



**McCarthy & Stone**

The UK's leading retirement housebuilder



**Committed to  
enriching lives**

Annual Report and  
Accounts 2016





Lewsey Court, Tetbury

**Committed to enriching lives**

**The UK's leading retirement housebuilder**

**McCarthy & Stone is the UK's leading retirement housebuilder with a c.70%<sup>1</sup> share of the owner-occupied market.**

**We buy land, secure detailed planning consent and then build, sell and manage high-quality retirement developments. We have sold over 51,000 apartments across more than 1,100 locations since 1977.**

<sup>1</sup> Based on 3,453 registration of cross-tenure properties specifically designed for the elderly with the NHBC during calendar year 2015, of which 2,672 were registered by McCarthy & Stone.



Centenary Place, Southend-on-Sea

Front cover, clockwise from top left: The Limes (Murrayfield); Heron Place (Kidlington).

# Financial Highlights – in FY16

Underlying profit before tax (PBT)<sup>1</sup>

**£105.0m**

FY15: £88.4m

Revenue<sup>1</sup>

**+31%**

**FY16: £635.9m**

FY15: £485.7m

Legal completions

**2,299<sup>2</sup>**

FY15: 1,923

Land bank (plots)

**10,186**

FY15: 10,087

Return on capital employed

**20%**

FY15: 20%

Year end net cash<sup>1</sup>

**£52.8m**

FY15: net debt £44.4m

## Highlights

**Five Star rating for customer satisfaction from the HBF<sup>3</sup> for the 11th consecutive year, underpinning our commitment to quality and customer service.**

**Rejoined the Main Market of the London Stock Exchange following our successful Initial Public Offering (IPO) in November 2015.**

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The Limes, Murrayfield

<sup>1</sup> See pages 32–33 for details regarding KPIs.

<sup>2</sup> Includes three commercial units.

<sup>3</sup> See page 122 for glossary of terms.

# Our Business

## The UK's leading retirement housebuilder



- 1 Glasgow (Scotland)
- 2 Altrincham (North West) (New)
- 3 York (North East)
- 4 Coventry (West Midlands)
- 5 Kettering (East Midlands) (New)
- 6 Hatfield (North London)
- 7 Woking (South East)
- 8 Ringwood (Southern)
- 9 Bournemouth (Corporate Centre)
- 10 Taunton (South West) (New)

Carrick Court, Drayton

### Our values:

At McCarthy & Stone we work together to enrich the lives of our customers. We are determined to build a culture of excellence among our employees, recognising achievements and opportunities for development throughout the business.

 See pages 44-49

#### Our regional focus

In September 2015, we launched three new regions in the South West, East Midlands and North West to support our growth plans and improve our coverage of local markets. We now have nine profitable regional offices, with experienced and high-quality management teams in place.

# c.70%<sup>1</sup>

Clear market leader with c.70% share of the owner-occupied retirement market

# 51,000<sup>+</sup>

Apartments sold

# FTSE 250

Rejoined the London Stock Exchange in November 2015. Entered into the FTSE 250 in March 2016

<sup>1</sup> Based on 3,453 registrations of cross-tenure properties specifically designed for the elderly with the NHBC during calendar year 2015, of which 2,672 were registered by McCarthy & Stone.





Bewick Grange, Harrogate



## Our driving ambition is to enrich the lives of our homeowners

### Group overview

We are the UK's leading retirement housebuilder and have sold over 51,000 apartments across more than 1,100 developments since 1977.

We buy land, secure detailed planning consent and then build, sell and manage high-quality and well-located retirement developments.

Operating in a distinct sector of the UK housebuilding market, we offer owner-occupied apartments specifically designed around the needs of older customers.

### Our mission – enriching lives

Our driving ambition is to enrich the lives of our homeowners and employees. We aim to provide the very best housing and services that meet the needs of those in later life, we put our customers at the heart of everything we do.

We are pleased that this ambition has been recognised with a Five Star award for customer satisfaction in surveys undertaken with our homeowners by the Home Builders Federation (HBF) and the National House Building Council (NHBC). We are the only UK housebuilder, of any size or type, to win this award for 11 years running, each year since it was established in 2005.

Results of our Building Companionship survey undertaken in the year, in partnership with the cross-party think tank Demos, showed our homeowners have a much higher sense of companionship than the over 55s in general housing.

## Recognition and awards

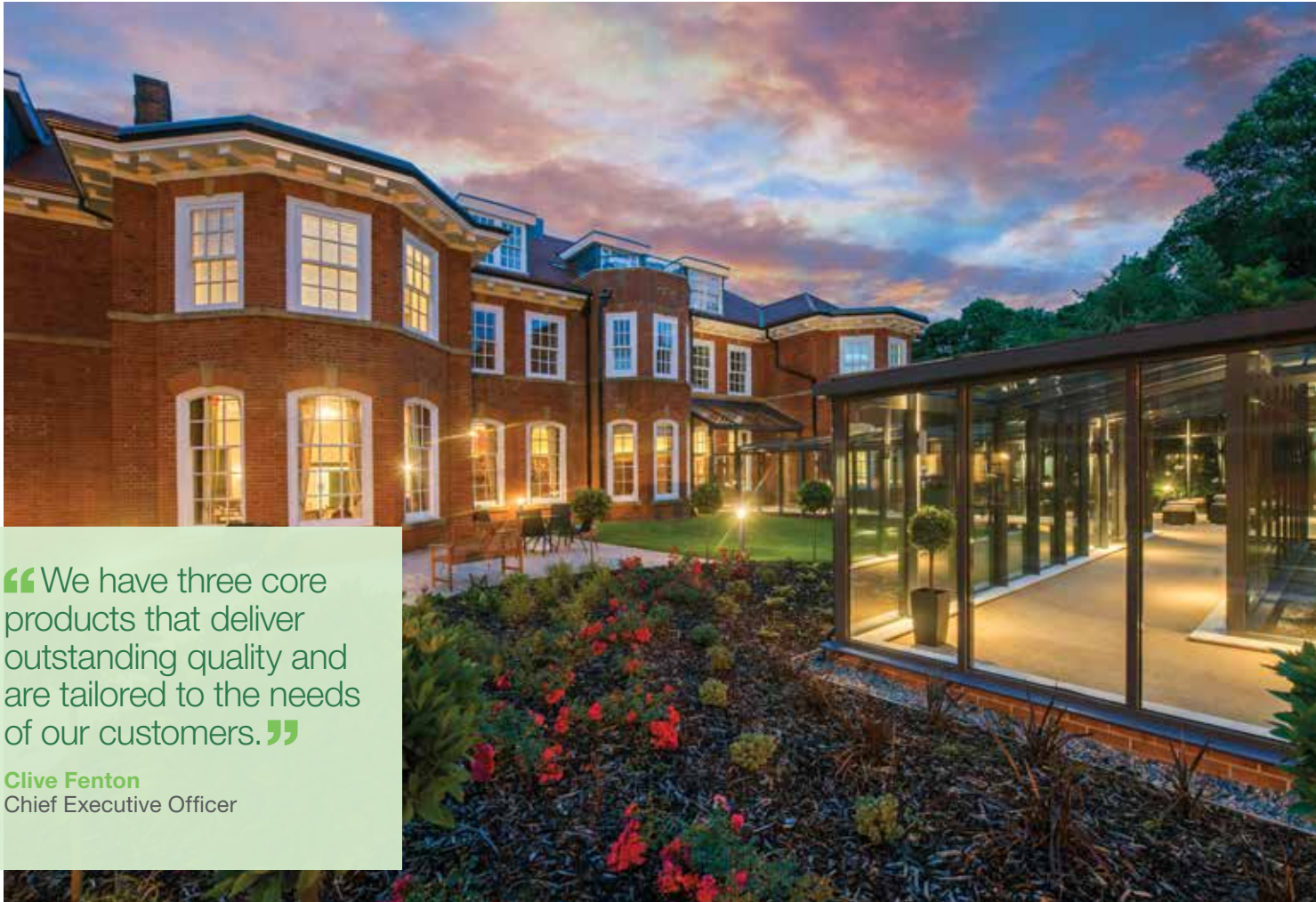


We're proud that our role in enriching lives has been recognised with a number of awards in FY16, including:

- Customer satisfaction: Five Star award for the 11th year running
- NHBC Pride in the Job: Ten site managers received Quality awards
- National Housing for Older People awards: Two developments were noted as the best examples of retirement housing. Rockhaven Court, Horwich, won Gold and Queen Elizabeth Court, Kirkby Lonsdale, won Bronze in their categories
- Housebuilder awards: Best Retirement Scheme, Scarlet Oak, Solihull
- NHBC Health & Safety awards: Five site managers received commendations (c.8% of the total awards made). Paul Gethin, our site manager in Shrewsbury, was also highly commended
- Considerate Constructors awards: Silver winner, Midhurst
- Building Safety Group (BSG): 2015 Member of the Year
- 98.7% average score achieved in FY16 against the BSG's 'generally complies' criteria
- Sunday Times Grant Thornton Top Track 2015: Named in the top 250 list of leading UK companies

## Our Business continued

# Operating in an exceptional growth market

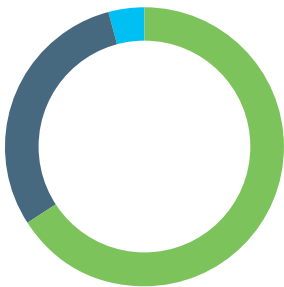


“We have three core products that deliver outstanding quality and are tailored to the needs of our customers.”

**Clive Fenton**  
Chief Executive Officer

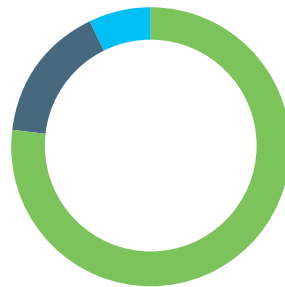
*Kenton Lodge, Gosforth*

**FY16 unit completions by product**



- 66% Retirement Living
- 30% Assisted Living
- 4% Ortus Homes

**FY16 sites released for sale by product**



- 77% Retirement Living
- 16% Assisted Living
- 7% Ortus Homes

# 74%<sup>1</sup>

Of all future household growth in England will come from those aged 65 or older

# c.50%<sup>2</sup>

Growth in number of those aged 65 and over by 2035

<sup>1</sup> The Department for Communities and Local Government (DCLG) projections (July 2016).

<sup>2</sup> ONS Population Projections (2014).

# Our core products and services



From top:  
Sanderson Court, Hagley;  
Kings Place, Fleet;  
The Pines, Alloway; and  
lunch service at Kenton Lodge, Gosforth.

## Retirement Living

### Independence with peace of mind

- Minimum age 60
- Average age at purchase 79
- Typical number of apartments per site 30–50
- FY16 completions 1,511
- Land bank 62% (6,303 units)
- Enhanced platinum specification developments also available

 See pages 12–13

## Assisted Living

### A retirement apartment you own with flexible care and support

- Minimum age 70
- Average age at purchase 83
- Typical number of apartments per site 40–60
- FY16 completions 697
- Land bank 30% (3,094 units)
- Enhanced platinum specification developments also available

 See pages 14–15

## Ortus Homes

### Downsize for the leisure years

- Minimum age 55
- Average age at purchase 73
- Typical number of apartments per site 20–40
- FY16 completions 88
- Land bank 8% (789 units)

 See pages 16–17

## Management Services

Our new developments are run by our in-house management teams who provide unique lifestyle benefits and aim to improve the lives of our homeowners. They manage all aspects of property maintenance and provide a range of care and support services.

 See pages 18–19

Our House Managers and Estate Management teams look after our homeowners and their developments, helping to provide peace of mind, security and companionship.

## Our Customers



Exceptional standards

of customer satisfaction

**The needs of our customers underpin everything we do, from the land we buy, to the developments we build and the way we manage.**

We are the only national housebuilder to build exclusively for those in later life, and this gives us an unparalleled understanding of our market.

Our customers want to retain private ownership and independence, but are also looking for a little more support, whether in terms of someone to manage the maintenance of their property or provide more hands-on care.

We provide safe, attractive, aspirational and well-located housing for homeowners that helps our customers live their later years to the full. We want them to be happier, healthier, more active, and ultimately to enrich their lives.





# 90%+<sup>1</sup>

Of our customers would recommend us to a friend

# 80

Average customer age at purchase across all developments

# 5

Average miles moved



“I’ve lived in the area for most of my life and followed the progress of the development from the beginning. I decided that it was the right time to downsize and as soon as I stepped through the door, I just knew that Lyle Court was for me – it felt right.”

**Marjorie Crawford**, who in November 2015 bought our 50,000th apartment and moved into Lyle Court, our Assisted Living development, in Edinburgh.

<sup>1</sup> Based on the HBF 2016 customer satisfaction survey.

## Chairman's Statement

# Robust growth delivered in our first year of trading as a public company

“The Group delivered record revenue, together with robust growth in completions, reservations and profits in its first year of trading as a public company.”

**John White**  
Group Non-Executive Chairman



I am pleased to present our first set of results since rejoining the London Stock Exchange in November 2015. The Group delivered record revenue, together with robust growth in completions, reservations and profits, in its first year of trading as a public company and continues to capitalise on the attractive demographic opportunity and structural shortage of supply of retirement housing in the UK. Revenue increased by 31% to a record £635.9m (FY15: £485.7m) and legal completions are now at their highest level for nine years.

### Market conditions

Market conditions were favourable for the first nine months of the year and during this period we achieved strong growth in our reservations. However, as previously indicated, there was evidence of some weakness in the secondary housing market immediately following the EU Referendum result. Our strong balance sheet and experienced management team enabled us to show considerable flexibility and resilience in response to these market developments – we acted quickly to close out completion chains and adopted a more measured approach with respect to land investment. This, together with the net proceeds from the IPO of £78.5m, enabled us to improve significantly our cash position year-on-year to £52.8m of net cash (FY15: £44.4m net debt) and maximise cash available for reinvestment, demonstrating that we are able to respond quickly and flexibly to preserve our financial strength when external market conditions require.

Since the year end, we have experienced a return to more normal trading conditions. Our reservation rates, visitor numbers and sales leads from new enquiries have all been running at levels in excess of last year and our forward order book<sup>1</sup> including legal completions is now ahead of the prior year and stands at c.£250m at 12 November 2016 (FY15: £241m) assisted by three additional sales releases (FY16: 13, FY15: ten).

The investment made in our three new regions and additional operational

infrastructure to create the platform for delivering our strategic growth plan is now showing benefit, with all nine regions delivering profit this year. In addition, our continuing focus on our three strategic initiatives has allowed us to deliver further improvement in our capital turn to 1.2x (FY15: 1.0x).

We have been encouraged by a recent indication from the Government that they are beginning to look beyond the first time buyer when considering their policy options, with housing for older people identified as the only ‘critical’ housing need in the Government’s 2015 National Planning Practice Guidance. Retirement housing improves well-being, releases under-occupied and much-needed family-sized homes and is highly sustainable. The provision of apartments specifically designed to meet the needs of the retirement market is an essential part of the UK housing output and the housing needs of this age group should now become a priority for Government.

We believe that there are a number of policy options available to the Government to encourage and assist those wishing to move to more suitable retirement housing. On 21 October, we wrote to the Chancellor of the Exchequer to request that he considers a reduction in Stamp Duty for homeowners looking to downsize. We firmly believe this would be a highly effective incentive that would help people to move, provide a much-needed stimulus to the wider housing market by freeing up large family-sized homes for those lower down the housing chain, and could result in a net revenue increase for the Treasury of some £740m per year through increased Stamp Duty receipts from the additional housing chains created as a result.

<sup>1</sup> Forward order book includes legal completions between 1 September 2016 and 12 November 2016 and reservations as at 12 November 2016. Forward order book as at 31 August 2016 included revenue after cash discounts, PX top-ups and other incentives. Forward order book as at 12 November 2016 included revenue after cash discounts and PX top-ups. Other incentives amounted to £5m (FY15: £3m).

### Dividend

The Directors are proposing a final dividend of 3.5 pence per share in accordance with previous guidance. This follows the (pro-rata) interim dividend of 1.0 pence per share, giving a total dividend for the year of 4.5 pence. This remains in line with our dividend policy as stated at the time of our IPO, which targets a pay-out of c.30% of profit after tax excluding certain exceptional items.

### Board and executive team

We experienced some natural Board evolution this year as a result of our IPO. In November 2015, our National Operations Director, John Tonkiss was appointed to the Board. John joined McCarthy & Stone in February 2014 and has been instrumental in driving our key strategic initiatives within our core processes and continues to oversee this work at Board level. His previous experience includes a number of years as Chief Operating Officer at Unite plc, the UK's leading student housing provider.

Prior to the Group's IPO in November 2015, Nils Albert resigned from his role as a Nominee Director on the Board, representing the Group's then largest shareholder.

We will shortly see the departure of Nick Maddock, our Chief Financial Officer, whose resignation will take effect in Q1 of the 2017 calendar year. We are extremely grateful to Nick for his significant contribution to the Board over the past five years. He has played an important role in recapitalising the Group, delivering our growth strategy and preparing us for our successful return to the Main Market of the London Stock Exchange in November 2015. The process to appoint Nick's successor is now under way and a further announcement on this will be made in due course.

In addition to this, there was a further change within our executive leadership team, which we announced on 4 July



Kings Place, Fleet

2016. Mike Jennings, Operations Director South, left McCarthy & Stone on 31 August after 19 years with the Group. Mike's duties as an Operations Director transferred to John Tonkiss from 1 September 2016, with his other responsibilities being spread across other existing members of the executive leadership team.

McCarthy & Stone has a strong platform in place to deliver its planned growth. We have an experienced management team and the necessary operational capability, a high-quality land bank with attractive margins, a strong balance sheet and continued strength of brand to support the achievement of our medium-term strategic objective of building and selling more than 3,000 units per annum.

The market for retirement housing remains highly attractive. With research by the Department for Communities and Local Government (DCLG) now recognising that around 74% of household growth in the UK to 2039 is expected to come from those aged 65 and over<sup>2</sup>, McCarthy & Stone remains uniquely placed to capitalise on this unprecedented demographic opportunity in which demand continues to exceed supply. The Group has made

# £635.9m

Revenue FY15: £485.7m

# +31%

Revenue

great progress towards achieving its strategic objective this year and my thanks go to all employees, the management team and my fellow Board members for the significant contribution they have made.

**John White**  
Group Non-Executive Chairman  
14 November 2016

<sup>2</sup> The Department for Communities and Local Government (DCLG) projections (July 2016).

# Our Portfolio

*Oakfield Court, Urmston*

○ Currently selling

**National scale**

**meeting local needs**



*Hillborough House, Bexhill-on-Sea*

We are the UK's leading retirement housebuilder, with a nationwide operation. Over the past 12 months, three new regional offices have been established, bringing our total to nine. We enjoy close links with the local communities in which we operate and have in-depth experience and understanding of local housing needs and planning requirements.

Examples of our current portfolio:



### Kingswood Court, Sidcup, London

- Retirement Living
- 49 apartments
- Opened February 2016
- 100% reserved off-plan



### Bewick Grange, Harrogate, Yorkshire

- Ortus Homes
- 33 apartments
- Opened October 2015
- 85% reserved off-plan



### Blyton House, Bourne End, Buckinghamshire

- Retirement Living (Platinum)
- 25 apartments
- Opened July 2016
- 100% reserved off-plan



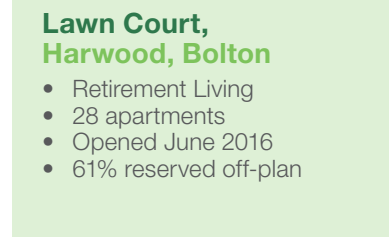
### Wykeham Court, Wickham, Hampshire

- Retirement Living (Platinum)
- 31 apartments
- Opened January 2016
- 58% reserved off-plan



### Bluebell Court, Tettenhall, Wolverhampton

- Retirement Living
- 22 apartments
- Opened November 2015
- 73% reserved off-plan



### Lawn Court, Harwood, Bolton

- Retirement Living
- 28 apartments
- Opened June 2016
- 61% reserved off-plan



### Wardington Court, Northampton

- Assisted Living
- 56 apartments
- Opened May 2016
- 61% reserved off-plan



### The Sycamores, Kinross, Scotland

- Retirement Living
- 33 apartments
- Opened February 2016
- 58% reserved off-plan



### William Page Court, Staple Hill, Bristol

- Retirement Living
- 43 apartments
- Opened June 2016
- 63% reserved off-plan

# Our Products

## Retirement Living

Independence with  
peace of mind



*Heron Place, Kidlington*

**Retirement Living provides high-quality owner-occupied apartments exclusively for those aged 60 and above, offering homeowners independence with peace of mind.**

Apartments typically feature one or two bedrooms, spacious lounges, fitted kitchens, lifts to all floors, level access, extra storage, en-suite bathrooms and



*Heron Place, Kidlington*

# 49

New Retirement Living developments sales released in FY16

# 1,511

Units sold in FY16

# 62%

Of land bank

often private outside space in the form of balconies, terraces or patios. To cater for the needs of our homeowners, ovens and plug sockets are raised to waist height and bathrooms are equipped with slip-resistant flooring and lever taps for easier operation.

Apartments have a camera door entry system and a 24-hour emergency call system with an emergency pendant alarm system. Developments also feature a large amount of communal space, including a shared lounge, guest suites to accommodate visiting family and friends, and landscaped grounds.

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

Since January 2015, the Group has also provided Platinum Retirement Living developments in a select number of locations throughout the UK. These can include enhanced internal and external specifications, such as an exclusive club lounge.

# Our Products



## Assisted Living

**A retirement apartment you own  
with flexible care and support**



*Liberty House, Raynes Park*

**Assisted Living is designed exclusively for customers aged 70 and over, offering a retirement apartment with management services, domestic assistance, personal care and additional support.**

It is an attractive alternative for people seeking support, or the option of seeking further support, but who wish to retain independent home ownership and





*Liberty House, Raynes Park*

# 10

New Assisted Living developments sales released in FY16

# 697

Units sold in FY16

# 30%

Of land bank

are not yet ready to move into residential care. The Group is the only national housing provider offering an Assisted Living product with these characteristics.

Developments are similar to Retirement Living but have a number of additional features. They have been designed to increase accessibility and ease of living for the later years. Facilities typically include a full table-service restaurant with meals prepared freshly on-site, a function room and secure mobility scooter store room.

Our Estate Management team is on-site 24 hours a day, 365 days a year, and each development has a dedicated Estate Manager who manages the development.

Since January 2015, the Group has also provided Platinum Assisted Living developments in a select number of desirable locations throughout the UK where premium pricing can be achieved. These offer enhanced internal and external specifications.

# Our Products



## Ortus Homes

Downsize for the leisure years

**Ortus Homes is our newest product for customers aged 55 and over looking to downsize for their leisure years.**

We launched Ortus Homes in October 2014 to expand our product range and capture a wider share of the market by appealing to more active retirees.

Ortus Homes is designed for people looking to downsize into high-quality, well-located and low-maintenance apartments. Developments typically have fewer, but larger, apartments than our other core products, with



Shore House, Swanage

Shore House, Swanage

5

New Ortus Homes developments sales released in FY16

88

Units sold in FY16

8%

Of land bank



Continued product innovation

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higher car parking ratios. They are intelligently and attractively designed to future-proof later living.

Features are incorporated discreetly to achieve an ageless design and developments typically feature an enhanced lobby area and an open-plan feel. Each apartment has a fully fitted kitchen and master bedroom with an en-suite bathroom and walk-in wardrobe.

As homeowners tend to be more independent, Ortus Homes developments have a visiting manager who is on call and regularly on-site.

This service is provided by our in-house management services company. As age exclusivity is less of a focus, these developments emphasise security and lifestyle, as well as privacy and personal space.

Our first Ortus Homes development at Scarlet Oak in Solihull won the Best Retirement Scheme at the annual Housebuilder Awards in November 2015.

# Our Products



## Management Services

Ongoing support for our customers



**Our in-house management services team provides homeowners with peace of mind that we will look after them and their properties over the long term. It is a key part of how we seek to enrich our customers' lives.**

# 264

Total number of managed developments

200 Retirement Living  
55 Assisted Living  
9 Ortus Homes

# 11,072

Total number of apartments

7,755 Retirement Living  
3,130 Assisted Living  
187 Ortus Homes

# 12,000+

Over 12,000 homeowners as at 31 August 2016

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

McCarthy & Stone Management Services (MSMS) provides management services in the Group's Retirement Living and Ortus Homes developments. Each Retirement Living development typically has a dedicated House Manager on-site five days a week during working hours managing the day-to-day running of

the development while also helping to facilitate various social activities. Each Ortus Homes development has a visiting manager who is in charge of all aspects of property maintenance.

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

### Within Assisted Living developments:

- c.12,300 hours of domestic assistance provided per month
- c.8,400 hours of care and additional support provided per month
- c.43,200 meals for homeowners provided per month

# Business Model

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

## Our customers

A distinct and growing customer base

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

## Design

Apartments specifically designed around the needs of older customers



## Land and planning

A tailored approach to land and planning



## Build

Repeatable build processes



## Sales and marketing

Marketing proposition and sales approach tailored to our customers



## Management

A specialised management services offering



Higher density than traditional housebuilding  
 Developments built to Lifetime Homes Standards or above, for lasting quality  
 Solely apartments with an average of 41 units per development  
 Lower parking ratios due to lower car ownership, given the average age of our homeowners and the central location of our properties  
 Ongoing innovation with apartment types and designs to address the changing needs and aspirations of our customers

Sites are well located within towns and cities, and are typically 0.5 to 3.0 acres in size  
 Less competition for our sites from traditional housebuilders, who tend to be interested in larger, usually greenfield, locations  
 Limited on-site affordable housing requirements and mitigated impact of Section 106 and Community Infrastructure Levy payments  
 Experienced, specialist in-house planning team  
 Optimisation of development density through reduced on-site parking and amenity space requirements

Majority of materials purchased using national framework agreements, leveraging the Group's nationwide buying power  
 Standard designs and short build cycles give the Group good visibility over build costs and allow favourable terms with suppliers and contractors to be negotiated  
 39 years' experience in designing and building apartments in a way to increase accessibility and ease of living for the later years

High-quality product which captures a significant new build premium  
 Homeowners buy their apartment plus access to shared areas, management and support services, delivering unique lifestyle benefits  
 Priced to attract older people wishing to downsize and release equity  
 Experienced sales and marketing teams who understand how to sell to this customer base

MSMS, a subsidiary company, delivers management services in new Retirement Living and Ortus Homes developments  
 A flexible personal care and support service in Assisted Living developments is provided by YLMS, which is owned 50/50 by MSMS and Somerset Care Group, a large and experienced not-for-profit care provider

# Chief Executive's Review

## Operational review

### Our strategy



Increased investment



Sales growth



Continued product innovation



Operational efficiency



Focus on performance

 **Our Strategy**  
See pages 30–31

### Our results

The Group has delivered strong growth in its first year since rejoining the Main Market of the London Stock Exchange. Revenues increased by 31% to a record £635.9m (FY15: £485.7m) driven by an increase in legal completion volumes to 2,299 (FY15: 1,923) and an increase in net average selling price. This led to a robust increase in our underlying pre-tax profits of 19% to £105.0m (FY15: £88.4m). Under our experienced management team, our legal completions have now increased by more than 50% since 2013 and we have made significant progress towards delivering our medium-term objective of doubling the size of the business by building and selling more than 3,000 units per annum.

We opened 64 new sales outlets during the year (FY15: 51), which contributed to a year-on-year increase of 10% in our net reservations. This enabled us to deliver a 20% increase in legal completions to 2,299 (FY15: 1,923).

Our net average selling price increased by 8% to £259k during the year (FY15: £239k), reflecting further improvement in the quality and location of the developments we are now bringing to market, together with a small element of house price inflation. We saw modest house price inflation for the first nine months of the year, together with continuing discipline around incentives, which ensured that they remained at a similar overall level to last year despite the additional help we provided to our customers in July and August in order to close out completion chains following the EU Referendum.

In addition to our financial and operational progress, we also successfully rejoined the Main Market of the London Stock Exchange in November 2015. This took a huge amount of preparation, energy and focus from all involved and I am very proud to have led the Group through this significant milestone. With the appropriate capital structure now in place, we have the opportunity to focus on our operational performance and delivery of our planned growth over the medium and long term.

