national sales practices and a consistent operating model	20%	• Sales restructure completed • New sales and marketing operating model implemented, other priorities meant that roll out of this was slightly behind schedule	10% out of 20%
• Roll out rental to at least 50 sites and secure reservations on at least 75 units	20%	• Rental tenure model rolled out to >70 sites • 101 rental completions delivered	20% out of 20%
• Achieve a successful buy-out of Your Life Management Services	20%	• YLMS shares successfully acquired on 29.07.19	20% out of 20%
• Deliver the salesforce platform across all regions	20%	• Salesforce MVP platform rolled out successfully to all regions in Q2/Q3	15% out of 20%
• Build and restructure the leadership team	20%	• New leadership team in place	20% out of 20%
Total	100%		85% out of 100%

LTIP awards with performance periods ending FY19

The FY17 LTIP granted on 22 December 2016, and the additional top-up LTIP award granted on 27 January 2017 to Rowan Baker following her appointment as CFO, vested on 22 December 2019 and 27 January 2020. The table below summarises the targets and outcomes:

Measure	Weighting	Threshold performance	Maximum performance	Actual performance	Vesting
EPS	33.3%	21.8 pence	27.8 pence	6.5 pence	0%
FY19 ROCE	33.3%	22%	25%	9.9%	0%
Relative TSR	33.3%	Equal to index	Index + 7.5% p.a.	Below index	0%

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

LTIP awards granted during the year (audited)

During FY19, LTIP awards were granted to the CEO and CFO over 435,780 and 298,165 shares respectively, which was equivalent to the number of shares granted in FY18, adjusted for base salary increases in the year. The Chief Operating Officers were granted awards equivalent to 117% of salary. The awards were made as nil-cost options as set out in the table below:

Executive Director	Date	Number of share awards	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
John Tonkiss	13.12.18	435,780	128%	£605,734	25%	100%	3 years
Rowan Baker	13.12.18	298,165	128%	£414,449	25%	100%	3 years
Nigel Turner	11.04.19	344,037	117%	£438,647	25%	100%	3 years
Mike Lloyd	11.04.19	344,037	117%	£438,647	25%	100%	3 years

1 The face value is calculated using the closing share price on 12 December 2018 and 10 April 2019 (£1.39 and £1.275 respectively)

As at 27 January 2020, no awards have been granted in respect of FY20.

These awards will vest depending on performance against a challenging sliding scale of Earnings per Share ('EPS') and Return on Capital Employed ('ROCE') as set out below. Both measures are assessed over a three year performance period. Vested awards are subject to a two year post vesting holding period.

Measure	Weighting	Threshold performance 25% vest	Target performance 50% vest	Maximum performance 100% vest
FY21 EPS	50%	11.9 pence	14.2 pence	16.6 pence
FY21 ROCE	50%	14%	17%	20%

Directors' Remuneration Report *continued*

Annual Report on Remuneration

Directors' shareholdings and share interests (audited)

Directors' beneficially owned shares and their outstanding interests in share awards as at 31 October 2019 are shown in the table below:

The Executive Directors are required to build up and then subsequently hold, a shareholding equivalent to 200% of their base salary.

Director/Plan	Date of grant	*Number* of share awards	*Vested during* the year	*Lapsed during* the year	Exercise Price (£)	Vesting date	Expiry date
John Tonkiss							
LTIP	25.11.15	155,555	-	155,555	nil	25.11.18	25.11.25
LTIP	22.12.16	292,208	-	292,208	nil	22.12.19	22.12.26
LTIP	17.11.17	302,752	-	-	nil	17.11.20	17.11.27
LTIP	13.12.18	435,780	-	-	nil	13.12.21	13.12.28
Sharesave	10.12.15	10,752	-	10,752	1.674	28.01.19	28.07.19
Sharesave	13.12.18	16,831	-	-	1.0694	28.01.22	27.07.22
ABP	20.11.17	17,796	-	-	nil	20.11.20	20.11.27
ABP	19.11.18	89,933	-	-	nil	19.11.21	19.11.28
Rowan Baker							
LTIP	25.11.15	22,222	-	22,222	nil	25.11.18	25.11.25
LTIP	22.12.16	40,584	-	40,584	nil	22.12.19	27.12.26
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
LTIP	13.12.18	298,165	-	-	nil	13.12.21	13.12.28
Sharesave	10.12.15	10,752	-	10,752	1.674	28.01.19	28.07.19
Sharesave	13.12.18	16,831	-	-	1.0694	28.01.22	27.07.22
ABP	19.11.18	77,670	-	-	nil	19.11.21	19.11.28
Nigel Turner							
LTIP	11.04.19	344,037	-	-	nil	11.04.22	11.04.29
Mike Lloyd							
LTIP	11.04.19	344,037	-	-	nil	11.04.22	11.04.29

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

The table below shows the interests in shares in the Company, including unvested awards for each of the Directors as at 31 October 2019. No options were exercised during the year, however, the 2015 LTIP and Sharesave options lapsed during the year. Please refer to Directors' interests awards table on page 98.

Directors	Shares beneficially owned	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								
John Tonkiss	588,811	-	-	1,030,740	16,831	107,729	182%	No
Rowan Baker	19,180	-	-	705,737	16,831	77,670	9%	No
Nigel Turner	-	-	-	344,037	-	-	0%	No
Mike Lloyd	-	-	-	344,037	-	-	0%	No
Non-Executive Directors								
Paul Lester	66,500	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
Arun Nagwaney	nil	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
Frank Nelson	173,270	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mike Parsons[2]	173,270	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Gill Barr	nil	n/a	n/a	n/a	n/a	n/a	n/a	n/a

1 Based on a closing share price of £1.465 and the year end annual base 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, civil partner or dependent child under the age of 18

2 Mike Parsons stepped down from the Board with effect from 31 October 2019

Payments to past Directors (audited)

Payments were made to Clive Fenton during the year in lieu of notice as detailed in the Annual Report 2018.

External directorships

Executive Directors may hold positions in other companies as Non-Executive Directors and retain their fees. Currently, the Executive Directors hold no external Non-Executive Director roles.

Directors' Remuneration Report *continued*

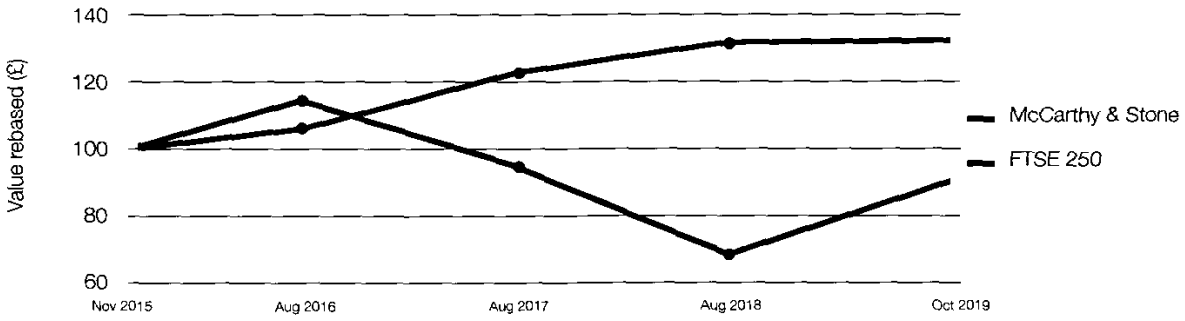
Annual Report on Remuneration

Historic performance graph and CEO 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 Index 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 October 2019.

FTSE 250 comparison



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:

	FY19	FY18	FY17	FY16
CEO total single figure	**£658,632**	£804,275	£753,169	£628,024
Annual bonus payment level achieved (% of maximum opportunity)	**0%**	19.8%	19.7%	10.0%
LTIP vesting level achieved (% of maximum opportunity)	**0%**	0%	-	-

Change in Chief Executive Officer's remuneration compared with employees

The following table illustrates the change in CEO salary, benefits and bonus between FY18 and FY19 compared with other employees in the Group taken as a whole:

	% change FY18 to FY19		
	Base salary	Benefits	Annual bonus
Chief Executive Officer[1]	-6%	7%	-100%
Other Group employees	3%	6%	-20%

1 Based on FY18 CEO base salary for Clive Fenton compared with the FY19 CEO base salary for John Tonkiss, prorated for 12 months

The annual bonus decrease for the CEO is due to the FY19 bonus being £nil as a result of threshold performance not being achieved for any of the financial measures. The decrease in the average employee bonus is as a result of retention bonuses received by employees in FY18 as the business was implementing a new strategy.

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

CEO pay ratio[1]

CEO pay ratio	2018/19
Method[2]	B
CEO Single figure	£658,632
Upper quartile	8:1
Median	**12:1**
Lower quartile	28:1

The salary and total pay for the individuals identified at the Lower quartile, Median and Upper quartile positions in 2018/19 are set out below:

Quartile breakdown of all employee pay[1]	Salary	Total Pay
Upper quartile	£61,600	£84,963
Median	£25,670	£54,102
Lower quartile	£18,695	£23,229

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:

	FY19	FY18	% change
Overall spend on pay including Executive Directors	£74.9m	£79.8m	-6%
Profit distributed by way of dividends	£29.0m	£29.0m	0%

How the remuneration policy will be applied in FY20

Base salary, benefits and pension

Base salaries were increased by 2.5% with effect from 1 November 2019. Accordingly, the base salaries for FY20 will be:

Name	Salary as at 1 September 2018 (or on joining if later)	Salary as at 1 November 2019	Increase over prior year
John Tonkiss	£475,000	£486,875	2.5%
Rowan Baker	£325,000	£333,125	2.5%
Nigel Turner	£375,000	£384,375	2.5%
Mike Lloyd	£375,000	£384,375	2.5%

Pension contributions are 12.5%, having been reduced from 15% in the prior year. The majority of the workforce receives a pension contribution from the Company of 5% of salary.

1 *Please refer to McCarthy & Stone Gender Pay report on our corporate website:* ***www.mccarthyandstonegroup.co.uk*** *for further details and explanation of the tables*

2 *Method B allows the Group to use its most recent gender pay gap information and on an indicative basis to calculate pay ratios*

Directors' Remuneration Report *continued*

Annual Report on Remuneration

Annual bonus

The maximum bonus opportunity will remain at 150% of base salary, with one third of any payment deferred in shares.

Following a review of current metrics, the bonus performance measures will be simplified for FY20 and focus on our key measures of Operating Profit and Cash Flow. In addition, we are introducing a strategic objective element to support the strategic imperatives as we refocus the business. The measures and weighting will be 40% Operating Profit, 40% Cash Flow and 20% on Strategic Objectives.

ROCE will be removed from the annual bonus but will continue to be measured in the long term incentive, removing an element of duplication where management could be rewarded twice for the same outcome. In light of the enhanced Committee discretion to adjust the formulaic outturn of the bonus, the specific operating profit and customer satisfaction underpins that were in place for FY19 will not apply, although these matters will be considered in detail as part of the Committee's annual review of the bonus outturn.

The Strategic Objectives have now been set on an individual basis and are as follows:

- **John Tonkiss**: Develop a strategic partnership plan with key investors, develop a company wide strategy to embed environmental, social and governance issues more centrally within the business planning, establish a robust people and culture development strategy to reflect the new organisational design
- **Rowan Baker**: Set up a rental fund, secure improved FRI finance and alternative finance models
- **Nigel Turner**: Deliver quarterly land exchange targets, cost reduction improvements and an affordable product pilot
- **Mike Lloyd**: Deliver rental strategy, improve OBPX performance and develop a customer centric brand proposition

Stretching sliding scales have been set for the financial measures and, where relevant, for strategic measures. These are commercially sensitive so cannot be disclosed in advance. However, they will be disclosed in the FY20 Annual Report. For any measures not based on a numeric sliding scale, there will be detailed narrative of each measure, performance against it and the resultant bonus pay out.

Long Term Incentive Plan

LTIP award levels will return to the normal award level of 150% of salary for all Executive Directors. Award levels were reduced for FY19 reflecting the Committee's concern over share price performance during the year. The Committee is comfortable that award levels for FY20 should return to normal levels subject to any significant share price movement before awards are granted.

Vesting will continue to be determined 50% by EPS growth and 50% by ROCE. The target ranges are set out in the table below (straight-line between threshold and maximum):

	EPS in FY22	ROCE in FY22
Below threshold (0% payable)	Less than 12.0 pence	Less than 14%
Threshold (25% payable)	12.0 pence	14%
Maximum (100% payable)	17.5 pence	20%

Non-Executive Directors' fees

The fees for FY20 for the Non-Executive Director roles are as follows:

- Chairman: £230,000 (all inclusive)
- Base NED fee: £54,600
- Senior Independent Director additional fee: £10,000
- Committee Chair fee (per committee or additional role): £15,000
- Company designated Non-Executive Director for engagement with the workforce: £7,500
- Corporate Social Responsibility Chair: £7,500

The fee levels for the Chair of the Risk and Audit and Remuneration Committees have been reviewed by the Board (without the NEDs present) and have been increased recognising the significant additional time commitment compared to serving as a member of the Committee in each case.

Consideration by the Directors of matters relating to Directors' remuneration

The members of the Committee during FY19 and up to the date of this Report are:

Gill Barr (Chair of the Committee)

Frank Nelson

Geeta Nanda, OBE

Paul Lester, CBE

John Carter

Mike Parsons[1]

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 Group General Counsel and Company Secretary at the registered office.

The Committee receives assistance from the Group HR Director and the Group General Councel 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 tender process carried out by the Committee during the year, the Committee has engaged Korn Ferry as its independent remuneration adviser.

During FY18 PwC, the previous adviser since our IPO, has provided advice, primarily in respect of the remuneration policy and LTIP awards.

PwC and Korn Ferry also provided certain other services 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 and Korn Ferry was and is objective and independent. Korn Ferry 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.

Fees of £58,535 (FY18: £0) were paid to Korn Ferry and £73,405 (FY18: £40,000) to PwC during the year in respect of remuneration advice given to the Committee.

1 Mike Parsons resigned from the Board and its committees with effect from 31 October 2019

Directors' Remuneration Report *continued*

Annual Report on Remuneration

Shareholder engagement and statement of voting at the AGM

The Directors' Remuneration Policy was put to a binding vote and approved at the Annual General Meeting on 25 January 2017. We put a resolution to approve the FY18 Annual Remuneration Report to our members at our Annual General Meeting on 23 January 2019. 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	412,075,272	5,387,236	417,462,508	182,624
Percent of votes cast	98.7%	1.3%		

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 steps to comply 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').*

As part of our commitment to fairness, this section of our remuneration reporting 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, Diversity and Inclusion policy. We believe that transparency is an important first step towards making improvements in relation to these important issues.

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 Directors' pay in the context of the cascade of incentives throughout the business. The Committee's remit extends down to Directors 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 Management	✓	✓	✓
Managers	✓	✓	
Employees	✓	✓	

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

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 Management 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.

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 2018 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 was administered by our partner, Somerset Care Limited until our acquisition of the shares held by Somerset Care on 29 July 2019).

The following table shows the mean and median hourly pay gaps as at 5 April 2018 as well as our mean and median bonus gaps (based on bonus and commission rates for the period 6 April 2017 to 5 April 2018). Our mean hourly pay gap of 34.7% and our median hourly pay gap of 37.4% 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 4.3% and our mean bonus gap would become 5.6% in favour of our female employees.