### Investment and growth strategy

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

### Market demand

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

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

### Outlook and current trading

The Group delivered strong growth this year notwithstanding some impact from the economic and political uncertainty following the EU Referendum result in June. We experienced some weakness in the secondary housing market in July and August and, whilst we continued







### Rejoining the Stock Exchange

We were delighted to rejoin the Main Market of the London Stock Exchange following our successful IPO in November 2015. The public listing has helped us to put in place a long-term, sustainable and stable ownership structure and allowed a number of investors, as well as our employees, to take a stake in our business and share in the benefits of our success. We were also pleased to be readmitted to the FTSE 250 following its quarterly review in March 2016.

to take new reservations, these were at a lower level than we saw in the first nine months of the financial year and with a higher level of cancellations. This led to the Group carrying a forward order book<sup>1</sup> of c.£114m into the new financial year, which was lower than the previous financial year (FY15: £131m). However, over the first ten weeks of the new financial year, reservations have been stronger and cancellation rates have returned to more normal levels. Sales leads from new enquiries have increased and first time visitors to our developments have also been ahead of the prior year. We have seen a 13% improvement in our weekly net reservation rate since 1 September compared to the same period last year, assisted by three additional sales releases (FY16: 13, FY15: ten). Consequently, the Group's forward order book<sup>1</sup> including legal completions since 1 September is now ahead of the prior year and stands at c.£250m as at 12 November 2016 (FY15: £241m).

This provides continued evidence of improving customer sentiment and a return to normal trading conditions. We will continue to monitor market conditions and consumer confidence closely as negotiations between the UK Government and the EU progress.

While there will be some impact on our growth in 2017, particularly in H1, primarily resulting from a lower forward order book brought into the year following the EU Referendum and a more measured approach to land negotiation, we have seen evidence of improved customer sentiment and a return to normal trading conditions. With the necessary operational infrastructure and quality land bank in place, our confidence in achieving our medium-term objective of building and selling 3,000 units per annum remains unchanged.

#### Land bank

In total, c.£500m was invested in land and build during the period. We added a further 65 high-quality sites with attractive embedded margins into the land bank (FY15: 90), equivalent to c.2,614 additional plots (FY15: 3,520), with terms agreed on a further c.1,700 plots (FY15: c.486 plots).

At the year end, our land bank stood at 10,186 plots, equivalent to 4.4 years' supply, of which 2.5 years had detailed planning consent. As a result, the Group now has sufficient land under control to deliver all targeted sales to FY19.

We delivered 60 detailed planning consents (FY15: 56) and started build on 42 additional sites (FY15: 70). We now have sufficient detailed planning consents in place to deliver all targeted sales to FY18 and continue to make progress towards the target of £2.5bn investment in land and build over the four financial years to FY19.

The market for land remains remarkably benign and competition for our typical brownfield sites remains highly fragmented. As a result of this, we were able to increase our minimum hurdle rates for land purchases during the year in order to maintain operational focus and discipline and maximise our potential returns. All of our land investment, regardless of product or location, is assessed against the same hurdle rates and is required to be approved by our Group Investment Committee, ensuring a disciplined approach to investment. In light of the

<sup>1</sup> Forward order book includes legal completions between 1 September 2016 and 12 November 2016 and reservations as at 12 November 2016. Forward order book as at 31 August 2016 included revenue after cash discounts, PX top-ups and other incentives. Forward order book as at 12 November 2016 included revenue after cash discounts and PX top-ups. Other incentives amounted to £5m (FY15: £3m).

## Chief Executive's Review *continued*

recent economic uncertainty, we have been more measured in our approach to land investment but we continue to acquire sites in good locations at attractive margins to ensure that we can support future growth.

### Operational infrastructure and capability

To support this increased investment and the roll-out of our land bank, we now have a total of nine regional offices, three of which opened at the start of the financial year and one during the previous financial year. Our North London region, which was the first of our new regions to be established in FY15, took occupations at eight developments this year and had an extremely successful year for sales. This region is now selling from ten sites and has a further 31 sites at various stages of its development pipeline.

In addition, our newer regional offices established on 1 September 2015, in the South West, East Midlands and North West, are now fully operational. They have high-calibre senior management teams in place, combining McCarthy & Stone experience with volume mainstream housebuilder operational expertise. The establishment of these new regional offices has been accelerated by the roll-out of standard processes and systems and the transfer of workflow from existing regional offices. During the year, these three regional offices acquired 21 new development sites (881 plots), with terms agreed on a further nine sites (372 plots). The establishment of these new regional offices completes the platform required to deliver our planned operational growth to build and sell more than 3,000 units per annum.

### Strategic initiatives

Our continued focus on achieving operational excellence by accelerating our working capital cycle has allowed us to deliver further improvement in our capital turn which now stands at 1.2x for the year ended 31 August 2016 (FY15: 1.0x). In achieving this, we have put significant management effort

into our three key strategic initiatives: improving sales rates, reducing time taken between securing land and starting build and implementing build programme efficiencies.

### Sales initiative

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

In order to support the sales force and enable them to achieve these targets, new sales toolkits have been implemented within all regions. We have also developed a clearer definition of our best customer prospects to assist the focus of local marketing, introduced a partnership with a third-party contact centre and launched a new online visitor booking system to provide a more consistent customer experience.

We have successfully delivered our strategic target for off-plan reservations this year, with 50% reserved off-plan from the 69 sites that first occupied in FY16. A number of sites achieved significantly more than this, for example Bourne End and Sidcup which both sold 100% off-plan. A further nine sites sold more than 80% of apartments off-plan. It is particularly pleasing that we have been able to achieve these accelerated sales rates while improving pricing.



*Broadfield Court, Prestwich*





In addition to this, we have also made good progress towards our target of selling out all developments within a 12-month period and achieved a significant reduction in the average number of months taken to sell out our developments this year. This average now stands at 18 months for all sites sold out during FY16.

#### Development initiative

Our development initiative, also launched in FY15, aims to reduce the time taken between securing land and build start. This has involved the implementation of a number of process improvements with particular focus on the planning process and increased standardisation. This is enabling the business to bring forward profitable developments,

accelerate its growth plans and improve its capital turn. The initiative has now been fully rolled out across all regions and is beginning to produce results.

Our target for reducing the time taken between securing land and starting build is 16 months for standard sites achieving a first-time detailed planning consent. In FY15, we took an average of c.23 months to complete this process and we have been working hard to improve this. During FY16, we improved this overall average to c.19 months<sup>2</sup> and, for the 15 out of our 42 build starts which were developed fully under this initiative from the outset, I am pleased to report that our average development time across these sites has beaten our strategic target of 16 months. In addition to this

achievement, we have implemented a new information management system that allows us to achieve greater consistency across product specifications and standards. This enables our teams and partners to work more effectively together throughout the development's life cycle and provides technical assurance and compliance. We are also extending the use of 3D modelling to streamline the development process further and improve the accuracy of build cost estimates.

#### Build initiative

The build initiative, launched in FY15, has driven improvements to the build process to accelerate build timescales, reduce build costs, enhance margins and mitigate the impact of build cost inflation. This includes the roll-out of a new framework of critical controls designed to ensure that we maintain a robust, risk-based approach to managing build programmes and budgets. The initiative is also targeting margin improvements through improved procurement, a more structured approach to supplier partnership and value engineering of individual developments.

This initiative has delivered a c.3-week time saving from build start to first occupation and has identified savings to the value of £3.3m in relation to materials used, including more than double the amount of rebates collected in the prior year. An additional c.£12m of cost reductions have also been identified which are expected to benefit the Group over the next four years.

<sup>2</sup> Excluding sites put on hold for either commercial or complex planning reasons (FY15: seven sites, FY16: six sites).

# Chief Executive's Review continued

## Our product ranges

Our two primary product ranges, Retirement Living and Assisted Living, are well established and continue to be our core focus. We are also progressing well with our third product, Ortus Homes, which we launched in late 2014. This newer product is exclusively for the over 55s and those in the earlier stages of retirement who are seeking to downsize for their leisure years. We now have a total of 36 Ortus Homes developments in the pipeline, representing approximately 8% of our land bank sites. This product is expected to generate completions over the medium-term at comparable margins to those generated from our established Retirement Living and Assisted Living product ranges.

This new range presents an exciting opportunity for the future, helping us to capture a wider share of the active retiree market for whom the traditional concept of retirement housing has not been appropriate. Our first Ortus Homes development, at Scarlet Oak in Solihull, reserved out within a year of opening and also won the Best Retirement Scheme at the annual Housebuilder Awards in November 2015. In addition, we were pleased that Ramsay Grange and Lyle Court, our combined Assisted Living and Ortus Homes development in Barnton, Edinburgh, was also voted Best Retirement Scheme at the same awards in November 2016.

Our management services business continued its rapid growth, adding 68 new developments to its portfolio, which now includes 264 managed developments. Providing our own management services allows us to establish a unique relationship with our customers, providing personal and efficient services that not only help them, but also support the point of sale, and allow us to deliver industry-leading standards of customer satisfaction.

## Our customers

I am pleased to report that we have, once again, achieved the full Five Star rating in the HBF customer satisfaction survey this year. This marks the 11th consecutive year in which more than 90% of our customers have said that they would be prepared to recommend us to a friend. We are the only housebuilder of any size or type to win this award every year since it was introduced in 2005 and we are one of only three major housebuilders to have retained the top rating this year. This sustained recognition by our customers of the quality of product we deliver is a strong endorsement of our continued desire to design, build, sell and manage the very best retirement developments. In this regard, we were pleased to win a further award at the annual Housebuilder Awards in November 2016, where we picked up Best Customer Satisfaction Initiative for our approach to ensuring that we deliver a five-star service for our homeowners.

## Our employees

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

During FY16, ten of the Group's site managers were awarded NHBC Pride in the Job Awards. These awards are amongst the industry's most prestigious awards and are an excellent reflection of the quality of our construction staff.

Our recent Admission to the Main Market of the London Stock Exchange has provided an opportunity to enable our employees to share in our medium-term success through the introduction of employee share plans. We have introduced a long-term incentive plan for Executive Directors and 61 senior managers and an all-employee save as you earn (SAYE) scheme and share incentive plan (SIP). We were delighted by the initial 64% of payroll employees who took up the SAYE scheme launched in December 2015, providing a powerful confirmation of the commitment and dedication of our staff to the future success of McCarthy & Stone.

## Health and safety

I am pleased to report that we have continued to make good progress with developing a culture of excellence in health and safety across the Group. Our vision is not just to achieve health and safety compliance but to lead our sector with a robust and consistent safety culture across our organisation. Our internal monitoring regime is supported by a rigorous, independent site inspection programme including regular reporting updates to the Board.

During FY16, we received five NHBC health and safety commendations, with one site going on to receive a highly commended award.

## Strategic delivery

We have started the new financial year with a high-quality land bank, a strengthening forward order book, a strong net cash position and an experienced management team in place. We also have the necessary regional infrastructure and strength of brand that ensures that we are uniquely placed to capitalise on the significant demographic opportunity available to us. We remain on track to deliver our medium-term strategic objective of building and selling more than 3,000 units per annum.

**Clive Fenton**  
Group Chief Executive Officer  
14 November 2016

# Investment Case

## An experienced housebuilder with clear differentiation

We are in an unparalleled position to provide investors with access to a rapidly growing demographic and a company with unique competitive strengths.

### We are the UK's leading retirement housebuilder

- Largest developer of privately-owned retirement property in the UK with a c.70% market share<sup>1</sup>
- Only retirement housebuilder with coverage in all UK mainland regions
- Experienced management team with deep sector and financial expertise
- Awarded Five Star customer satisfaction rating for a record 11 consecutive years

### We operate in an exceptional growth market with positive demographics

- Customer base is the fastest growing demographic in the UK
- Almost one in four of those aged 65 or over are keen to move to purpose-built retirement properties<sup>2</sup>
- Structural undersupply of retirement housing, set within the context of considerable undersupply of general housing in the UK
- Almost three-quarters of all household growth to 2039 will come from over 65s<sup>3</sup>

See 'Our Market' pages 28–29

### We have a distinct business model

- Focus entirely on retirement housing, a high-margin business with distinct low-risk characteristics
- Differentiated business processes with competitive advantages in an industry marked by barriers to entry
- Tailored business model that targets different sites from mainstream housebuilders
- Over 39 years, the Group has sold over 51,000 apartments

See 'Business Model' pages 20–21

### We have a strong financial position and high-quality land bank

- Strong financial track record with robust balance sheet
- All planning consents in place to deliver targeted sales to FY18
- Enough land under control to be a 3,000 unit per annum business
- Robust margins and identified operational efficiencies to deliver improved return on capital employed (ROCE) over the medium-term

See 'Operating Review' pages 34–37

1 Based on 3,453 registrations of cross-tenure properties specifically designed for the elderly with the NHBC during calendar year 2015, of which 2,672 were registered by McCarthy & Stone.  
 2 YouGov Research for McCarthy & Stone in June 2015, published in Retirement Confidence Index (2016).  
 3 The Department for Communities and Local Government (DCLG) projections (July 2016).

### Our market positioning



## McCarthy & Stone



## Our Market

# A pressing need for more retirement housing

The rate of demographic change presents an unprecedented opportunity to increase the supply of retirement housing in the UK.

### Projected UK population of over 65s (m)<sup>1</sup>



### Projected UK population of over 85s (m)<sup>1</sup>



Residents at Hillborough House, Bexhill-on-Sea

The UK's population is ageing rapidly. Those aged 85 or over are expected to double between 2015 and 2035, and those aged 65 or over are expected to increase by almost 50%.<sup>1</sup> Households headed by someone aged 65 or over in England are projected to increase by 155,000 per year, and will account for almost three-quarters (74%) of total household growth to 2039.<sup>2</sup>

Rates of home ownership are also highest among older people. More than three-quarters of households (76%) where the oldest person is aged 55 or over own their own home either with a mortgage or outright. This is compared to around half (53%) of younger households.<sup>3</sup>

The growth in the number of older people, and their high rate of home ownership, means there is a pressing need for more owner-occupied retirement housing. More than one in three people aged 65 and over (36%) are likely to move in the future if something suitable is available, and almost a quarter (24%) are keen to move to purpose-built retirement properties, equivalent to c.3m people.<sup>4</sup>

Despite increasing demand for more suitable housing, few older people currently move. The UK has one of the lowest moving rates among its older population compared to other developed countries, and this suggests strong pent-up demand.

One of the main reasons for the low rate of moving among older people is the lack of suitable alternatives, reflecting a long-term structural undersupply of retirement housing. Only c.141,000 units of retirement housing for homeowners have ever been built.<sup>5</sup>

This indicates potential for strong growth in this market. Savills suggests that a build target of 18,000 retirement units each year would be appropriate in future<sup>6</sup>, while Knight Frank suggests 30,000 units per annum.<sup>7</sup>

This is set within the wider context of a general undersupply of all types of housing. The UK built 152,520 new homes in 2014/15<sup>8</sup>, short of the 200,000–300,000<sup>9</sup> homes needed each year to meet demand. In addition, the UK has delivered over 200,000 new homes in just four out of the last 14 years.<sup>10</sup> Increasing supply of retirement housing could make a sizeable contribution to reaching this national objective.

### Growing Government support

The importance of this part of the market is now recognised as being fundamental to UK housing policy. Housing for older people has become the only 'critical' housing need in the Government's 2015 National Planning Practice Guidance. For the first time, it states that local authorities need to consider the size, location and quality of dwellings needed for older people in order to allow them to move to more suitable accommodation, and that supporting independent living can help to reduce the costs to health and social services, as well as free up houses that are under-occupied.<sup>11</sup>

Similar policies also now exist in Scotland and London, with the Greater London Authority's London Plan, adopted in March 2015, stating that older Londoners require 3,600 to 4,200 new specialist retirement units per annum over the period 2015 to 2025.<sup>13</sup>

As a result, the planning system is becoming increasingly favourable for retirement housing, and this should have a positive impact on future provision given the increasing demand for this form of accommodation.

1 ONS – population projections (2014).  
2 DCLG projections (July 2016).  
3 The DCLG, English Housing Survey, 2014/15.  
4 YouGov Research for McCarthy & Stone in June 2016, published in Retirement Confidence Index (2016).

5 Independent data provided by Elderly Accommodation Counsel (April 2016).  
6 Savills Housing: An ageing population (2015).  
7 Knight Frank, Retirement Housing (2016) – 'Million new homes'.  
8 The DCLG, live table 209 – permanent dwellings completed by tenure and country (2016).  
9 BBC News (2016).

10 CBI Housing for Britain (2014).  
11 National Planning Practice Guidance for England (2015).  
12 Estimated using average values of homes and average adult household size from Understanding Society Wave 5 (2013/14) – excluding top 1% and bottom 1%. Applied to ONS population estimates.  
13 The London Plan, 2016.

# c.70%<sup>14</sup>

Share of owner-occupied market

## Barriers to entry for new starters

Despite growing demand, there are significant barriers to entry to the sector. None of the principal publicly-listed housebuilders currently operate within the specialist retirement sector, and none of the smaller retirement operators have national coverage.

The lack of competition is a result of the challenges of operating sustainably in this sector. These challenges include understanding the needs of a unique customer base as well as difficulties with funding, design, achieving scale (with the efficiencies and brand recognition this entails), and acquiring suitable land and detailed planning consent. This market is a unique sector and the failure of any other mainstream national housebuilder to penetrate it successfully illustrates the high level of intellectual capital required to deliver a sustainable proposition.

As a result, we retain our c.70%<sup>14</sup> share of the UK owner-occupied retirement market.

# 141,000<sup>5</sup>

Units of retirement housing for homeowners have ever been built

# £1.34tn<sup>12</sup>

Approximate housing wealth of those aged 65 or over in the UK

# 1 in 3<sup>4</sup>

People aged 65 or over (36%) would consider moving in the future if something suitable is available

<sup>14</sup> Based on 3,453 registrations of cross-tenure properties specifically designed for the elderly with the NHBC during calendar year 2015, of which 2,672 were registered by McCarthy & Stone.

Bewick Grange, Harrogate

# Our Strategy

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

In support of this strategy we are increasing investment in our pipeline of high-quality land, developing our product to meet the changing needs of our customers, building an operational platform and driving

operational efficiencies. This enables us to target top-quartile sector margins and returns on capital over the medium term.

Strategic priority	Medium-term targets	Measure/KPI	FY15	FY16
 <b>Increased investment</b> £2.5bn investment in land and build over four years to FY19 to support growth and capture a larger share of the retiree market	£2.5bn investment in land and build by FY19	Cash investment in land and build (£bn)	£0.4bn	£0.5bn
		Land bank (units)	10,087 units	10,186 units
		Sites acquired	90 sites	65 sites
 <b>Sales growth</b> Sell more than 3,000 units per annum	Sell more than 3,000 units per annum by FY19 at a net ASP of c.£300k	Legal completions (units)	1,923 units	2,299 units
		Net average selling price (ASP)	£239k	£259k
		Revenue (£m)	£485.7m	£635.9m
 <b>Continued product innovation</b> Meet our customers' changing needs and expand our customer base	Retain Five Star HBF customer satisfaction rating Grow Ortus Homes to c.10% of annual legal completions	Customer satisfaction rating	5 star	5 star
		Ortus Homes legal completions (% of total completions)	1%	4%
 <b>Operational efficiency</b> Create an even more efficient and scalable business to support planned investment and targeted growth	Improve capital turn in order to maximise ROCE (25% ROCE target)	Capital turn (x)	1.0x	1.2x
 <b>Focus on performance</b> Target top-quartile sector margins and returns on capital	Improve underlying operating profit margin, targeting top-quartile sector margins Target improved ROCE (25% target)	Underlying operating profit (£m)	£95.3m	£107.2m
		Underlying operating profit margin (%)	20%	17%
		ROCE (%)	20%	20%
		Net debt/(cash) (£m)	£44.4m	(£52.8m)



Progress in FY16	Priorities for FY17
Cash spend on target to achieve strategic objective	<ul style="list-style-type: none"> <li>– Continue to target high-quality land in the best possible locations in accordance with our strict site purchase criteria, maintaining contract conditionality where possible</li> <li>– Land acquisition volumes to be targeted in support of our growth strategy to build and sell more than 3,000 units per annum over the medium-term</li> <li>– Target land and build spend of c.£0.5bn</li> </ul>
Land bank now represents 4.4 years' supply Sufficient land with detailed planning to deliver all targeted sales to FY18 and sufficient land under control to deliver all targeted sales to FY19	
Fewer sites acquired this year due to more measured approach to land acquisition in light of market uncertainty in Q4 Terms agreed on a further 42 sites (c.1,700 plots) (FY15: 11 sites, 486 plots) ensuring a healthy land pipeline	
20% increase in legal completions this year in line with strategic objective Three new regional offices with quality management teams now in place providing a platform for our growth plans	<ul style="list-style-type: none"> <li>– Continue to develop capacity and capability of our regional teams to enable growth</li> <li>– Continue to grow completion volumes and optimise pricing</li> </ul>
8% increase in net ASP in line with strategic objective reflecting the quality and location of new developments and sustained incentives control Industry-leading growth of 31% resulting in a record level of revenue achieved this year	
Five Star HBF customer satisfaction rating retained for 11th consecutive year Successfully increased capacity and capability of our management services business to ensure that we can meet the needs of customers at all new developments. Volume of developments managed increased from 196 to 264	<ul style="list-style-type: none"> <li>– Retain Five Star HBF customer satisfaction rating</li> <li>– Continue to increase capacity and capability of management services business in order to keep pace with growth in new developments</li> <li>– Grow Ortus Homes to c.10% of land bank</li> <li>– Continued innovation in our core products and platinum range ensuring that we are meeting the needs of our customers</li> </ul>
Ortus Homes now represents c.8% of land bank Five new Ortus Homes developments released for sale in FY16 (FY15: three)	
<b>Sales initiative</b> 50% off-plan sales achieved with two developments reserving 100% off-plan and a further nine at over 80% Good progress towards our target to sell out our developments within an average of 12 months of first occupation, with an average 18 months to sell out for all sites sold out during FY16	<ul style="list-style-type: none"> <li>– Continue to improve off-plan sales rates and target further reductions in time to sell out</li> </ul>
<b>Development initiative</b> Reduction in average time from land exchange to build start from c.23 months in FY15 to c.19 months in FY16 (standard sites only) All sites fully developed within this new initiative have been within our 16-month target	<ul style="list-style-type: none"> <li>– Continue to target further reductions in average time from land exchange to build start</li> </ul>
<b>Build initiative</b> c.3-week time saving achieved from build start to first occupation Build savings of c.£12m identified which will benefit the Group over the four years to FY19. Collection of rebates has more than doubled since prior year	<ul style="list-style-type: none"> <li>– Focus on tighter management of build cycle by embedding consistent working practices.</li> <li>– Continue to adopt modern methods of construction in order to reduce build times further</li> </ul>
12% increase achieved driven by increased completion volumes	<ul style="list-style-type: none"> <li>– Continue to target high-quality land with attractive margins</li> <li>– Maintain strong balance sheet and focus on cash management</li> <li>– Continue to pursue build cost savings via the build initiative</li> </ul>
3ppt decrease due to additional investment in new regions and additional incentives offered to customers to close out completion chains in Q4	
Sustained capital discipline enabled 20% ROCE to be maintained despite margin challenges experienced during the year	
Significant improvement in cash position due to more measured approach to land and build investment in Q4 and IPO proceeds	

# Key Performance Indicators

## Revenue

Revenue from sales of new apartments is the primary driver of our profitability. The fundamentals of the retirement housing market, our distinct business model and its strong pipeline of quality land provides the platform for sustained revenue growth over the medium-term.

### Legal completions (units)



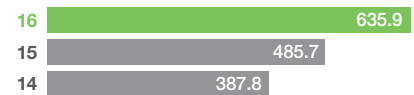
### Net average selling price (£k)



### Discounts and incentives (%)



### Revenue (£m)



## Profit

Management's focus on delivering top-line growth with improved operational efficiency will deliver future margin improvement.

### Gross profit (£m)



### Gross profit margin (%)



### Underlying operating profit (£m)<sup>1</sup>



### Underlying operating profit margin (%)<sup>1</sup>



## Workflow

Medium-term growth is dependent on our ability to develop our existing land bank profitably and to sell current stock to generate cash for reinvestment.

### Land bank (units)



### Sites acquired



## Returns

We have delivered increasing returns on capital due to a combination of revenue growth and improving capital discipline. It remains our focus to continue to improve returns on capital as the current land bank is developed.

### ROCE (%)<sup>2</sup>



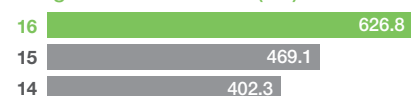
### Capital turn (x)<sup>2</sup>



### Tangible gross asset value (£m)<sup>2</sup>



### Tangible net asset value (£m)<sup>2</sup>



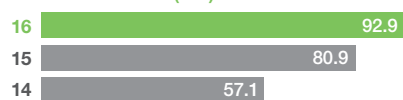
<sup>1</sup> Underlying operating profit has been reconciled within note 6 to the consolidated financial statements.

<sup>2</sup> Please see glossary on page 122 for definition.

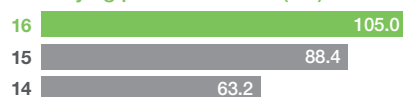
**Forward sales (£m)<sup>2</sup>**

Growth in legal completions and improved pricing have both contributed towards a substantial revenue increase in FY16. We continued to capitalise on favourable market opportunity which has supported growth in legal completions. An increase in net ASP reflected further improvement in the quality and location of our developments together with modest house price inflation.

Continued discipline around discounts and incentives helped to maintain them at levels similar to prior year, despite having to offer higher discounts and incentives as the secondary housing market started to weaken following the EU Referendum. At the year end the Group was carrying a lower forward order book impacted by customer sentiment following the EU Referendum.

**Profit before tax (£m)**

Volume growth combined with improved pricing led to a further increase in profits. However, margins have been impacted by the profitability mix of units sold, the increased usage of incentives in July and August and investment in new regional infrastructure.

**Underlying profit before tax (£m)<sup>1</sup>****Finished stock (units)**

New, high-quality sites were added to the land bank, which stood at 10,186 units as at the year end. This is equivalent to 4.4 years of supply and is sufficient to deliver all targeted sales to FY19.

**Gearing (%)<sup>2</sup>****Net (cash)/debt (£m)**

Strong cash generation, together with IPO proceeds and a more measured approach to land and build investment, improved the net cash position at the year end. This also helped to maintain ROCE levels despite margin challenges. The benefits of key strategic initiatives continued to contribute towards a notable improvement in capital turn.

# Operating Review – Strategic Initiatives



**In FY15 we launched three strategic initiatives with the goal of accelerating the Group’s typical working capital cycle. These initiatives focus on improving sales rates, reducing time taken between securing land and starting build and implementing build programme efficiencies.**

John leads our business improvement programme to enable business growth, enhance customer experience and improve operating performance. John joined McCarthy & Stone in February 2014 and was previously Chief Executive Officer of Human Recognition Systems Limited. Prior to that he worked for ten years for the Unite Group, becoming Group Chief Operating Officer in 2008.



**John Tonkiss**  
National Operations Director

### Improving sales rates

The sales initiative was introduced to achieve 50% or more off-plan reservations and then reserve out remaining apartments within 12 months of first occupation.

In order to support the sales force and enable them to achieve these targets, we have overhauled our sales induction and training programmes and introduced new sales toolkits in all regions. These toolkits are designed to maintain high levels of presentation and saleability tailored to the specific features and benefits of each site. We have also focused our local marketing and lead generation on a more precisely defined set of best prospect customers. In addition, we have developed a partnership with a third-party contact centre and introduced a new online visitor booking system to provide a more consistent sales process and customer experience. To improve web traffic and customer experience, we have also developed our web platform, a key element being the mobile-enabled website.

We have successfully delivered our strategic target for off-plan reservations this year, with an average of 50% reserved off-plan from the 69 sites that first occupied in FY16. A number of sites achieved significantly more than this, for example Blyton House, Bourne End and Kingswood Court, Sidcup which both sold 100% off-plan. A further nine sites have reserved more than 80% of their apartments off-plan.

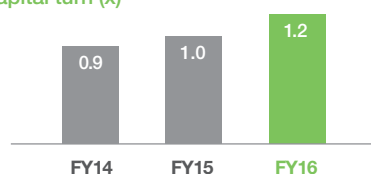
As a result of our focus on post first occupation sales during the year, we have managed to deliver a significant reduction in the average number of months taken to sell out our developments, which stood at 18 months for all sites sold out during FY16.

The FY17 plans aim to improve customer relationship management and increase conversion rates from callers to the contact centre. In addition, we are adopting mystery shopper programmes to drive high sales performance throughout our business, alongside improvements to our sales progression process. Our Group-wide marketing team have developed a new creative that offers a stronger brand image and clearer lifestyle benefits while also further developing our web content.

### Accelerating our development cycle

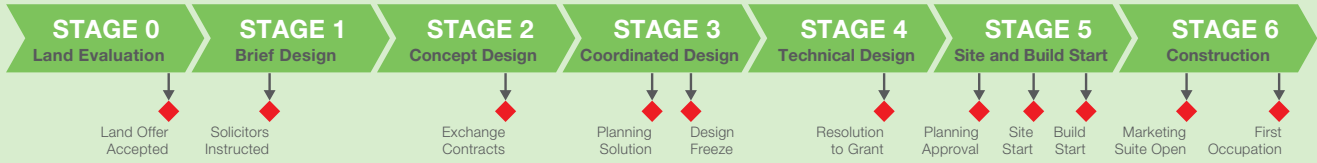
The development initiative (Project Fusion) aims to reduce the time taken between securing land and starting build. A number of changes designed to accelerate this cycle have been implemented, with particular focus on the planning process, increased standardisation, and cross-functional project teams from the outset. Our target for reducing the time taken between securing land and starting build is 16 months for standard sites achieving a first-time detailed planning consent. In FY15, we took an average of c.23 months to complete this process and we have been working hard to improve this. During FY16, we improved this overall average to c.19 months<sup>1</sup> for the 15 out of our 42 build starts which were developed fully under this initiative from the outset.

### Capital turn (x)



<sup>1</sup> Excluding sites put on hold for either commercial or complex planning reasons (FY15: seven sites, FY16: six sites).

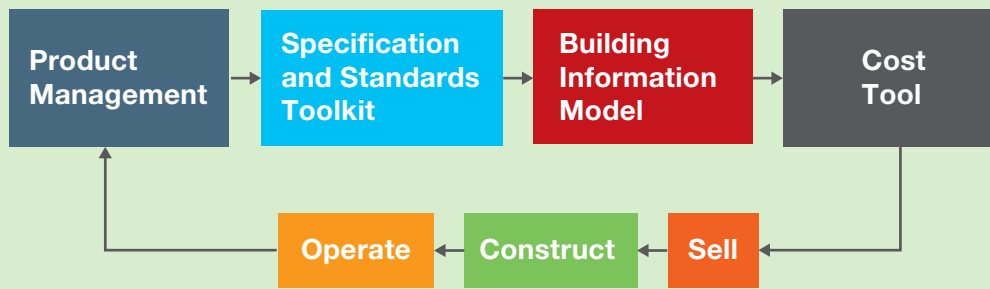
The foundation of these cycle-time reductions has been the establishment of a streamlined and simplified six-stage Fusion development process from Land Evaluation through to Construction:



In support of the Fusion process, the team have also delivered a new information management system. This online repository holds our Group-wide product standards and specifications, alongside our key supplier and framework agreements and has been instrumental in driving increased product standardisation throughout the business.

The information management system helps to ensure a consistent and standardised high-quality product. The process enables our teams and partners to work more effectively together throughout a development's life cycle.

Having established the system, we are now developing increased functionality including integrated 3D building models, build cost estimating tools, and property management asset registers.



**Build programme efficiencies**

This initiative builds on the Fusion process in order to reduce our build cycle times and deliver margin improvements. The key elements include improved procurement, a more structured approach to subcontractor partnerships, value engineering of individual developments and a more consistent set of construction management practices.

During FY16 this programme rolled out a new framework of critical controls in support of robust programmes and budgets, plus the adoption of a risk-based approach to manage the build programmes.

The commercial structure has been revised to reduce the administration burden on surveyors and allow greater focus on cost management. We have also driven greater cost ownership and compliance across our regions through streamlined cost coding, improved reporting and benchmarking.

This initiative has identified savings to the value of £3.3m in relation to materials used, including more than double the amount of rebates collected in the prior year. An additional c.£12m of cost reductions have also been identified, which are expected to benefit the Group over the period to FY19.

FY16 also saw an improved average build time, with the 69 first occupations delivered on average c.3 weeks faster (from build start) than during FY15. Into FY17 the continuous improvement plan will focus on making further improvements and greater standardisation. It will do this through tighter management of the build programme with more granular milestones and by embedding a framework of consistent working practices and management tools for all site teams. The business is increasingly adopting modern methods of construction (MMC) (in c.25% of sites under construction during FY17).

**1.2x**

Capital turn (FY15: 1.0x)

# Operating Review – Land and Planning

 Increased investment



**Gary Day**  
Land and Planning Director

**Gary is a Chartered Town Planner and member of the Chartered Institute of Housing. He has more than 40 years' experience in the industry.**

Gary joined the Group in 1988 having worked in local government for 13 years as a Town Planner. He was a member of the Homes and Communities Agency's former Vulnerable and Older People's Advisory Group and is currently a member of the Welsh Government's Expert Group on Housing an Ageing Population. Over the years he has sat on numerous other governmental and stakeholder groups concerned with the housing implications of the UK's ageing population.

Gary was appointed Land and Planning Director in 2002 and chairs the Group Investment Committee, which approves all of the Group's land acquisitions, and the Group's Corporate Social Responsibility Committee. He has executive responsibility for land conveyancing, planning, political and public affairs, and the Group's management services business.

Consented land is the lifeblood of our business, forming one of the five key operational functions of our business. We have a well-established and tailored approach to land and planning, with clear criteria for site acquisitions, design and planning, including the review and approval process. There are three elements that differentiate our land model: our strict site purchase criteria; the conditionality of our purchase agreements; and the limited degree of competition that we face on the types of sites that we pursue.

We have seen significant growth in recent years; the land bank has increased by 17% over the last two financial years. Sites exchanged in FY16 are spread from locations near Aberdeen, Scotland to a site near Brighton, East Sussex. Our national reach and profile, together with our strong track record and reputation in delivering on our promises, leads to favourable responses from landowners and agents. These relationships are fostered and maintained by our experienced regional land buying teams.

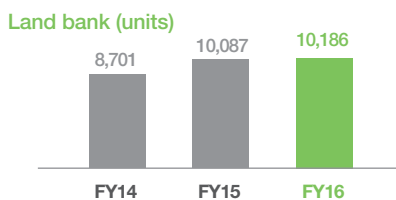
At the year end, our land bank stood at 10,186 plots, equivalent to 4.4 years' supply, and as a result we now have sufficient land under control to deliver all targeted sales to FY19. During the year, we secured legal interests in 65 new high-quality development sites (FY15: 90), equivalent to c.2,614 additional units (FY15: c.3,522). We also obtained 60 detailed planning consents, providing 2,449 developable units (FY15: 56/ 2,122).

**How we buy land**  
**Site purchase criteria**

Our differentiated land model provides a clear land acquisition criteria and a strict approval process. The strict controls and processes ensure that there is visibility, by senior management, throughout the process, enabling considered and reactive decisions.

Our focus is on smaller, centrally located brownfield sites in urban areas. This means that we face less competition for our sites than mainstream housebuilders, who are typically interested in larger, usually greenfield sites. We have smaller size requirements due to the higher density of the Group's developments compared to mainstream housebuilders, which gives us a competitive advantage in land acquisitions and permits the acquisition of sites that are close to amenities and with good public transport links, enhancing the attractiveness of our developments to target customers. We experience other benefits from building on brownfield sites – such as greater Government support for previously-developed land; reduced affordable housing and Community Infrastructure Levy (CIL) contributions; and no exposure to large infrastructure costs. We also benefit from an increasing planning policy presumption in favour of the type of specialist housing that we deliver, reflecting the Government's recognition that the housing needs of the ageing population has become 'critical'.

The requirements around proximity to shops, facilities and transport links vary depending on the type of



development but the existence of an existing established community is a consideration for all sites. We aim to make sure that our sites are in prominent locations, with a 'feel good' factor that will enrich the lives of our homeowners.

### Conditionality

It is our policy to try and secure land under the most favourable terms – not only with regard to price but also with respect to preserving optionality. Sites are normally secured by means of option agreements or via highly conditional contracts, with the principal condition being obtaining a satisfactory planning consent without onerous conditions. Where possible we seek to preserve additional flexibility in our conditional contracts by including a right to terminate the contract if there is a risk that the development will not be economically or commercially viable. Such rights are normally exercisable at any time before completion and notwithstanding that other conditions may have been satisfied.

### Land approval

The Group has strict criteria which all sites must meet, including size and proximity to local amenities and transport links. Land buyers visit all potential sites and perform an initial high level suitability appraisal using the set land acquisition criteria. If the appraisal indicates that the site should progress, the Regional Land Director will evaluate all aspects of the potential site and if this proves positive, will submit an investment appraisal to the regional investment committee chaired by the Regional Managing Director. If the Regional Investment Committee approves the site, the appraisal will be submitted to the Group Investment Committee (GIC) for approval. At least one member of the GIC will review every site, and where main Board approval is required the Chief Executive Officer will visit the site. Main Board approval is required where a site is to be purchased unconditionally for £250,000 or more, or any land to be purchased for £4.0m or more (whether conditional or unconditional).

### Planning process

The Group's specialist in-house planning team, the Planning Bureau, deals with all aspects of the planning process including the monitoring and influencing of emerging relevant national and regional planning policies. The Planning Bureau becomes involved in a site from the initial high level suitability appraisal and then works with the design teams throughout the design process of each site.



*Humphrey Court, Stafford*

The Planning Bureau staff hold extensive public consultations prior to the submission of the planning application as well as liaising throughout the process with local planning authorities.

As the Group's developments are primarily located on brownfield sites, the Group normally applies directly for detailed planning consents. This typically enables the Group to complete the planning process more quickly relative to mainstream housebuilders.

# 10,186 units

All the land needed to deliver to FY19

# 65

New sites exchanged in FY16

# 60

Detailed planning consents achieved in FY16

[www.mccarthyandstonegroup.co.uk](http://www.mccarthyandstonegroup.co.uk)

# Risk Management

## How we manage the risks to our business

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

### Our risk management process



The Group’s risk management framework requires the maintenance and regular update of Group and regional risk registers to identify the risks to our business model and strategic plan, with the major risks reviewed by the Board in the context of the Group’s appetite for risk.

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

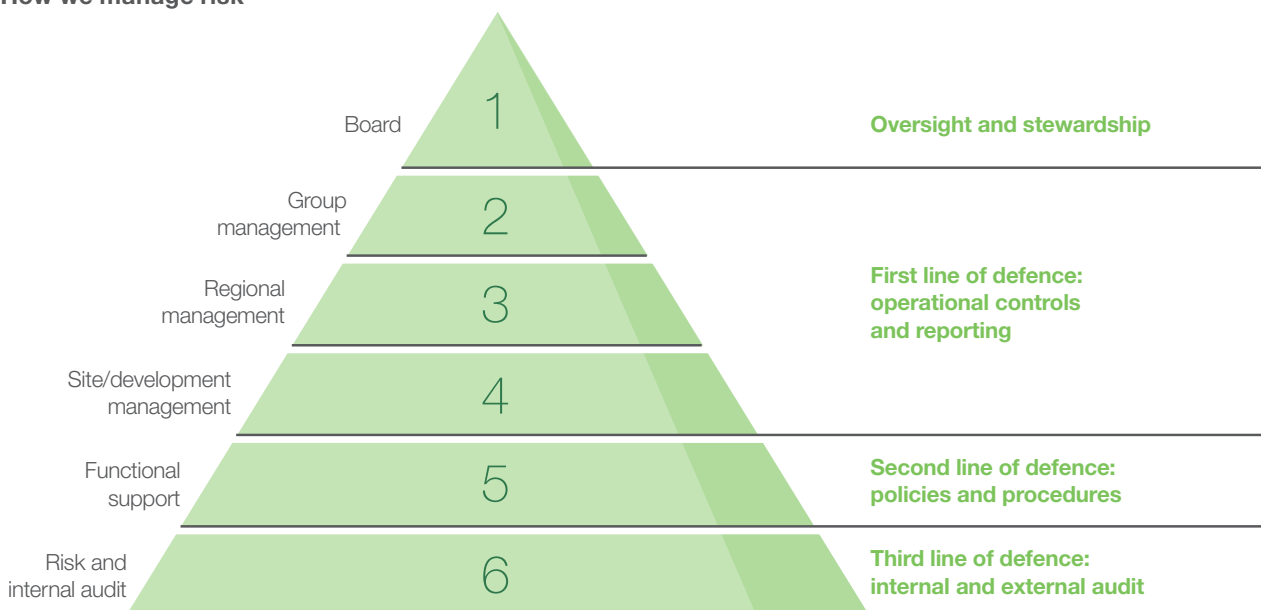
The risk registers are complemented by the monitoring of a set of key risk indicators approved by the executive leadership team, which provide early warning of potential issues and enable management to react accordingly. Those risk indicators establish the risk appetite for each risk and are monitored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

Assurance is provided over the effective design and operation of the risk framework through a formal programme of assurance activity.

This is structured around three lines of defence: management assurance, through operational controls and reporting; functional support in the form of formal policies and procedures; and a programme of assurance activity, including internal and external audit.

Overall oversight is provided by the Board, with individual members of the Board and the executive leadership team sponsoring each of the key risks.

### How we manage risk



The maintenance of formal risk registers, the identification of key control frameworks, the monitoring of key risk indicators and the pursuit of a broad

assurance programme provide all levels of management with a clear framework within which to operate.



### Monitoring key business risks

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

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

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

### Internal control environment

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

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

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

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

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

The corporate strategy was developed in preparation for the IPO and principally focuses on doubling the size of the business over the medium-term. The strategy has been well documented and communicated both internally and externally. To support this strategy the Group has identified five strategic priorities, as discussed on page 30.

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

### Viability statement

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

In response to that, the Directors have assessed the prospects and financial viability of the Group, taking into account both its current position and circumstances, and the potential impact of its principal risks. The Directors considered that a three-year period was appropriate for this assessment. The capital cycle from land completion to final sell-out of a development, for FY16 build starts, is approximately three years. The land pipeline also provides us with sufficient land under control to meet sales targets for the next three years. Accordingly, it is considered appropriate that the viability review period is broadly aligned with the expected longevity of the owned land supply.

The Group is subject to a number of principal risks (as set out in more detail on pages 40 and 41), and the Directors' viability statement review considered the impact that these risks might have on the Group's ability to meet its targets. This was undertaken through the performance of a single downside case sensitivity, which reflects a severe but plausible impact assuming that appropriate steps are taken to mitigate the impact of the downside.

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

# Principal Risks and Uncertainties

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

Risk area	Risk description	Mitigating actions	Risk change
Economic conditions	Housebuilding is cyclical and reliant on the broader economy. A deterioration in the economic outlook could have a significant impact on the Group's financial performance. The result of the EU Referendum has increased the uncertainty in the economy and specifically the secondary housebuilding market in the short term.	The Group closely monitors industry indicators and assesses the potential impact of different economic scenarios. Decisions to allocate new capital to land and build are managed centrally through the Group Investment Committee. The Group aims to maintain a national and product spread of developments to ensure that it is not reliant on one particular locality or product type.	
Reputation and customer satisfaction	The Group constructs and sells a quality product to an ageing and sometimes frail customer base and provides ongoing management and personal care services. Any issues with the products or services the Group provide could impact on customer satisfaction to the detriment of the Group's business model.	The Group enforces strict procedures over the hand over of developments for occupation and the hand over of specific apartments to individual customers. Ongoing management and personal care services are provided within a robust framework of controls which is closely monitored. The business has dedicated customer services capability and tracks customer satisfaction through NHBC surveys and other routes.	
Illiquidity of land and apartments	Land and apartments can be relatively illiquid assets affecting the Group's ability to value or liquidate part of its land bank in a timely fashion and at satisfactory prices in response to changes in economic, property market or other conditions.	Whenever possible, the Group tries to preserve the maximum amount of optionality in land payments. The Group also closely monitors its forecasted cash position to ensure it is funded in the most cost effective manner.	
Owned land may decline in value	The net realisable value of land owned by the Group may decline due to changes in the property market or other conditions, or the Group being unable to secure detailed planning consent on land purchased unconditionally.	Whenever possible, contracts to purchase land are conditional on the Group obtaining detailed planning consent. The Group performs impairment reviews in line with IFRS requirements.	

 Risk Increased
  Risk decreased
  Risk unchanged

Risk area	Risk description	Mitigating actions	Risk change
Build programmes and build costs	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.	Build progress and costs are reviewed regularly by dedicated regional commercial teams, as well as being reported to regional and Group management. Independent assurance is provided through a dedicated commercial internal audit resource involving deep dives into developments under construction. Framework agreements have been established with key subcontractors and suppliers to provide greater certainty of price and supply. There is a continuing drive to realise procurement efficiencies.	
Employees	The Group's employees are central to the achievement of the Group's objectives. Failure to recruit and retain sufficient staff resource of the right quality could constrain growth plans.	The Group has put in place attractive reward mechanisms and provides extensive opportunities for personal development and training, both of which are regularly reviewed against peer housebuilders and other employers in local markets. Resource requirements are assessed against annual budgets and recruitment processes are designed to ensure the availability of the right resource to deliver against the Group's plans.	
Health and safety	Construction sites are inherently risky, which could expose employees/contractors to the risk of serious injury/fatality. Home owners in the developments the Group manages are ageing and sometimes frail, with the risk that they can be more susceptible to injury.	The Group strives for excellence in health and safety and considers it to be the top priority. The Health & Safety Operations Director reports directly to the executive leadership team, identifying areas of concern, near misses and accidents, and supports this with a rigorous, independent site inspection process which routinely assesses and reports on standards. Building Safety Group audits help the Group move closer to its goal of achieving a culture of excellence in health and safety.	
Land acquisition and planning	Poor quality land and/or location could result in programme/cost over-runs and difficulty in selling. Failure to obtain timely planning permissions will adversely affect workflow resulting in failure to meet targeted growth rates, future sales and/or cash flow.	Regional land buying teams are in place across all regions providing local knowledge and expertise. These teams are targeted on land exchange as part of their bonus structure.  Regional planning teams have the support and oversight of the Group Investment Committee and are overseen by the Board.	

# Financial Review



**Nick Maddock**  
Group Chief Financial Officer

## Our performance

McCarthy & Stone has made good progress towards achieving its medium-term strategic objective this year with significant focus placed on achieving growth, improving capital turn and maintaining a favourable capital structure and robust balance sheet. The Group delivered an increase in legal completions, as well as improved pricing, revenue and profit before tax.

## Revenue

Revenue increased by 31% this year to £635.9m (FY15: £485.7m) driven by both volume growth and an increase in net average selling prices. Legal completions increased by 20% to 2,299 units (FY15: 1,923) benefiting from an increased number of new developments released for sale and accelerated sales rates, especially off-plan sales.

The Group's net average selling price increased by 8% to £259k (FY15: £239k) which primarily reflects further improvements in the quality and location of the developments McCarthy & Stone is now bringing to market, together with a small element of house price inflation. Management also exerted continued control over the level of discounts and incentives given to customers which, despite the impact of the EU Referendum and subsequent use of higher incentives to close completion chains, ended at 6% for the year, in line with FY15.

## Profit

The Group achieved strong growth in underlying profit before tax for the year, which was up 19% to £105.0m (FY15: £88.4m), and in statutory profit before tax, which was up 15% to £92.9m (FY15: £80.9m). This was achieved at a gross profit margin of 21.4% (FY15: 25.3%) and an underlying operating margin of 16.9% (FY15: 19.6%). The reduction in these margin percentages was driven by the profitability mix of units sold, the increase in incentive usage in July and August together with some additional abortive land costs and our investment in new regions and additional operational infrastructure to support our growth.

Our regions saw a return to modest house price inflation during the first nine months of the year but the effect of this increase has been offset at a gross profit level by build cost inflation, particularly driven by an increase in labour costs. Further build cost inflation is expected during FY17 and the work currently being undertaken as part of our build cost initiative seeks to mitigate the impact of this where possible by working towards securing 70% build cost certainty prior to build start and managing 75% of build spend via centrally negotiated framework agreements.

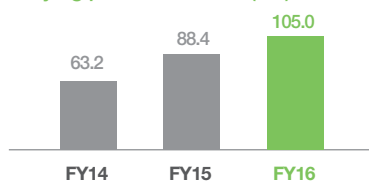
The level of overheads in the business continued to be tightly controlled, with total administrative expenses, excluding exceptional items and amortisation of brand, remaining broadly at the same level as last year of £32.6m (FY15: £32.4m) despite a 31% increase in revenue.

## Capital structure and interest

The Group closed the year with a further increase in its tangible gross asset value to £574.1m (FY15: £513.5m) and a tangible net asset value of £626.8m (FY15: £469.1m). The November IPO raised £78.5m of net proceeds and the Group continues to maintain a robust financial position with a net cash balance of £52.8m at 31 August 2016 (FY15: net debt of £44.4m) and negative gearing of 8% (FY15: positive gearing of 8%). This reflects a strong financial year, the net proceeds from the IPO, actions taken by management in response to economic uncertainty and disciplined cash management. We continued to maintain a strong balance sheet and appropriate headroom against our £200m revolving credit facility (RCF) throughout the year.

The Group amended its financing arrangements relating to its RCF during the year. This has resulted in improved commercial terms, including the extension of the facility's maturity from 19 December 2019 to 23 May 2021 and improved margin terms, which are expected to save c.£1.0m per annum in interest expense.

Underlying profit before tax (£m)<sup>1</sup>



<sup>1</sup> Underlying operating profit has been reconciled within note 6 to the consolidated financial statements.

This refinancing demonstrates the strong and ongoing commitment of McCarthy & Stone's relationship banks in supporting our £2.5bn investment programme and our medium-term strategic objective of building and selling more than 3,000 units per annum.

The Group incurred net finance expenses of £2.2m during the year (FY15: £6.9m), benefiting from lower interest costs under the Group's amended RCF and the annual revaluation of its shared equity debtors.

### Exceptional costs

Total exceptional costs recognised within the Consolidated Statement of Comprehensive Income during the year were £10.0m, of which £8.5m related to IPO adviser fees and associated costs and £1.5m related to Management Incentive Plan charges, restructuring, redundancy and refinancing costs.

### Taxation

We adopt a clear and transparent approach to taxation and do not pursue aggressive techniques to reduce our tax liability.

The total tax charge for the year is £19.4m which represents an effective tax rate of 20.9% (FY15: 20.5%) based on a profit before tax of £92.9m. The main tax reconciling item that increased the effective tax rate to 20.9% from the statutory rate of 20.0% is the c.£6.9m non-deductible portion of adviser costs incurred in connection with the listing. These costs largely related to the secondary proceeds and were incurred by the Company for the benefit of the exiting shareholders, prior to the listing. We expect our effective tax rate to revert to close to the statutory rate from the current financial year onwards.

### Earnings and dividend

Adjusted underlying basic earnings per share increased by 9% to 16.1p (FY15: 14.8p). Basic earnings per share for FY16 were 13.9p (FY15: 3.4p). Details of the calculation of earnings per share can be found in note 12 to the financial statements.

We are delighted to be proposing our first final dividend of 3.5 pence per share resulting in a total ordinary dividend for the year of 4.5 pence. This reflects our ordinary dividend policy as stated at the IPO which commits to paying a dividend equivalent to c.30% of underlying profit after tax and before certain exceptional items. The proposed dividend is covered three times by earnings. Subject to shareholder approval at the AGM, the dividend will be paid on 1 February 2017 to shareholders on the register at 6 January 2017.

The total cost of the final dividend is £18.8m, resulting in a total dividend cost relating to the year of £24.2m.

### Risk management

The Group maintains a robust risk management framework, providing a clear link between strategy and the strategic, operational and financial risks faced by the business. The approach to risk is set by the Board, which maintains a close involvement in identifying and mitigating risk and monitors certain key risk indicators at Board meetings on a regular basis. The control environment has been further enhanced during the year through the establishment of a risk manual and a further review and update of our existing finance manual.

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

### Target returns

We have demonstrated sustained capital discipline this year, maintaining a 20% ROCE (FY15: 20%). This has been achieved despite the constraints of build cost inflation, additional investment in our operational infrastructure necessary to support growth, sustained investment in our growing land bank and additional incentives used in July and August to close out completion chains. However, we have seen a marked improvement in capital turn to 1.2x (FY15: 1.0x) illustrating that our key strategic initiatives to improve sales rates, reduce development time and implement build efficiencies are on track and continuing to produce results.

The Group continues to target future increases in operating margin and ROCE and remains committed to its medium-term strategic objective of building and selling more than 3,000 units per annum and achieving a ROCE of 25%.

**Nick Maddock**  
Group Chief Financial Officer  
14 November 2016

# £259k

Net average selling price  
(FY15: £239k)

# £105.0m

Underlying profit before tax  
(FY15: £88.4m)

# £52.8m

Net cash  
(FY15: net debt £44.4m)

# Corporate Social Responsibility



**A responsible  
housebuilder**



**We are committed to delivering  
social and environmental benefits**

## Our approach – enriching lives

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

- Engaging positively with the local communities in which our developments are built
- Building safe and vibrant developments to help older people lead healthy independent lives
- Providing high-quality management services for our homeowners
- Minimising the environmental impact of our activities
- Building a culture of excellence in health and safety across all our business activities
- Creating a great place to work which is both safe and inspiring for our employees

Our Corporate Social Responsibility (CSR) Committee was formed in 2015. The Committee, which meets quarterly, is chaired by our Land and Planning Director and reports directly to the executive leadership team.

## Our priorities for FY16 and FY17

The main priorities of the Committee in FY16 have been to establish:

- A CSR policy covering all aspects of the Group's business
- A framework for CSR reporting within the Group following the IPO in November 2015

During FY17, the Committee will focus on:

- Agreeing appropriate KPIs and targets and measuring our performance against these
- Establishing a framework for greenhouse gas emission reporting

A full year's reporting across all the KPIs has not been possible during FY16 as data was not collected throughout the financial year due to the fact that this was not a requirement prior to the listing of the Group in November 2015. There are also, therefore, no comparatives for previous years in this year's report.

*Top left: Homeowners at The Sycamores, Kinross.*

*Bottom left: Local children from Evendons Primary School with the site team.*

## Greenhouse gas emission reporting

As permitted under the Companies Act 2006 (Strategic Directors' Report) Regulations 2013, the Group has decided not to report its Scope 1 and Scope 2 greenhouse gas emissions but to explain why we have not complied. The Company only became a public limited company with listing on the London Stock Exchange in November 2015. Therefore, we were only subject to these rules for part of the financial year under review and are not able to provide data for the whole year, due to the requisite systems not being in place to capture the relevant data. The Company will report on its Scope 1 and Scope 2 greenhouse gas emissions in our next Annual Report.

## Planning and design

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

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

We optimise the development density of our sites with an average site density in FY16 of 31 dwellings per acre (76 per hectare). This, combined with a relatively low level of car ownership and usage amongst our homeowners, means that we deliver a highly sustainable form of development.

## Community consultation

We consult local communities, businesses and other relevant stakeholders on every new planning application we bring forward (both pre- and post-submission), including holding one-to-one meetings, discussions with affected parties and public exhibitions. This gives neighbours and

other affected parties a platform to voice their opinions, many of which influence our designs and approach to construction. During FY16, over 130 consultations and exhibitions were held with 80% of attendees advising that they found them informative.

A number of our developments have recently won awards for design including Queen Elizabeth Court, Kirkby Lonsdale and Scarlet Oak, Solihull.

### Benefits of McCarthy & Stone developments

- Support of our management team
- Central locations
- High-quality well-designed apartments
- Contribution to the local economy
- Reducing strain on local infrastructure
- Redevelopment of brownfield land
- Freeing up under-occupied homes
- More interaction with other people and reduced loneliness
- Enhanced safety and security
- Wide range of social activities

## Construction

We are aware of the impact that the construction phase of our activities can have on the local community. All of our sites must comply with internal policies around levels of noise, cleanliness and presentation. Some of our sites are accredited under the Considerate Constructors Scheme (CCS), including our site at Midhurst in our South East region, which won a CCS silver award in 2016.

### Minimising our impact on the environment

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

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

# 130+

Planning consultations and exhibitions during FY16

# Corporate Social Responsibility continued

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

During FY16, we replaced our waste management supplier with two new suppliers, Kenny and Waste Cycle, and their environmental credentials were a key factor in our selection process. We are proud to report that of the 21,316 tonnes of waste generated on our construction sites in FY16, only 5.6% (being 1,185 tonnes) went to landfill, the rest being recycled. We continue to work with our waste management companies to further improve this figure, as well as with our suppliers to reduce waste further up the supply chain.