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

Directors' Remuneration Report *continued*

Annual Report on Remuneration

Gender pay gap data

	Mean	*Element due to* gender mix[1]	Remaining (excluding *elements due to* gender mix)	Median
Hourly pay	34.7%	30.4%	4.3%	37.4%
Bonus	27.0%	32.6%	(5.6%)[2]	67.2%

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	41.2	58.8
Upper middle quartile	47.5	52.5
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	84.0	78.2

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.

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 111 for details of our Equality, Diversity and Inclusion Policy.

The Annual Report on Remuneration will be put to an advisory shareholder vote at the 2020 AGM on 25 March 2020.

Gill Barr
Remuneration Committee Chair
27 January 2020

Graphic removed

John Tonkiss joins staff and residents of Poets Place, Loughton to celebrate receiving the HBF five star Home Builder Customer Satisfaction Award for a record fourteenth consecutive year

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Directors' Report

Introduction

The Directors present their report and audited financial statements for the period ended 31 October 2019 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 60 to 106 (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 Directors' Report should be read in conjunction with likely future developments set out on pages 50 to 55.

The Directors' Report, together with the Strategic Report on pages 2 to 55 forms the Management Report for the purposes of DTR 4.1.5R requirements.

Dividends

An interim dividend of 1.9p (FY18: 1.9p) per ordinary share was paid on 11 June 2019 to those shareholders on the register on 3 May 2019. Subject to shareholder approval at the 2020 AGM, the Directors are proposing a final dividend for the financial period ended 31 October 2019 of 3.5p (FY18: 3.5p) per ordinary share. This brings the total dividend for the period to 5.4p (FY18: 5.4p) per ordinary share, in line with the prior financial year.

Directors

The names of the Directors who were Directors at year end are on pages 58 and 59. Mike Lloyd, Nigel Turner and Gill Barr were all appointed during the financial period under review as follows:

Director	Date of appointment
Mike Lloyd	1 January 2019
Nigel Turner	1 January 2019
Gill Barr[1]	10 April 2019

In accordance with the Company's articles and the UK Corporate Governance Code, all the Directors will be seeking re-election at the 2020 AGM.

1 Gill Barr was appointed on 10 April 2019 and commenced her Board and Committee responsibilities from 23 May 2019

Directors' interests

Details of the Directors' interests in the share capital of the Company are set out in the Directors' Remuneration report on page 99. Gill Barr purchased 7,366 company shares on 13 November 2019. No other Director had any dealings in the shares of the Company between 31 October 2019 and the date of this Directors' 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 are 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 64 of the Corporate Governance Statement.

Directors' indemnities and insurance

During FY19 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 all Group companies 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 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 October 2019, 31 October 2018 and 31 August 2018 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 financial period. Since the end of the financial period the Company has issued 43,036 shares under its LTIP and to satisfy early exercises under its SAYE scheme. The share capital as at 27 January 2020 is 537,372,470.

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 153 in note 26 to the 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 23 January 2019 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-preemptive 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.

A resolution will be put to shareholders at the 2020 AGM requesting authority in accordance with relevant institutional guidelines for the Directors to buy back up to 53,737,247 shares representing 10% of the Company's issued share capital. 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

Under chapter 5 of the FCA's Disclosure Guideline and Transparency Rules ("DTR5") shareholders, and holders of certain financial instruments relating to shares are obliged to disclose to an issuer when their holding reaches or falls below a given threshold as a result of an acquisition or disposal or as a result of events changing the breakdown of voting rights.

As at 31 October 2019 and as at 27 January 2020, 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 October 2019	% interest in voting rights as at 31 October 2019	Number of shares disclosed as at 27 January 2020	% interest in voting rights as at 27 January 2020
Anchorage Capital Master Offshore Limited (indirect)[2]	158,512,183	29.50	128,512,183	23.92
M&G plc (indirect)	40,009,234[3]	7.39	40,009,234[3]	7.44
The Goldman Sachs Group, Inc (indirect)	39,299,598[4]	7.31	n/a	n/a
Standard Life Aberdeen plc (indirect)	33,476,064	6.23	33,476,064	6.22
Royal London Asset Management Limited (direct)	30,934,575	5.76	30,934,575	5.75
Investec Asset Management Limited (indirect)	27,684,132	5.15	27,684,132	5.15
JO Hambro Capital Management Limited[5]	n/a	n/a	29,980,687	5.58

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 18,785,237 voting rights*

3 *Includes right to recall 252,000 loaned shares*

4 *Includes open stock loan of 23,966,289 shares and Swaps/CfDs representing 15,078,122 voting rights*

5 *Includes right to recall 85,500 loaned shares*

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, a supplemental agreement dated 21 February 2018 and further amended by supplemental agreements dated 4 April 2019 and 24 August 2019). The revolving credit facility agreement contains 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 or 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 23 January 2019, shareholders authorised the Company to make political donations and incur political expenditure up to a maximum of £100,000. During the year, the Group did not make any political donations or incur any political expenditure. Although the Group has no intention of making any political donations or incurring any political 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.

Equal opportunities and diversity

The Company regards equality and fairness as a fundamental right of all of its employees regardless of marital status, pregnancy and maternity, gender, sexual orientation, age, colour, religion or belief, race or ethnic origin. The Company believes that employees should be treated with dignity and respect and everyone is given an equal opportunity to reach their potential. It is McCarthy & Stone'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 Company to meet its commitment to provide equal opportunities in employment and avoid unlawful discrimination. The Company does not tolerate any acts of discrimination at any level. During the year, the Group undertook a review of its arrangements on equality and diversity and subsequently a revised Equality, Diversity and Inclusion Policy was rolled out to all employees. The new policy has been communicated to all employees and is available for them to view on the Company's intranet.

The Company regards equality and fairness as a fundamental right of all of its employees regardless of marital status, pregnancy and maternity, gender, sexual orientation, age, colour, religion or belief, race or ethnic origin.

It is also the Group's commitment 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 Company. In the event of any colleague becoming disabled while with the Company, 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.

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 Anti-Slavery and Human Trafficking Policy.

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

Employee engagement

The Company held a number of Group wide business updates during the year, led by the Chief Executive, Chief Financial Officer and Chief Operating Officers, where employees were provided the opportunity to feedback to the Executive Directors. These updates were filmed and made available on the Group's intranet for those employees who were unable to attend for any reason.

In April 2019, employees were invited to complete an engagement survey about their experience working at McCarthy & Stone. To make sure everyone had the ability to take part, the survey was made fully mobile friendly so that site based employees or employees who are regularly on the road did not need to be at a desk to complete it. The format of the survey was also enhanced this year, making it shorter and sharper to increase the likelihood of receiving meaningful feedback but without being onerous for employees to complete. This also marks the start of a new programme of engagement with employees whereby we will be repeating the survey every six months so that we can keep track of how employees are feeling and how we are doing in progressing issues and opportunities raised.

In light of the new UK Corporate Governance Code which will apply to the Company in FY20, we are already considering ways to ensure effective engagement with the workforce and John Carter was appointed as the designated Non-Executive Director for this purpose on 22 May 2019.

We currently operate two share schemes which are open to all employees - a Sharesave plan ('SAYE') and a Share Incentive Plan ('SIP') designed to provide employees with the opportunity to participate in the performance and success of the Group. Neither scheme is subject to performance conditions.

Change of Financial Year end

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 allows the Group to decouple its 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 is the first financial year reported to 31 October, the first half reporting covered the six months to 28 February 2019 and the second half, the eight months from 1 March 2019 to 31 October 2019.

All disclosures made within the FY19 Annual Report are for the 14 month period ending 31 October 2019 and all comparatives are for a 12 month period ending 31 August for each comparative year quoted, unless otherwise stated.

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 31 to the financial statements on pages 155 to 159.

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, forecasts, available revolving credit facility and considered reasonably possible downside sensitivities in performance and mitigating actions. The Directors are confident 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 132.

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 our regulatory obligation to report greenhouse gas (GHG) emissions pursuant to Section 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

In 2019, our reporting period changed from 1st September - 31st August to 1st November - 31st October. Therefore, this year, to ensure consistency we are reporting three reporting periods and comparing each to the same period in the preceding reporting year:

- 1 September 2018 - 31 August 2019
- 1 September 2018 - 31 October 2019
- 1 November 2018 - 31 October 2019

During our new reporting period, from 1 November 2018 to 31 October 2019, our total Scope 1 and 2 (location-based) emissions from the combustion of fuels and the purchase of electricity were 11,821 tCO_2e. Scope 3 emissions totalled 3,222 tCO_2e. Our Scope 1 and 2 (location-based) emissions decreased by 15% in the year, compared to the same period in 2017/18.

The table below shows our GHG emissions for each reporting period against the preceding period:

Greenhouse gas emissions in tCO_2e

	1 Sept 17 - 31 Aug 18	*1 Sept 18 - 31 Aug 19*	%	*1 Sept 17 - 31 Oct 18*	*1 Sept 18 - 31 Oct 19*	%	*1 Nov 17 - 31 Oct 18*	*1 Nov 18 - 31 Oct 19*	%
Combustion of fuels (Scope 1)	6,703	7,166	+7%	8,267	8,121	-2%	7,537	6,557	-13%
Electricity purchased for own use (Scope 2: location-based)	6,394	5,495	-14%	7,453	6,323	-15%	6,372	5,264	-17%
Electricity purchased for own use (Scope 2: market-based)	8,279	7,772	-6%	9,787	8,936	-9%	8,388	7,427	-11%
Total Scope 1 & 2 (location-based)	13,097	12,660	-3%	15,720	14,445	-8%	13,909	11,821	-15%
Total Scope 1 & 2 (market-based)	14,982	14,937	0%	18,055	17,057	-6%	15,925	13,984	-12%
Fuel-and-energy-related-activities (Scope 3)	3,560	2,662	-25%	4,005	3,098	-23%	3,393	2,653	-22%
Business travel (Scope 3)	493	444	-10%	577	517	-10%	498	434	-13%
Waste (Scope 3)	85	135	+60%	107	158	+47%	93	135	+45%
Water (Scope 3)	0.4	0.4	-9%	0.5	0.5	-5%	0.4	0.4	-5%

Methodology

We quantify and report our 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. We work with our sustainability consultant, Carbon Credentials, to convert our activity data to tonnes of carbon dioxide equivalent using the UK Government 2019 Conversion Factors for Company Reporting.

This report has been prepared in accordance with the amendment to the GHG Protocol's Scope 2 Guidance, we have therefore reported both a location-based and market-based Scope 2 emissions figure. The Scope 2 market-based figure reflects emissions from electricity purchasing decisions that McCarthy & Stone plc has made during the reporting period.

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Methodology *continued*

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

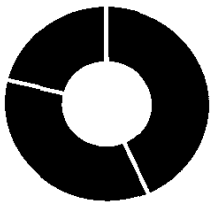
We have also chosen to report our emissions in relation to the number of managed developments (312).

Greenhouse gas emissions in tCO_2e

	1 Sept 17 - 31 Aug 18	1 Sept 18 - 31 Aug 19	%	1 Sept 17 - 31 Oct 18	1 Sept 18 - 31 Oct 19	%	1 Nov 17 - 31 Oct 18	1 Nov 18 - 31 Oct 19	%
Total Scope 1 & 2 (location-based)	13,097	12,660	-3%	15,720	14,445	-8%	13,909	11,821	-15%
Total Scope 1 & 2 (market-based)	14,982	14,937	0%	18,055	17,057	-6%	15,925	13,984	-12%
tCO_2e per Managed Development (location-based)	42	41	-3%	50	46	-8%	45	38	-15%
tCO_2e per Managed Development (market-based)	48	48	0%	58	55	-6%	51	45	-12%

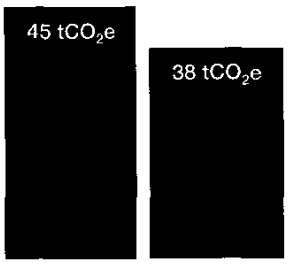
Reporting boundaries and limitations

Total emissions 2018-2019



- Scope 1
- Scope 2 (location-based)
- Scope 3

tCO_2e per managed development



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

The GHG sources that constitute our operational boundary for 2018/19 are:

- **Scope 1:** Natural gas combustion within boilers, diesel combustion within generators and road fuel combustion within vehicles. We did not recharge any refrigerant-based equipment in 2018/19
- **Scope 2:** Purchased electricity consumption for our own use
- **Scope 3:** Emissions associated with the production of fuels and electricity that are consumed by McCarthy & Stone plc, including transmission and distribution losses associated with the consumption of national grid electricity. Additional Scope 3 sources calculated include the transport in vehicles not owned or operated by McCarthy & Stone plc, the disposal of our waste and water consumption at our head office

Assumptions and estimations

Improving our 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.

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

Improving performance

We monitor energy consumption at our managed properties in detail to identify opportunities to improve energy performance. We have begun a process of collecting more accurate data for construction sites and offices. This will help us to understand more about our consumption and energy use, and to reduce our emissions going forward. As part of our responsibility to comply with the Energy Savings Opportunities Scheme (ESOS), energy audits were performed across a selection of our sites in 2019 to identify energy savings opportunities; we are in the process of implementing the auditor's findings.

Annual General Meeting

The forthcoming AGM will be held on 25 March 2020. Full details are contained in the Notice convening the AGM, which is being sent to shareholders with this Annual Report.

Post Balance Sheet Events

There were no events after the reporting period that required adjustment in the FY19 financial statements.

On behalf of the Board

Rowan Baker
Chief Financial Officer
27 January 2020

Statement of Directors' Responsibilities

Financial statements and accounting records

The Directors as listed on pages 58 and 59 are responsible for preparing the Annual 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.

The Directors are 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.