### Efficient homes

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

- It prioritises the largest item of energy consumption in homes, being maintaining a comfortable internal temperature
- The energy efficiency is integrated into the building and does not require occupants to operate complex systems or change their behaviours
- Energy efficiencies will last as long as the building lasts and costly maintenance of heating systems, for example, is avoided

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

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

### Engaging with the community

We do not just consult with local communities at the planning stage – we also engage with them during the construction phase. Activities include visiting local schools or

organising visits to our sites to encourage children to understand the dangers of construction sites.

### Living in a McCarthy & Stone development

Our Retirement Living and Assisted Living developments have a House Manager or Estate Manager on-site during working hours or up to 24 hours a day, respectively. Since 2010 those services have been provided in all new developments by our in-house management services companies. Their role is not only to help deal with any issues that our homeowners may have but also to help create a friendly and communal environment where the homeowners can, if they wish, seek companionship and make new friends.

We are very proud of the work of our management services business in promoting social interaction among our homeowners. In FY16, there were between 1,700 and 1,900 events held across our developments each month. Social events are organised in our homeowners' lounges and range from coffee mornings, film and quiz nights, music evenings, exercise and craft classes and local interest talks and events. Participation and feedback from homeowners is very encouraging.



To support this, the Group has set up a 'community fund' which can be spent at the House/Estate Manager's discretion with the aim of engendering a sense of community within the first year of each new development.

We are very pleased that two of our developments, Rockhaven Court in Horwich and Queen Elizabeth Court in Kirkby Lonsdale won awards at the National Housing for Older People Awards 2015. These awards celebrate the best specialist housing for older people and are voted for by residents and staff.

In April 2016, we published a report in partnership with the cross-party think tank Demos entitled '**Building Companionship: how better design can combat loneliness in later life**' which highlighted the social benefits of our developments, particularly in addressing the issue of loneliness among older people. The report showed that our homeowners feel much higher levels of companionship and have more social interaction since moving into one of our developments.

### Building Companionship: how better design can combat loneliness in later life

Results of the survey comparing our homeowners with the over 55s in general housing

Age of people surveyed	All ages of population	55-64	65-74	75 +	McCarthy & Stone homeowners
There is a sense of community among the people who live in my housing development/ neighbourhood or street	49%	42%	58%	51%	85%
There are sufficient social events for my age group	38%	36%	53%	56%	73%

# 94.4%

Of waste was diverted from landfill in FY16

# 85%

Of our homeowners feel there is a sense of community in their developments

# 1,700+

In FY16 between 1,700 and 1,900 social events were held across our developments every month



Our commitment to our customers has been recognised by us gaining the prestigious HBF Five Star customer satisfaction award for a record 11 consecutive years – making us the only major housebuilder of any size or type to achieve this award every year since its inception.

**Helping our homeowners to reduce their carbon footprint**

During 2016, we began a roll-out of smart electricity meters across our developments. These allow us to monitor usage on a real time basis, both in terms of kWh and cost, of electricity used within shared areas on a half-hourly basis. As at 31 August 2016, 57 developments had these new smart meters installed, representing approximately 22% of the Group’s managed developments.

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

Smart gas meters are also being rolled out across the Group’s Assisted Living developments which use gas.

With the planned deregulation of the English water market in April 2017, we are planning to install smart water meters to measure water usage across our developments with the aim, again, being to reduce the volume of water used.

**Charitable donations and community contributions**

We always try to contribute to communities both around our developments and our offices. This is done regionally and can take the form of charitable donations or time donated by our employees, particularly focusing on local charities and local community groups. In addition, our Corporate Centre has a monthly charity collection,

with the chosen charity, typically a small local organisation, being nominated by a member of staff.

**Case study: Fernheath Play Association**

Since June 2015, McCarthy & Stone has pledged £24k to Fernheath Play Association, a Bournemouth-based charity. Fernheath Play Association offers play facilities to local disabled and disadvantaged children and our two-year commitment has contributed towards much-needed staffing of the centre after it was forced to suspend its play work for the first time in 38 years, and has allowed it to reopen during school term times.

The Association is the only fully inclusive play and short breaks centre in Bournemouth, meaning all children who attend have the ability to interact and engage in imaginative play. The Association has a wide range of outdoor equipment, as well as indoor spaces for activities, table top games, and play and sensory rooms.

We are delighted to support Fernheath Play Association in its important role in helping the local community.



From left to right Joe Elston, Fernheath Play Manager; Gary Day, our Land and Planning Director; Paddy Williamson, Fernheath Play Chairperson; and Conor Burns, MP and Fernheath Play Patron

**Creating a culture of excellence and a great place to work**

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

At 31 August 2016, the Group employed 1,344 people (FY15: 1,158). This figure excludes the Estates Management teams, subcontractors and agency workers. Some 48% of employees in the main business are employed on sites or at developments or as House Managers with the balance based in our regional and central offices.

	Male	Female
<b>Directors of the Company (including NEDs)</b>	6	1
Employees in senior management positions including Directors of subsidiary companies	98	24
Total employees of the Group (excluding NEDs)	699	645

At the end of the financial year 48% of all employees were female and 45% were over the age of 50.

**Diversity and inclusivity**

The Group is committed to promoting policies to ensure that those who are employed by the Group’s businesses are treated equally, regardless of status, gender, sex, age, colour, race or ethnic origin.

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

**48%**

Of our workforce was female at 31 August 2016

**19%**

Of our senior management at year end were female

# Corporate Social Responsibility continued

## Employee communications

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

## Employee survey

Our latest all-employee survey was carried out in October 2015. The response rate was 90%, up from 87% in 2014. The results showed some extremely encouraging year-on-year improvements compared with the 2014 results, which were already well ahead of external benchmarks. Significant improvements were made against our five key employee engagement metrics.

	2015 %	2014 %	External benchmark %
I am proud to work for McCarthy & Stone	<b>89</b>	79	76
I would be happy to recommend McCarthy & Stone as a place to work	<b>81</b>	68	74
I feel a sense of belonging at McCarthy & Stone	<b>76</b>	61	54
I feel valued for the work I do	<b>74</b>	62	44
I am clear about how my role contributes to McCarthy & Stone’s success	<b>91</b>	82	62

## Recognition of achievements

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

### Our values are:

- Passion
- Responsibility
- Innovation
- Determination
- Excellence

We celebrate and recognise employees who go the extra mile for a customer or colleague through our quarterly and annual PRIDE awards. Our progress is illustrated by our most recent employee survey, which identified that 89% of our employees are proud to work for McCarthy & Stone.

Any staff member can nominate a colleague for an instant PRIDE award which is judged by our regional PRIDE champions. Each quarter, instant PRIDE winners are then put forward for quarterly awards with overall winners being judged on an annual basis. During FY16, 572 PRIDE awards were presented.

Our overall PRIDE champion for the year was our Senior Benefits Adviser, Colin Cuthbert. Colin heads up the team who offer free and confidential advice to prospective customers on any benefits they may be entitled to. This service reviews their individual circumstances and determines whether they are entitled to any Government funding, ranging from Pension Credits, to housing support and attendance allowance, right down to free television licences for the over 75s. The service has helped almost 500 customers access £2m of unclaimed benefits in the last year.



Colin Cuthbert, Senior Benefits Adviser

# 90%+

Over 90% of our homeowners said that they would recommend us to a friend, a great endorsement of our customer-centric approach

## Employee involvement

Employees are encouraged to participate in the success of the Group and during the year two share schemes were introduced: a share save plan (SAYE) and a share incentive plan (SIP). Both schemes are open to all employees. The SAYE savings contracts are for either three or five years. Neither scheme is subject to performance conditions.

## NHBC Pride in the Job Awards

We are extremely pleased that our standards are recognised externally. In 2016, ten of the Group’s Site Managers were awarded NHBC Pride in the Job Awards. These awards are the industry’s most prestigious awards programme and recognise Site Managers who achieve the highest standards of housebuilding and who demonstrate the highest qualities of workmanship, leadership, technical expertise and health and safety awareness. Our Pride in the Job Award winners will now progress to the next stage of the awards process in the autumn.

## Apprentices and trainees

We offer aspiring site managers the opportunity to learn hands-on skills on our construction sites whilst studying towards a NVQ qualification such as Level 4 Diploma in Construction and Building Services Management, and Supervisions and Technical Certificate Level 4 NHC in Construction and the Built Environment. We also participate in a Shared Trade Apprentice Scheme, Partnering with South West based subcontractors, and Bournemouth and Poole College. We hope that, once qualified, the apprentices will continue working for the Group, thus helping to alleviate national shortages in skilled labour the industry is currently experiencing.

We also offer trainee contracts in other departments such as Sales, Finance and Legal Services.

## Opportunities for development

We have an ongoing commitment to training, and personal and professional development. Performance against objectives is formally reviewed on an annual basis. As well as setting

# 10

NHBC Pride in the Job Awards in FY16

objectives, the process includes the identification and implementation of a tailored personal development plan. Improvement programmes focusing on quality, efficiency and customer service provide an opportunity for all employees to be involved in the development of the Group's business and products.

### Student placement scheme

The Group is also developing the next generation of housebuilders through a student placement scheme run in conjunction with Northumbria University. As part of the scheme, which has been running since 1991, students studying for the BSc Hons in Construction Project Management have the opportunity to spend a year working at McCarthy & Stone. This works well for both the students, who gain on-site experience, and for the McCarthy & Stone Group, with many students competing for placements and choosing to become employees after they graduate.

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

### Building a culture of excellence in health and safety

Health and safety is a top priority for the Group. The Health and Safety Operations Director reports directly to the executive leadership team. In addition to the central team who determine our health and safety strategy, we have a Group Construction Health and Safety Manager and regional advisers.

### Construction sites

On site, we emphasise both a proactive approach to health and safety as well as underlining the individual responsibility every site worker has for their and their colleagues' health and safety. All staff (both employees and contractors) are required to have adequate health and safety qualifications before starting work on one of our sites and

all contractors are required to hold a valid Construction Skills Certification Scheme Card. This evidences that the contractor has the relevant skills required for their role, including understanding the health and safety implications of the work they perform.

We require all our Site Managers and Assistant Site Managers to have the Construction Industry Training Board's (CITB) Site Management Safety Training Scheme qualifications and to be qualified first aiders. There must be a qualified first aider on site at all times.

During FY16, we reported nine incidents under the Reporting of Incidents Diseases and Dangerous Occurrences Regulations (RIDDOR) to the Health and Safety Executive.

We employ the BSG to undertake independent audits of our construction sites throughout the year and they visit each site every three weeks during the build process. During FY16, our average score was 98.7%, which was achieved by scoring 1,326 points in 1,032 visits. These audits help the Group move closer to its goal of achieving a culture of excellence in health and safety.

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

During FY16, we received five NHBC Health and Safety commendations with one site going on to receive a highly commended award. In FY15, we received two commendations and one highly commended award. We have also been nominated for four awards from BSG for FY16. In FY15, we were BSG's UK member of the year and also received two regional awards and two site manager awards.

### Managed developments

At 31 August 2016, we were managing 264 developments occupied by over 12,000 homeowners. At our Retirement Living developments, a House Manager is on-site during working hours and

at Assisted Living developments a member of the Estate Management team is typically on site 24 hours a day.

All our House Managers and Estate Managers have basic first aid training and are qualified to make initial assessments on minor trips and falls. Any incident involving a homeowner on one of our developments will have a full inquiry performed by our health and safety team with a view to ensuring the incident is not repeated. There were five RIDDOR incidents at our developments during FY16, only two of which could be attributed to us.

### Offices

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

In 2014, we brought our health and safety training in-house, allowing us to tailor the courses to our needs. We have introduced training for staff to enable them to become increasingly self-supporting in their management of health and safety. During FY16, the Group delivered 355 in-house training courses for employees and 178 in-house training courses for contractors. 563 people attended safety workshops and 12 BSG safety surgeries were held.

### Human rights

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

Our strategic report, on pages 01–49 has been reviewed and approved by the Board.

On behalf of the Board

**Clive Fenton**  
14 November 2016

# 98.7%

Average score achieved in FY16 against the BSG's 'generally complies' criteria

# 5

NHBC Health and Safety commendations in FY16 with one site going on to receive a highly commended award

## Board of Directors



### **John White** Non-Executive Chairman

#### **Experience**

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

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

#### **Committees**

Chairman of Nominations Committee and member of Remuneration Committee.



### **Frank Nelson** Senior Independent Non-Executive Director

#### **Experience**

Frank Nelson joined the Board in November 2013 and is the Senior Independent Director and Chairman of the Risk and Audit Committee. He is a qualified accountant, with 30 years' experience in the housebuilding, infrastructure and energy sectors. He was Finance Director of Galliford Try plc from 2000 until 2012 and was also responsible for their PFI/PPP activities. He was previously Finance Director of Try Group plc from 1987, leading the company through its flotation in 1989 and subsequent merger with Galliford. More recently, Frank was the Interim Chief Financial Officer of Lamprell, the Dubai-based offshore construction company, where he helped complete a complex refinancing before leaving in October 2013. He is presently the Senior Independent Director of HICL Infrastructure, Telford Homes plc and Eurocell plc.

#### **Committees**

Chairman of Risk and Audit Committee, and member of Remuneration Committee and Nominations Committee.



### **Geeta Nanda, OBE** Independent Non-Executive Director

#### **Experience**

Geeta Nanda joined the Board in April 2015 as a Non-Executive Director. She has more than 28 years' experience in the housing sector and currently serves as Chief Executive Officer of Thames Valley Housing Association (TVHA). Geeta joined TVHA in 2008 and in 2013 was awarded an OBE for her achievements to social housing. Geeta is a Director of Fizzy Enterprises (a joint venture with Silver Arrow, a subsidiary of the Abu Dhabi Investment Authority) which she launched in 2012, as a branded market rent proposition. She has 23 years' experience in non-executive roles and has served on the Boards of two housing organisations and national and local charities. She is currently a member of the coast to capital housing task force.

#### **Committees**

Member of Risk and Audit Committee, and Remuneration Committee.



### **Mike Parsons** Independent Non-Executive Director

#### **Experience**

Mike Parsons joined the Board in November 2013 as a Non-Executive Director and is Chairman of the Remuneration Committee. He founded Barchester Healthcare 23 years ago, following a successful career in advertising. Award-winning Barchester has grown rapidly, based on a premium positioning in the specialist care homes sector. The Company has grown organically and, through the acquisition in 2004 of Westminster Healthcare for £525m, became the fourth largest independent healthcare provider in the UK.

#### **Committees**

Chairman of Remuneration Committee and member of Risk and Audit Committee, and Nominations Committee.



**Clive Fenton**  
Chief Executive Officer

**Experience**

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

**Committees**

Member of Nominations Committee.



**Nick Maddock**  
Chief Financial Officer

**Experience**

Nick Maddock joined the Group as Chief Financial Officer in September 2011, having previously worked as Finance Director for Centrica's upstream oil and gas business, Financial Controller at British Gas and a Director in Mergers and Acquisitions at ING Barings. Nick trained as a chartered accountant and chartered tax adviser at Ernst & Young.

On 11 October 2016, the Company announced that Nick has resigned. His departure date has not yet been finalised.

**Committees**

None



**John Tonkiss**  
National Operations Director

**Experience**

John Tonkiss joined McCarthy & Stone in February 2014 and became a Board Director in October 2015. He previously held the roles of Operations Director – North and Business Transformation Director, and became National Operations Director in September 2016. He is responsible for the Group's nine operating regions and also leads the improvement change programme to accelerate business growth, enhance customer experience and improve operating performance. John was previously Chief Executive Officer of Human Recognition Systems, the UK's leading biometric solutions provider. Prior to that, he worked for ten years for the Unite Group, the UK's largest provider of purpose-built student accommodation, becoming Group Chief Operating Officer in 2008.

**Committees**

None



**Patrick Hole**  
General Counsel and  
Company Secretary

**Experience**

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

# Corporate Governance



This has been an exciting and challenging year for us as we moved from private to public ownership following the IPO in November 2015.

This Corporate Governance Report describes our governance structure and explains how we have applied the main principles of the UK Corporate Governance Code 2014 (and relevant updates) (the Code) ([www.frc.org.uk](http://www.frc.org.uk)) and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority handbook (DTR Rules) since our flotation.

We believe that a solid corporate governance framework is essential for upholding our core business values and delivering our strategy and it is my responsibility to promote high standards of governance and business practice throughout the organisation. In this section of the report we explain how we manage our business and promote such high standards of governance across the Group.

## Compliance with the Code

The Company has complied with the Code for the part of the year that we were listed with the following exceptions:

- a) The Non-Executive Directors' letters of appointment were not for a fixed term – this has now been rectified (B2.3).
- b) Although the Risk and Audit Committee reviewed the internal controls and risk management during the year, the effectiveness review by the Board took place after year end in November 2016 (C.2.3).

The following sets out how we have complied with the Code.

## A. Leadership

### The role of the Board (A1)

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

There is a formal schedule of matters specifically reserved for Board decision which was updated in November 2015 to ensure that it is relevant to a UK listed company. Matters which require Board approval include strategy and management, structure and capital, financial reporting, internal controls, contracts and expenditure and communications.

Decisions on investments and development activities are made by the Group Investment Committee which meets weekly and is chaired by the Chief Executive Officer, while major investment decisions are referred to the Board for approval.

The Board has established three Board Committees: Risk and Audit, Remuneration and Nominations. The membership of each of the Committees is in compliance with the requirements of the Code and the terms of reference of the Committees are included on our corporate website. Details of the activities of each of the Committees during the year are set out later in this document. The Company Secretary acts as secretary to each of the Committees.

There are nine scheduled Board meetings each year, although during FY16 there were 11 formal Board meetings. Attendance at the Board and the Committee meetings is shown below.

Director	Board	Risk and Audit Committee	Remuneration Committee	Nominations Committee
<b>Number of meetings</b>	<b>11</b>	<b>3</b>	<b>5</b>	<b>1</b>
John White	11/11	n/a	5/5	1/1
Clive Fenton	11/11	n/a	n/a	1/1
Nick Maddock	11/11	n/a	n/a	n/a
John Tonkiss <sup>1</sup>	11/11	n/a	n/a	n/a
Mike Parsons	11/11	3/3	5/5	1/1
Frank Nelson	11/11	3/3	5/5	1/1
Geeta Nanda <sup>2</sup>	11/11	2/2	1/1	n/a
Nils Albert <sup>3</sup>	3/3	1/1	n/a	n/a

<sup>1</sup> Appointed to the Board on 5 November 2015.

<sup>2</sup> Appointed to the Risk and Audit and Remuneration Committees on 6 November 2015.

<sup>3</sup> Resigned on 21 October 2015.

### Division of responsibilities (A2, A3)

There is a clear written policy setting out the separation of the roles of the Chairman and the Chief Executive Officer.

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

Clive Fenton, our Chief Executive Officer, is responsible for the day-to-day management of the operational activities of the Group and the development and innovation of the Group's

business. He leads the executive team in implementing the strategies and objectives agreed by the Board and in delivering operational performance and success.

#### Non-Executive Directors (A4)

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

Frank Nelson is the Senior Independent Director. Nils Albert was a Non-Executive Director who resigned on 21 October 2015.

### B. Effectiveness

#### Board composition and independence (B1)

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

The Board currently comprises the Chairman (who was independent on appointment), three Executive Directors and three Independent Non-Executive Directors. Short biographical details of each of the Directors are set out on pages 50 and 51.

At its meeting in August, the Nominations Committee considered the independence of the individual Directors and confirmed that there are no independence issues, notwithstanding the fact that two of the three Non-Executive Directors, Frank Nelson and Mike Parsons, were included in the Company's Management Incentive Plan which was put in place in 2013 and was wound up in November 2015. Their participation in the plan is a reflection of the different ownership structure of the Company at that time. Since Admission, the Non-Executive Directors have not been included in any of the Group's share plans or bonus arrangements.

#### Appointments and commitment (B2, B3, B7)

The date of appointment of each of the Directors is set out on pages 50 and 51 – none of the Directors has served for more than six years. Nils Albert, who had been appointed by our largest private equity investor, resigned on 21 October 2015 and John Tonkiss, National Operations Director, joined the Board on 5 November 2015. There have not been any changes to the Board composition since we listed in November 2015. Appointments now fall under the remit of the Nominations Committee who will lead the process in selecting any new Directors before making recommendations to the Board. The Nominations Committee is working with senior management to ensure that satisfactory succession plans are in place.

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 him/her to fulfil his/her duties as evidenced by the 100% attendance at all the Board and relevant Committee meetings throughout the year.

The Non-Executive Directors' letters of appointment were put in place when the Company was still in private equity ownership and were not for fixed three year terms. This has been rectified since year end through variation letters.

As the Company is included in the FTSE 350, all of the Directors will be required to seek re-election at each AGM. The resolutions for the re-election of the current Board members are included in the separate Notice of AGM.

#### Induction, development and support (B4, B5)

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

#### Board evaluation (B6)

An evaluation of the performance of the Board, its members and Committees was carried out during FY16 by the Nominations Committee and details of the evaluation process and findings are included in the Nominations Committee Report on page 54.

### C. Accountability Reporting (C1)

The Statement of Directors' Responsibilities is on page 80. The viability statement is on page 39. The Independent Auditor's Report is on pages 81 to 85. The statement on going concern is on page 79. Details of the Board's arrangements to ensure that the information presented in this report is fair, balanced and understandable is set out on page 80.

#### Risk management and internal controls (C2)

Details of the risk management process and the principal risks facing the Group are set out on pages 38 and 41. The Board is responsible for the system of internal controls, which are designed to manage the business risks faced by the Group, and for reviewing the effectiveness of those controls. Business targets are set within appropriate timeframes; policies, procedures and control processes for managing the Group's business activities have been put in place; and key financial risks are controlled through clearly laid down authorisation levels and segregation of accounting duties.

The Risk and Audit Committee, together with the Internal Audit function, has identified the principal risks facing the Group and has established systems for evaluating and managing those risks. These systems have been in place for the whole of the year under review and up to the date of this report. Further information can be found on pages 56 and 57, and 38 and 39.

#### Audit and Auditors (C3)

Details of the work of the Risk and Audit Committee and the auditors are set out on pages 56 and 57.

### D. Remuneration

Details of Executive Directors' remuneration and the Group's approach to remuneration policy are set out on pages 58 to 77.

### E. Relations with shareholders

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

It is anticipated that all members of the Board will attend the AGM in January 2017 and that the meeting will be organised in compliance with the Code.

On behalf of the Board

**John White**  
Chairman

14 November 2016

[www.mccarthyandstonegroup.co.uk](http://www.mccarthyandstonegroup.co.uk)

# Nominations Committee Report



## Introduction

I am pleased to present the Committee's report for FY16.

The Nominations Committee's primary responsibilities are to review the structure, size and composition of the Board and its Committees, including making recommendations for appointments and re-elections to the Board, and succession planning for the Directors and senior management in the Group.

In our first year post-IPO, the main area of focus for the Committee has been to undertake an evaluation of our Board and its Committees and our Directors to seek to identify any areas where performance and procedures can be improved and to reassure ourselves that we have the right people leading our business.

The results of the evaluation process are set out below.

## Membership and tenure

Members of the Committee are appointed by the Board. The members of the Committee during FY16 were:

John White  
Clive Fenton  
Frank Nelson  
Mike Parsons

Nils Albert was also a member of the Committee for part of the year until his resignation from the Board on 21 October 2015. The membership of the Committee was reviewed in advance of the IPO process last year. Apart from Mr Albert's resignation, no further changes were considered necessary at that time.

There was one meeting of the Committee during the year: all the current members of the Committee attended.

## Responsibilities and terms of reference

The terms of reference, which are available on our website, were adopted with effect from 11 November 2015. The main areas of responsibility of the Committee are: overseeing the appointment of Directors; ensuring that the skills and experience of the Board remains appropriate and balanced; succession planning; and the annual evaluation process.

## Activities during FY16

During the year the Committee reviewed the size, structure and composition of the Board and the performance and effectiveness of the Board and its Committees as well as the performance and contribution of each of the Directors. It was decided not to undertake an external evaluation during FY16. The Committee will review the timing of the external evaluation during FY17.

The Committee also reviewed the Group's Equal Opportunities Policy and its own terms of reference.

## Evaluation process and results

The Committee carried out a thorough, in-house evaluation of the Board and each of its Committees (Risk and Audit, Remuneration and Nominations), as well as the performance of each of the Directors. This was carried out by way of a questionnaire as well as one-to-one meetings between the Chairman and the Non-Executive Directors on the performance of the individual Directors. The review of the Chairman's performance was led by the Senior Independent Director.

The effectiveness of the Board was assessed in respect of its structure, organisation, reporting and communications. Directors were also invited to make recommendations on how the performance and operation of the Board could be improved. Board performance scored, in general, quite highly, although there were some areas where Directors felt there could be improvement, including succession planning and greater communication with employees. I was particularly pleased that, compared to other Boards on which the Directors have served in the past, McCarthy & Stone's Board is considered to be more open with an excellent mix of experience and a better balance between the Executive Directors and the Non-Executive Directors.



Some areas were identified where improvement could be made. The Committee has therefore set up an action plan to address these points, which will be reviewed again as part of next year's evaluation process to compare progress against objectives.

### Board composition and succession planning

Board composition was already a focus for the Company prior to our IPO in November 2015, with emphasis on establishing a Board with a strong background in the housebuilding sector and solid listed company experience that could guide the Group through the listing process.

Consequently, the Board has been completely refreshed in the past five years, with six of the current seven Directors having been on the Board for three years or less.

Director	Role	Date of appointment to the Board
John White	Chairman	23 September 2013
Clive Fenton	Chief Executive Officer	17 February 2014
Nick Maddock	Chief Financial Officer	19 September 2011
John Tonkiss	Operations Director	5 November 2015
Mike Parsons	Non-Executive Director	4 November 2013
Frank Nelson	Non-Executive Director	18 November 2013
Geeta Nanda	Non-Executive Director	1 April 2015

There have not been any Board appointments since the Company listed. As part of the evaluation process, it was identified that the composition should be kept under review by the Committee in order to ensure that the mix and experience remains relevant to our business. Due to the resignation of Nick Maddock, the Nominations Committee will be involved in the search for a new Chief Financial Officer.

The terms of reference of the Committee require a description and capabilities of the role to be prepared in advance of the recruitment process. The Committee may use the services of external independent advisers.

One of the areas identified in the evaluation where it was felt that additional attention was needed was succession planning, which, given the recent tenure of the current Board has not been a priority in the past couple of years. The Group is in the process of formulating a new succession plan which the Committee will continue to keep under review.

### Retirement and re-election of Directors

In accordance with our Articles of Association and as a FTSE 350 company, all of our Directors are required to retire and those who wish to continue to serve must seek re-election by our shareholders at each AGM.

As part of its evaluation process, the Committee reviewed the experience and contribution of each of the Directors, before recommending to the Board that all of the Directors should be recommended for re-election at our AGM to be held in January 2017. It was felt that the breadth of knowledge and experience across the Board was appropriate, particularly at this stage in our evolution. Further details on each of the Directors are set out on pages 50 and 51.

### Diversity

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

Although the Group has not set specific gender targets, as we believe that appointments should be based on merit, we support the principle of diversity, not just at Board level but throughout the Group. At year end we had one female member of the Board (representing 14%) and 48% of our total workforce were female. Further breakdown is provided on page 47.

### John White Nominations Committee Chairman 14 November 2016

# Risk and Audit Committee Report



## Introduction

This is my first report following our listing on the London Stock Exchange. We were not listed for the whole of the year under review and further changes were required in the membership of the Committee and our terms of reference to put in place arrangements appropriate to our new status as a listed company. We are confident we have the right people in place to drive forward the risk and audit oversight for the Group.

## Membership and tenure

At the beginning of FY16 the members of the Committee were Frank Nelson (Chairman), John White, Nils Albert and Mike Parsons. Mr Albert resigned from the Board on 21 October 2015. The membership was further amended in advance of the IPO and in order to ensure compliance with the UK Corporate Governance Code, when John White stepped down from the Committee and was replaced by Geeta Nanda. The current membership is therefore Frank Nelson, Mike Parsons and Geeta Nanda, all Independent Non-Executive Directors.

Prior to his appointment to the Board, Frank Nelson was previously Finance Director of Galliford Try plc, the FTSE 250 housebuilding and construction group for 25 years and the Board has determined that his recent and relevant financial experience makes him the ideal Director to chair the Committee. The Committee as a whole has competence relevant to our business with Frank Nelson and Geeta Nanda having considerable experience working in the housing sector and Mike Parsons having a background in providing care for elderly people. Further details of their background and experience are set out on pages 50 and 51.

## Responsibilities and terms of reference

New terms of reference were approved by the Committee and became effective on 11 November 2015. The principal responsibilities of the Committee are to:

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

## Activities during FY16

During the year there were three Risk and Audit Committee meetings, two of which were held after our IPO with the schedule of the meetings planned to tie in with the annual audit cycle. The table on page 52 sets out attendance at the Committee meetings held during the year.

Meetings can also be attended, by invitation, by other Directors and members of the internal audit and external audit teams, when deemed appropriate. The Chief Financial Officer, the Director of Risk and Internal Audit and the external Audit Partner attended all three meetings during the year. The members of the Committee meet with the external auditor without Executive Directors or management at every meeting attended by the external auditor.

During FY16 the key areas of focus for review and recommendation for approval to the Board were:

- The FY15 Annual Report and Financial Statements together with the report from the external auditor as well as consideration of the going concern status of the Group
- The Historical Financial Information for inclusion in the IPO prospectus
- The half year results including the review undertaken by the external auditor

The Committee also received reports at each meeting on:

- Risk and internal audit, including updates on the risk registers and the internal audit plan
- Whistleblowing and anti-bribery and corruption procedures and compliance

## Significant financial reporting issues

Significant financial reporting issues and judgements reviewed by the Committee during FY16 were:

- *Accounting and tax treatment of the IPO costs* – the Committee received a report from the Chief Financial Officer setting out the proposed accounting treatment under IAS 32 of the costs that had been incurred in connection with the IPO. In addition, external advice was sought regarding the tax treatment of the IPO costs. The Committee reviewed and approved the proposed treatment of these costs
- *Shared equity receivables* – the Committee reviewed the accounting treatment of future receivables due under the shared equity schemes that have been used by the Group over the years. The assumptions used in estimating the value of the future receivables and which are reviewed half yearly relate to the date of the anticipated future receipt, house price inflation, the discount rate and the new build premium
- *Share-based payments* – external advice was sought in respect of charges relating to the Group's sharesave plan and long term incentive plan (details of these schemes are detailed in note 32 to the consolidated financial statements). Judgements had to be made around lapse rates, share performance and the expected outcome of performance conditions
- *Cost capitalisation of overheads* – the Committee received a proposal from management analysing the split of overhead costs relating to design, planning, commercial, construction, procurement, and health and safety between those that could be attributed to the cost of the developments to inventory and those that relate to general business overheads to expenses. The assumptions are reviewed annually with the function heads before being proposed to the Committee

## Risk management and internal controls

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

- The design and implementation of a robust risk management framework across the Group to identify, monitor and manage key business risks and to establish a risk appetite for each key risk beyond which corrective action is required

- The development of an assurance programme to ascertain whether the controls around our key business risks are designed and operating effectively

Details of how the Group manages the risk process are set out on pages 38 and 39. The Director of Risk and Internal Audit reports at each Committee meeting on any changes to the risk register and any areas for improvement.

An annual internal audit plan, focusing on the key risks to the business, is reviewed and agreed by the Committee. Its cycle is driven primarily by risks identified in the risk registers. A separate commercial internal audit plan has been put in place specifically to investigate the management of our construction activities. Findings from internal audits and recommended improvements are reported to the Committee. The Chairman of the Committee meets regularly with the Director of Risk and Internal Audit. Other members of the Committee and the Board will also meet with the Director of Risk and Internal Audit periodically during the year.

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

The Board, on the recommendation of the Risk and Audit Committee, have remained satisfied that the system of internal controls continued to be effective in identifying, assessing and ranking the various risks facing the Group; and in monitoring and reporting progress in mitigating the potential impact on the business. Systems have been in place for the year under review and up to the date of approval of the Annual Report and Financial Statements. The Board has approved the Principal Risks and Uncertainties set out on pages 40 and 41 of this Annual Report.

### External auditor

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

### Auditor independence and performance

Deloitte LLP have been our external auditor since FY09, the first audit of the Company. We have had the same Audit Partner since 2013 but the Audit Director has changed during that period. The next audit tender will take place no later than the end of 2018.

The performance and independence of the auditor and the work they perform are reviewed annually following completion of the external audit. The Committee remains satisfied as to the independence and effectiveness of Deloitte LLP.

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

### Policy on non-audit services

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

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

The external auditor is prohibited from providing services which involve:

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

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

During FY15, Deloitte LLP were appointed as Reporting Accountants in connection with the IPO. They were one of three firms to be invited to tender for this work and they were selected objectively on the basis of being the preferred and most experienced firm for the role, one of their particular strengths being their property expertise. A different partner within Deloitte was appointed to oversee these services. The Committee was satisfied that Deloitte managed to maintain independence, despite undertaking both roles at the same time. Fees payable to Deloitte within FY16 in relation to transaction-related audit and advisory services are detailed in note 6 to the consolidated financial statements.

### Whistleblowing, fraud and anti-bribery and corruption

The Committee has reviewed and approved the Group's policies and procedures on whistleblowing, anti-bribery and corruption, fraud and anti-money laundering and receives regular updates from the Company Secretary on compliance with the policies across the business.

### Frank Nelson

#### Risk and Audit Committee Chairman

14 November 2016

# Directors' Remuneration Report

## Remuneration Committee Chairman's Annual Statement



### Dear Shareholder,

I am pleased to present, on behalf of the Board, the Remuneration Committee's first Remuneration Report following the IPO, which contains the Remuneration Policy (subject to a binding vote) and the Annual Report on Remuneration (subject to an advisory vote).

Work on the Remuneration Policy (the Policy) began after the IPO in November 2015 when I was appointed as Chairman of the Remuneration Committee. Since the IPO, the Committee has reviewed and built on the work done by the Board on the Company's remuneration structure and policy in the lead up to the IPO, an outline of which was published in the prospectus.

Our objective is to have a Policy which supports the Group's strategy to create an efficient and scalable business capable of building and selling more than 3,000 units per annum to enable us to target top-quartile sector margins and returns on capital over the medium term.

This Policy is designed to incentivise and motivate the leadership team to implement the Company's strategic goals and will also ensure they are aligned with shareholder expectations. This has been a guiding principle for the Committee. This report lays out the core elements of our Policy and our practice during FY16.

In our Policy description we have worked to provide the transparency and clarity required to enable our shareholders to understand the intent of our remuneration.

### Remuneration Committee Members

Mike Parsons (Chairman)

Geeta Nanda

Frank Nelson

John White

### Structure of the report

- Annual Statement (pages 58 and 59)
- 'At a glance' (pages 60 to 62)
- Remuneration Policy (pages 63 to 74)
- Annual Report on Remuneration (pages 74 to 77)

### Our core principles of remuneration

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

### FY16 highlights

During FY16, the Group has been through a transitional process as it moved from a privately owned to a publicly listed corporate. During the year, the Group, the Executive Directors and the senior management team have continued to drive the Group's investment and growth strategy and to deliver a high-quality product with constant focus on exceptional standards of customer satisfaction. Full details of the strategy and KPIs are contained on pages 30 to 33.

The strategy and KPIs for the Group have been the primary factors in setting the Policy to ensure that there is alignment between performance and reward. Further details of how the performance measures for our annual bonus plan and long term incentive plan align to our strategy are outlined on page 63.

### Remuneration Committee decisions made and activity following the IPO

The Group's remuneration policies and practices were reviewed extensively in preparation for the IPO to ensure appropriate remuneration arrangements were in place to support the Group's strategy following the listing of the Company.

Following the IPO, we have taken the opportunity to review all the key components of remuneration to ensure that the proposed Policy is fit-for-purpose as a listed Company and aligns with our strategic objectives and shareholder expectations.

In addition, we have undertaken the following activities as a Remuneration Committee:

- Determined the Committee's terms of reference
- Approved and implemented four share incentive plans as detailed later in the report
- Completed the Company's first Remuneration Report as a listed Company

We shared our Policy with our top shareholders and the main shareholder bodies in October 2016 prior to its formal publication. This was a valuable opportunity to receive feedback on our Policy.

Other key decisions/actions taken during the year included:

#### a) FY16 bonus outcomes

During FY16, the Group delivered record revenue, together with robust growth in completions, reservations and profits. Notwithstanding strong 12% growth in underlying operating profit for the year of £107.2m (FY15: £95.3m), the more challenging trading conditions experienced in Q4 resulted in the bonus target of £129.0m (threshold £119.3m) not being achieved and as a result no bonus is payable relating to this KPI.

During the year the Group exchanged on 65 good quality sites with attractive margins. A more measured approach to land acquisition was taken in light of market uncertainty in Q4. As a result the bonus target for land exchanges of 95 (threshold 88) was not met and no bonus is payable in relation to this KPI.

The Group maintains its strong financial position with £52.8m of net cash at the year end to invest in future land and build and to provide an income stream to shareholders by way of dividend – a commitment we made on IPO. Strong cash generation, the net proceeds from IPO, and a more measured approach to land and build investment resulted in generating a positive cash inflow against the target cash outflow of £58.7m. The Executive Directors were awarded the maximum bonus in relation to this KPI.

The continued focus on homeowner satisfaction has led to an 11th year of being awarded the Five Star rating for customer satisfaction by the HBF. While this is a fantastic result for the Group, the targeted performance of 93% (threshold 91%) has not been achieved. Consequently, no bonus is payable in relation to this KPI.

#### b) Resignation of the Chief Financial Officer

On 11 October 2016, the Group announced the resignation of Nick Maddock, the Chief Financial Officer. Nick will remain in post and a leaving date in Q1 2017 will be agreed in due course. Nick has played a pivotal role in transforming McCarthy & Stone over the past five years during his time as the Chief Financial Officer and I would like to thank him for his service during his tenure.

At the time of the publication of this report, details of his termination arrangements are being finalised by the Committee. The details will be published in the FY17 Directors' Remuneration Report.

Remuneration arrangements for his successor will be in line with the proposed Policy, if accepted by shareholders, and details will be published in the FY17 Directors' Remuneration Report.

#### c) Executive Director salaries

As outlined above, our Executive Directors and the senior management team have continued to support the Company through the next stage of development as a listed organisation.

During the year, the Committee considered the salaries for the three Executive Directors (effective from 1 November 2016).

As part of this review, the Chief Executive Officer was awarded an increase of 2% (£475,000 to £484,500). No increase was awarded to the outgoing Chief Financial Officer.

John Tonkiss was promoted to the newly created role of National Operations Director on 1 September 2016. John had previously been responsible for the five northern regions (West Midlands, East Midlands, North West, North East and Scotland) and upon his promotion he has taken on additional responsibilities for our four southern regions (South West, Southern, South East and North London) which results in John overseeing all of our regional operations.

The Committee awarded a salary rise to John comprising an increase as part of the annual review in line with the general employee population and an increase to reflect his promotion and additional responsibilities. John's new salary will be £300,000 (from £280,000 a 7% increase).

Under the voting regime that now governs these matters, two resolutions will be put to shareholders at the AGM in January 2017.

We will first seek approval for the Policy (pages 63 to 74). This outlines the Company's Remuneration Policy for Executive Directors effective from the 2017 AGM. The vote is binding on the Company and is intended to apply for up to three years.

The second is seeking approval for the Annual Report on Remuneration for the financial year ended 31 August 2016 (pages 74 to 77). It details decisions and actions taken by the Committee based on the performance of the Group and remuneration consequences. This section of the report is subject to an annual advisory vote.

Full details of the resolutions are set out in the separate Notice of AGM.

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

**Mike Parsons**  
Remuneration Committee Chairman  
14 November 2016

#### Notes

An evaluation of the Remuneration Committee's effectiveness will be conducted after a full year of operation.

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

- The Annual Statement by the Remuneration Committee Chairman and associated 'at a glance section'
- The Policy which sets out the Company's Remuneration Policy for Directors and the key factors that were taken into account in setting the Policy. This Policy is intended to apply for three years from its date of approval at the 2017 AGM
- The Annual Report on Remuneration which sets out payments made to the Directors and details the link between Group performance and remuneration for FY16

# Directors' Remuneration Report continued

## At a glance

### Introduction

In this section, we set out the remuneration outcomes for FY16 and an overview of our proposed Remuneration Policy for FY17 (subject to a binding vote by shareholders at our 2017 AGM).

### 2016 FINANCIAL YEAR

#### Remuneration outcomes

FY16 was a transitional year for the Company as we successfully floated in November 2015 to become a listed Company. This marks a significant change for the Company and for the roles of our Executive Directors.

Our FY16 results and the associated annual bonus outcomes outlined below reflect the performance measures and targets put in place from the start of the financial year and their level of satisfaction.

#### FY16 annual bonus outcomes

Performance condition	Weighting	Threshold performance required	Target performance required	Maximum performance required	Actual performance	Percentage of maximum performance achieved	Annual bonus value achieved <sup>1</sup>		
							Clive Fenton	Nick Maddock	John Tonkiss
Underlying operating profit <sup>2</sup>	70%	£119.3m	£129.0m	£138.7m	£107.2m	0%	–	–	–
Cash flow	10%	(£83.7m)	(£58.7m)	(£33.7m)	£48.4m	100%	£61,750	– <sup>3</sup>	£36,400
Land exchanges	10%	88	95	100	65	0%	–	–	–
Customer satisfaction	10%	91%	93%	95%	90%	0%	–	–	–
<b>Total</b>	<b>100%</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>10%</b>	<b>£61,750</b>	<b>–</b>	<b>£36,400</b>

#### Notes:

- Under the terms of the FY16 annual bonus, 25% for each element is payable for achieving the threshold performance, 50% is payable for achieving target performance, increasing to 100% for achieving maximum performance. Achievements between these points are calculated on a straight-line basis. Bonus up to 100% of salary is paid in cash with any bonus above 100% of salary being paid in shares which are deferred for three years subject to continued employment.
- Underlying operating profit is calculated by adding amortisation of brand and exceptional administrative expenses to operating profit. See note 6 to the consolidated financial statements for further information.
- Nick Maddock is not eligible for an annual bonus as per the rules of the McCarthy & Stone Annual Bonus Plan as he will be under notice when the bonus will be paid.

The detail of the outcomes can be found in the Annual Report on Remuneration on page 74. The FY16 bonus will be paid entirely in cash. No deferred shares will be awarded since 10% of the maximum performance was achieved.

### Long-term incentives awarded

Awards under the Long Term Incentive Plan (LTIP) were made on 25 November 2015 on the following basis:

#### FY16 LTIP awards

Executive Directors	Number of shares awarded	Face/maximum value at date of grant (% of salary)	% of award vesting at threshold	Performance period
Clive Fenton	263,888	100%	25%	3 years
Nick Maddock	166,666	100%	25%	3 years
John Tonkiss	155,555	100%	25%	3 years

The awards were granted as nil-cost share options and vesting will be subject to achieving a challenging sliding scale of earnings per share (EPS), return on capital employed (ROCE) and relative total shareholder return (relative TSR) against a bespoke group of housebuilders over a three-year performance period. The performance schedule for these measures is as follows:

Measure	Weighting	Threshold performance	Maximum performance
Cumulative EPS	30%	61.4p	69.8p
FY18 ROCE	30%	22%	25%
Relative TSR <sup>1</sup>	40%	Equal to Index	Index + 7.5% p.a.

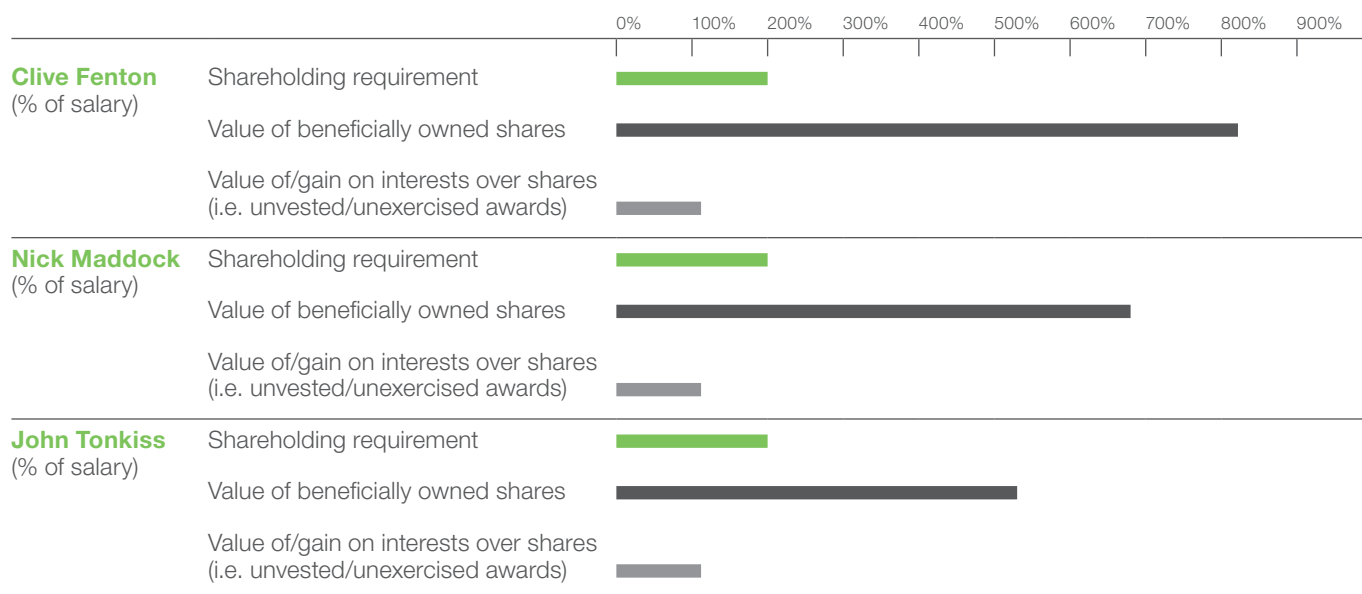
<sup>1</sup> The relative TSR comparator group comprises the unweighted average TSR of the following housebuilders: Barratt, Bovis, Bellway, Crest Nicholson, Persimmon, Redrow and Taylor Wimpey.

### Equity exposure of the Board

As a result of the IPO, the Executive Directors have significant shareholdings in the Company as set out below, providing them with a material stake in the business.

The following chart sets out the percentage value of all subsisting interests in the equity of the Company held by the Executive Directors at 31 August 2016.

The Company's minimum shareholding requirements are currently 200% of base salary for all Executive Directors.



The number of shares of the Company in which current Directors had a beneficial interest as at 31 August 2016 are set out in detail on page 76.

## Directors' Remuneration Report continued

### 2017 FINANCIAL YEAR Implementation of the Policy

On IPO, the remuneration arrangements for the Group were updated to reflect the Company's new public status and to align with Group strategy as we transitioned into a listed environment.

The Remuneration Committee has reviewed and considered the key components of remuneration since the IPO to ensure that the proposed Policy is fit-for-purpose and aligned with the expectations of a listed company.

Our proposed Policy (summarised below) has been designed to align remuneration of our Executive Directors with Group strategy and to drive continued success within a remuneration framework that meets the shareholder and governance expectations of a FTSE 250 company.

#### Overview of Policy for FY17

	Year	+1	+2	+3	
<b>Base salary</b>					The base salaries for Clive Fenton, Nick Maddock and John Tonkiss are currently £475,000, £300,000 and £280,000 respectively. For FY17, base salaries for the Executive Directors are: Clive Fenton £484,500 (2% increase), Nick Maddock £300,000 (no increase), John Tonkiss £300,000 (7% increase to reflect promotion and increased responsibilities). The new salaries are effective as of 1 November 2016.
<b>Pension</b>					The maximum contribution into the defined contribution plan or a salary supplement in lieu of pension will be 20% of gross base salary.
<b>Benefits</b>					Standard benefits will be provided. See the Policy for further details.
<b>Annual bonus plan (ABP)</b> • Cash • Deferred share award					For FY17 the maximum bonus opportunity will be 150% of salary.  The performance conditions and their weightings for the FY17 annual bonus are as follows: <ul style="list-style-type: none"> <li>• Group operating profit (70%)</li> <li>• Group full year cash flow (10%)</li> <li>• Group customer satisfaction (10%)</li> <li>• Group land exchanges (10%)</li> </ul> One-third of any bonus earned will be in the form of deferred shares.  The ABP contains clawback and malus provisions. Please refer to page 69 for further details.
<b>LTIP</b>					The performance conditions for the FY17 LTIP awards will be cumulative EPS, ROCE and relative TSR against the comparator housing group.  All three measures are assessed over a three-year performance period and are equally weighted.  For the achievement of threshold performance, 25% of the element will vest with straight-line vesting in between to maximum performance.  In FY17, an LTIP award of 150% of salary will be awarded to the Executive Directors.  The LTIP contains clawback and malus provisions. Please refer to page 69 for further details.
<b>NED fees</b>					The current fees for the Non-Executive Director roles are: <ul style="list-style-type: none"> <li>• Chairman: £230,000</li> <li>• Board fee: £53,000</li> <li>• SID additional fee: £10,000</li> <li>• Committee Chairman fee (per Committee): £10,000</li> </ul>

The Committee proposes to implement the Policy for FY17, subject to shareholder approval at our 2017 AGM. Further details of the Policy and how our proposed Policy aligns to Group strategy are set out in the following section.



## Remuneration Policy

### Introduction

In accordance with the remuneration reporting regulations, the Policy (the Policy) as set out below will, subject to shareholder approval from the 2017 AGM in January, become formally effective at the conclusion of that meeting and is intended to apply for the period up to three years from the date of approval.

The Company's core principles of remuneration are:

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

The Committee will review annually all elements of the remuneration including the base salary, annual bonus levels, proportion of bonus to be deferred into shares and the annual and long-term incentive performance conditions for the Executive Directors and selected members of the senior management team, drawing on trends and adjustments made to the remuneration of all employees across the Group and taking into consideration:

- Our business strategy
- Overall Group performance
- Market conditions, including practice of other housebuilders
- Views of key stakeholders of the business
- Corporate governance considerations
- Changing views of institutional shareholders and their representative bodies

### Our Policy and its link to our Group strategy

The Group's strategy is laid out on pages 30 and 31.

Ensuring the alignment of the proposed Policy to the Group's strategy was key for the Remuneration Committee in developing the proposed Policy below. The key elements of the Group's strategy and how its successful implementation is linked to the Executive Directors' remuneration are set out in the following table.

Policy (from the date of shareholder approval)	Our growth strategy						Equity ownership and retention of shares	Retain and reward Executive Directors to deliver the strategy
	Increased investment	Sales growth	Continued product innovation	Operational efficiency	Focus on performance			
<b>Annual bonus metrics</b>	✓	✓	✓	✓	✓	✓	✓	✓
The maximum bonus (including any part of the bonus deferred into an ABP award) deliverable under the ABP will not exceed 150% of a participant's annual base salary	<b>Land exchanges</b> <ul style="list-style-type: none"> <li>• The success of our investment and developing our future pipeline will be reflected through the number of land exchanges completed during the year</li> </ul>	<b>Profit, cash flow</b> <ul style="list-style-type: none"> <li>• The increase in sales will be measured by increased profitability and cash flow</li> </ul>	<b>Customer satisfaction, profit, cash flow</b> <ul style="list-style-type: none"> <li>• The efficient development of innovative products measured through customer satisfaction ratings will be reflected in increased profitability and cash flow</li> </ul>	<b>Profit, cash flow</b> <ul style="list-style-type: none"> <li>• The success in maximising operational excellence will be reflected through increased profitability and cash flow</li> </ul>	<b>Profit, cash flow</b> <ul style="list-style-type: none"> <li>• The success in achieving top sector margins and return on capital will be measured by increased profitability and cash flow</li> </ul>			
<b>LTIP metrics</b>	✓	✓		✓			✓	✓
Maximum annual award is normally 150% of salary  Awards will vest at the end of three years  For FY17 the performance conditions for awards are cumulative EPS, ROCE and relative TSR which are equally weighted	<b>TSR</b> <ul style="list-style-type: none"> <li>• Growing the Company's assets will be reflected in the value of the Company which will be measured through the Company's relative TSR performance</li> </ul>	<b>EPS, TSR</b> <ul style="list-style-type: none"> <li>• An incentive to grow sales in the longer term will lead to EPS growth. The success of this element of the strategy should be reflected in long-term TSR performance</li> </ul>		<b>EPS, ROCE, TSR</b> <ul style="list-style-type: none"> <li>• The success in maximising operational efficiency will be measured through the long-term EPS as well as ROCE. In addition, sustained value generation will be reflected in the Company's TSR performance</li> </ul>				
<b>Share Incentive Plan (SIP)</b>				✓			✓	✓
<b>Save As You Earn Plan (Sharesave)</b>				✓			✓	✓
<b>Minimum shareholding requirements</b> <ul style="list-style-type: none"> <li>• 200% of salary for all Executive Directors</li> </ul>							✓	

# Directors' Remuneration Report continued

## Policy table

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

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

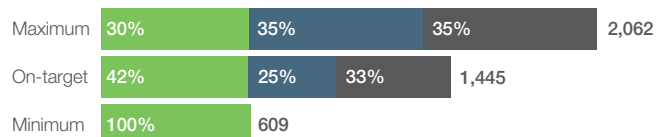
## Directors' Remuneration Report continued

Element of remuneration	How it supports the Group's short and long-term strategic objectives	Operation	Maximum opportunity	Performance metrics
<b>LTIP</b>	<p>The purpose of the LTIP is to incentivise and reward Executive Directors in relation to long-term performance and achievement of Group strategy.</p> <p>This will better align Executive Directors' interests with the long-term interests of the Group and act as a retention mechanism.</p> <p>The use of relative TSR measures the success of the implementation of the Group's strategy in delivering a return above our peer group.</p> <p>The use of three-year EPS and ROCE ensures Executive Directors are focused on sustainable long-term financial performance.</p>	<p>Awards are granted annually to Executive Directors in the form of a conditional share award or a nil-cost option.</p> <p>Details of the performance conditions for grants made in the year and the future financial year will be set out in the Annual Report on Remuneration.</p> <p>Awards will vest at the end of a three-year period subject to:</p> <ul style="list-style-type: none"> <li>• The Executive Director's continued employment at the date of vesting</li> <li>• Satisfaction of the performance conditions</li> </ul> <p>The Committee may award dividend equivalents on awards to the extent that these vest.</p> <p>The Committee has the discretion to apply a holding period of two years post vesting of LTIP awards.</p> <p>The LTIP contains clawback and malus provisions. Please refer to page 69 for further details.</p>	<p>Normal annual maximum value of 150% of annual base salary based on the market value at the date of grant set in accordance with the rules of the LTIP.</p> <p>In exceptional circumstances the Committee may grant an award with a maximum of 200% of annual base salary.</p> <ul style="list-style-type: none"> <li>• 25% of the award will vest for threshold performance</li> <li>• 100% of the award will vest for maximum performance</li> </ul> <p>There is straight-line vesting between these points.</p>	<p>The performance conditions for the FY17 LTIP awards are cumulative EPS, ROCE and TSR. The weightings of which are outlined on page 62.</p> <p>The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate.</p> <p>No material change will be made to the type of performance conditions without prior shareholder consultation.</p> <p>In exceptional circumstances the Committee retains the discretion to:</p> <ul style="list-style-type: none"> <li>• Vary, substitute or waive the performance conditions applying to LTIP awards if the Committee considers it appropriate and that the new performance conditions are deemed reasonable and are not materially less difficult to satisfy than the original conditions</li> <li>• 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</li> </ul>
<b>All employee share plans – SIP and Sharesave</b>	<p>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.</p>	<p>Executive Directors are eligible to participate in both the SIP and Sharesave.</p> <p>The Executive Directors shall be entitled to participate in any other all employee arrangement implemented by the Company.</p>	<p>The maximum level of participation set by legislation from time to time.</p>	<p>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.</p>
<b>Minimum shareholding requirement</b>	<p>The Committee has adopted formal shareholding guidelines that will encourage the Executive Directors to build up over a five-year period and then subsequently hold a shareholding equivalent to a percentage of base salary. Adherence to these guidelines is a condition of continued participation in the equity incentive arrangements. This requirement ensures that the interests of Executive Directors and those of shareholders are closely aligned.</p> <p>Currently the requirement is for all Executive Directors to build up a shareholding equal to 200% of salary.</p> <p>The Committee retains the discretion to increase the shareholding requirements.</p>			

### Illustrations of the application of the Policy

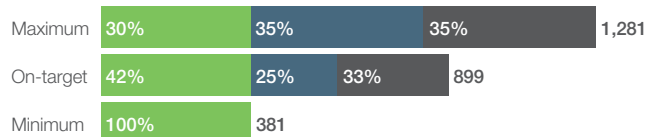
The charts below illustrate the remuneration that would be paid to each of the Executive Directors, based on salaries at the start of FY17, under three different performance scenarios: (i) minimum; (ii) on-target; and (iii) maximum. The table below these charts sets out the assumptions used to calculate the elements of remuneration for each of these scenarios. The elements of remuneration have been categorised into three components: (i) fixed; (ii) annual bonus (including deferred bonus); and (iii) LTIP.