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:

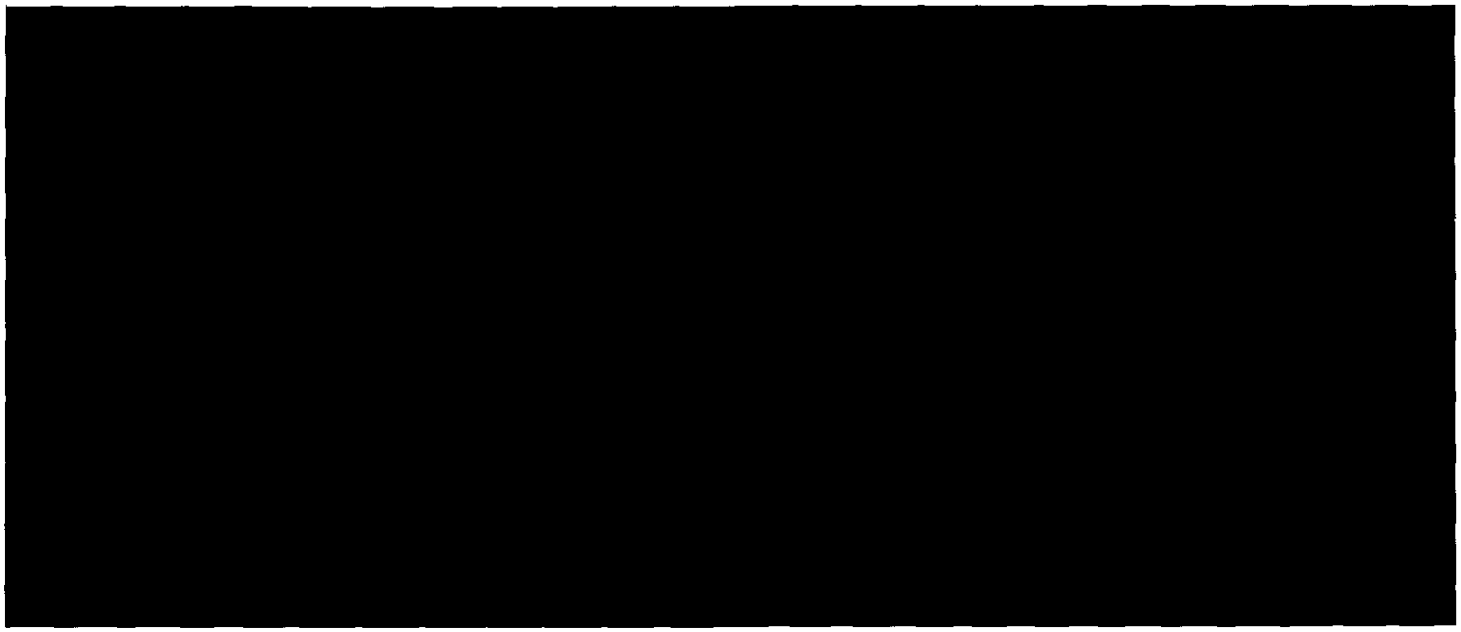
a) the Group and Company financial statements in this Annual Report, which have been prepared in accordance with the applicable financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the Group taken as a whole; 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 27 January 2020 and is signed on its behalf by:

John Tonkiss
Chief Executive Officer
27 January 2020

Rowan Baker
Chief Financial Officer
27 January 2020



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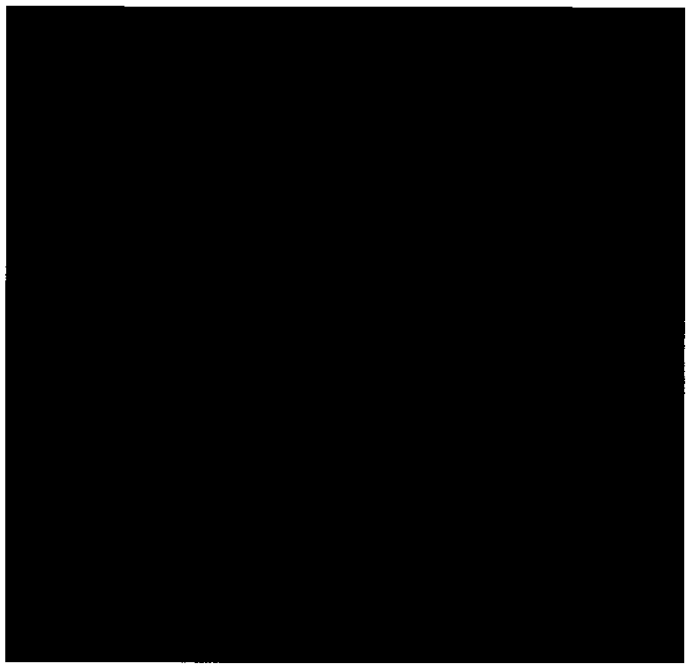
Seymour Court, South Shields, Tyne and Wear
Wayfarer Place, Alresford, Hampshire



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Hardwick Grange, Preston, Lancashire
Hardwick Grange, opened by Councillor Harry Hancock, Mayor of Penwortham

Financial Statements

Independent Auditor's Report	**120**
Consolidated Statement of Comprehensive Income	**128**
Consolidated Statement of Financial Position	**129**
Consolidated Statement of Changes in Equity	**130**
Consolidated Cash Flow Statement	**131**
Notes to the Consolidated Financial Statements	**132**
Company Statement of Financial Position	**164**
Company Statement of Changes in Equity	**165**
Notes to the Company Financial Statements	**166**
Warning to Shareholders	**170**
Historical Statistics	**171**
General Information	**172**
Glossary	**174**

Independent Auditor's Report

to the Members of McCarthy & Stone plc

Opinion

In our opinion:

- McCarthy & Stone plc's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 October 2019 and of the Group's profit for the 14 month period then ended
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- The Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation

We have audited the financial statements of McCarthy & Stone plc which comprise:

Group	Parent company
Consolidated Statement of Financial Position as at 31 October 2019	Company Statement of Financial Position as at 31 October 2019
Consolidated Statement of Comprehensive Income for the 14 month period then ended	Company Statement of Changes in Equity for the 14 month period ended 31 October 2019
Consolidated Statement of Changes in Equity for the 14 month period ended 31 October 2019	Related notes 1 to 10 to the financial statements including a summary of significant accounting policies
Consolidated Cash Flow Statement for the 14 month period ended 31 October 2019	
Related notes 1 to 35 to the financial statements, including a summary of significant accounting policies	

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- The disclosures in the annual report set out on pages 50 to 55 that describe the principal risks and explain how they are being managed or mitigated
- The Directors' confirmation set out on page 51 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity
- The Directors' statement set out on page 132 in 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 entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements

- Whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- The Directors' explanation set out on page 51 in the Annual Report as to how they have assessed the prospects of the entity, 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 entity 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

Overview of our audit approach

Key audit matters	• Revenue recognition • Inventory valuation and profit recognition • Valuation of shared equity receivables
Audit scope	• We performed an audit of McCarthy & Stone plc, as a single aggregated set of financial information. Our work therefore covered 100% of Profit before tax, 100% of Revenue and 100% of Total assets
Materiality	• Overall Group materiality of £3m which represents 5% of Profit before tax

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Risk and Audit Committee
Revenue recognition *Refer to Accounting policies (page 132 to 139) and Note 3 of the Consolidated Financial Statements.* The Group has reported revenues for the period of £725.0m (2018 - £671.6m). We identified the recognition of revenue from sales of properties and associated freehold reversionary interests as a key audit matter as it is quantitatively significant to the consolidated financial statements as a whole. There is potential for material misstatement within revenue, particularly in relation to revenue being recorded in the wrong period, due to cut off errors or management bias.	We performed the following procedures over this risk area: • We performed walkthroughs to understand the key processes and identify key controls • We performed procedures using EY bespoke data analytics tools to test the appropriateness of journal entries recorded in the general ledger by correlating sales postings with cash receipts throughout the period • For each significant revenue stream, we tested whether it was recognised in the correct period by testing a sample of sales transactions either side of the period to legal completion • We validated any material manual journals to assess for any evidence of management bias by corroborating to supporting documentation; and • We audited Management's application of the new revenue standard, IFRS 15. We challenged Management's interpretations and underlying assumptions and performed detailed contract reviews.. We considered the completeness of Management's assessment to gain assurance that all material considerations have been made for the potential impact. We assessed the appropriateness of the related disclosures in the consolidated financial statements	Based on our audit procedures we have concluded that revenue is appropriately recognised, and that there was no evidence of management bias.

Risk	Our response to the risk	Key observations communicated to the Risk and Audit Committee
Inventory valuation and profit recognition *Refer to the Risk and Audit Committee Report (page 74); Accounting policies (pages 132 to 139); and Note 19 of the Consolidated Financial Statements (page 150)* At 31 October 2019, the inventory balance includes sites in the course of construction of £179.6m (2018 - £290.3m), land of £57.6m (2018 - £99.6m), finished stock of £393.9m (2018 - £385.9m) and part-exchange properties of £93.8m (2018 - £41.7m). The Group's inventories are held at the lower of the cost and net realisable value. The cost of the inventory is calculated using actual land acquisition costs, construction and development related costs and management's assessment of the costs which relate directly to site developments. We considered the valuation of inventory a key audit matter given the relative size of the balance in the Consolidated Statement of Financial Position and the significant judgement involved in estimating future selling prices, costs to complete projects and selling costs. These judgements may have a material impact on the calculation of net realisable value and therefore in determining whether the value of a project should be written down (impaired). As a result, the carrying value of inventory is determined by reference to a number of assumptions which are subject to levels of inherent estimation and therefore may be subject to management bias to over or understate inventory. The carrying value of inventory is assessed by management for impairment by reference to current market inputs and assumptions. As part of the half year and year end financial statement close process, management undertake valuations to determine the expected outcome of each development and hence identify if any impairment is required. The same estimates are also used to determine the margin on each development which is used to determine the profit to be recognised.	We performed the following procedures over this risk area: • We performed walkthroughs to understand the key processes and identify key controls • We agreed on a sample basis certain costs incurred to date included within land and sites in the course of construction to source documentation • For a sample of sites in the course of construction based on factors such as size and risk, we compared the estimated and the actual costs and margin across the development lifecycle. We validated the key drivers for changes in costs and margin and considered historical results in order to assess management's ability to forecast accurately • We critically determined the appropriateness of key assumptions and the commercial viability of sites as selected by management through comparison against historic data and consideration of current market conditions • We obtained and understood the provisions held by management for land, sites in the course of construction, and finished stock. We tested the appropriateness of any provisions included within the calculations, comparing movements to prior periods, re-computing calculations and performing sensitivity analysis on sites where the margin was close to breakeven • For the capitalisation of overheads, we held meetings with Senior Management to challenge and understand why percentages of costs capitalised in each department had moved year on year. This was supported by transaction testing to gain assurance that the related costs were consistent with the principles of IAS 2 *'Inventories'*. For the sample selected we validated whether capitalisation rates were appropriate • We obtained and understood the workings for the costs capitalised in the period. We then performed sensitivity analysis over the capitalisation rates applied by management to understand at what point differing rates would result in a material error • We checked the clerical accuracy of management calculations to identify any errors or anomalies • We performed an independent recalculation of the general part-exchange property inventory provisions by challenging the valuation of specific aged sites by reference and corroboration to local market conditions, historic sales patterns and other market evidence • We verified the existence and valuation of part-exchange properties at the balance sheet date by sampling the stock held by the Group and obtaining proof of purchase and ownership by independently obtaining title deeds; and • We verified appropriate disclosure had been made in the financial statements	Based on our audit procedures we have concluded that the inventory balance and profit recognised in the year are not materially misstated.

Risk	Our response to the risk	Key observations communicated to the Risk and Audit Committee

Valuation of shared equity receivables
Refer to the Risk and Audit Committee Report (page 74); Accounting policies (pages 132 to139); and Note 31 of the Consolidated Financial Statements (pages 155 to 159)
At 31 October 2019, the Group was carrying shared equity loan receivables on the Consolidated Statement of Financial Position of £22.1m (2018 - £25.0m).
The carrying value of these shared equity loan receivables is based on a number of assumptions which contain inherent uncertainties and which require management judgement.
	We performed the following procedures over this risk area:
	• We performed walkthroughs to understand the key processes and identify key controls
	• We critically assessed, based on historic data and consideration of current market conditions, the appropriateness of key assumptions such as:
	  • Discount rate
	  • Recoverability
	  • House price inflation
	• We performed sensitivity analysis over those key assumptions as detailed above
	• We tested a sample of recorded redemptions and agreed them to evidence of cash receipt, ensuring that the amounts had been appropriately derecognised
	• We tested a sample of cash receipts received and compared them to the carrying value held to assess the accuracy of management's valuation assessments
	• We tested the integrity and arithmetical accuracy of the calculations within management's valuation model
	• We had our Corporate Finance Specialists examine management's model and its methodology and due to historic redemption losses we challenged the approach taken by management, in particular focusing on the appropriateness of key assumptions such as new build premium and house price inflation
	• We audited management's application of the new financial instruments standard, IFRS 9; and
	• We assessed the adequacy of the related disclosures in the financial statements
		Based on our audit procedures we have concluded that the shared equity loan receivables are not materially misstated.

In the prior year, Deloitte identified cost capitalisation of overheads, valuation of shared equity receivables and carrying value of goodwill as key audit matters.

Independent Auditor's Report *continued*

An overview of the scope of our audit

Tailoring the scope

We performed an audit of McCarthy & Stone plc, as a single aggregated set of financial information. Our work therefore covered 100% of Profit before tax, 100% of Revenue and 100% of Total assets.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

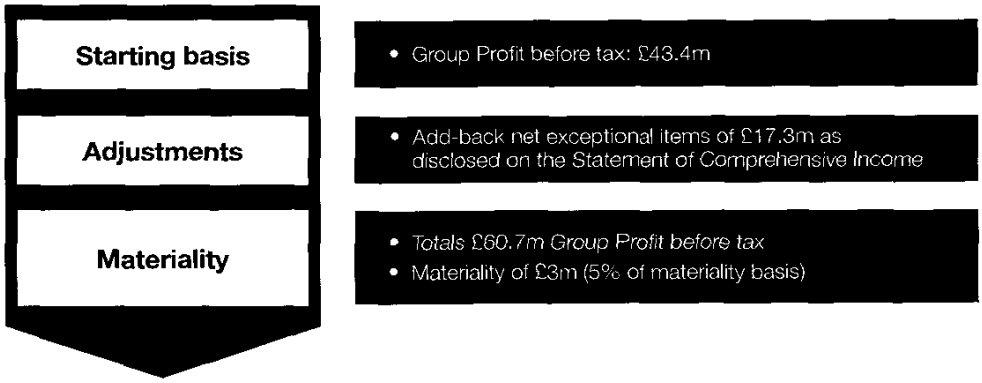
Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £3m, which is 5% of Profit before tax adjusted for exceptional items. We believe that normalised Profit before tax provides us with reference to an appropriate benchmark of Group Profit before tax, normalised to remove the impact of separately identified exceptional items as disclosed in note 7 of the financial statements. We believe this provides us with a consistent year on year basis for determining materiality and is the most relevant performance measure to the stakeholders of McCarthy & Stone plc.

In their prior year audit, Deloitte LLP adopted a materiality of £3m based on 5% of Profit before tax and exceptional administrative expenses.

We determined materiality for the Parent Company to be £9m, which is 2% of equity given that the Company is non-trading and contains only the investment in all of the trading components in the Group. In their prior period audit, Deloitte LLP adopted a materiality of £2.4m based on 0.5% of equity which was capped at a percentage of Group materiality.



During the course of our audit, we reassessed initial materiality and made no changes in our final materiality from our original assessment at planning.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £1.5m.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Risk and Audit Committee that we would report to them all uncorrected audit differences in excess of £0.2m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. This is consistent to the reporting threshold adopted by Deloitte LLP in the prior year audit.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report including the Strategic Report and Corporate Governance Report, other than the Financial Statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** (set out on page 117) - the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Risk and Audit committee reporting** (set out on page 73) - the section describing the work of the Risk and Audit Committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** (set out on page 62) - 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.

Independent Auditor's Report *continued*

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 period for which the financial statements are prepared is consistent with the financial statements; and
- The Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' report.