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



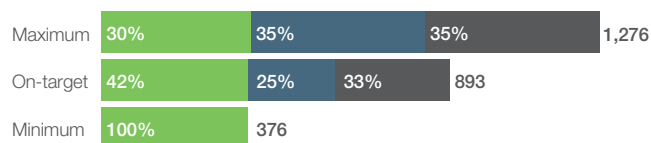
■ Fixed ■ Bonus ■ LTIP

#### Chief Financial Officer (Nick Maddock) (£'000)



■ Fixed ■ Bonus ■ LTIP

#### National Operations Director (John Tonkiss) (£'000)



■ Fixed ■ Bonus ■ LTIP

Element	Description	Minimum	Target	Maximum
Fixed	Salary, benefits <sup>1</sup> and pension	Included	Included	Included
Annual bonus	Annual bonus (including deferred shares)	No annual variable	50% of maximum bonus	100% of maximum bonus
	Maximum opportunity of 150% of salary			
LTIP	Award under the LTIP	No multiple year variable	65% of the maximum award	100% of the maximum award
	Maximum annual award of 150% of salary			

#### Notes:

- Based on FY16 benefits payments as per the Single Figure Table. The actual benefits paid for FY17 will only be known at the end of the financial year.
- See page 74 for the Single Figure Table and the accompanying notes.
- In accordance with the regulations share price growth has not been included. In addition, dividend equivalents have not been added to the deferred shares and LTIP awards.

# Directors' Remuneration Report continued

## Pay at risk

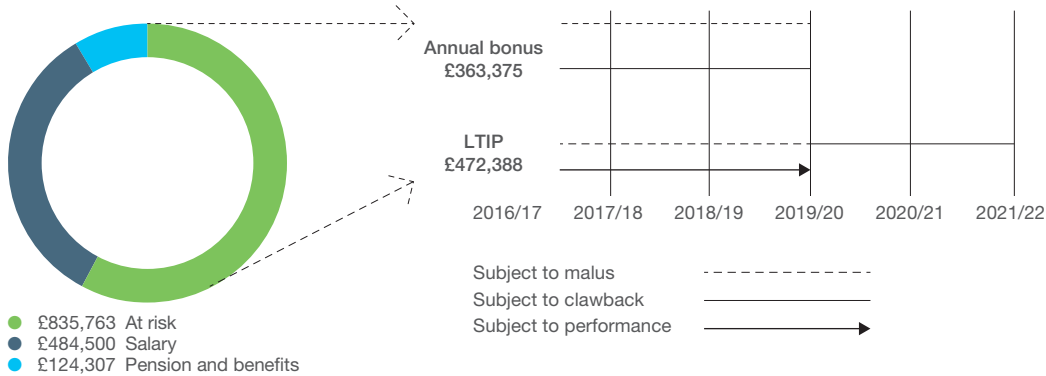
The charts below set out the single figure for each Executive Director based on whether the elements remain 'at risk'. For example:

- Payment is subject to continuing employment for a period (deferred shares and LTIP awards)
- Performance conditions have to still to be satisfied (LTIP awards)
- Elements are subject to malus or clawback for a period, over which the Company can recover sums paid or withhold vesting

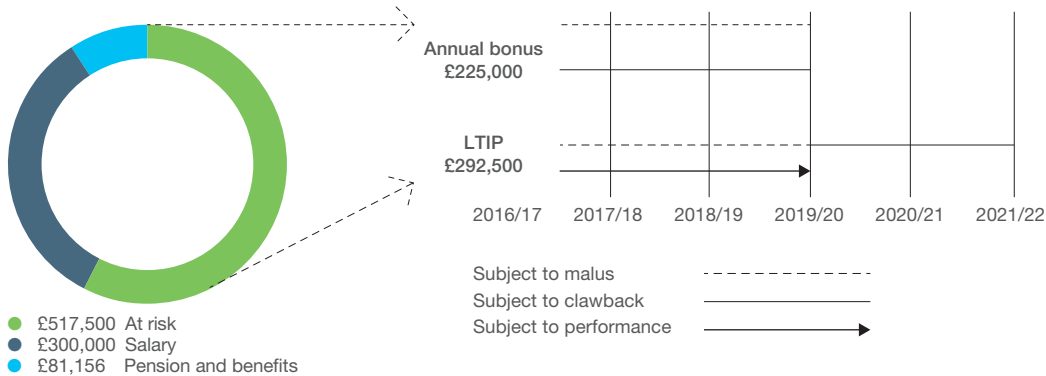
Further details of what triggers clawback or malus are set out on page 69.

Figures have been calculated based on target performance (fixed elements plus 50% of the maximum annual bonus and 65% of the maximum LTIP). The charts have been based on the same assumptions as set out on the previous page for the illustrations of the application of the Remuneration Policy.

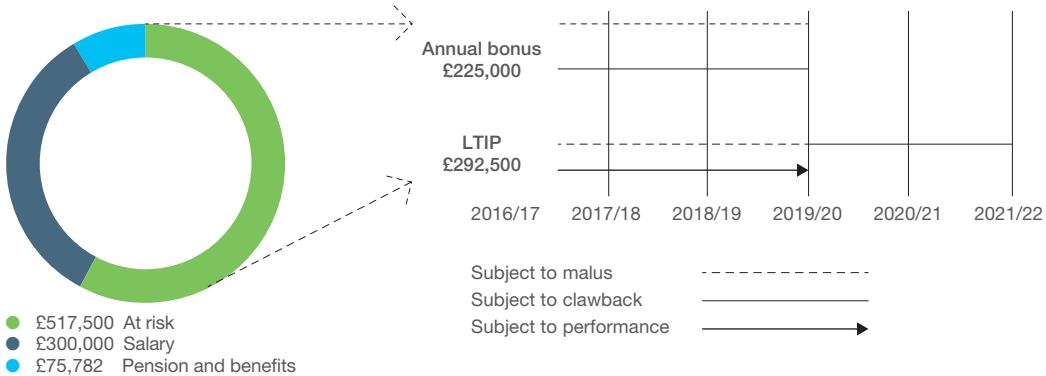
### Chief Executive Officer (Clive Fenton)



### Chief Financial Officer (Nick Maddock)



### National Operations Director (John Tonkiss)



### 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 bonus and deferred shares under the ABP, outstanding LTIP awards and deferred bonus shares 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 accounts 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
- The discovery that any information used to determine the number of ordinary shares subject to an ABP or LTIP award was based on error, or inaccurate or misleading information
- 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

Malus and clawback may be operated under the ABP and LTIP, as set out below.

	Annual Bonus Plan – cash	Annual Bonus Plan – deferred shares	Long Term Incentive Plan
<b>Malus</b>	Up to the date of payment of a cash bonus	To the end of the three-year deferral period	To the end of the three-year vesting period
<b>Clawback</b>	Three years post the bonus determination	n/a	Two years post vesting

The rules of the Plans provide sufficient powers to enforce malus and clawback where required.

### Discretion

The Committee has discretion in several areas of policy as set out in this report.

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.

It is the Committee's intention that commitments made in line with its policies prior to Admission will be honoured, even if the fulfilment of such commitments is post the Company's first AGM following Admission, notwithstanding that they may be inconsistent with the Policy.

### Recruitment policy

The Company's principle is that the remuneration of any new recruit will be assessed in line with the same principles as 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. In setting the remuneration for new recruits, the Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments as well as giving consideration for the appropriateness of any performance measures associated with an award.

## Directors' Remuneration Report continued

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

Remuneration element	Overview of recruitment policy
<b>Principles</b>	<p>The Company's principle is that the remuneration of any new recruit will be assessed in line with the same principles as for the Executive Directors.</p> <p>Where an existing employee is promoted to the Board, the policy set out above 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 Remuneration Report for the relevant financial year.</p>
<b>Salary, benefits and pension</b>	These will be set in line with the Policy for existing Executive Directors.
<b>Annual bonus</b>	Maximum annual participation will be set in line with the Company's Policy for existing Executive Directors and will not exceed 150% of salary.
<b>LTIP</b>	Maximum annual participation will be set in line with the Company's Policy for existing Executive Directors and will not exceed 150% of salary in normal circumstances and 200% of salary in exceptional circumstances.
<b>'Buyout' of incentives forfeited on cessation of employment</b>	<p>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:</p> <ul style="list-style-type: none"> <li>• The proportion of the performance period completed on the date of the Executive Director's cessation of employment</li> <li>• The performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied</li> <li>• Any other terms and conditions having a material effect on their value</li> </ul> <p>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 terms of the Company's existing incentive plans, a bespoke arrangement will be used.</p>
<b>Maximum variable remuneration</b>	The maximum variable remuneration which may be granted in normal circumstances (excluding buyouts) is 300% of salary (350% of salary if the maximum LTIP award made).

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.

### Payment for loss of office

The Committee will honour Executive Directors' contractual entitlements. Service contracts do not contain liquidated damages clauses. 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.



Remuneration element	Treatment on cessation of employment
<b>Principle</b>	<p>The Committee will honour Executive Directors' contractual entitlements. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case.</p> <p>Newly appointed Executive Directors will not have a notice period of longer than 12 months.</p>
<b>Salary, benefits and pension</b>	<p>These will be paid during the notice period. The Company has discretion to make a payment as set out above. In addition, provision is retained to make a payment in lieu of notice.</p> <p>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.</p>
<b>ABP cash awards</b>	<p><b>Good leavers:</b> Performance conditions will be measured at the bonus measurement date. Where the individual is eligible for a bonus, it will normally be pro-rated for the period worked during the financial year.</p> <p><b>Other leavers:</b> No bonus payable for year of cessation.</p> <p><b>Discretion:</b> The Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> <li>To determine that an executive is a good leaver: It is the Committee's intention only to use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders</li> <li>To determine whether to pro-rate the bonus for time: The Committee's normal policy is that it will pro-rate bonus for time. It is the Committee's intention to use discretion not to pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders</li> </ul>
<b>ABP share awards</b>	<p><b>Good leavers:</b> All subsisting deferred shares will vest at the end of the original deferral period.</p> <p><b>Other leavers:</b> Lapse of any unvested deferred shares.</p> <p><b>Discretion:</b> The Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> <li>To determine that an executive is a good leaver: It is the Committee's intention only to use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders</li> <li>To vest deferred shares at the end of the original deferral period or at the date of cessation: The Committee will make this determination depending on the type of good leaver reason resulting in the cessation</li> <li>To determine whether to pro-rate the maximum number of shares for the time from the date of grant to the date of cessation: The Committee's normal policy is that it will not pro-rate awards for time. The Committee will determine whether to pro-rate based on the circumstances of the Executive Director's departure</li> </ul>
<b>LTIP</b>	<p><b>Good leavers:</b> Pro-rated for time and performance in respect of each subsisting LTIP award.</p> <p><b>Other leavers:</b> Lapse of any unvested LTIP awards.</p> <p><b>Discretion:</b> The Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> <li>To determine that an executive is a good leaver: It is the Committee's intention only to use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders</li> <li>To measure performance over the original performance period or at the date of cessation: The Committee will make this determination depending on the type of good leaver reason resulting in the cessation</li> <li>To determine whether to pro-rate the maximum number of shares for the time from the date of grant to the date of cessation: The Committee's normal policy is that it will pro-rate awards for time. It is the Committee's intention to use discretion not to pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders</li> </ul>
<b>Other contractual obligations</b>	There are no other contractual provisions other than those set out above agreed prior to 27 June 2012.

A good leaver reason is defined as cessation in the following circumstances:

- Death
- Ill-health
- Injury or disability
- Redundancy
- Retirement
- Employing company ceasing to be a Group company
- Transfer of employment to a company which is not a Group company
- At the discretion of the Committee (as described above)

Cessation of employment in circumstances other than those set out above is cessation for other reasons and will be treated as 'bad leavers'.

## Directors' Remuneration Report continued

### Change of control

The Committee's policy on the vesting of incentives on a change of control is summarised below:

Name of Incentive Plan	Change of control discretion
<b>ABP cash awards</b>	<p>Pro-rated for time and performance to the date of the change of control.</p> <p>The Committee has discretion regarding whether to pro-rate the bonus for time. The Committee's policy is that it will normally pro-rate the bonus for time. It is the Committee's intention to use its discretion not to pro-rate in circumstances only where there is an appropriate business case which will be explained in full to shareholders.</p>
<b>ABP deferred share awards</b>	<p>Subsisting deferred share awards will vest on a change of control.</p> <p>The Committee has discretion regarding whether to pro-rate the award for time. The Committee's normal policy is that it will not pro-rate awards for time. The Committee will make this determination depending on the circumstances of the change of control.</p>
<b>LTIP</b>	<p>The number of shares subject to subsisting LTIP awards will vest on a change of control, pro-rated to time and performance.</p> <p>In normal circumstances the Committee will pro-rate for time. The Committee will only waive prorating in exceptional circumstances where it views the change of control as an event which has provided exceptional enhanced value to shareholders which will be fully explained to shareholders.</p> <p>In all cases the performance conditions must be satisfied.</p>

### 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.	<p>The Board is responsible for setting the remuneration of the Non-Executive Directors. The Committee is responsible for setting the Chairman's fees.</p> <p>Non-Executive Directors are paid an annual fee and additional fees for chairmanship of Committees. The Chairman does not receive any additional fees for membership of Committees.</p> <p>Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. Fees are set at broadly the median of the comparator group.</p> <p>Non-Executive Directors and the Chairman do not participate in any variable remuneration or benefits arrangements.</p>	<p>The fees for Non-Executive Directors and the Chairman are set in line with the comparator group.</p> <p>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.</p> <p>The Company will pay reasonable expenses incurred by the Non-Executive Directors and Chairman and may settle any tax incurred in relation to these.</p>	None.

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

#### Executive Directors

Name	Date of service contract	Nature of contract	Notice periods		Compensation provisions for early termination
			From Company	From Director	
Clive Fenton	30 January 2014	Rolling	12 months	12 months	At the discretion of the Committee
Nick Maddock	9 August 2011	Rolling	12 months	6 months	
John Tonkiss	21 January 2014	Rolling	12 months	6 months	

## Non-Executive Directors

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

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

The Non-Executive Directors of the Company (including the Chairman) do not have service contracts. The Non-Executive Directors are appointed by letters of appointment. Each independent Non-Executive Director's term of office runs for a three-year period.

The terms of the Non-Executive Directors' positions are subject to their re-election by the Company's shareholders at the AGM and to re-election at any subsequent AGM at which the Non-Executive Directors stand for re-election.

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

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

### Statement of considerations of employment conditions elsewhere in the Group

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

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

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

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

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

### Link to objectives

The following table demonstrates how key objectives are reflected consistently in plans operating at all levels within the Group.

Plan	Purpose	Eligibility	Objectives			
			Financial performance	Strategic and operational goals	Long-term value creation (encouraged through equity retention)	Share ownership
Sharesave/SIP	To broaden share ownership and share in corporate success over the medium term	All employees			✓	✓
ABP	Incentivise and reward short-term performance. At senior level an element of bonus is deferred in shares	Executive Directors, senior executives, senior managers and managers	✓	✓	✓	✓
LTIP	Incentivise and reward long-term performance	Executive Directors and senior executives	✓	✓	✓	✓

## Directors' Remuneration Report continued

### Statement of consideration of shareholder views

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 with the Company's key shareholders along with the Investment Association and the Institutional Shareholder Services on the proposed Policy set out in this report.

## Annual Report on Remuneration

### Single total figure of remuneration (audited)

#### Executive Directors (audited)

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of FY16.

Comparative figures for FY15 have not been provided because of the change in circumstances as a result of the listing. The Committee does not believe that the remuneration payable in its earlier years as a private company bears comparative value to that which will be paid post-IPO. In the FY17 report comparative information will be provided.

Single figure table	Period	Salary	Taxable benefits <sup>1</sup>	Bonus <sup>2</sup>	LTIP <sup>3</sup>	Pension <sup>4</sup>	Total
Clive Fenton	FY16	£467,617	£27,407	£61,750	n/a	£71,250	£628,024
Nick Maddock	FY16	£288,781	£21,156	–	n/a	£54,996	£364,933
John Tonkiss	FY16	£229,445	£15,782	£36,400	n/a	£42,990	£324,617

1 See section below setting out details of the benefits provided.

2 Details of the bonus targets, their level of satisfaction and the resulting bonus earned are set out below. Nick Maddock is not eligible for an annual bonus as per the rules of the McCarthy & Stone ABP as he will be under notice when the bonus will be made.

3 First LTIP award made on 25 November 2015. No LTIP award was eligible to vest in FY16.

4 Comprises the value of Group Personal Pension scheme contributions and salary supplements in lieu of pension. See note on the following page for further details.

### Taxable benefits (audited)

Benefits in the year comprised a company car or company car allowance, life assurance and private medical insurance.

### Annual bonus (audited)

In respect of FY16, the bonus awards payable to Executive Directors were agreed by the Committee having reviewed the Company's results. Details of the targets used to determine bonuses in respect of FY16 and the extent to which they were satisfied are shown in the table below. These figures are included in the single figure table.

Performance condition	Weighting	Threshold performance required	Target performance required	Maximum performance required	Actual performance	Percentage of maximum performance achieved	Annual bonus value achieved <sup>1</sup>		
							Clive Fenton	Nick Maddock	John Tonkiss
Underlying operating profit	70%	£119.3m	£129.0m	£138.7m	£107.2m	0%	–	–	–
Cash flow	10%	(£83.7m)	(£58.7m)	(£33.7m)	£48.4m	100%	£61,750	– <sup>2</sup>	£36,400
Land exchanges	10%	88	95	100	65	0%	–	–	–
Customer satisfaction	10%	91%	93%	95%	90%	0%	–	–	–
<b>Total</b>	<b>100%</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>10%</b>	<b>£61,750</b>	<b>–</b>	<b>£36,400</b>

1 Under the terms of the FY16 annual bonus, 25% for each element is payable for achieving the threshold performance, 50% is payable for achieving target performance, increasing to 100% for achieving maximum performance. Achievements between these points are calculated on a straight-line basis. Bonus up to 100% of salary is paid in cash with any bonus above 100% of salary being paid in shares which are deferred for three years subject to continued employment. As the FY16 outcome is below 100% of salary, there is no bonus deferral.

2 Nick Maddock is not eligible for an annual bonus as per the rules of the McCarthy & Stone ABP as he will be under notice when the bonus will be paid.

No discretion was exercised by the Committee in relation to the outcome of the annual bonus awards.

**Long-term incentives awarded (audited)**

Awards under the LTIP were made on 25 November 2015 on the following basis:

Executive Directors	Number of shares awarded	Basis of award granted (% of basic salary)	Face value of award <sup>1</sup>	% of award vesting at threshold	Maximum percentage of the face value that could vest	Performance period
Clive Fenton	263,888	100%	£612,220	25%	100%	3 years
Nick Maddock	166,666	100%	£386,665	25%	100%	3 years
John Tonkiss	155,555	100%	£360,888	25%	100%	3 years

<sup>1</sup> Face value calculated using share price at date of grant (£2.32 on 25 November 2016). As outlined on grant, the number of awards over shares was calculated by reference to the Company's IPO offer price of £1.80, as permitted under the rules of the LTIP and referred to in the IPO prospectus.

**Face value calculated using share price at date of grant**

The awards were granted as nil-cost share options and vesting will be subject to achieving a challenging sliding scale of EPS, ROCE and relative TSR against a bespoke group of housebuilders. The performance schedule for these measures is as follows:

Measure	Weighting	Threshold performance	Maximum performance
Cumulative EPS	30%	61.4p	69.8p
FY18 ROCE	30%	22%	25%
Relative TSR <sup>1</sup>	40%	Equal to Index	Index + 7.5% p.a.

<sup>1</sup> The TSR comparator group Index comprises the unweighted average TSR of the following housebuilders: Barratt, Bovis, Bellway, Crest Nicholson, Persimmon, Redrow and Taylor Wimpey.

**Pension entitlements**

The Group operates a Group Personal Pension scheme under which Executive Directors are entitled to receive contributions of up to 20% of salary.

The Group does not currently operate a defined benefit scheme.

**Non-Executive Directors (audited)**

The table below sets out the single total figure of remuneration and breakdown for each Non-Executive Director. For similar reasons to the single figure table for Executive Directors, no comparative information has been provided for FY15. In the FY17 report comparative information will be provided.

Non-Executive Directors	FY16 fees	FY16 taxable benefits	Roles
John White	£209,083	£2,334	Non-Executive Chairman
Frank Nelson	£68,360	–	Senior Independent Non-Executive Director
Mike Parsons	£60,322	–	Independent Non-Executive Director
Geeta Nanda	£52,283	–	Independent Non-Executive Director

**Payments to past Directors/payments for loss of office (audited)**

There were no payments in the financial year.

**Statement of Directors' shareholding and share interests (audited)****Directors' interests in share awards**

The outstanding LTIP and Sharesave awards for the Executive Directors are shown in the table below.

Director	Plan	Date of grant	Number of awards held at 11.11.15	Awards granted	Awards vested	Awards lapsed during the year	Number of awards held at 31.8.16	Exercise price (£)	Date on which award vests/ becomes exercisable	Expiry date
Clive Fenton	LTIP	25.11.15	–	263,888	–	–	263,888	Nil	25.11.18	25.11.25
	Sharesave	10.12.15	–	10,752	–	–	10,752	1.674	28.01.19	28.07.19
Nick Maddock	LTIP	25.11.15	–	166,666	–	–	166,666	Nil	25.11.18	25.11.25
	Sharesave	10.12.15	–	10,752	–	–	10,752	1.674	28.01.19	28.07.19
John Tonkiss	LTIP	25.11.15	–	155,555	–	–	155,555	Nil	25.11.18	25.11.25
	Sharesave	10.12.15	–	10,752	–	–	10,752	1.674	28.01.19	28.07.19

## Directors' Remuneration Report continued

### Directors' shareholdings

At the end of FY16, the Executive Directors had each met their shareholding requirements. A summary of their shareholding including unvested awards is provided in the table below.

Directors	Shareholding requirement (% salary)	Current shareholding (% salary) <sup>1</sup>	Shares held		Shares		Options			Shareholding requirement met?
			Beneficially owned	Subject to performance conditions <sup>2</sup>	Not subject to performance conditions	Vested but unexercised	Unvested LTIP (nil-cost options subject to performance conditions)	Unvested Sharesave options		
<b>Executive Directors</b>										
Clive Fenton	200%	824%	1,651,311	–	–	–	263,888	10,752	Yes	
Nick Maddock	200%	676%	825,361 <sup>3</sup>	–	–	–	166,666	10,752	Yes	
John Tonkiss	200%	536%	578,685	–	–	–	155,555	10,752	Yes	
<b>Non-Executive Directors</b>										
John White	n/a	–	1,650,192	n/a	n/a	n/a	n/a	n/a	n/a	
Frank Nelson	n/a	–	173,270	n/a	n/a	n/a	n/a	n/a	n/a	
Mike Parsons	n/a	–	173,270	n/a	n/a	n/a	n/a	n/a	n/a	
Geeta Nanda	n/a	–	–	n/a	n/a	n/a	n/a	n/a	n/a	

1 As at 31 August 2016. This is based on a closing share price of £2.043 and the year-end salaries of the Executive Directors. Values not calculated for Non-Executive Directors as they are not subject to shareholding requirements.

2 LTIP awards were granted in the form of nil-price share options.

3 Since year end Nick Maddock has bought an additional 87 shares through the SIP. There have been no other changes to the shareholdings above.

### Fees retained for external non-executive directorships

Executive Directors may hold positions in other companies as Non-Executive Directors and retain the fees.

Clive Fenton, Nick Maddock and John Tonkiss do not hold any external directorships.

### Comparison of overall performance and pay

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

As the Company is currently a constituent of the FTSE 250, the Committee considers this an appropriate index. This graph has been calculated in accordance with the regulations. It should be noted that the Company listed on 11 November 2015 and therefore the comparison is only for the period from 11 November 2015 to 31 August 2016.



### Chief Executive Officer historic remuneration

The table on the following page sets out the total remuneration delivered to the Chief Executive Officer over the last year valued using the methodology applied to the single total figure of remuneration.

The Committee does not believe that the remuneration paid in its earlier years when the Company was private bears any comparative value to that which will be paid post-IPO; therefore the Committee has chosen to disclose remuneration only for FY16. In the FY17 Report comparative information will be provided.

Chief Executive Officer	FY16
Total Single Figure (£)	628,024
Annual bonus payment level achieved (% of maximum opportunity)	10%
LTIP vesting level achieved <sup>1</sup> (% of maximum opportunity)	0%

1 No award has vested under the LTIP.

### Relative importance of the spend on pay

The table below sets out the relative importance of spend on pay in FY16. The Company did not exist in its current form during FY15 and therefore there are no relevant comparators for FY15. All figures provided are taken from the relevant company accounts. In the FY17 report comparative information will be provided.

	Disbursements from profit in FY16 (£m)
Profit distributed by way of dividend	24.2
Total tax contributions	30.7
Overall spend on pay including Executive Directors	69.3

### Change in the Chief Executive Officer's remuneration compared with employees

The Committee does not believe that the remuneration payable in its earlier years as a private company bears comparative value to that which will be paid post-IPO. In the FY17 report this information will be provided.

### Statement of implementation of the Policy in FY17

See table on page 62.

### Consideration by the Directors of matters relating to Directors' remuneration

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

Our main responsibilities are to:

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

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

### Advisers to the Remuneration Committee

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

During the financial year PwC advised the Committee on all aspects of the Policy for Executive Directors and selected members of the senior management team. PwC also provides certain other non-audit services to the Group and the Committee is satisfied that no conflict of interest exists or existed in the provision of these services.

PwC is a member of the Remuneration Consultants Group and is a signatory to its voluntary code of conduct which is designed to ensure objective and independent advice is given to remuneration committees. Fixed fees of £24,000 (FY15: £nil) were provided to PwC during the year in respect of remuneration advice given to the Committee.

### Statement of voting at AGM

The 2017 AGM will be the first AGM of the Company since listing and therefore there is no historic voting information.

### Mike Parsons

#### Remuneration Committee Chairman

14 November 2016

# Directors' Report

The Directors present their report for the financial year ended 31 August 2016.

## Corporate governance statement

The information that fulfils the requirements of the corporate governance statement for the purposes of the FCA's Disclosure Guidance and Transparency Rules can be found in the corporate governance information on pages 50 to 80 (all of which forms part of this Directors' Report) and in this Directors' Report.

## Cross-references to other sections of the document

Disclosures that are in other sections include:

Subject matter	Section and page reference
Employee diversity and inclusivity	Strategic Report, page 47
Employee involvement	Strategic Report, page 48
Greenhouse gas emissions	Strategic Report, page 45

The only disclosure required under LR 9.8.4R which is applicable to the year under review is details of long-term incentive schemes, which can be found on page 60 of the Directors' Remuneration Report.

## Dividends

An interim dividend of 1.0p per ordinary share was paid on 31 May 2016 to those shareholders on the register on 29 April 2016. Subject to shareholder approval at the 2017 AGM, the Directors are proposing a final dividend for the financial year ended 31 August 2016 of 3.5p per ordinary share. This brings the total dividend for the year to 4.5p.

## Directors

The names of the Directors who were Directors at year end and up to the date of this report are on pages 50 and 51. Nils Albert served as a Director until 21 October 2015 when he resigned from the Board. Details of the Directors' interests in the share capital of the Company are set out in the Directors' Remuneration report on page 76. In accordance with the UK Corporate Governance Code, all the Directors will be seeking re-election at the 2017 AGM.

The powers given to the Directors are contained in the Company's Articles of Association and are subject to relevant legislation and, in certain circumstances, including in relation to the issuing or buying back by the Company of its shares, subject to authority being given to the Directors by shareholders in general meeting. The Articles of Association also govern the appointment and replacement of Directors.

## Articles of Association

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

## Share capital and control

Details of the Company's share capital are on page 104 in note 26 to the consolidated financial statements.

At 31 August 2015, there were 1,905,549,751 ordinary shares of 20p nominal value in issue. The share capital was reorganised in advance of the Company's Admission to the London Stock Exchange:

- the nominal value of the ordinary shares was reduced from 20p to 2p.
- a further 43,706,526 ordinary shares were allotted.
- the shares were consolidated so that four ordinary shares of 2p nominal value became one ordinary share of 8p nominal value, giving a total of 487,314,069.25 shares; and
- a further 50,000,000 ordinary shares were allotted on 11 November 2015.

At 31 August 2016, there were 537,314,069.25 ordinary shares of 8p nominal value in issue. A resolution to authorise the Company to buy back and cancel the quarter share will be put to shareholders at the forthcoming AGM.

The Company has one class of shares: ordinary shares of 8p nominal value, each of which carries the right to one vote at general meetings of the Company. Shares may be issued with such rights and restrictions as the Company may, by ordinary resolution, decide or, if there is no such resolution or so far as it does not make specific provision, as the Board may decide.

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

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

By way of a special resolution dated 26 October 2015 (prior to Admission), shareholders authorised the Company to allot shares other than to existing shareholders up to a maximum nominal value equal to 10% of the nominal value of the Company's issued share capital immediately following Admission, being £4,298,512 nominal value equal to 53,731,406 shares. During FY16 options over 6,040,285 shares were granted. The Directors are seeking renewal of the authority at the forthcoming AGM, in accordance with relevant institutional guidelines.

## Purchase of own shares

By way of a special resolution dated 26 October 2015 (prior to Admission), shareholders authorised the Company to purchase in the market a maximum of 14.99% of the Company's issued shares. No shares have been purchased under this authority. The Directors are seeking renewal of the authority at the forthcoming AGM, in accordance with relevant institutional guidelines.



### Substantial shareholdings

As at 31 August 2016, we had been notified, in accordance with the rules set out in the FCA's Disclosure Guidance and Transparency Rules sourcebook, of the following interests in our ordinary share capital:

Name of notifying entity/nature of holding	Number of shares disclosed	% interest in voting rights
Anchorage Capital Master Offshore Limited (indirect) <sup>1</sup>	59,176,445	11.01
Aviva plc and subsidiaries (indirect)	41,202,954	7.67
Standard Life Investments (Holdings) Limited (indirect)	35,262,778	6.56
FIL Limited (indirect)	32,199,145	5.99
The Goldman Sachs Group, Inc (indirect)	24,383,723	4.54
BHHL TPG Holdings (direct)	20,886,456	3.89
Canada Pension Plan Investment Board (direct)	20,150,000	3.75

In the period from 31 August 2016 to the date of this report, we received the following notifications:

Name of notifying entity/nature of holding	Number of shares disclosed	% interest in voting rights
The Goldman Sachs Group, Inc (indirect)	23,498,640	4.37
Anchorage Capital Master Offshore, Ltd (indirect) <sup>2</sup>	66,136,100	12.31
Canada Pension Plan Investment Board (direct)	29,084,092	5.41
FIL Limited (indirect)	30,545,791	5.68

<sup>1</sup> Includes contracts for difference representing 18,458,788 voting rights (3.44%).

<sup>2</sup> Includes contracts for difference representing 25,418,443 voting rights (4.73%).

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

### Significant agreements (change of control)

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

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

### Directors' insurance and indemnities

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

The Group has also granted indemnities to each of the current Directors of the Company and its main trading subsidiary to the extent permitted by law. Qualifying third-party indemnity provisions were in force during the year ended 31 August 2016 and continue to remain in force.

### Political donations

By way of a special resolution dated 26 October 2015 (prior to Admission), shareholders authorised the Company to make political donations and political expenditure up to a maximum of £100,000. During the year the Group did not make any political donations or incur any political expenditure. The Directors are seeking renewal of the authority at the forthcoming AGM, in accordance with relevant institutional guidelines.

### Financial instruments

Details of the Group's financial instruments and its exposures to price risk, credit risk, liquidity risk and cash flow risk are set out in note 31 to the financial statements on pages 106 to 109.

### Going concern

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

The Directors are also required to provide a broader assessment of viability over a longer period, which can be found on page 39.

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

### Disclosure of information to the auditor

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- 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.

### AGM

The 2017 AGM will be held on Wednesday 25 January 2017. Full details are contained in the Notice convening the AGM, which is being sent to shareholders with this Annual Report.

On behalf of the Board

**Patrick Hole**  
Company Secretary

14 November 2016

## Statement of Directors' Responsibilities

### Financial statements and accounting records

The Directors 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. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards), including FRS 102, The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland, and applicable law. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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

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

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

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

### Fair, balanced and understandable

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

### Responsibility statement

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

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

This responsibility statement was approved by the Board of Directors on 14 November 2016 and is signed on its behalf by:

**Clive Fenton**  
Chief Executive Officer  
14 November 2016

**Nick Maddock**  
Chief Financial Officer  
14 November 2016

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

## Opinion on financial statements of McCarthy & Stone plc

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 August 2016 and of the Group's profit for the year then ended
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
- The Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

The financial statements comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Cash Flow Statement and the notes 1 to 35 relating to the Consolidated financial statements and 1 to 12 relating to the Parent Company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRS 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 (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

## Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1 to the consolidated financial statements and the Directors' statement on the longer-term viability of the Group contained within the Strategic Report section on page 39.

We have nothing material to add or draw attention to in relation to:

- The Directors' confirmation on page 39 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity
- The disclosures on pages 38 to 41 that describe those risks and explain how they are being managed or mitigated

- The Directors' statement in note 1 to the consolidated financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements
- The Directors' explanation on page 39 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

## Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

## Our assessment of risks of material misstatement

The assessed risks of material misstatement described below on pages 82 to 83 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. As part of our audit of the Group, in addition to substantive tests set out below, we also evaluate the design and implementation of internal controls over financial reporting in each of the risk areas.

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

Risk

How the scope of our audit responded to the risk

## Cost capitalisation of overheads

Refer to page 56 (Report of the Risk and Audit Committee) and page 96 (Critical accounting judgements and key sources of estimation uncertainty).

Inventory comprises land, work in progress and finished stock. The value of inventory as at 31 August 2016 is £685.8m (2015: £585.8m) and is the most significant item on the Consolidated Statement of Financial Position. Overhead costs capitalised at 31 August 2016 amount to £25.7m (2015: £16.7m) representing 4.8% of stock additions (2015: 4.2%). Amounts released to cost of sales totalled £13.2m (2015: £5.1m).

Management perform a detailed exercise to analyse by department the proportion of costs relating directly to site development versus general business overheads.

We consider the allocation and recognition of overhead costs into inventory to represent an area of risk with significant judgement identified in:

- Identifying which costs, based on their nature, should be capitalised into inventory rather than expensed
- Determining the proportion of Planning, Design, Commercial, Construction and Health & Safety costs incurred in bringing the inventories to their present location and condition, in accordance with IAS 2 'Inventories'

The judgements above impact the carrying value of inventory in the Consolidated Statement of Financial Position and the gross margin recognised on each unit sold.

## Shared equity receivables

Refer to page 56 (Report of the Risk and Audit Committee), page 96 (Critical accounting judgements and key sources of estimation uncertainty) and page 102 (financial statement disclosures).

The Group offers shared equity-based arrangements to buyers. The present value of shared equity receivables as at 31 August 2016 is £29.3m (2015: £28.0m).

The Group's assessment and supporting calculation are dependent on a number of assumptions, which are inherently judgmental due to their forward-looking nature. Key assumptions include:

- Property price projections
- Expected maturity date
- Discount rate
- New build premium against subsequent sales

The above assumptions are dependent on management's ability to estimate market activity, future trends and fluctuations. Changes to these assumptions could result in a material change in the value of the receivable recognised within the Statement of Financial Position and the associated movements recorded in the Statement of Comprehensive Income.

We challenged the reasonableness of the allocation and the accuracy of costs capitalised for each category of inventory. Our work involved the following:

- Liaising with senior departmental management to understand the process employed in determining the allocation and analytically reviewing the movements year-on-year
- Performing sensitivity analysis on the proportion of costs capitalised in the year in conjunction with benchmarking analysis (where available)
- Checking the mechanical accuracy of the calculations and identifying any anomalies
- Testing a sample of the costs absorbed to assess whether these are valued and allocated correctly
- Performing a recalculation based on the final percentage allocation and cost inputs to establish whether the amounts capitalised are accurate

We critically assessed the accuracy of the inputs and the reasonableness of the assumptions applied in the Group's fair value model. Our work involved the following:

- Consulting with our internal Real Estate specialists to challenge the rates and methodologies applied through comparison with the market
- Obtaining relevant sector data (e.g. Office of National Statistics and the latest indices) to challenge the reasonableness of house pricing inflation and new build premiums
- Assessing the impact of the UK Referendum and the decision to exit the European Union on each of the assumptions applied through review of the most recent available public information
- Performing tests of detail to assess the integrity of inputs
- Benchmarking the Group's assumptions against other house builders (where available)
- Performing sensitivity analysis over the key assumptions applied on both an individual and collective basis
- Comparing the cash received on redemptions during the year to the carrying value of the related receivable to ensure proceeds were not significantly different
- Checking the mechanical accuracy of the fair value calculation for all schemes and assessing whether the correct amounts have been recognised in the financial statements

Risk

How the scope of our audit responded to the risk

### Incentive schemes

Refer to page 56 (*Report of the Risk and Audit Committee*), page 96 (*Critical accounting judgements and key sources of estimation uncertainty*) and page 110 (*financial statement disclosures*).

The Group listed on the London Stock Exchange in November 2015. Upon listing (IPO), the Group awarded the participants of the Management Incentive Plan (MIP) £0.9m in cash and £19.7m in equity. Subsequent to listing, the Group introduced four new incentive schemes:

- Long Term Incentive Plan (LTIP)
- Save As You Earn (SAYE)
- Annual and Deferred Bonus Plan
- Share Incentive Plan (SIP)

The accounting treatment and supporting grant date fair value calculations are inherently complex and give rise to a risk of material misstatement with significant judgement required in determining the following assumptions:

- Share price movements (for the total shareholder return tranche of the LTIP scheme)
- Expected future performance
- Expected participant attrition

Our work in respect of the vesting of the MIP involved the following:

- Verifying the terms of the plan to signed agreement
- Recalculating both the cash and equity elements of the settlement based on the terms of the plan and the equity value of the Group prior to IPO
- Performing tests of detail over a sample of cash payments for selected participants through agreement to payslip
- Verifying that the shares awarded and the related unwind had been accounted for correctly in accordance with the criteria per IFRS 2 '*Share-based payments*'
- Reviewing the technical accounting paper prepared by management

Our work in respect of the assumptions applied in determining the fair value of the newly introduced schemes included the following:

- Consulting with our valuation specialists to confirm that the principles behind the assumptions used and the methodology applied are in line with IFRS 2 '*Share-based payments*' and that they fall within an acceptable range
- Performing sensitivity analysis over the assumptions to assess the impact and critical point that would result in a material misstatement to the financial statements
- Assessing the reasonableness in the expected participant lapse rate against historical trends in head count
- Assessing performance against the Group's budget
- Recalculating the grant date fair value of each scheme and assessing whether any related charge is spread correctly over the vesting term

### Treatment of transaction costs

Refer to page 56 (*Report of the Risk and Audit Committee*), page 96 (*Critical accounting judgements and key sources of estimation uncertainty*) and page 97 (*financial statement disclosures*).

In the current year the Group incurred exceptional costs of £11.6m (excluding tax) in connection with the IPO, £4.0m of which was capitalised as a reduction to share premium.

The Group undertook a detailed assessment of all costs incurred during the IPO process to ensure that the allocation of cost was accounted for correctly in line with IAS 32 '*Financial Instruments: Presentation*'.

We consider the accuracy and allocation of these costs to pose a significant risk of material misstatement owing to the impact on both share premium in the Consolidated Statement of Financial Position and expenses within the Consolidated Statement of Comprehensive Income.

In assessing these costs there are two key considerations that apply:

- Defining the IPO costs that are eligible for capitalisation, i.e. accounted for as a deduction from share premium and those that should be expensed. The former are costs that are directly attributable to the issue of shares
- The determination of which of the IPO costs are tax deductible and non-deductible

Our work involved the following:

- Performing tests of detail over a sample of costs incurred to assess both the accuracy of amounts recorded and appropriate allocation between share premium and expenses in line with the guidance set out in IAS 32
- Consulting with our tax specialists to understand and challenge the tax treatment for deductible and non-deductible expenses (and the allocation thereof)
- Reviewing the technical accounting paper prepared by management outlining the accounting policy adopted and the methodology of allocation of costs between share premium and exceptional costs
- Assessment of the accuracy and completeness of disclosures made in respect of exceptional costs in the Statement of Comprehensive Income

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

The description of risks should be read in conjunction with the significant issues considered by the Risk and Audit Committee discussed on page 56.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £5.2m which is calculated based on 5% of pre-tax profit for the year excluding exceptional items of £102.9m as described on page 86.

Pre-tax profit, excluding exceptional items, has been chosen as the basis for materiality as this is the measure by which stakeholders and the market assess the wider performance of the Group. The exceptional expense, principally IPO costs, is excluded as this does not represent part of the underlying trading performance of the business.

We use performance materiality to detect misstatements at a lower level of precision; for the current year this is set at £3.9m. This is lower than materiality and is used to determine the size of the samples that are selected for audit work and in forming the conclusions that we make during the course of our procedures.

We agreed with the Risk and Audit Committee that we would report to the Committee all audit differences in excess of £0.3m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Risk and Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide, and assessing the risks of material misstatement at the Group level. All subsidiaries are managed from the Group's head office in Bournemouth and subject to a common control environment.

Based on that assessment, we focused our audit scope on the four largest subsidiaries in the Group; McCarthy & Stone plc, McCarthy & Stone (Developments) Limited, McCarthy & Stone Retirement Lifestyles Limited and McCarthy & Stone (Extra Care Living) Limited. These entities represent the principal entities and account for 98% of the Group's net assets, 100% of the Group's revenue and 98% of the Group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

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

Our audit work on these entities was executed at levels of materiality applicable to each individual company ranging from £0.1m to £4.9m which were lower than Group materiality.

At the Parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit is performed centrally and includes coverage of all nine regional offices within the Group. As part of our audit we visit a sample of three regional offices each year on a rotational basis with reference to size and complexity among other factors. The purpose of these visits is to conduct procedures over selected controls that are in place at each regional office.

## Opinion 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
- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

## Matters on which we are required to report by exception

### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit
- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us
- The Parent Company financial statements are not in agreement with the accounting records and returns

We have nothing to report in respect of these matters.

### Directors' remuneration

Under the Companies Act 2006 we are also required to report if, in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

### Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

### Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- Materially inconsistent with the information in the audited financial statements
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit
- Otherwise misleading

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Risk and Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

### Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied.

Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Gregory Culshaw ACA (Senior Statutory Auditor) for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Southampton, United Kingdom

14 November 2016

# Consolidated Statement of Comprehensive Income

For the year ended 31 August 2016

	Notes	2016 £m	2015 £m
<b>Continuing operations</b>			
Revenue	4	<b>635.9</b>	485.7
Cost of sales		<b>(499.5)</b>	(362.6)
<b>Gross profit</b>		<b>136.4</b>	123.1
Other operating income	8	<b>8.5</b>	9.1
Administrative expenses		<b>(44.7)</b>	(39.9)
Other operating expenses		<b>(5.1)</b>	(4.5)
<b>Operating profit</b>		<b>95.1</b>	87.8
Amortisation		<b>(2.1)</b>	(2.1)
Exceptional administrative expenses	6	<b>(10.0)</b>	(5.4)
<b>Underlying operating profit</b>		<b>107.2</b>	95.3
Finance income	9	<b>2.7</b>	1.2
Finance expense	10	<b>(4.9)</b>	(8.1)
<b>Profit before tax</b>		<b>92.9</b>	80.9
Income tax expense	11	<b>(19.4)</b>	(16.6)
<b>Profit for the year from continuing operations and total comprehensive income</b>		<b>73.5</b>	64.3
<b>Profit attributable to:</b>			
Owners of the Company		<b>73.1</b>	64.1
Non-controlling interest		<b>0.4</b>	0.2
		<b>73.5</b>	64.3

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)	12	<b>13.9</b>	3.4
Diluted (p per share)	12	<b>13.9</b>	3.4
Adjusted basic (p per share) <sup>1</sup>	12	<b>13.9</b>	13.5
Adjusted diluted (p per share) <sup>1</sup>	12	<b>13.9</b>	13.5

## Adjusted measures

Underlying operating profit	6	<b>107.2</b>	95.3
Underlying profit before tax	6	<b>105.0</b>	88.4

<sup>1</sup> Prior year EPS has been adjusted to reflect the 4:1 share consolidation that took place in FY16. A reconciliation to the previously stated EPS has been provided in note 12.



# Consolidated Statement of Financial Position

As at 31 August 2016

	Notes	2016 £m	2015 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	13	41.7	41.7
Intangible assets	14	29.6	31.7
Property, plant and equipment	15	2.9	2.6
Investments in joint ventures	17	0.4	0.4
Investment properties		0.2	0.5
Trade and other receivables	19	32.7	31.5
Derivative financial assets	21	–	0.3
<b>Total non-current assets</b>		<b>107.5</b>	108.7
<b>Current assets</b>			
Inventories	18	685.8	585.8
Trade and other receivables	19	7.5	10.9
Cash and cash equivalents	29	119.0	56.9
<b>Total current assets</b>		<b>812.3</b>	653.6
<b>Total assets</b>		<b>919.8</b>	762.3
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Share capital	26	43.0	381.1
Share premium	27	100.8	56.4
Retained earnings		553.5	104.3
<b>Equity attributable to owners of the Company</b>		<b>697.3</b>	541.8
Non-controlling interests		0.8	0.7
<b>Total equity</b>		<b>698.1</b>	542.5
<b>Current liabilities</b>			
Trade and other payables	22	107.1	83.8
Short-term borrowings	24	11.3	–
Land payables	23	49.3	36.5
<b>Total current liabilities</b>		<b>167.7</b>	120.3
<b>Non-current liabilities</b>			
Long-term borrowings	24	52.5	99.2
Deferred tax liability	20	1.5	0.3
<b>Total liabilities</b>		<b>221.7</b>	219.8
<b>Total equity and liabilities</b>		<b>919.8</b>	762.3

Notes 1 to 35 form part of the financial statements shown above.

These financial statements were approved by the Board on 14 November 2016 and signed on its behalf by:

**Clive Fenton**  
Director

**Nick Maddock**  
Director

## Consolidated Statement of Changes in Equity

For the year ended 31 August 2016

	Notes	Share capital £m	Share premium £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
<b>Balance at 1 September 2014</b>		<b>381.1</b>	<b>56.4</b>	<b>39.3</b>	<b>476.8</b>	<b>0.4</b>	<b>477.2</b>
Profit for the period		–	–	64.1	64.1	0.2	64.3
<b>Total comprehensive income for the period</b>		<b>–</b>	<b>–</b>	<b>64.1</b>	<b>64.1</b>	<b>0.2</b>	<b>64.3</b>
<b>Transactions with owners of the Company:</b>							
Share-based payments	32	–	–	0.9	0.9	–	0.9
Movement in non-controlling interest		–	–	–	–	0.1	0.1
<b>Balance at 31 August 2015</b>		<b>381.1</b>	<b>56.4</b>	<b>104.3</b>	<b>541.8</b>	<b>0.7</b>	<b>542.5</b>
Profit for the period		–	–	73.1	73.1	0.4	73.5
<b>Total comprehensive income for the period</b>		<b>–</b>	<b>–</b>	<b>73.1</b>	<b>73.1</b>	<b>0.4</b>	<b>73.5</b>
<b>Transactions with owners of the Company:</b>							
Issue of ordinary shares	26	4.9	104.8	(19.4)	90.3	(0.3)	90.0
Capital reduction of share capital and share premium	26	(343.0)	(56.4)	399.4	–	–	–
Share-based payments	32	–	–	1.5	1.5	–	1.5
Share issue related costs		–	(4.0)	–	(4.0)	–	(4.0)
Dividends	26	–	–	(5.4)	(5.4)	–	(5.4)
<b>Balance at 31 August 2016</b>		<b>43.0</b>	<b>100.8</b>	<b>553.5</b>	<b>697.3</b>	<b>0.8</b>	<b>698.1</b>

Notes 1 to 35 form part of the financial statements shown above.

# Consolidated Cash Flow Statement

For the year ended 31 August 2016

	Notes	2016 £m	2015 £m
<b>Net cash inflow from operating activities</b>	29	<b>18.3</b>	19.7
<b>Investing activities</b>			
Purchases of property, plant and equipment		(1.5)	(2.0)
Purchases of intangible assets		(0.4)	(1.0)
Proceeds from sale of property, plant and equipment		0.1	1.5
<b>Net cash used in investing activities</b>		<b>(1.8)</b>	(1.5)
<b>Financing activities</b>			
Proceeds from issue of share capital		86.0	–
Proceeds from long-term borrowings		–	87.9
Repayment of long-term borrowings		(35.0)	(160.0)
Purchase of interest rate cap		–	(0.3)
Dividend paid		(5.4)	–
<b>Net cash from/(used in) financing activities</b>		<b>45.6</b>	(72.4)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>62.1</b>	(54.2)
<b>Cash and cash equivalents at beginning of year</b>		<b>56.9</b>	111.1
<b>Cash and cash equivalents at end of year</b>		<b>119.0</b>	56.9

Notes 1 to 35 form part of the financial statements shown above.

# Notes to the Consolidated Financial Statements

## 1. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Basis of preparation

McCarthy & Stone plc is a Company incorporated in England and Wales under the Companies Act. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the Group) and include the Group's interest in jointly controlled entities. The Parent Company financial statements present information about the Company as a separate entity and not about the Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS) and have been prepared under the historical cost convention as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

### Going concern

The Group meets its day-to-day working capital requirements through cash in hand and its bank facilities. The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements. Further information on the Group's borrowings is given in note 24.

### Basis of consolidation

The consolidated financial statements incorporate the results of the Company and its subsidiaries. For the purposes of consolidation, subsidiaries are entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

### Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is attained (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating unit (CGU) expected to benefit from synergies arising from a business combination. The CGU to which goodwill has been attributed is tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the CGU, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the CGU.

### Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods supplied stated net of discounts, rebates, VAT and other sales taxes or duty.

The Group recognises revenue when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- The amount of revenue can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the entity
- The costs incurred or to be incurred in respect of the transaction can be measured reliably

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 'Deferred revenue'.

## 1. Significant accounting policies continued

Revenue is classified as follows:

### **Sales of leasehold interests**

Revenue represents the consideration received from the sale of leasehold interests in retirement apartments and is recognised on legal completion. Where the Group commits on completion to provide an additional cash amount above an offer given by a third-party part exchange provider, this additional cash amount is recognised as a deduction from revenue. Cash incentives are considered to be a discount from the purchase price offered to the acquirer and are therefore accounted for as a reduction of revenue.

### **Freehold reversionary interests (FRIs) and house manager flat freehold interests (HMFIs)**

FRIs and HMFIs in respect of developed sites are periodically sold to third parties. Revenue arising from these sales is recognised only to the extent that the underlying leasehold interest in the retirement apartment has been contractually sold.

### **Other operating income**

Other operating income includes management services income, net rental income, profits arising from the disposal of undeveloped land sites, VAT refunds, non-build rebates and profits arising from the realisation of shared equity receivables.

### **Finance income**

Revenue is recognised as interest accrues, using the effective interest rate method, being the rate used to discount the estimated future cash receipts over the expected life of the financial instrument.

### **Cost of sales**

Costs directly attributable to the unit sales are included within cost of sales. This includes the cost of bringing the inventory into use and regional marketing costs that are directly attributable to sales, including show flat running costs and estate agent referral fees.

### **Exceptional items**

Exceptional items are defined as items of income or expenditure which, in the opinion of the Directors, are material, non-recurring and unusual in nature or of such significance that they require separate disclosure. Exclusion of these balances allows review of the underlying trading position of the Group. These are detailed further in note 6.

### **Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

### **Retirement benefit costs**

The Group operates a stakeholder retirement benefit scheme.

A retirement benefit scheme is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to benefit schemes are recognised as an expense in the Consolidated Statement of Comprehensive Income in the years during which services are rendered by employees.

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### **Current tax**

Tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end.

#### **Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, where the Group is unable to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

# Notes to the Consolidated Financial Statements continued

## 1. Significant accounting policies continued

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted by the year end. Deferred tax is charged or credited in the Consolidated Statement of Comprehensive Income, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### **Tangible and intangible assets**

#### ***Property, plant and equipment***

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost of assets less their residual value over their useful lives, using the straight-line method, on the following bases:

Fixtures, fittings and equipment	3–10 years
----------------------------------	------------

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income on the transfer of the risks and rewards of ownership.

The Group has no class of tangible fixed asset that has been revalued. On transition to IFRS the net book values recorded at 1 September 2012 have been applied and these are based on historic cost or fair value recognised at the date of acquisition.

#### ***Intangible assets – brand***

Separately acquired brands are shown at historical cost. Brands have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over their useful lives, estimated at 20 years.

#### ***Internally-generated intangible assets – research and development expenditure***

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use
- Management intends to complete the software product and use or sell it
- There is an ability to use or sell the software product
- It can be demonstrated how the software product will generate probable future economic benefits
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available
- The expenditure attributable to the software product during its development can be reliably measured

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent year.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which do not exceed ten years.

Development expenditure relating to software has been capitalised and is detailed in note 14.

#### ***Impairment of tangible and intangible assets excluding goodwill***

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of: (i) fair value less costs to sell; and (ii) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

### 1. Significant accounting policies *continued*

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that the revaluation balance is greater than the impairment loss.

#### **Joint ventures**

The Group has a number of contractual arrangements with other parties which represent joint ventures. These take the form of agreement to share control over these entities. Joint ventures are accounted for using the equity method of accounting.

The Group classifies its interests in joint arrangements as either joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Group has rights only to the net assets of an arrangement). When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. The cost of sites in the course of construction and finished stock comprises the cost of land purchases, which are accounted for from the date of contract exchange, when the Group obtains the effective control of the site, building costs and attributable construction overheads. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution, completion and disposal.

Land inventories and the associated land payables are recognised in the Consolidated Statement of Financial Position from the date of unconditional exchange of contracts. Where, through deferred purchase credit terms, cost differs from the nominal amount which will be paid in settling the deferred purchase terms liability, the initial cost of the land is discounted to fair value. The land payable is then increased to settlement value over the period of financing, with the financing element being charged to the Consolidated Statement of Comprehensive Income as a finance cost.

Options purchased in respect of land are capitalised initially at the cost of the option. Regular reviews are completed for impairment in the value of these options and provisions made accordingly to reflect loss of value. The impairment reviews consider the period elapsed since the date of purchase of the option given that the option contract has not been exercised at the review date. Further, the impairment reviews consider the remaining life of the option, taking into account any concerns over whether the remaining time will allow successful exercise of the option. The carrying cost of the option at the date of exercise is included within the cost of land purchased as a result of the option exercise.

Expenditure on land without the benefit of detailed planning consent, either through purchase of freehold land or non-refundable deposits paid on land purchase contracts subject to detailed planning consent, are capitalised initially at cost. Regular reviews are completed for impairment in the value of these investments, and provision made to reflect any irrecoverable element. The impairment reviews consider the existing value of the land and assess the likelihood of achieving detailed planning consent and the value thereof.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

#### **Financial instruments**

Financial assets and financial liabilities are recognised in the Group's Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

#### **Financial assets**

All financial assets are normally recognised and derecognised on the date that an agreement has been entered into where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. They are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group held no financial assets classified as held-to-maturity or AFS during the reporting periods presented herein.

#### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

# Notes to the Consolidated Financial Statements continued

## 1. Significant accounting policies continued

### Classes of financial asset

#### *Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near term
- On initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking
- It is a derivative that is not designated and effective as a hedging instrument

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy and information about the grouping is provided internally on that basis
- It forms part of a contract containing one or more embedded derivatives and IAS 39 '*Financial Instruments: Recognition and Measurement*' permits the entire combined contract (asset or liability) to be designated as at FVTPL

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement 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.