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

- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement *with the accounting records and returns; or*
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement (set out on page 117), 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 and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of *accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no* realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, the Companies Act 2006 and UK Corporate Governance Code), the Listing Rules of the UK Listing Authority and the relevant tax compliance regulations in the UK

- We understood how McCarthy & Stone plc is complying with those frameworks by understanding how McCarthy & Stone plc's own oversight mitigates risk through driving a culture of honesty and ethical behaviour (by placing a strong emphasis on fraud prevention). We also made enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Risk and Audit Committee and correspondence received from regulatory bodies and noted that there was no contradictory evidence
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management from various parts of the business to understand where it considered there was a susceptibility to fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how Senior Management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing journals and were designed to provide reasonable assurance that the financial statements were free from fraud and error
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business, enquiries of legal counsel, Group management and internal audit. In addition, we completed procedures to conclude on the compliance of the disclosures in the Annual Report with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code 2018

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website: **www.frc.org.uk/auditorsresponsibilities** This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company on 23 January 2019 to audit the financial statements for the 14 month period ending 31 October 2019 and subsequent financial periods
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit
- The audit opinion is consistent with the additional report to the Risk and Audit Committee

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.

Peter McIver (Senior statutory auditor)
For and on behalf of Ernst & Young LLP

Statutory Auditor
London, United Kingdom

27 January 2020

Notes:

1 *The maintenance and integrity of the McCarthy & Stone plc's website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website*

2 *Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions*

Consolidated Statement of Comprehensive Income

For the year ended 31 October 2019

	Notes	**14 months to 31 October 2019 £m**	12 months to 31 August 2018 £m
Continuing operations			
Revenue	6	**725.0**	671.6
Cost of sales		**(620.1)**	(567.0)
Gross profit		**104.9**	104.6
Other operating income	9	**238.1**	11.3
Administrative expenses		**(64.1)**	(44.0)
Other operating expenses	9	**(230.5)**	(8.4)
Operating profit		**48.4**	63.5
Amortisation of brand	7	**(2.4)**	(2.0)
Exceptional items	7	**(17.3)**	(2.0)
Underlying operating profit		**68.1**	67.5
Finance income	10	**1.0**	0.4
Finance expense	11	**(6.0)**	(5.8)
Profit before tax	7	**43.4**	58.1
Income tax expense	12	**(8.5)**	(11.6)
Profit for the period from continuing operations and total comprehensive income		**34.9**	46.5
Profit attributable to			
Owners of the Company		**35.1**	46.2
Non-controlling interests	27	**(0.2)**	0.3
		34.9	46.5

Notes 1 to 35 form part of the financial statements shown above. All trading derives from continuing operations.

Earnings per share			
Basic (p per share)	13	**6.5**	8.6
Diluted (p per share)	13	**6.5**	8.6
Adjusted measures			
Underlying operating profit	7	**68.1**	67.5
Underlying profit before tax	7	**63.1**	62.1

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Consolidated Statement of Financial Position

As at 31 October 2019

	Notes	31 October 2019 £m	31 August 2018 £m
Assets			
Non-current assets			
Goodwill	14	**41.7**	41.7
Intangible assets	15	**24.2**	26.1
Property, plant and equipment	16	**1.3**	2.1
Investments in associates and joint ventures		**0.4**	0.4
Investment properties	18	**28.5**	0.2
Other receivables	20	**43.0**	27.8
Total non-current assets		**139.1**	98.3
Current assets			
Inventories	19	**724.9**	817.5
Trade and other receivables	20	**12.9**	22.4
Cash and cash equivalents	29	**36.7**	57.0
Total current assets		**774.5**	896.9
Total assets		**913.6**	995.2
Equity and liabilities			
Capital and reserves			
Share capital	26	**43.0**	43.0
Share premium		**101.6**	101.6
Retained earnings		**624.4**	617.5
Equity attributable to owners of the Company		**769.0**	762.1
Non-controlling interests	27	**-**	1.3
Total equity		**769.0**	763.4
Current liabilities			
Trade and other payables	22	**94.6**	114.9
UK corporation tax		**3.7**	6.5
Land payables	23	**34.1**	56.9
Total current liabilities		**132.4**	178.3
Non-current liabilities			
Long-term borrowings	24	**9.6**	51.4
Deferred tax liability	21	**2.6**	2.1
Total liabilities		**144.6**	231.8
Total equity and liabilities		**913.6**	995.2

Notes 1 to 35 form part of the financial statements shown above.

These financial statements were approved by the Board on 27 January 2020 and signed on its behalf by:

John Tonkiss
Chief Executive Officer

Rowan Baker
Chief Financial Officer

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Consolidated Statement of Changes in Equity

For the year ended 31 October 2019

	Notes	Share capital £m	Share premium £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 September 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	32	-	-	0.8	**0.8**	-	**0.8**
Dividends	26	-	-	(29.6)	**(29.6)**	-	**(29.6)**
Balance at 31 August 2018		**43.0**	**101.6**	**617.5**	**762.1**	**1.3**	**763.4**
Profit for the year		-	-	35.1	**35.1**	(0.2)	**34.9**
Total comprehensive income for the year		-	-	**35.1**	**35.1**	**(0.2)**	**34.9**
Transactions with owners of the Company:							
Share-based payments	32	-	-	1.4	**1.4**	-	**1.4**
Dividends	26	-	-	(29.3)	**(29.3)**	-	**(29.3)**
Acquisition of NCI without a change in control	27	-	-	(0.3)	**(0.3)**	(1.1)	**(1.4)**
Balance at 31 October 2019		**43.0**	**101.6**	**624.4**	**769.0**	**-**	**769.0**

Notes 1 to 35 form part of the financial statements shown above.

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Consolidated Cash Flow Statement

For the year ended 31 October 2019

	Notes	**14 months to 31 October 2019 £m**	12 months to 31 August 2018 £m
Net cash flow from operating activities	29	**81.4**	14.8
Investing activities			
Purchases of property, plant and equipment	16	**(0.4)**	(0.8)
Purchases of intangible assets	15	**(1.4)**	(1.1)
Proceeds from sale of property, plant and equipment		**0.1**	-
Outflows in relation to investment properties	18	**(28.3)**	-
Net cash used in investing activities		**(30.0)**	(1.9)
Financing activities			
Issue of long-term borrowings		**214.0**	250.0
Repayment of long-term borrowings		**(255.0)**	(217.0)
Dividends paid		**(29.3)**	(29.6)
Acquisition of non-controlling interests	27	**(1.4)**	-
Net cash (used in)/from financing activities		**(71.7)**	3.4
Net (decrease)/increase in cash and cash equivalents		**(20.3)**	16.3
Cash and cash equivalents at beginning of the year		**57.0**	40.7
Cash and cash equivalents at end of the year		**36.7**	57.0

Notes 1 to 35 form part of the financial statements shown above.

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Notes to the Consolidated Financial Statements

1. Basis of preparation

McCarthy & Stone plc is a public Company limited by shares incorporated and domiciled 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'). The Company financial statements present information about the Company as a separate entity and not about the Group.

The current year financial statements have been prepared using a 14 month accounting period, due to a change in the year end date from 31 August to 31 October. It should be noted that the amounts presented in the financial statements for the current period are therefore not entirely comparable with the prior period being the 12 months ended 31 August 2018.

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, except for investment properties and shared equity receivables that have been measured at fair value.

The registered office is 4th Floor, 100 Holdenhurst Road, Bournemouth, Dorset, BH8 8AQ.

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 April 2019, the Group extended the maturity date of its existing £200m Revolving Credit Facility ('RCF') from May 2021 to March 2023 with Barclays, HSBC and RBS. As at the balance sheet date, a total of £12.0m (2018: £43.0m) has been drawn down with a further £36.7m (2018: £57.0m) held on the Consolidated Statement of Financial Position in cash, offset by promissory notes of £nil (2018: £10.0m), resulting in net cash of £24.7m (2018: £4.0m). The level of drawdown on the RCF fluctuates during the period, however the Group operates within a minimum headroom requirement of £40.0m throughout the period. If headroom were at risk, management can take mitigating action by curtailing uncommitted land purchases and 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 whilst reflecting on financial covenants which test the Group's interest cover, gearing, tangible net asset value and restrictions on the value of rental, shared ownership and part-exchange properties held on the balance sheet. No breaches have been 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 24.

2. Changes in accounting policies and disclosures

The accounting policies adopted, and methods of computation followed, are consistent with those of the previous financial year, with the exception of the two changes disclosed below. Specifically, the Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes, as a result of adoption of these new accounting standards, are described below. There were several other new and amendments to standards and interpretations which are applicable for the first time in FY19, but either do not cause any impact or have no relevance to the Group.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 was effective for the Group from 1 September 2018 and has been applied using the retrospective "cumulative effect" method, which means comparatives are not restated, due to adjustments being solely presentational. 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 in comparison to prior years.

There are however presentational changes to our Consolidated Statement of Comprehensive Income regarding the treatment of part-exchange properties. Firstly, under IFRS 15, the requirement is to present the non-cash consideration received from a customer within revenue. This should be measured at fair value with any provisions raised taken as a reduction to revenue. Where the Group apply a provision against the purchased part-exchange property, this has now been accounted for as a reduction in the fair value of the revenue received instead of as a cost of sale.

Secondly, upon subsequent resale of the property, the income and costs associated with part-exchange properties were recognised on a net basis within cost of sales. Under IFRS 15, there is a requirement to present the proceeds from resale on a gross basis and this has been reclassified within 'other operating income' and the associated costs within 'other operating expenses' on the basis that it is not considered part of the core trading activities of the Group due to the differences in the nature and purpose of the properties being sold.

Finally, the Group have further reviewed all other transactions which arise as part of a sale which could be deemed to impact the fair value of the revenue received. This review tested specific incentives and the Group challenged whether each type of "incentive" is truly an incentive cost or is substantially a discount. This resulted in several changes of classifications of incentive type costs incurred which are offered to customers as part of a sale from cost of sales to a reduction against revenue.

The cumulative impact of these three changes under IFRS 15 has been illustrated below and results in the 2019 gross profit being increased by £1.6m with a nil impact on operating profit:

Impact on Consolidated Statement of Comprehensive Income	Initial 2019 result	Part-exchange fair value buy-in adjustment	Part-exchange gross up adjustment	Review of incentives against discounts	Revised 2019 result
Revenue	735.2	(5.4)	-	(4.8)	725.0
Cost of sales	(631.9)	5.4	1.6	4.8	(620.1)
Gross profit	**103.3**	**-**	**1.6**	**-**	**104.9**
Other operating income	22.8	-	215.3	-	238.1
Administrative expenses	(64.1)	-	-	-	(64.1)
Other operating expenses	(13.6)	-	(216.9)	-	(230.5)
Operating profit	**48.4**	**-**	**-**	**-**	**48.4**

IFRS 9 'Financial Instruments'

IFRS 9 replaced IAS 39 *'Financial Instruments: Recognition and Measurement'* and was effective for the Group from 1 September 2018. The Group does not presently hold any complex financial instruments. As a result, the principal area of impact is in applying the new forward-looking 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 any trade receivables are insignificant, no additional provisions have been applied. The Group will continue to assess the impact and application of the new standard, particularly in line with expected growth in rental and shared ownership offerings, however we do not anticipate the new standard will have a material impact on the Group's future results or financial position.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. 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 periods presented, unless otherwise stated.

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
- Exposure, or rights, to variable returns from its involvement with the entity
- 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.

The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest hundred thousand, except when otherwise indicated.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders are measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. 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.

3. Significant accounting policies *continued*

Goodwill *continued*

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 in 2009 on acquisition 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.

Revenue recognition

Revenue from contracts with customers is measured at fair value of the consideration received or receivable and represents amounts receivable for goods supplied stated net of discounts, cash incentives, rebates, VAT and other sales taxes. Revenue is recognised when control of the goods or services are transferred to the customer.

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 apartments and freehold interests in houses and bungalows and is recognised on legal completion, being the point at which the transfer of control and 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. Where a completion involves an on balance sheet part-exchange, any initial provision applied to the value of the acquired property is deemed to be a reduction to the fair value of the acquired property and is also treated as a reduction to revenue. Where a completion involves shared ownership, the Group records the full sale as control of the apartment in addition to the risks and rewards of ownership have transferred to the customer, less an adjustment to reflect the fair value of the transaction.

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 apartment has been sold.

Operating rental income

The Group earns revenue from acting as a lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term and is included in revenue in the Consolidated Statement of Comprehensive Income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are expensed upfront due to their insignificant value.

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 developments for any reporting period presented herein.

Other operating income

Other operating income includes management services income, net non-operating 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.

Under IFRS 15, other operating income now also includes resale income on acquired part-exchange properties. These have been presented here rather than in core revenue due to their acquisition route being incidental to the sale of a McCarthy & Stone apartment, the properties acquired are a very different product to the specialised, age-restricted products sold by the Group and the resale route is via local agents rather than using the McCarthy & Stone sales function. As a result, this is not considered to be a core trading activity of the Group.

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 divisional 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.

During the year management have refined the methodology for releasing land and build costs into cost of sales. These costs were previously released on an equalised margin basis using a calculation that reflected actual and forecast part-exchange incentive costs, bulk discounts, rental valuation and part-exchange provisions across the life of the development. This led to a distorted result due to the volume of rental and bulk sales. The revised method excludes these costs and reduces the level of judgement on margin forecast by removing the incentive costs, bulk discounts, rental valuation and part-exchange provisions from this calculation and basing it on the forecast list prices and land and build costs.

Build-related rebates are recorded as a reduction to cost of sales.

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 7.

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. This accounting treatment will change for FY20 upon adoption of IFRS 16 (see note 4).

Retirement benefit costs

The Group operates a defined contribution retirement scheme, which is open to all employees.

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 in the Consolidated Statement of Comprehensive Income in the periods during which services are rendered by employees.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred.

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 periods 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, at the reporting date.

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.

3. Significant accounting policies continued

Deferred tax *continued*

Deferred tax assets are reviewed at the end of each reporting period and maintained to the extent that there are sufficient probable future taxable profits available to allow the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability crystallises or the asset realised based on tax laws and rates that have been enacted by the period end. Deferred tax is charged or credited in the Consolidated Statement of Comprehensive Income, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Tangible and intangible assets

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost of assets less their residual value over their useful lives, using the straight-line method, on the following 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 15 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.

Investment properties

Investment properties comprises completed property that is held to earn rentals or for capital appreciation as part of the Group's multi-tenure offerings, rather than for sale in the ordinary course of business.

Investment properties are stated at fair value using a market approach, which has been supported by a RICS qualified valuation. Transfers are made from inventories to investment properties only when there is evidence of a change in use (upon a signed rental agreement). The initial gain arising from the change in the fair value of investment property is included in the Consolidated Statement

of Comprehensive Income within 'Other operating income' in note 9 in the period in which they arise. Subsequent fair value changes will also be recorded within 'Other operating income/expenses'.

Investment property cash flows are treated as investing cash flows.

An investment property is derecognised either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the Consolidated Statement of Comprehensive Income within 'Other operating income/expenses' in the period of derecognition.

Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the operating and financial policy decisions of the Company, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those used to determine control over subsidiaries. The Group's investments in associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date.

The aggregate of the Group's share of profit or loss of an associate or joint venture is shown on the face of the Consolidated Statement of Comprehensive Income.

Inventories

Inventories are stated at the lower of cost or 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 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, in accordance with IFRS 9.

Financial assets

All financial assets are normally recognised and derecognised on the trade 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 held shared equity receivables and shared ownership receivables (measured at 'fair value through profit or loss' ('FVTPL')), secured mortgages (measured at 'amortised cost') and 'track and other receivables' (measured at 'amortised cost').

3. Significant accounting policies continued

Financial assets *continued*

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.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the financial asset expire or the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity.

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 31.

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, as designated upon their initial recognition. The shared equity receivables are 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, historic gains and losses on redemptions 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.

Shared ownership receivables

Shared ownership interests arise from the sale of apartments where the Group retains a portion of ownership of the property.

The shared ownership receivables are recognised at fair value, being the estimated future amount receivable by the Group on their percentage share, discounted to present value.

Where a customer staircases on their ownership share, the Group recognises the appropriate profit or loss on the holding value of the equity percentage sold within the Consolidated Statement of Comprehensive Income.

Financial assets at amortised costs

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'trade and other receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

The Group does not hold trade receivables as part of its core trading activity as the Group's accounting policy is not to recognise revenue until legal completion. As such, there are no significant implications of the expected credit loss model being applied however will continue to be reviewed by the Group as multi-tenure offerings (such as rental and shared ownership) continue to grow.

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

All financial liabilities are classified as financial liabilities at amortised cost and include trade and other payables, land payables, loans and land-related promissory notes.

All financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

All 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 32.

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 key 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 7. Net cash has been defined and calculated within note 25. Adjusted cost and exceptional items have been defined within note 7.

4. Standards issued but not yet effective

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 14 month period ended 31 October 2019. This list of new and amended standards and interpretations issued are those that the Group reasonably expects to have an impact on the financial statements when applied once they become effective.

IFRS 16 *'Leases'*

IFRS 16 replaces IAS 17 *'Leases'*, IFRIC 4 *'Determining whether an Arrangement contains a Lease'*, SIC-15 *'Operating Leases-Incentives'* and SIC-27 *'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'* 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 Group have opted to apply IFRS 16 using the modified retrospective transition approach, whereby the Group will measure right-of-use assets at an amount equal to the lease liabilities on the date of transition.

The Group will also take advantage of several practical expedients available to lessees. These exemptions are:

- Exclusion of all leases with term dates that end within 12 months of the date of application
- Exclusion of low value leases (e.g. printers and laptops)
- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics

The Group have classified its leases into two categories of assets - property leases and vehicle leases.

4. Standards issued but not yet effective continued

IFRS 16 *'Leases'* *continued*

During 2019, the Group has performed a detailed impact assessment of IFRS 16 and a summary of the financial impact upon transition is as follows:

	£m
Assets	
Property, plant and equipment (right-of-use assets)	**7.6**
Liabilities	
Lease liabilities	**7.6**
Net impact on equity	**-**

Other standards

The Group has considered the impact of 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'* which will be applicable to the Group for the financial year commencing 1 November 2019. These standards are not expected to have a significant impact on the Group.

5. 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.

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 FY19 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. This has been split between those that could result in a material adjustment within one year and those over the longer-term.

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 17.

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, the expected timing of receipts and historic gains and loses on redemptions. Shared equity receivables are reviewed at each reporting date using a variety of estimates

5. Critical accounting judgements and key sources of estimation uncertainty continued

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 31. 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	(1.4)	1.6
House price inflation	1.6	(1.5)

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 and safety, interior design, 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 divisions on directly attributable site activities. The percentage of their time which is capitalised ranges between 50-78% (2018: 69-85%) for the various functions. Overhead costs capitalised during the year amount to £19.6m (twelve months to 31 August 2018: £23.7m). If the prior year cost capitalisation rates were to be used, the value of the overhead costs capitalised would have increased by £1.0m.

6. Revenue

	14 months to 31 October 2019 £m	12 months to 31 August 2018 £m
Unit sales - external customers	**677.6**	642.8
Unit sales - revenue from an associate	**16.7**	-
FRI revenue	**30.3**	28.8
Rental revenue	**0.4**	-
	725.0	671.6

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, however unit sales revenue includes the sale of a portfolio of 113 show flats and sales offices to Waverstone LLP for which the Group has recognised its proportional share of the transaction resulting in revenue of £16.7m and gain for the year of £2.7m. Further detail can be seen within note 34.

Revenue received on the disposal of part-exchange properties is shown within other operating income (see note 9).

7. Profit before tax

Profit before tax has been arrived at after charging:

	Notes	**14 months to 31 October 2019 £m**	12 months to 31 August 2018 £m
Amortisation of intangibles	15	**3.2**	2.6
Depreciation of property, plant and equipment	16	**1.1**	1.1
Operating lease arrangements	28		
Land and buildings		**2.0**	1.7
Plant and machinery		**2.3**	2.6
Cost of inventories recognised as an expense		**524.0**	480.0
Staff costs	8	**91.7**	94.0
Share-based payments charge	32	**1.4**	0.8
Movement in inventory provision (including part-exchange properties)		**(0.6)**	1.5

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

7. 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.

			Exceptional	Adjusted cost	
14 months to 31 October 2019	Notes	**Statutory £m**	**Exceptional items £m**	**Amortisation of brand £m**	**Underlying £m**
Operating profit		**48.4**	**17.3**	**2.4**	**68.1**
Finance income	10	**1.0**	-	-	**1.0**
Finance expense	11	**(6.0)**	-	-	**(6.0)**
Profit before tax		**43.4**	**17.3**	**2.4**	**63.1**
Income tax expense		**(8.5)**	**(3.3)**	**(0.5)**	**(12.3)**
Profit for the year		**34.9**	**14.0**	**1.9**	**50.8**
Attributable to non-controlling interest		**(0.2)**	-	-	**(0.2)**
Attributable to owners of the Company		**35.1**	**14.0**	**1.9**	**51.0**
Earnings per share					
Basic (p per share)		**6.5**	**2.6**	**0.4**	**9.5**
Diluted (p per share)		**6.5**	**2.6**	**0.4**	**9.5**

The exceptional costs in 2019 represent the cost of land which will no longer be developed net of any residual land value to be recovered of £7.2m (2018: £nil), redundancy costs of £3.8m (2018: £0.8m) and consultants' fees in relation to the strategic review of £6.3m (2018: £1.2m)

			Exceptional	Adjusted cost	
12 months to 31 August 2018	Notes	*Statutory £m*	*Exceptional items £m*	*Amortisation of brand £m*	*Underlying £m*
Operating profit		63.5	2.0	2.0	67.5
Finance income	10	0.4	-	-	0.4
Finance expense	11	(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 interests		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

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

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 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.

	14 months to 31 October 2019 £m	12 months to 31 August 2018 £m
Revenue	**725.0**	671.6
Operating profit	**48.4**	63.5
Operating profit margin	**7%**	9%
Amortisation of brand	**2.4**	2.0
Exceptional administrative expenses	**17.3**	2.0
Underlying operating profit	**68.1**	67.5
Underlying operating profit margin	**9%**	10%
Opening net assets	**763.4**	745.7
Opening goodwill	**(41.7)**	(41.7)
Opening intangible assets	**(26.1)**	(27.6)
Opening net cash	**(4.0)**	(30.7)
Opening tangible gross asset value	**691.6**	645.7
Closing net assets	**769.0**	763.4
Closing goodwill	**(41.7)**	(41.7)
Closing intangible assets	**(24.2)**	(26.1)
Closing net cash	**(24.7)**	(4.0)
Closing tangible gross asset value	**678.4**	691.6
Average tangible gross asset value	**685.0**	668.7
Underlying operating profit	**68.1**	67.5
ROCE	**10%**	10%

Auditor's remuneration

	14 months to 31 October 2019 £m	12 months to 31 August 2018 £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 (2018: £30,000). Audit related assurance services amounted to £50,000 (2018: £35,000) in respect of a review of the half year results. Other services amounted to £nil (2018: £1,600). There were no other fees payable to the Group auditor in the period.

8. Staff costs

Staff costs for the period include Directors' emoluments, which are detailed within this note:

	14 months to 31 October 2019 £m	12 months to 31 August 2018 £m
Wages and salaries	**74.9**	79.8
Social security costs	**8.6**	8.4
Other pension costs	**5.2**	4.1
Share-based payments	**1.4**	0.8
Termination payments	**1.6**	0.9
	91.7	94.0

The monthly average number of persons, including Executive Directors, employed by the Group during the year was as follows:

	2019 Number	2018 Number
Office management and staff	**844**	995
House managers	**1,401**	1,166
Construction staff	**188**	241
	2,433	2,402

At 31 October 2019 the Group employed 2,523 people (31 August 2018: 2,512).

Directors' emoluments

Amounts recognised in respect of Board Directors' emoluments:

	14 months to 31 October 2019 £m	12 months to 31 August 2018 £m
Wages and salaries	**2.5**	1.9
Social security costs	**0.3**	0.3
Share-based payments	**0.4**	-
Other pension costs[1]	**0.2**	0.2
Termination payments	**-**	0.5
	3.4	2.9

[1] Includes salary supplements in lieu of pension

The emoluments of the highest paid director was £0.9m (2018: £1.3m), including pension contributions of nil (2018: nil). The number of Directors in the Company pension plan was one (2018: one).

9. Other operating income/expenses

Other operating income	14 months to 31 October 2019 £m	12 months to 31 August 2018 £m
Other income	**15.9**	9.8
Valuation gains from investment property	**6.6**	-
Non-core business revenue	**0.3**	1.5
Part-exchange revenue	**215.3**	-
	238.1	11.3

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.

IFRS 15 was effective for the Group from 1 September 2018 and as part of this standard the Group has to comply with presentational changes to the Consolidated Statement of Comprehensive Income regarding the treatment of part-exchange properties. When the Group re-sells a part-exchange property, the income and costs associated with part-exchange properties are now required to be presented on a gross basis within 'other operating income' and 'other operating expenses'. For further information please see note 2.

Other operating expenses	14 months to 31 October 2019 £m	12 months to 31 August 2018 £m
Other expenses	**13.6**	8.4
Part-exchange expenditure	**216.9**	-
	230.5	8.4

10. Finance income

	14 months to 31 October 2019 £m	12 months to 31 August 2018 £m
Gain in fair value of shared equity receivables	**0.9**	0.3
Interest income received	**0.1**	0.1
	1.0	0.4

11. Finance expense

	14 months to 31 October 2019 £m	12 months to 31 August 2018 £m
Loan interest and overdraft fees	**3.4**	3.6
Promissory note interest and fees	**0.3**	0.1
Refinancing issue costs	**1.0**	0.6
Loss in fair value of shared equity receivables	**1.3**	1.5
	6.0	5.8

The total interest expense, determined using the effective interest method, for financial liabilities that are not classified as at fair value through profit or loss was £3.1m (2018: £3.0m).

12. Income tax expense

	Notes	**14 months to 31 October 2019 £m**	12 months to 31 August 2018 £m
Corporation tax charges			
Current period		**7.9**	11.3
Adjustments in respect of prior periods		**0.1**	-
Deferred tax charges			
Current period	21	**0.6**	0.3
Adjustments in respect of prior periods		**(0.1)**	-
		8.5	11.6

The tax charge for each period can be reconciled to the profit before tax per the Consolidated Statement of Comprehensive Income as follows:

	14 months to 31 October 2019 £m	12 months to 31 August 2018 £m
Profit before tax	**43.4**	58.1
Tax charge at the UK corporation tax rate of 19.00% (2018: 19.00%)	**8.2**	11.0
Tax effect of		
Expenses that are not deductible in determining taxable profit	**0.2**	0.3
Share options timing difference	**0.1**	0.3
Tax charge for the period	**8.5**	11.6

As at the year end date, a reduction in the rate of corporation tax to 17% from 1 April 2020 is substantively enacted. The UK deferred tax balances at 31 October 2019 have been calculated based on the expected rate at which the liability will unwind.

13. 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 14 month period ended 31 October 2019 was 537.3m for the basic and 543.9m for the diluted calculations, giving a statutory earnings per share for the 14 month period ended 31 October 2019 of 6.5p for basic and 6.5p for diluted.

	14 months to 31 October 2019	12 months to 31 August 2018
Profit attributable to owners of the Company (£m)	**35.1**	46.2
Weighted average no. of shares (m)	**537.3**	537.3
Basic earnings per share (p)	**6.5**	8.6

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 October 2019, the Company had two categories of potentially dilutive ordinary shares: 7.2m £nil cost share options under the LTIP and 2.1m 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.

	14 months to 31 October 2019	12 months to 31 August 2018
Profit used to determine diluted EPS (£m)	**35.1**	46.2
Weighted average number of shares (m)	**537.3**	537.3
Adjustments for		
Share options - LTIP (m)	**4.4**	1.3
Share options - SAYE (m)	**2.1**	-
Shares used to determine diluted EPS (m)	**543.9**	538.6
Diluted earnings per share (p)	**6.5**	8.6

14. Goodwill

	£m
Cost	
At 1 September 2017, 31 August 2018 and 31 October 2019	**41.7**
Carrying amount	
At 1 September 2017, 31 August 2018 and 31 October 2019	**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 CGU, as defined in note 3. For key assumptions in determining recoverable amounts in goodwill impairment testing, refer to note 17.

15. Intangible assets

	Brand £m	Software £m	Total £m
Cost			
At 1 September 2017	41.4	4.7	46.1
Additions	-	1.1	1.1
At 31 August 2018	41.4	5.8	47.2
Additions	-	1.4	1.4
Disposals	-	(0.2)	(0.2)
At 31 October 2019	**41.4**	**7.0**	**48.4**
Amortisation			
At 1 September 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)
Charge for the year	(2.4)	(0.8)	(3.2)
Eliminated on disposal	-	0.1	0.1
At 31 October 2019	**(21.7)**	**(2.5)**	**(24.2)**
Carrying amount			
At 31 August 2018	22.1	4.0	26.1
At 31 October 2019	**19.7**	**4.5**	**24.2**

Brand assets represent the McCarthy & Stone brand name purchased as part of the business combination in 2009. Brand assets have 9 years and 5 months of useful life remaining.

All amortisation charged is recognised in administrative expenses in the Consolidated Statement of Comprehensive Income.

16. Property, plant and equipment

	£m
Cost	
At 1 September 2017	7.8
Additions	0.8
Disposals	(2.4)
At 31 August 2018	6.2
Additions	0.4
Disposals	(2.0)
At 31 October 2019	**4.6**
Accumulated depreciation and impairment	
At 1 September 2017	(5.4)
Charge for the year	(1.1)
Eliminated on disposal	2.4
At 31 August 2018	(4.1)
Charge for the period	(1.1)
Eliminated on disposal	1.9
At 31 October 2019	**(3.3)**
Carrying amount	
At 31 August 2018	2.1
At 31 October 2019	**1.3**

17. 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, and intangible assets. The Group only has one CGU, as defined in note 3.

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 FY20-22. The cash flows for FY23 reflected investment in land and build required to deliver c.2,300 units p.a. and were extrapolated in perpetuity assuming a 3% p.a. growth for FY23 and FY24 and a 5% p.a. growth thereafter. 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 12.8% (FY18: 10.0%) 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. Volumes for FY23 and beyond were based on a flat delivery of c.2,300 units p.a.
- 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 FY19, no house price inflation has been assumed
- FRI income: this is based on the assumption that the Group will continue selling FRI during FY20-22
- 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 estimates to deliver build cost reductions as part of the strategy

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 £309.5m and there has been no impairment to goodwill and intangible assets.

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 and intangible assets 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 15.0% volume downside from May 2020. Volumes for FY23 and beyond were based on a flat delivery of c.1,700 units p.a.
- Management have applied a 7.5% downside on pricing in the London and South East division from May 2020, reflecting pressures in the market in these geographical regions and a 5.0% downside in all other regions
- Additional discount has been modelled on a rental portfolio
- Management have modelled the removal of 50% of FRI income from May 2020 given the uncertainty over the long-term sustainability of this revenue stream
- Management have assumed 5% build cost inflation on FY20 first occupations
- All build cost savings targeted as part of the strategic review have been removed from FY21 and FY22 first occupations
- Management have assumed that this scenario will be mitigated by aborting uncommitted land purchases and related build costs, ceasing bonus and dividends

This sensitivity analysis showed that no goodwill and intangible asset impairment would arise under this scenario.

No impairment charges were recorded on items of property, plant and equipment throughout the current or prior period.

18. Investment properties

	Rental £m	Other £m	Total £m
Cost			
At 1 September 2018	-	0.2	0.2
Additions	21.7	-	21.7
Revaluation	5.9	0.7	6.6
At 31 October 2019	**27.6**	**0.9**	**28.5**

The Group's investment properties consist of McCarthy & Stone properties that are held as rental apartments for capital appreciation and are held at fair value using a market based valuation. The fair value is based on an external valuation carried out by independent valuation consultants.

19. Inventories

	31 October 2019 £m	31 August 2018 £m
Land held for development	**57.6**	99.6
Sites in the course of construction	**179.6**	290.3
Finished stock	**393.9**	385.9
Part-exchange properties	**93.8**	41.7
	724.9	817.5

Days in inventory amounted to 440 days in 2019 (2018: 590 days).

Inventory days are calculated by taking period end inventory (excluding part-exchange properties) divided by cost of inventories recognised as an expense.

20. Trade and other receivables

	31 October 2019 £m	31 August 2018 £m
Trade and other receivables due in less than one year		
Trade receivables	**3.2**	11.9
Other debtors and prepayments	**9.7**	10.5
	12.9	22.4

	31 October 2019 £m	31 August 2018 £m
Trade and other receivables due in greater than one year		
Trade receivables due from an associate	**14.8**	-
Secured mortgages	**2.5**	2.8
Shared equity receivables	**22.1**	25.0
Shared ownership receivables	**3.6**	-
	43.0	27.8

Secured mortgages disclosed above are measured at amortised cost. Shared equity receivables and shared ownership 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.

Trade receivables from an associate represents balances due from Waverstone LLP and is subsequent to a fair value adjustment of £0.4m and an expected credit loss adjustment of £0.9m.

21. Deferred tax liability

The following are the major deferred tax liabilities recognised by the Group:

	Other temporary differences £m	Total £m
At 1 September 2017	(1.8)	(1.8)
Statement of Comprehensive Income charge	(0.3)	(0.3)
At 31 August 2018	(2.1)	(2.1)
Statement of Comprehensive Income charge	(0.5)	(0.5)
At 31 October 2019	**(2.6)**	**(2.6)**

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 (2018: £0.1m) in relation to capital losses carried forward of £0.3m (2018: £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.

22. Trade and other payables

	31 October 2019 £m	31 August 2018 £m
Trade payables	**23.7**	25.9
Other taxes and social security costs	**2.3**	2.1
Accrued expenses	**38.9**	58.0
Other creditors and deferred income	**29.7**	28.9
	94.6	114.9

Trade payables and accrued expenses principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases was 17 days during 2019 (2018: 18 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 purchases are made on extended payment terms.

23. Land payables

	31 October 2019 £m	31 August 2018 £m
Land payables	**34.1**	56.9

Land payables relate to payments due in respect of land which has been purchased under an unconditional contract.

24. Borrowings

Long-term borrowings	31 October 2019 £m	31 August 2018 £m
Loans (Revolving Credit Facility)	**12.0**	43.0
Unamortised issue costs	**(2.4)**	(1.6)
Promissory notes	**-**	10.0
	9.6	51.4

	Maturity	Outstanding at 31 October 2019 £m	Outstanding at 31 August 2018 £m
Revolving Credit Facility	March 2023	**12.0**	43.0

In April 2019, the Group extended the maturity date of its existing revolving credit facility from May 2021 to March 2023 with Barclays, HSBC and RBS. The nominal interest rate of this facility has increased from a 1, 3 or 6 month LIBOR + 1.6% to a 1, 3 or 6 month LIBOR + 1.7% depending on the length of the drawdown.

The RCF imposes financial covenants which test the Groups interest cover, net tangible assets, gearing and restrictions on the value of rental, shared ownership and part-exchange properties held on the balance sheet; all of which the Group is compliant with.

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, McCarthy & Stone Total Care Management Limited, McCarthy & Stone Rental Properties Limited and McCarthy & Stone Rental Properties No.2 Limited.

A reconciliation of liabilities arising from financing activities has been detailed below:

2019 £m		Cash flow	Non-cash changes		
	At 1 September 2018	Net cash flow	(Net issue) amortisation of issue costs	Issue of promissory notes	At 31 October 2019
Long-term borrowings					
Loans	43.0	(31.0)	-	-	12.0
Unamortised issue costs	(1.6)	-	(0.8)	-	(2.4)
Promissory notes	10.0	(10.0)	-	-	-
Total liabilities from financing activities	**51.4**	**(41.0)**	**(0.8)**	**-**	**9.6**

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**

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

25. Net cash

	31 October 2019 £m	31 August 2018 £m
Loans and borrowings	**9.6**	51.4
Add back unamortised issue costs	**2.4**	1.6
Cash and cash equivalents	**(36.7)**	(57.0)
Net cash	**(24.7)**	(4.0)

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).

26. 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	31 October 2019 £m	31 August 2018 £m
8p each fully paid: 537,329,434 ordinary shares (2018: 537,329,434)	**43.0**	43.0

Dividends on equity shares

The interim dividend of 1.9p (2018: 1.9p) was approved by the Board on 10 April 2019 and paid on 11 June 2019 to all ordinary shareholders on the register of members at the close of business on 3 May 2019. The ex-dividend date was 2 May 2019.
The final dividend proposed by the Board is 3.5p (2018: 3.5p) per share resulting in a total ordinary dividend for the period of 5.4p (2018: 5.4p). It will be paid on 3 April 2020 to those shareholders who are on the register at 6 March 2020 subject to approval at the Company's Annual General Meeting. The ex-dividend date is 5 March 2020. These financial statements do not reflect the final dividend payment.

The cost of the dividends on equity paid within the financial period amounted to £29.0m (2018: £29.0m). Dividends from subsidiaries paid externally from consolidated joint ventures totalled £0.3m (2018: £0.6m).

27. Acquisition of non-controlling interests

On 29 July 2019, the Group acquired the remaining 50% of the shares and voting interests in YourLife Management Services Limited ('YLMS') for a cash consideration of £1.4m. As a result, the Group's equity interest increased from 50% to 100%.

Previously, the Group had control of the business, due to its power to appoint the majority of the Directors and control over the relevant activities of the entity, and therefore consolidated the YLMS results as a subsidiary. The subsequent acquisition of shares has therefore been treated as an equity transaction.

	£m
Carrying amount of non-controlling interest acquired	1.1
Consideration paid to non-controlling interest	(1.4)
Decrease in equity attributable to owners of the Company	**(0.3)**

28. Operating lease arrangements

	14 months to 31 October 2019 £m	12 months to 31 August 2018 £m
Minimum lease payments under operating leases recognised as an expense	**4.3**	4.3

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

As a lessee:	14 months to 31 October 2019 £m	12 months to 31 August 2018 £m
Within one year	**2.5**	4.2
In the second to fifth years inclusive	**5.0**	5.5
After five years	**1.3**	1.0
Outstanding commitments for future minimum lease payments	**8.8**	10.7

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.

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

As a lessor:	14 months to 31 October 2019 £m	12 months to 31 August 2018 £m
Within one year	**1.7**	0.1
In the second to fifth years inclusive	**-**	0.1
After five years	**-**	-
Outstanding commitments for future minimum lease payments	**1.7**	0.2

29. Notes to the cash flow statement

	Notes	14 months to 31 October 2019 £m	12 months to 31 August 2018 £m
Profit for the financial period		**34.9**	46.5
Adjustments for			
Income tax expense	12	**8.5**	11.6
Amortisation of intangible assets	15	**3.2**	2.6
Share-based payments charge	32	**1.4**	0.8
Depreciation of property, plant and equipment	16	**1.1**	1.1
Finance expense	11	**6.0**	5.8
Finance income	10	**(1.0)**	(0.4)
Revaluation of inventories to investment properties	9	**(6.6)**	-
Profit from a transaction with related party	6	**(2.7)**	-
Operating cash flows before movements in working capital		**44.8**	68.0
(Increase) in trade and other receivables		**(5.8)**	(9.8)
Decrease/(increase) in inventories		**99.2**	(47.1)
(Decrease)/increase in trade and other payables		**(42.4)**	19.1
Cash generated by operations		**95.8**	30.2
Interest received		**0.1**	0.1
Interest paid		**(3.7)**	(4.0)
Income taxes paid		**(10.8)**	(11.5)
Net cash flow from operating activities		**81.4**	14.8
Cash and cash equivalents			
Cash and bank balances		**36.7**	57.0

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 movements in trade and other payables includes the movement in land payables.

30. 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 £5.2m for the 14 month period ended 31 October 2019 (12 months to 31 August 2018: £4.1m). Unpaid contributions amounted to £0.4m as at 31 October 2019 (31 August 2018: £0.4m).

31. 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	**31 October 2019 £m**	31 August 2018 £m
Financial assets		
Fair value through profit or loss		
Shared equity receivables	**22.1**	25.0
Shared ownership receivables	**3.6**	-
At amortised cost		
Cash and cash equivalents	**36.7**	57.0
Trade and other receivables	**1.1**	13.3
Secured mortgages	**2.5**	2.8
	66.0	98.1
Financial liabilities		
Trade and other payables	**55.5**	89.5
Land payables	**34.1**	56.9
Loans	**9.6**	41.4
Land-related promissory notes	**-**	10.0
	99.2	197.8

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.

31. Financial risk management continued

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, the National Finance Director and the Land and Planning Director
- The Group aims to maintain a national and product spread of developments to ensure that it is not reliant on one particular location, development or product
- The Group undertakes a weekly review of sales, reservations and incentives at divisional and Group level

The value of the Group's house price linked financial assets is sensitive to UK house prices since the amount repayable is dependent upon the market price of the property to which the asset is linked. At 31 October 2019, 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 £1.5m (2018: £1.7m) 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.

Where the Group infrequently offers deferred payment terms on bulk sales, an expected credit loss model is used to prudently apply a provision using a probability based scenario analysis. The Group recognises any further impairment gain or loss at each reporting period where the credit risk on a financial instrument has changed significantly since initial recognition.

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 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 October 2019 and 31 August 2018 are as follows:

	2019			
	Carrying value £m	**Contractual cash flows £m**	**Within 1 year £m**	**1-5 years £m**
Loans (net of borrowing costs)	**9.6**	**15.3**	**1.7**	**13.6**
Other financial liabilities carrying interest	-	-	-	-
Financial liabilities carrying no interest	**103.2**	**103.2**	**103.2**	-
Total	**112.8**	**118.5**	**104.9**	**13.6**

	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 (held at the prior year end), which attract availability and discount fees. Financial liabilities carrying no interest are trade and other payables and land payables. The timing and amount of future cash flows given in the table above is based on the period end position.

Interest rate risk management

Interest rate risk reflects the Group's exposure to fluctuations to interest rates in the market. The risk arises because the Group's RCF is subject to floating interest rates based on LIBOR.

In the 14 month period ended 31 October 2019, 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 £1.3m (12 months ended 31 August 2018: £0.7m). 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.

31. 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 and shared ownership receivables which are both measured at fair value through profit or loss using methods associated with Level 3. At 31 October 2019, the shared equity receivables were valued at £22.1m (31 August 2018: £25.0m) and the shared ownership receivables were valued at £3.6m (31 August 2018: £nil).

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, historic gains and losses on redemptions 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.

Shared equity receivables

Assumptions	2019	2018
Discount rate	**3.8 to 4.3%**	3.8 to 4.4%
New build premium	**0 to 5%**	0 to 5%
House price inflation	**0 to 6%**[1]	0 to 6%[1]
Timing of receipt	**5 to 10 yrs**	5 to 11 yrs

[1] We apply future HPI over the next five years based on industry forecasts. The 2020 HPI used in the calculation varies between 2.0-6.0% dependant on geographical location.

Sensitivity effect on value of other financial assets (less)/more	2019 Increase assumptions by 1%/1 year £m	2019 Decrease assumptions by 1%/1 year £m
Discount rate	**(1.7)**	**1.9**
New build premium	**(0.2)**	**0.2**
House price inflation	**1.6**	**(1.5)**
Timing of receipt	**(0.4)**	**0.4**

The fair value of the shared equity receivables are based on the external available data. The sensitivity effect of a 1%/1year change is representative of management's 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 subsequent fair value is credited to finance income/expense.

The following tables present the changes in Level 3 instruments for the 12 month period ended 31 August 2018 and the 14 month period ended 31 October 2019:

	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

	2019
	Shared equity receivables £m
Opening balance	**25.0**
Additions	**-**
Disposals	**(2.6)**
Revaluation gains and (losses) recognised in the statement of comprehensive income	**(0.3)**
Closing balance	**22.1**

Shared ownership

Assumptions	**2019**	2018
Discount rate	**4.3%**	n/a
New build premium	**5%**	n/a
Timing of receipt	**10 yrs**	n/a

The following tables present the changes in Level 3 instruments for the 14 month period ended 31 October 2019:

	2019
	Shared ownership receivables £m
Opening balance	**-**
Additions	**3.6**
Closing balance	**3.6**

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

32. Share-based payments

Equity-settled share-based payment plans

The Group operates 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.

TSR is not a performance condition for the FY19 LTIP.

LTIP	FY19 LTIP	FY18 LTIP	FY17 LTIP	FY16 LTIP	Total
Date of grant	**13 December 2018***	17 November 2017	21 December 2016	25 November 2015	
Options granted	**3,907,455**	1,916,777	1,933,352	1,930,524	
Fair value at measurement date** (£)	**1.39**	1.49	1.32	2.12	
Share price on date of grant (£)	**1.39**	1.65	1.56	2.32	
Exercise price (£)	-	-	-	-	
Vesting period	**3 years**	3 years	3 years	3 years	
Expected dividend yield	**n/a**	n/a	n/a	n/a	
Expected volatility	**37.90%**	40.00%	29.21%	26.07%	
Risk free interest rate	**0.77% p.a.**	0.82% p.a.	0.23% p.a.	0.80% p.a.	
Valuation model	**Black-Scholes only**	Black-Scholes and Monte Carlo	Black-Scholes and Monte Carlo	Black-Scholes and Monte Carlo	
Movements in the period:					
Options at beginning of the period	-	1,873,545	1,722,760	1,324,980	4,921,285
Granted during the period	**3,907,455**	-	-	-	3,907,455
Exercised during the period	-	-	-	-	-
Lapsed during the period	**(260,945)**	-	-	-	(260,945)
Expired in the period	-	-	-	(1,324,980)	(1,324,980)
Options at the end of the period	**3,646,510**	1,873,545	1,722,760	-	7,242,815
Exercisable at end of the period	-	-	-	-	-

**688,074 options granted on 11 April 2019 under this scheme (share price on grant date £1.29)*

***This is the average fair value for the 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 and FY19 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.

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	**13 December 2018**	**13 December 2018**	10 December 2015	10 December 2015	
Options granted	**2,126,961**	**124,269**	2,912,247	1,197,514	
Fair value at measurement date (£)	**0.40**	**0.42**	0.68	0.75	
Share price on date of grant (£)	**1.39**	**1.39**	2.34	2.34	
Exercise price (£)	**1.112**	**1.112**	1.674	1.674	
Vesting period	**3 years**	**5 years**	3 years	5 years	
Expected dividend yield	**4.00%**	**4.00%**	26.20%	28.16%	
Expected volatility	**37.90%**	**37.90%**	26.07%	26.07%	
Risk free interest rate	**0.77% p.a.**	**0.90% p.a.**	0.80% p.a.	1.20% p.a.	
Valuation model	**Black-Scholes**	**Black-Scholes**	Black-Scholes	Black-Scholes	
Movements in the period:					
Options at beginning of the period	**-**	**-**	1,292,441	697,643	1,990,084
Granted during the period	**2,126,961**	**124,269**	-	-	2,251,230
Exercised during the period	**-**	**-**	-	-	-
Lapsed during the period	**(357,649)**	**(7,013)**	-	(447,297)	(811,959)
Expired in the period	**-**	**-**	(1,292,441)	-	(1,292,441)
Options at the end of the period	**1,769,312**	**117,256**	-	250,346	2,136,914
Exercisable at end of the period	**-**	-	-	-	-

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 partnership shares each month from pre-tax pay, which are then held in trust. These shares can be sold or taken from the SIP or be left within the trust for as long as the plan remains open. All plan shares and any other assets held by the trustees will be held upon trust for the participants; there is therefore no impact to the Group's financial statements in respect of this plan.

Annual and Deferred Bonus Plan ('ABP')

The ABP incorporates the Company's executive bonus scheme as well as a mechanism for the deferral of bonus into awards over ordinary shares. The Remuneration 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 October 2019, four Executive Directors were participating in the scheme. For the 14 month period ended 31 October 2019, 100% of the bonus earned by the two COOs 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. The CEO and CFO were participating within this scheme however did not receive a bonus (2018:12 months to 31 August: £0.2m).

Total share-based payment schemes

Analysis of the income charge:	**14 months to 31 October 2019 £m**	12 months to 31 August 2018 £m
Equity-settled share-based payments		
SAYE	**0.4**	0.8
LTIP	**1.0**	-
	1.4	0.8

33. Related undertakings

The entities listed below are subsidiaries, joint ventures or associates 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	Footnote	Company number	Principal activity	2019 % of shares owned	2018 % 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 (Extra Care Living) Limited		06897363	Property investment	**100**	100
McCarthy & Stone Total Care Management Limited		06897301	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
Keyworker Properties Limited	1	04213618	Holding company	**100**	100
YourLife Management Services Limited		07153519	Development management	**100**	50
The Planning Bureau Limited	1, 2	02207050	Dormant	**100**	100
McCarthy & Stone Resales Limited	1	10716544	Property resales	**100**	100
McCarthy & Stone Rental Properties Limited	1	11771289	Property investment	**100**	n/a
McCarthy & Stone Rental Properties No.2 Limited	1	11822847	Property investment	**100**	n/a
McCarthy & Stone Rental Properties No.3 Limited	1	12143464	Property investment	**100**	n/a
Waverstone LLP		OC429156	Property investment	**49**	n/a
McCarthy & Stone Properties Limited	4	01925738	Dormant	**n/a**	100
McCarthy & Stone (Alnwick) Limited	4	07517819	Dormant	**n/a**	100
McCarthy & Stone Rental Interests No. 1 Limited	4	06897272	Dormant	**n/a**	100
McCarthy & Stone Financial Services Limited	4	07798214	Dormant	**n/a**	100
McCarthy & Stone Estates Limited	4	07165952	Dormant	**n/a**	100
Ortus Homes Limited	4	08658235	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 14 month period ended 31 October 2019

2 These subsidiaries are considered dormant for the 14 month period ended 31 October 2019 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 These subsidiaries have been dissolved during the financial period

5 These entities are joint ventures

McCarthy & Stone (Developments) Limited is directly owned by the Company. All other subsidiaries, joint ventures or associates are indirectly owned by McCarthy & Stone plc. Each of the shareholdings gives the immediate parent company 100% voting rights unless stated above. All shares are classified as 'ordinary'.

34. 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. Transactions between the Group and associates of the Group are eliminated proportionally based upon the percentage of shares owned.

During the year, the Group completed the sale of a portfolio of 113 show flats and sales offices to Waverstone LLP and subsequent leaseback for a maximum of 12 months. Waverstone LLP is an entity between Waverley Investments Limited and McCarthy & Stone Extra Care Limited, where McCarthy & Stone Extra Care Living Limited holds a non-controlling 49% equity interest and therefore has been treated as an associate in the Group financial statements. Waverstone LLP was created to facilitate the purchase, management and disposal of various assets built by the Group. Waverstone LLP has appointed McCarthy & Stone Management Services Limited a property manager and a sales agent.

The transaction resulted in an additional FY19 cash flow for the Group of c.£17m with the remaining balance of c.£16m expected to be paid over 2 years. FY19 underlying operating profit for the Group includes c.£2.7m profit from the transaction, after taking account of unrealised profit and fair value adjustments in relation to the outstanding receivable balance.

Remuneration of key management personnel

The key management personnel are the Board, key internal Directors and the Executive Committee including Non-Executive Directors. The average number of roles during the period was 18 (2018: 13).The remuneration that they have received during the period is set out below in aggregate for each of the categories specified in IAS 24 *'Related Party Disclosures'*.

	14 months to 31 October 2019 £m	12 months to 31 August 2018 £m
Wages and salaries	**4.5**	2.8
Social security costs	**0.6**	0.4
Share-based payments	**0.7**	-
Pension contributions	**0.5**	0.4
Termination payments	**-**	0.5
	6.3	4.1
Aggregate emoluments of the highest paid director	**0.9**	1.3

35. Events after the balance sheet date

There were no events after the reporting period that required disclosure or adjustment in the FY19 financial statements.

Company Statement of Financial Position

As at 31 October 2019

	Notes	31 October 2019 £m	31 August 2018 £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	**21.0**	50.0
Total current assets		**21.0**	50.0
Total assets		**460.4**	489.4
Equity and liabilities			
Capital and reserves			
Share capital	7	**43.0**	43.0
Share premium		**101.6**	101.6
Retained earnings		**308.9**	337.8
Equity attributable to owners of the Company		**453.5**	482.4
Current liabilities			
Trade and other payables	6	**6.9**	7.0
Total current liabilities		**6.9**	7.0
Total liabilities		**6.9**	7.0
Total equity and liabilities		***460.4***	489.4

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 14 month period of £1.3m (2018: loss for the 12 month period of £0.8m).

These financial statements of McCarthy & Stone plc (06622199) were approved by the Board on 27 January 2020 and signed on its behalf by:

John Tonkiss
Chief Executive Officer

Rowan Baker
Chief Financial Officer

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Company Statement of Changes in Equity

For the year ended at 31 October 2019

	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 1 September 2017	**43.0**	**101.6**	**367.4**	**512.0**
Loss for the year	-	-	(0.8)	**(0.8)**
Total comprehensive income 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**
Loss for the year	-	-	(1.3)	**(1.3)**
Total comprehensive income for the year	**-**	**-**	**(1.3)**	**(1.3)**
Transactions with owners of the Company:				
Share-based payments	-	-	1.4	**1.4**
Dividends	-	-	(29.0)	**(29.0)**
Balance at 31 October 2019	**43.0**	**101.6**	**308.9**	**453.5**

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 14 month period of £1.3m (2018: loss for the 12 month period of £0.8m).

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 32 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 'trade and other receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at amortised cost

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'trade and other 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.

Financial liabilities

Financial liabilities are classified as 'trade and other receivables'.

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 (2018: no employees). A management fee relating to time incurred by Directors for Group activities is recharged to McCarthy & Stone plc.

Notes to the Company Financial Statements

4. Investment in subsidiaries

	31 October 2019 £m	31 August 2018 £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 33 to the consolidated financial statements.

5. Trade and other receivables

	31 October 2019 £m	31 August 2018 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**21.0**	50.0
	21.0	50.0

Amounts repayable from McCarthy & Stone Retirement Lifestyles Limited are repayable on demand and carry interest of 2.2% (2018: 2.2%) at the year end date.

6. Trade and other payables

	31 October 2019 £m	31 August 2018 £m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	**6.8**	5.9
Other creditors and deferred income	**0.1**	1.1
	6.9	7.0

Amounts payable to McCarthy & Stone (Developments) Limited are repayable on demand and carry interest of 2.2% (2018: 2.2%) at the year end date.

7. Share capital

Allotted and issued ordinary shares	31 October 2019 £m	31 August 2018 £m
8p each fully paid: 537,329,434 ordinary shares (2018: 537,329,434)	**43.0**	43.0

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Dividends on equity shares

The interim dividend of 1.9p (2018: 1.9p) was approved by the Board on 10 April 2019 and paid on 11 June 2019 to all ordinary shareholders on the register of members at the close of business on 3 May 2019. The ex-dividend date was 2 May 2019.
The final dividend proposed by the Board is 3.5p (2018: 3.5p) per share resulting in a total ordinary dividend for the period of 5.4p (2018: 5.4p). It will be paid on 3 April 2020 to those shareholders who are on the register at 6 March 2020 subject to approval at the Company's Annual General Meeting. The ex-dividend date is 5 March 2020. These financial statements do not reflect the final dividend payment.

8. Financial instruments

The Company has the following financial instruments:

	31 October 2019 £m	31 August 2018 £m
Financial assets		
At amortised cost:		
Trade and other receivables	**21.0**	50.0
Cash and bank balances	**-**	-
	21.0	50.0
Financial liabilities		
At amortised cost:		
Trade and other payables	**6.9**	7.0
	6.9	7.0

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 34 to the consolidated financial statements.

Remuneration to key management personnel has been disclosed within note 34 to the consolidated financial statements.

10. Events after the balance sheet date

Events after the balance sheet date have been disclosed within note 35 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.fca.org.uk/scamsmart/warning-list** You should check the firm isn't a clone firm by asking for their firm reference number 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-financialadviser**. 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 or suffering from a live cyber attack you should contact Action Fraud on: **0300 123 2040** or report via: **www.actionfraud.police.uk/reporting-fraud-and-cyber-crime**

Historical Statistics

	FY19[1]	(unaudited) FY19[2]	FY18	FY17	FY16	FY15[3]
Legal completions[4]	**2,301**	**2,144**	2,134	2,302	2,296	1,923
Average selling price	**£308k**	**£308k**	£300k	£273k	£264k	£245k
Revenue	**£725.0m**	**£674.9m**	£671.6m	£660.9m	£635.9m	£485.7m
Profit before tax	**£43.5m**	**£61.2m**	£58.1m	£92.1m	£92.9m	£80.9m
Underlying operating profit	**£68.1m**	**£73.4m**	£67.5m	£96.2m	£107.2m	£95.3m
Underlying operating profit before tax	**£63.1m**	**£69.1m**	£62.1m	£94.1m	£105.0m	£88.4m
Shareholders' funds	**£769.0m**	**£769.0m**	£762.1m	£744.7m	£697.3m	£541.8m
ROCE	**10%**	**10%**	10%	16%	20%	20%
Tangible gross asset value	**£678.4m**	**£678.4m**	£691.6m	£645.7m	£574.1m	£513.5m
Tangible net asset value	**£703.1m**	**£703.1m**	£695.6m	£676.4m	£626.8m	£469.1m
Basic earnings per share	**6.5p**	**9.8p**	8.6p	13.8p	13.9p	13.5p[5]
Dividends for the year[6]	**5.4p**	**5.4p**	5.4p	5.4p	4.5p	nil
Number of shares in issue	**537,329,434**	**537,329,434**	537,329,434	537,329,434	537,314,069	n/a[7]
Number of shareholders	**694**	**694**	747	863	705	n/a[8]

1 The FY19 statement is for the 14 month period from 1 September 2018 to 31 October 2019

2 FY19 is the like for like 12 month period comparative to FY18 from 1 November 2018 to 31 October 2019 (unaudited)

3 The FY15 financial statements were produced prior to our Stock Exchange listing which took place on 11 November 2015

4 Excludes commercial units

5 The dividends in respect of any financial year are the interim dividend which has been paid and the final dividend which has been proposed

6 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

7 The Company's share capital at 31 August 2015 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

8 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.

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

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
Earnst & Young LLP

Contact details for our registrars, Link Asset Services:

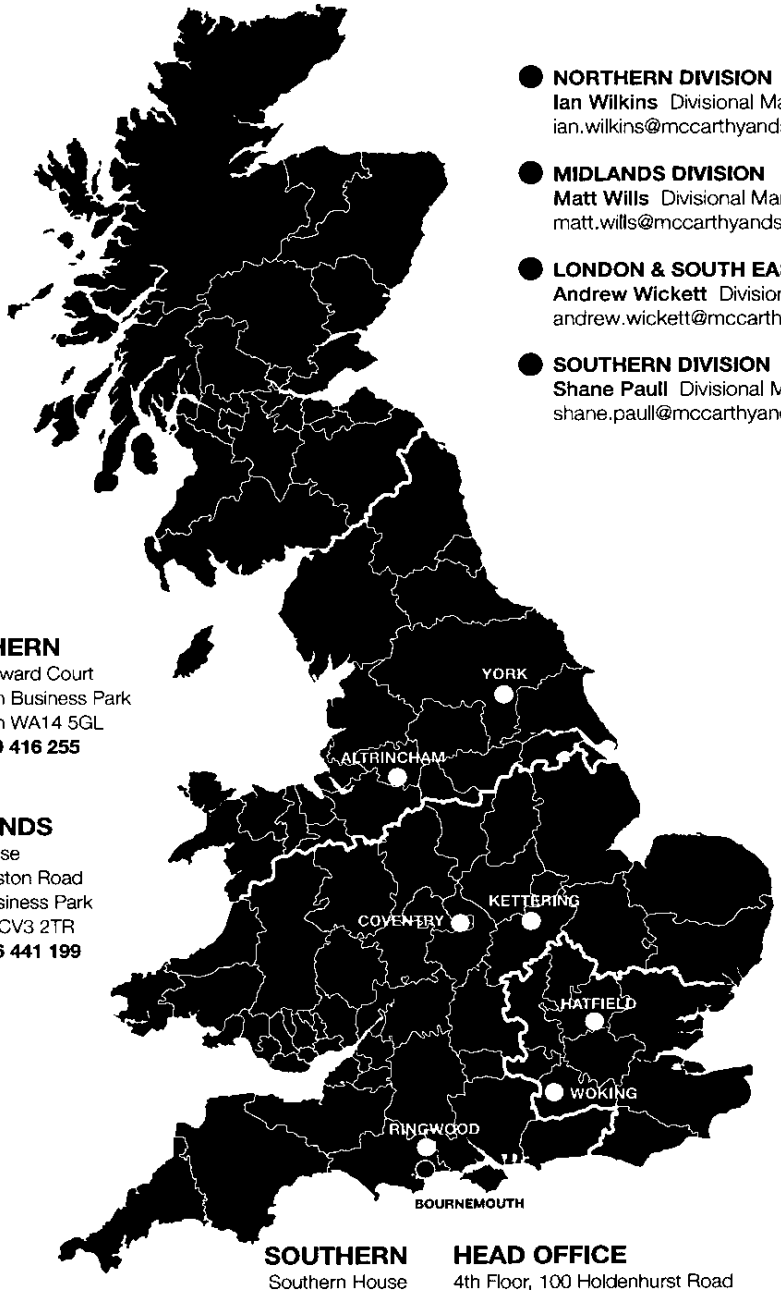
Calls from the UK: **0871 664 0300** (calls cost 12p per minute, plus any network extras; lines open Monday to Friday, 9am until 5.30pm, excluding UK public holidays).

Calls from outside the UK: **+44 371 664 0300**

Email: ***shareholderenquiries@linkgroup.co.uk***

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Contact Details



NORTHERN DIVISION
Ian Wilkins Divisional Managing Director
ian.wilkins@mccarthyandstone.co.uk

MIDLANDS DIVISION
Matt Wills Divisional Managing Director
matt.wills@mccarthyandstone.co.uk

LONDON & SOUTH EAST
Andrew Wickett Divisional Managing Director
andrew.wickett@mccarthyandstone.co.uk

SOUTHERN DIVISION
Shane Paull Divisional Managing Director
shane.paull@mccarthyandstone.co.uk

NORTHERN
Unit 3, Edward Court
Altrincham Business Park
Altrincham WA14 5GL
Tel: **01619 416 255**

MIDLANDS
Ross House
Harry Weston Road
Binley Business Park
Coventry CV3 2TR
Tel: **02476 441 199**

NORTHERN
Aspen House
Wykeham Road
Northminster Business Park
Upper Poppleton
York YO26 6QW
Tel: **01904 444 200**

MIDLANDS
Orion House, Orion Way
Kettering NN15 6PE
Tel: **01536 220 700**

LONDON & SOUTH EAST
Prospect Place
85 Great North Road
Hatfield AL9 5DA
Tel: **01707 446 000**

LONDON & SOUTH EAST
2 Genesis Business Park
Albert Drive
Woking GU21 5RW
Tel: **01483 908 600**

SOUTHERN
Southern House
1 Embankment Way
Ringwood BH24 1EU
Tel: **01425 322 000**

HEAD OFFICE
4th Floor, 100 Holdenhurst Road
Bournemouth, Dorset BH8 8AQ
Tel: **01202 292 480**

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Glossary

Acronyms

'AAA' All Advisor Average - based on the number of non-conformances reported on our sites following visits by the NHBC

'AAT' Association of Accounting Technicians

'ACCA' Association of Chartered Certified Accountants

'ASP' Average selling price - calculated as average list price less cash discounts, part-exchange top-ups and stamp duty land tax payments (FY19 only)

'B2B' Business to business - trade between McCarthy & Stone and other businesses

'BCR' Build cost reduction - the reduction in cost per square metre in the process of building a property

'BSG' Building Safety Group - a not-for-profit organisation which specialises in providing Health, Safety and Environmental advice to the construction industry

'CRM' Customer Relationship Management - a customer relationship management tool is software used to build and manage interactions with customers

'CGU' Cash generating unit - the smallest identifiable group of assets that generate cashflows

'CIL' Community Infrastructure Levy of the Community Infrastructure Levy Regulations 2010 - is a charge which can be imposed by local authorities on a new development in their area

'CIMA' Chartered Institute of Management Accountants

'CIPD' Chartered Institute of Personnel and Development - a professional association for human resource management professionals

'CMI' Chartered Management Institute - an accredited professional institution for management

'CPI' Consumer Price Index - measures the price of goods and services over time with the incorporation of inflation

'CQC' Care Quality Commission - an executive non-departmental public body of the Department of health and social care which regulates and inspects health and social care services in England

'EAC' Elderly Accommodation Counsel - a registered charity who assist elderly people to make decisions about the housing, support and care needs they require

'EPS' Earnings Per Share - profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the financial year

'FRI' Freehold Reversionary Interest - the value of 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' Financial Times Stock Exchange - a ranking list of the largest quoted companies based on market capitalisation

'HBF' Housebuilder Federation - the representative body of the home building industry in England and Wales

'HNC' Higher National Certificate - a further education qualification providing core skills and knowledge required for many professions

'HPI' House Price Inflation - the increase in the price of houses over time due to inflation

'IPO' Initial Public Offering - the first time investors can purchase company's shares on the stock market

'LIBOR' London Interbank Offered Rate - the basic rate of interest used in lending between banks on the London interbank market

'LLP' Limited Liability Partnership - a partnership between two or more entities, the liability is limited solely to the individual partners

'MHCLG' Ministry of Housing, Communities & Local Government - the UK government department for housing, communities and local Government

'MMC' Modern Methods of Construction - refers to alternatives employed by construction companies to build new properties

'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 Retirement Living PLUS developments

'NHBC' National House Building Council - the UK's leading warranty and insurance provider for UK house building for new homes

'PFI' Private Finance Initiative - the way of financing public sector projects utilising private sector expertise and finance

'PLC' Public Limited Company - a company registered under the Companies Act, with statutory minimum capital requirements and shares offered to the public subject to conditions of limited liability

'PPP' Public Private Partnership - long-term contracts where the private sector designs builds, finances and operates an infrastructure project

'PRS' Private Rented Sector - all non-owner occupied property excluding the local authorities and housing associations

'RIDDOR' Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 - This is the statutory obligation to report and record serious injuries that occur in the workplace

'ROCE' Return On Capital Employed - calculated by dividing underlying operating profit by the average of opening and closing tangible gross asset value

'RCF' Revolving Credit Facility - an arrangement between lender banks and the Group that allows the business to access funds when required

'RICS' Royal Institute of Chartered Surveyors

'RQF' Regulated Qualifications Framework - a nationally recognised framework that awards accredited qualifications for education in England, Wales and Northern Ireland

'RPI' Retail Price Index - measures the variation in the price of goods and services purchased by consumers

'SDLT' Stamp Duty Land Tax - tax payable on the acquisition of a property or land within certain bands

'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 - 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

'YLMS' YourLife Management Services Limited - a wholly owned subsidiary of MSMS, that provides management services, domestic assistance, personal care and additional support to homeowners in the Group's Retirement Living PLUS developments

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Financial KPI's

	Definition	Why we use
'Capital turn'	Calculated by dividing revenue by the average of opening and closing tangible gross asset value	Demonstrates how efficiently we are utilising our capital
'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
'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
'Earnings per share'	Earnings Per Share - profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the financial year	Earnings per share is used as a measure of performance by showing profit attributable to shareholders on a per share basis
'Gearing'	Gearing is calculated by dividing net debt by net assets	Provides a financial measure of the amount of long-term debt in the business as a proportion of the total capital employed
'Gross rental yield'	This is the rental yield on an investment before any associated costs for managing the investment are taken into account	Provides a measure of the percentage return on an investment that can be used to compare its performance to alternative investment opportunities
'Gross yield'	Rate of return on an investment before taxes and expenses are included	Provides a measure which can be used to compare different investments and the relative returns of each. This does not consider the relative risk of each investment
'Interest cover'	Calculated by dividing underlying operating profit before depreciation and intangibles amortisation by the net interest expenses (excluding revaluations) for the period	Provides an indication of how easily a business can service the interest incurred as a cost of borrowing
'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
'Net assets'	Net assets is calculated as total assets less total liabilities	A measure of liquidity which states the level of assets available to the business
'Net debt/cash'	Cash and cash equivalents less long-term and short-term borrowings (excluding unamortised debt issue costs)	A measure of the borrowings remaining if the business chose to use all of its available cash and cash equivalents to pay down the gross debt at any moment in time
'Net rental yield'	This is the rental yield on an investment after any associated operating costs for managing the investment are taken into account	Provides a measure of the percentage return on an investment that can be used to compare its performance to alternative investment opportunities
'Net yield'	Rate of return on an investment minus the operating costs	Provides a measure which can be used to compare different investments and the relative returns of each. This does not consider the relative risk of each investment
'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
'Profit before tax'	Profit before tax of the Group including share of profits from joint ventures/associations	Measures the profitability of the business after administrative expenses, other operating income and expenditure and finance costs
'Rental yield'	Rate of return from the rental income from an investment property	Provides a measure of the percentage return on an investment that can be used to compare its performance to alternative investment opportunities
'Return On Capital Employed %'	Calculated by dividing underlying operating profit by the average of opening and closing TGAV See note 7 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
'Revenue'	Represents the fair value of the consideration received from the sale of leasehold interest in retirement apartments and freehold interests in houses and bungalows, revenue from the sale of freehold reversionary interests and rental revenue	Key driver for the business. Tracks progress against strategic objectives
'TGAV'	Tangible gross asset value, calculated as TNAV less net debt/cash See note 7 to the consolidated financial statements for reconciliation	Represents total amount of physical assets owned by the Group

Please note that FY19 is a 14 month period and any comparatives are for a 12 month year ending 31 August unless otherwise stated

Glossary *continued*

Financial KPI's continued

	Definition	Why we use
'TNAV'	Tangible net asset value, calculated as net assets excluding goodwill and intangible assets	Represents total amount of physical assets owned by the Group minus liabilities
'Underlying operating profit'	Calculated by adding amortisation of brand and exceptional items to operating profit for the year See note 7 to the consolidated financial statements for reconciliation	Details profitability of our business before finance costs, tax, amortisation of brand and exceptional items. Measures the efficiency of our business operations
'Underlying operating profit margin %'	Calculated by dividing underlying operating profit for the year by revenue in percentage terms *See note 7 to the consolidated financial statements for reconciliation*	Details profitability of our business before finance costs, tax, amortisation of brand and exceptional items. Measures the efficiency of our business operations in percentage terms
'Underlying profit before tax'	Calculated as profit before tax excluding exceptional items and amortisation of brand. Provides a more accurate reflection of performance of the year	Details profitability of our business excluding exceptional items. Measures the profitability of our business operations

Non-Financial KPI's

	Definition	Why we use
'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
'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
'Customer Satisfaction'	Customer satisfaction survey of new homeowners by the NHBC. The percentage of homebuyers who would recommend McCarthy & Stone to a friend	Used as a benchmark against our peers in relation to build quality and customer satisfaction. Customer satisfaction is of the highest importance to the Group
'Customer Quality Care (CQC) score'	Public body independent inspection of health and social care standards of our management, care and wellbeing services	Important regulatory score of our compliance with the Department of Health and Social care standards used to ensure we are compliant with applicable standards
'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
'Developments under management, care and wellbeing services'	Number of developments which are managed by our in-house management, care and wellbeing services	Demonstrates the number and growth of developments that are currently being managed by our in-house management, care and wellbeing services
'First occupation'	A milestone in a cycle of our development being the date of the first resident moving into a given development	Demonstrates the efficiency of the development and build cycles of the business
'Growth of management, care and wellbeing services'	Revenue generated by the management, care and wellbeing services as a percentage of total Group revenue	Management, care and wellbeing services is fundamental to achieving our vision, purpose and strategic objectives
'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, care and wellbeing 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, care and wellbeing services
'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

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	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 in the year in terms of apartments and bungalows sold outright or on a shared ownership basis
'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	Demonstrates the number and growth of customers who are benefiting from our management, care and wellbeing services
'Sales releases'	Shows the number of new sites that have become available for reservation by the prospective customers during the year	Demonstrates the capacity, efficiency and effectiveness of our development and build cycles and effective use of our working capital
'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 acquisition function
'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 our developments
'Occupancy churn'	Percentage of homeowners who leave a McCarthy & Stone property in a given year	Provides a means to calculate how long on average a resident stays in a McCarthy & Stone property
'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 apartments
'Rented properties'	Number of properties occupied on a rental basis	Provides a comparison from one year to the next of the number of properties in the Company's rental portfolio
'Shared ownership'	Number of properties sold on a part-buy, part-rent basis	Shared ownership is part of the multi-tenure offering and strategic objective of capitalising on wider market opportunities

Other

	Definition
'Company'	McCarthy & Stone plc
'Exceptional items'	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
'Group'	McCarthy & Stone and its consolidated subsidiaries and subsidiary undertakings
'In-house part-exchange'	McCarthy & Stone may choose to acquire a property from a customer to facilitate the speed at which they are able to purchase and move into a McCarthy & Stone property
'Investment properties'	Properties held to earn rental or for capital appreciation
'Multi-tenure'	The different choices available for customers to occupy a McCarthy & Stone property
'Panelised development'	Panelised development relates to off-site manufacture of wall, floor and roof panels which are assembled on-site into three dimensional structures
'Rightsize the business'	A phrase to articulate the process by which the management of the company conduct a strategic review of the cost base associated with running the business and implement the outcome
'Rental offering'	Properties available for rental
'Rent to buy'	A rental offering with an option to purchase
'Seed investment portfolio'	An initial portfolio of McCarthy & Stone rental properties
'Section 106'	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
'Shared Ownership Offering'	Properties available on a part-buy, part-rent basis
'Specialist Retirement Housing'	Housing that is designed with features that are intended specifically to suit the retirement market
'Volumetric development'	Relates to the manufacture of three-dimensional modules in factory conditions. Modules may be delivered to site as a basic structural shell
'Yield compression'	Occurs when rental income increases or decreases at a slower rate compared to the investment property valuation

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Notes

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About this printed report

This year's McCarthy & Stone Annual Report is printed using vegetable-based inks on UPM Fine paper, which is made from FSC® certified and traceable pulp sources. It is manufactured in accordance with ISO certified standards for environmental, quality and energy management and it is BRC certified for storage and distribution. The paper is Elemental Chlorine Free* and has been awarded the European environmental award for overall environmental performance (EU Ecolabel).

Both the manufacturing mills and the printer are registered to the Environmental Management System ISO14001 and are Forest Stewardship Council© (FSC) chain-of-custody certified.

Cedar Group is FSC certified and ISO 14001 certified demonstrating that it is committed to excellence in all sectors in which it operates and improving environmental performance is integral to its strategy. Cedar Group aims to reduce at source the effect its operations have on the environment and is committed to continual improvement, prevention of pollution and compliance with any legislation or industry standards.

*Elemental Chlorine Free (ECF) is a designation for virgin paper that uses a chlorine derivative instead of elemental chlorine for whitening in the pulping process.

Designed and printed by Cedar Group: 01794 525 020

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4th Floor
100 Holdenhurst Road
Bournemouth
Dorset
BH8 8AQ

Tel: 01202 292480

Website: www.mccarthyandstonegroup.co.uk
Email: investor-relations@mccarthyandstone.co.uk

Twitter: twitter.com/mccarthystone
Facebook: facebook.com/mccarthystone