The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Group does not issue or hold derivative financial instruments for speculative purposes.

#### **Shared equity receivables**

Shared equity interests arise from sales incentive schemes under which the Group acquires a contractual entitlement to receive a proportion of the proceeds of sale of an apartment. These interests are normally protected by a legal charge over the relevant apartment and/or a restriction on title.

The value of the shared equity receivables changes in response to an underlying variable and therefore is accounted for as a derivative. The shared equity receivables are initially recognised at fair value, being the estimated future amount receivable by the Group, discounted to present value. The fair value of future anticipated cash receipts takes into account the Directors' view of future house price movements and the expected timing of receipts. The Directors revisit the future anticipated cash receipts from the assets at each reporting date and the difference between the anticipated future receipt and the initial fair value is credited to finance income/expense.

#### **Loans and receivables**

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### **Financial liabilities and equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

#### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised as the proceeds received, net of direct issue costs.

#### **Financial liabilities**

Financial liabilities are classified as 'other financial liabilities'.

#### **Other financial liabilities**

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.



## 1. Significant accounting policies continued

### Land-related promissory notes

Land-related promissory notes are treated as financial liabilities and are classified as land creditors or borrowings depending on the substance of the contractual arrangements.

### Share-based payment schemes

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market based vesting conditions and no expense is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market based vesting condition.

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each reporting period end thereafter until the awards are settled. Market-based conditions are taken into account when determining fair value.

Further details regarding the schemes are set out in note 32.

## 2. Outlook for adoption of future standards (new and amended)

There have not been any new standards and amendments adopted for the first time for the financial year ending 31 August 2016.

At the date of approval of the financial statements, the following standards and interpretations which have not been applied by the Group in the financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 '*Financial Instruments*' was reissued in October 2010 as the second step in the International Accounting Standards Board (IASB) project to replace IAS 39 '*Financial Instruments: Recognition and Measurement*'. During the year the IASB reissued IFRS 9 to include hedge accounting and details on early adoption. The final revision to the standard incorporating the impairment, classification and measurement requirements was issued by the IASB in July 2014 and the standard is expected to be effective from 31 December 2018. The Group is currently assessing the impact of the revisions on the Group's results and financial position
- IFRS 15 '*Revenue from Contracts with Customers*' was issued on 28 May 2014. This standard sets out revenue recognition conditions for the Group. This is applicable to accounting periods beginning on or after 1 January 2018, once endorsed by the EU. The impact of this standard on the Group is being assessed
- IFRS 16 '*Leases*' was published in January 2016. This standard is a replacement of the current leases standard IAS 17. This brings significant changes to the accounting of leases by lessees. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption, for lessees, for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. This is applicable to accounting periods beginning on or after 1 January 2019, once endorsed by the EU. The impact this standard will have on the Group is being assessed
- Amendments to IFRS 11 '*Acquisitions of Interests in Joint Operations*'
- Amendments to IAS 16 '*Property, Plant and Equipment and IAS 38 Intangible Assets*'
- Amendments to IAS 1 '*Presentation of Financial Statements*'
- Amendments to IAS 27 '*Equity Method in Separate Financial Statements*'
- Amendments to IAS 10 and IAS 28 '*Sale of Contribution of Assets between an Investor and its Associate or Joint Venture*'
- Amendments to IAS 7 '*Statement of Cash Flows*'
- Amendments to IFRS 2 '*Share-based Payments*'
- Annual improvements to IFRS: 2012 – 2014 Cycle

The potential impact of the above standards and interpretations is still being assessed by the Group.

## 3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. The critical judgements made by the Group all involve estimation uncertainty.

## Notes to the Consolidated Financial Statements continued

### 3. Critical accounting judgements and key sources of estimation uncertainty continued

#### Accounting and tax treatment of the IPO costs

Within the year the Group incurred exceptional costs in relation to transaction fees and other costs of listing. These costs have been reviewed by management under the accounting treatment guidance of IAS 32 to ensure the correct allocation of costs between share premium in the Consolidated Statement of Financial Position and expenses within the Consolidated Statement of Comprehensive Income. External advice has been sought regarding the tax treatment of these costs.

#### Fair value of shared equity receivables

Shared equity receivables are initially recognised within revenue at fair value, being the estimated future amount receivable by the Group, discounted to present day values. The fair value of future anticipated cash receipts takes into account the Directors' view of future house price movements and expected timing of receipts. The assessment of anticipated future cash flows from the assets is carried out at each reporting date.

#### Cost capitalisation of overheads

Inventory includes a proportion of design, construction, commercial and planning costs. During the year procurement costs have also been included within the cost calculations based on a change in the procurement focus and approach across the Group. 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.

#### Share-based payments

Assumptions are made in determining the fair value of employee services received in exchange for the grant of options under share-based payment awards at the date of grant. Assumptions are around lapse rates, share performance and the expected outcome of performance conditions. An element of one of the equity-settled share-based payment plans is subject to market-based conditions, judgements have been made in order to determine the fair values of this market-based element. Further detail of the share-based payment schemes has been provided in note 32.

### 4. Revenue

	Continuing operations Year ended 31 August	
	2016 £m	2015 £m
Unit sales	608.2	468.8
FRI revenue	27.7	16.9
	<b>635.9</b>	<b>485.7</b>

All unit sales revenue arose from the sale of properties and is attributable to continuing operations. All revenue was generated within the UK. No individual customer is significant to the Group's revenue in any period. FRI revenue is explained within note 1.

### 5. Segmental analysis

IFRS 8 'Operating Segments', establishes standards for reporting information about operating segments and related disclosures, products and services, geographic areas and major customers. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance.

The Group conducts its activities, made up of four key products, through a single operating segment. Consequently, no detailed segment information has been presented.

None of the Group's customers represented more than 10% of the Group's revenue generated from the building of retirement apartments for any reporting period presented herein.

### 6. Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	Notes	Continuing operations Year ended 31 August	
		2016 £m	2015 £m
Depreciation of property, plant and equipment	15	1.1	1.0
Amortisation of intangibles	14	2.5	2.5
Operating lease rental expense	28		
Land and buildings		0.9	1.0
Plant and machinery		2.3	2.0
Cost of inventories recognised as an expense		436.0	314.6
Staff costs	7	69.3	59.2
Change in fair value of derivatives	21	0.3	0.1
Share-based payments charge to profit and loss	32	1.5	1.5
Movement in inventory provision		(0.3)	(2.5)

## 6. Profit for the year 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. 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. In the judgement of the Directors this presentation shows the underlying performance of the Group.

#### Exceptionals

	Notes	Statutory £m	Exceptional	Adjusted cost	Underlying £m
			Administrative costs £m	Amortisation of brand £m	
<b>Year ended 31 August 2016</b>					
Operating profit		95.1	10.0	2.1	107.2
Finance income	9	2.7	–	–	2.7
Finance expense	10	(4.9)	–	–	(4.9)
Profit before tax		92.9	10.0	2.1	105.0
Income tax expense		(19.4)	(0.7)	(0.4)	(20.5)
Profit for the year from continuing operations and total comprehensive income		73.5	9.3	1.7	84.5
Earnings per share					
Basic (p per share)		13.9	1.8	0.4	16.1
Diluted (p per share)		13.9	1.8	0.4	16.1

The exceptional administrative costs in FY16 primarily relate to the transaction fees and other costs of listing (£8.5m). Other costs recognised within exceptionals relate to redundancy and restructuring costs (£0.9m), Management Incentive Plan payments (£0.4m) and refinancing and other costs (£0.2m).

	Notes	Statutory £m	Exceptional costs		Adjusted cost	Underlying £m
			Restructuring related costs £m	Refinancing costs £m	Amortisation of brand £m	
<b>Year ended 31 August 2015</b>						
Operating profit		87.8	5.0	0.4	2.1	95.3
Finance income	9	1.2	–	–	–	1.2
Finance expense	10	(8.1)	–	–	–	(8.1)
Profit before tax		80.9	5.0	0.4	2.1	88.4
Income tax expense		(16.6)	(0.9)	(0.1)	(0.4)	(18.0)
Profit for the year from continuing operations and total comprehensive income		64.3	4.1	0.3	1.7	70.4
Earnings per share						
Adjusted basic (p per share) <sup>1</sup>		13.5	0.9	0.1	0.3	14.8
Adjusted diluted (p per share) <sup>1</sup>		13.5	0.9	0.1	0.3	14.8

<sup>1</sup> Prior year EPS has been adjusted to reflect the 4:1 share consolidation that took place in FY16. A reconciliation to the previously stated EPS has been provided in note 12.

The operating exceptional costs in FY15 relate to advisory costs in relation to a potential transaction, redundancy, office relocation and restructuring costs following an operational review of the business, and advisory costs in relation to the refinancing of the Group's debt.

#### Auditor's remuneration

	Continuing operations Year ended 31 August	
	2016 £m	2015 £m
Fees payable to the Group's auditor:		
Annual audit	0.2	0.2
Transaction related audit and advisory services	0.7	0.5
	0.9	0.7

There were no other non-audit fees payable to Group auditor in the year.

Audit fees in relation to joint ventures audited by the Group's auditor were £3,000 (2015: £2,000).

## Notes to the Consolidated Financial Statements continued

### 7. Staff costs

Staff costs for the year include Directors' emoluments, which are detailed below:

	Continuing operations Year ended 31 August	
	2016 £m	2015 £m
Wages and salaries	58.4	50.3
Social security costs	6.5	5.7
Other pension costs	2.0	1.7
Share-based payments	1.5	1.5
Termination payments	0.9	–
	<b>69.3</b>	<b>59.2</b>

The average number of persons, including Executive Directors, employed by the Group during the year was as follows:

	Continuing operations Year ended 31 August	
	2016 Number	2015 Number
Office management	1,048	824
Construction	241	220
	<b>1,289</b>	<b>1,044</b>

At 31 August 2016, the Group employed 1,344 people (2015: 1,158).

Amounts recognised in respect of Directors' emoluments:

#### Directors' emoluments

	Continuing operations Year ended 31 August	
	2016 £m	2015 £m
Wages and salaries	1.5	1.4
Social security costs	0.2	0.4
Share-based payments	0.6	0.8
Other pension costs	0.2	–
	<b>2.5</b>	<b>2.6</b>

The emoluments of the highest paid Director was £0.9m (2015: £0.7m), including pension contributions of nil (2015: nil).  
The number of Directors in the Company pension plan was two (2015: one).

### 8. Other income and expenses

	Continuing operations Year ended 31 August	
	2016 £m	2015 £m
Net rental income	0.6	0.3
Other income	5.9	4.6
Non-core business revenue	2.1	3.9
Land sales (loss)/profit	(0.1)	0.3
	<b>8.5</b>	<b>9.1</b>

Other income arises on the services provided by Group subsidiaries to manage certain developments. Non-core business revenue relates to other income such as rebates and customer extras.

### 9. Finance income

	Continuing operations Year ended 31 August	
	2016 £m	2015 £m
Change in fair value of shared equity receivables	2.5	0.9
Interest income received	0.2	0.3
	<b>2.7</b>	<b>1.2</b>

## 10. Finance expense

	Continuing operations Year ended 31 August	
	2016 £m	2015 £m
Loans and overdraft fees	3.6	7.7
Promissory note interest and fees	0.5	–
Refinancing issue costs	0.5	0.3
Fair value movement on interest rate cap	0.3	0.1
	<b>4.9</b>	8.1

## 11. Tax

	Notes	2016 £m	2015 £m
Corporation tax charges:			
Current year		18.6	16.0
Adjustments in respect of prior years		(0.4)	(0.3)
Deferred tax charges:			
Current year	20	1.2	0.7
Adjustments in respect of prior years		–	0.2
		<b>19.4</b>	16.6

The tax charge for each year can be reconciled to the profit per the income statement as follows:

	2016 £m	2015 £m
Profit before tax on continuing operations	92.9	80.9
Tax charge at the UK corporation tax rate of 20.00% (2015: 20.58%)	18.6	16.6
Tax effect of:		
Expenses that are not deductible in determining taxable profit	1.5	0.3
Income not taxable in determining taxable profit	(0.1)	(0.3)
Adjustments in respect of previous periods	(0.4)	–
Other reconciling items	(0.2)	–
Tax charge for the year	<b>19.4</b>	16.6

Reductions in the rate of corporation tax to 19% and 18% from 1 April 2017 and 1 April 2020 were substantively enacted on 18 November 2015. The UK deferred tax assets and liabilities at 31 August 2015 have been calculated based on the appropriate rate at which the asset/liability will unwind.

## 12. Earnings per share

Basic earnings per share is calculated as the profit for the financial period attributable to shareholders of the Company divided by the weighted average number of shares in issue during the period. The actual weighted average number of ordinary shares during the full year ended 31 August 2016 was 525.6m for basic and 525.9m for diluted calculations, giving a statutory earnings per share for the year ended 31 August 2016 of 13.9p (both basic and diluted).

	2016	2015
Profit attributable to shareholders (£m)	73.1	64.1
Weighted average number of shares (m)	525.6	1,905.6
Basic earnings per share (p)	<b>13.9</b>	3.4

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume the conversion of all potentially dilutive ordinary shares. At 31 August 2016, the Company had two categories of potentially dilutive ordinary shares: 1.9m nil cost share options under the 2015 LTIP and 4.1m 167.4p share options under the 2015 Sharesave plan.

A calculation is done to determine the number of shares that could have been acquired at fair value based on the aggregate of the exercise price of each share option and the fair value of future services to be supplied to the Group, which is the unamortised share-based payments charge. The difference between the number of shares that could have been acquired at fair value and the total number of options is used in the diluted earnings per share calculation.

## Notes to the Consolidated Financial Statements continued

### 12. Earnings per share continued

	2016	2015
Profit used to determine diluted EPS (£m)	<b>73.1</b>	64.1
Weighted average number of shares (m)	<b>525.6</b>	1,905.6
Adjustments for:		
Share options – 2015 LTIP (m)	<b>0.3</b>	–
Share options – 2015 Sharesave plan (m)	–	–
Shares used to determine diluted EPS (m)	<b>525.9</b>	1,905.6
Diluted earnings per share (p)	<b>13.9</b>	3.4

The year ended 31 August 2015 earnings per share calculations shown below have been calculated using a rebased weighted average number of ordinary shares of 476,387,438 (for both the basic and diluted calculations) to allow meaningful comparison with the year ended 31 August 2016 earnings per share data. This was pursuant to the consolidation of the Group's share capital at a ratio of 4:1 which occurred on 11 November 2015.

Earnings per share for the year ending 31 August 2015, reconciliation to prior year reported figures:

	Basic	Diluted
Profit attributable to shareholders (£m)	64.1	64.1
Weighted average number of shares (m)	1,905.6	1,905.6
Earnings per share (p)	3.4	3.4
Reduction in shares following share consolidation	(1,429.2)	(1,429.2)
Weighted average number of shares (m) – restated	476.4	476.4
Adjusted earnings per share (p)	13.5	13.5

### 13. Goodwill

	£m
<b>Cost</b>	
At 1 September 2014 and 31 August 2015 and 2016	<b>41.7</b>
<b>Carrying amount</b>	
At 1 September 2014 and 31 August 2015 and 2016	<b>41.7</b>

No impairment losses have been recognised in any of the reporting periods presented herein.

Goodwill arose as a result of an acquisition in 2009 of the assets and liabilities of Monarch Realisations 1 plc (in liquidation). As the goodwill relates to the business as a whole, it has not been allocated to a specific CGU. For key assumptions in determining recoverable amounts in goodwill impairment testing, refer to note 16.

### 14. Intangible assets

	Brand £m	Software £m	Total £m
<b>Cost</b>			
At 1 September 2014	41.4	2.9	44.3
Additions	–	1.0	1.0
At 31 August 2015	41.4	3.9	45.3
Additions	–	0.4	0.4
<b>At 31 August 2016</b>	<b>41.4</b>	<b>4.3</b>	<b>45.7</b>
<b>Amortisation</b>			
At 1 September 2014	(11.1)	–	(11.1)
Charge for the year	(2.1)	(0.4)	(2.5)
At 31 August 2015	(13.2)	(0.4)	(13.6)
Charge for the year	(2.1)	(0.4)	(2.5)
<b>At 31 August 2016</b>	<b>(15.3)</b>	<b>(0.8)</b>	<b>(16.1)</b>
<b>Carrying amount</b>			
At 31 August 2015	28.2	3.5	31.7
<b>At 31 August 2016</b>	<b>26.1</b>	<b>3.5</b>	<b>29.6</b>

Brand assets represent McCarthy & Stone plc brand name purchased as part of the business combination in 2009. Brand assets have 12 years and 7 months of useful life remaining.

All amortisation charged is recognised in administrative expenses in the Consolidated Statement of Comprehensive Income.

## 15. Property, plant and equipment

	Fixtures, fittings and equipment £m	Total £m
<b>Cost</b>		
At 1 September 2014	6.9	6.9
Additions	2.0	2.0
Disposals	(2.9)	(2.9)
At 31 August 2015	6.0	6.0
Additions	1.5	1.5
Disposals	(0.3)	(0.3)
<b>At 31 August 2016</b>	<b>7.2</b>	<b>7.2</b>
<b>Accumulated depreciation and impairment</b>		
At 1 September 2014	(4.0)	(4.0)
Charge for the year	(1.0)	(1.0)
Eliminated on disposals	1.6	1.6
At 31 August 2015	(3.4)	(3.4)
Charge for the year	(1.1)	(1.1)
Eliminated on disposals	0.2	0.2
<b>At 31 August 2016</b>	<b>(4.3)</b>	<b>(4.3)</b>
<b>Carrying amount</b>		
At 31 August 2015	2.6	2.6
<b>At 31 August 2016</b>	<b>2.9</b>	<b>2.9</b>

## 16. Impairment testing

During the periods reported in the financial statements, no impairments have been recognised against the Group's assets. For each reported period, management have performed an impairment review of goodwill, being an indefinitely lived asset. The Group only has one CGU, being the McCarthy & Stone (Developments) Limited's business, which was acquired in 2009.

The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to earnings before interest, tax, depreciation and amortisation (EBITDA) used as a proxy of free cash flows beyond the budgeted years) as well as the level of capital expenditure required to maintain the existing business into the future. These assumptions are reviewed and revised annually in light of current economic conditions and the future outlook for the business. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business; rates used for 2016 are 8.4% (2015: 8.4%).

The forecast period employed in the impairment assessment was five years followed by an assessment of cash flows and growth into perpetuity. The growth rates used are based on management's assessment of the cash flow forecasts over the medium term. Due to the headroom within the calculation no further growth has been assumed within the perpetuity calculation. These are based on conservative estimates of the Group's ability to participate in the growth expected in the industry. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value of goodwill recognised in the financial statements has been compared to the derived value in use with no impairment charges arising. The Group has conducted a sensitivity analysis on the key assumptions which are material to the impairment assessment including the discount rate, the cash flow projections and the terminal growth rate and concluded no material sensitivity exists in these calculations.

No impairment charges were recorded on items of property, plant and equipment throughout the period covered by these financial statements.

## 17. Investment in joint ventures

The Group has a 50% ownership interest of ordinary shares in each of Kindle Housing (Worthing) Limited, Kindle Housing (Christchurch) Limited and Kindle Housing (Exeter) Limited, which rent affordable housing to local key worker employees. The Group also has a 50% ownership interest in Kindle Housing Limited, which manages affordable housing. These companies are all registered in England and Wales.

The Group accounts for its interests in these companies using the equity method of accounting.

The share of the assets, liabilities, income and expenses of the jointly controlled entities is not material.

## Notes to the Consolidated Financial Statements continued

### 18. Inventories

	2016 £m	2015 £m
Land held for development	236.5	130.9
Sites in the course of construction	201.0	258.8
Finished stock	248.3	196.1
	<b>685.8</b>	<b>585.8</b>

Days in inventory amounted to 574 days in 2016 (2015: 685 days).

Inventory days are calculated by taking cost of inventories recognised as an expense in the year divided by yearend inventory.

### 19. Trade and other receivables

	2016 £m	2015 £m
<b>Trade and other receivables due in less than one year</b>		
Trade receivables	1.5	1.0
Other debtors and prepayments	6.0	9.9
	<b>7.5</b>	<b>10.9</b>
<b>Trade and other receivables due in greater than one year</b>		
Secured mortgages	3.4	3.5
Shared equity receivables	29.3	28.0
	<b>32.7</b>	<b>31.5</b>

Trade receivables and secured mortgages disclosed above are classified as loans and receivables and are measured at amortised cost.

The Directors consider that the carrying amounts of trade and other receivables and non-current receivables approximates their fair value.

### 20. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group:

	Accelerated tax depreciation £m	Other temporary differences £m	Unrelieved tax losses £m	Total £m
At 1 September 2014	0.2	0.4	–	0.6
Income statement charge	(0.2)	(0.7)	–	(0.9)
At 31 August 2015	–	(0.3)	–	(0.3)
Income statement charge	–	(1.2)	–	(1.2)
<b>At 31 August 2016</b>	<b>–</b>	<b>(1.5)</b>	<b>–</b>	<b>(1.5)</b>

Deferred tax assets are represented by positive values and deferred tax liabilities are represented by negative values in the table above.

Deferred tax assets of £0.1m in relation to capital losses carried forward were not recognised as there is uncertainty as to whether these losses could be utilised by the Group prior to expiry (2015: £0.3m). These losses have no expiry date.

### 21. Derivative financial assets

	2016 £m	2015 £m
Interest rate cap	–	0.3



**22. Trade and other payables**

	2016 £m	2015 £m
Trade payables	26.8	23.0
UK corporation tax	8.4	8.5
Other taxes and social security costs	1.9	1.8
Accrued expenses	51.4	36.9
Other creditors	18.6	13.6
	<b>107.1</b>	<b>83.8</b>

Trade payables and accrued expenses principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases was 21 days during 2016 (2015: 20 days). No material interest costs have been incurred in relation to such payables. The Group policy is to ensure that payables are paid within the pre-agreed credit terms and to avoid incurring penalties and/or interest on late payments. Other creditors include sales taxes, property taxes, social security and employment taxes due to local tax authorities. The Directors consider that the carrying amount of trade payables approximates their fair value.

No trade payables are purchased on extended payment terms.

**23. Land payables**

	2016 £m	2015 £m
<b>Land payables</b>	<b>49.3</b>	<b>36.5</b>

Land payables relate to payment due in respect of land which has been purchased under an unconditional contract.

**24. Borrowings****Short-term borrowings**

	2016 £m	2015 £m
<b>Promissory notes</b>	<b>11.3</b>	–

**Long-term borrowings**

	2016 £m	2015 £m
Loans	55.0	90.0
Unamortised issue costs	(2.5)	(2.1)
Promissory notes	–	11.3
	<b>52.5</b>	<b>99.2</b>

		Outstanding at 31 August	
	Maturity	2016 £m	2015 £m
<b>Revolving Credit Facility</b>	May 2021	<b>55.0</b>	<b>90.0</b>

During December 2014, the £160.0m term debt facility was replaced by a new £200.0m revolving credit facility (RCF), with a five-year term, maturing December 2019. The nominal interest rate of this facility has been amended within the year to a 1, 3 or 6 month LIBOR + 1.6% (2015: 1, 3 or 6 month LIBOR + 2.5%) depending on the length of the drawdown. As at 31 August 2016, £55.0m (2015: £90.0m) was drawn. The RCF is secured by a floating charge over the assets of McCarthy & Stone plc, McCarthy & Stone Retirement Lifestyles Limited, McCarthy & Stone (Developments) Limited, McCarthy & Stone Extra Care Living Limited and McCarthy & Stone Total Care Management Limited.

In May 2016, an amendment was made to the RCF agreement to improve commercial terms and extend the facility's maturity date from 19 December 2019 to 23 May 2021. As part of the amendment the margins have been reduced. There have been no changes to the size of the facility.

Land-related promissory notes with terms of three to six months were used for two land acquisitions in the prior year. The total finance cost of the land-related promissory notes is 4%. The land-related promissory notes in issue are structured as ancillary facilities of the RCF and are therefore linked to the security arrangements discussed above.

## Notes to the Consolidated Financial Statements continued

### 25. Net (cash)/debt

	2016 £m	2015 £m
Loans	63.7	99.2
Add back unamortised issue costs	2.5	2.1
Cash and cash equivalents	(119.0)	(56.9)
Net (cash)/debt	(52.8)	44.4
Add back land-related promissory notes	(11.3)	(11.3)
<b>(Net cash)/net debt excluding land-related promissory notes</b>	<b>(64.1)</b>	<b>33.1</b>

Net debt 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). As at 31 August 2015, net debt was reported as cash and cash equivalents less long-term borrowings (excluding land-related promissory notes and 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.

	2016 Number '000	2015 Number '000
Issued and fully paid:		
Ordinary shares of 8p (2015: 20p) each	537,314	1,905,550
	2016 £'000	2015 £'000
Issued and fully paid:		
Ordinary shares of 8p (2015: 20p) each	42,985	381,110

#### Issuance of equity securities

##### Capital reduction of share capital and share premium

In order to create additional distributable reserves for the Company, the Company resolved, by a special resolution passed as a written resolution on 26 October 2015, that the nominal value of the Company's shares be reduced from 20p to 2p, reducing the amount standing to the credit of share capital account of the Company by £342,998,955.18 from £381,109,950.20 to £38,110,995.02 and that the Company's share premium of £56,400,000 be cancelled.

##### Issuance of new shares in relation to the Management Incentive Plan

On 26 October 2015, the Company resolved, by a special resolution passed as a written resolution, to issue 43,706,526 ordinary shares at a nominal value of 2p to the 16 participants in the Management Incentive Plan in exchange for the transfer by these participants of the shares held by them in M&S MipCo S.à.r.l.

##### Consolidation of share capital

On 26 October 2015, the Company resolved by special resolution passed as written resolution, to consolidate the issued and fully paid ordinary share capital of the Company at a ratio of 4:1.

##### Issuance of new shares in relation to primary proceeds from the IPO

On 26 October 2015, the Company resolved, by a special resolution passed as a written resolution, to issue 50,000,000 new ordinary shares of the Company at a nominal value of 8p pursuant to the raising of primary proceeds from the IPO. These shares were issued on 11 November 2015.

##### Dividends on equity shares

The interim dividend was approved by the Board on 18 April 2016 and paid on 31 May 2016 to all ordinary shareholders on the register of members at the close of business on Friday 29 April 2016. The ex-dividend date was 28 April 2016. The final dividend proposed by the Board is 3.5p per share resulting in a total ordinary dividend for the year of 4.5p. It will be paid on 1 February 2017 to those shareholders who are on the register at 6 January 2017 subject to approval at the Company's Annual General Meeting. The ex-dividend date is 5 January 2017. These financial statements do not reflect the final dividend payment.

**27. Share premium reserve**

	2016 £m	2015 £m
<b>Share premium</b>	<b>100.8</b>	56.4

The share premium reserve represents the consideration that has been received in excess of the nominal value of shares on issue of new ordinary share capital.

Movements in share capital are explained within note 26, and presented within the Consolidated Statement of Changes in Equity.

**28. Operating lease arrangements**

	2016 £m	2015 £m
<b>Minimum lease payments under operating leases recognised as an expense during the year</b>	<b>3.2</b>	3.0

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

	2016 £m	2015 £m
Within one year	3.9	3.2
In the second to fifth years inclusive	8.7	7.8
After five years	2.8	2.8
<b>Outstanding commitments for future minimum lease payments</b>	<b>15.4</b>	13.8

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.

**29. Notes to the cash flow statement**

	Notes	2016 £m	2015 £m
<b>Profit for the financial year</b>		<b>73.5</b>	64.3
Adjustments for:			
Income tax expense	11	19.4	16.6
Amortisation of intangibles	14	2.5	2.5
Share option charge	32	1.5	1.5
Depreciation of property, plant and equipment	15	1.1	1.0
Interest expense	10	4.9	8.1
Interest income	9	(2.7)	(1.2)
<b>Operating cash flows before movements in working capital</b>		<b>100.2</b>	92.8
Decrease/(increase) in trade and other receivables		2.2	(5.5)
(Increase) in inventories		(99.5)	(78.9)
Increase in trade and other payables		37.5	32.2
<b>Operating cash flows before interest and tax paid</b>		<b>40.4</b>	40.6
Interest received		0.2	0.3
Interest paid		(4.1)	(8.0)
Income taxes paid		(18.2)	(13.2)
<b>Cash generated by operations</b>		<b>18.3</b>	19.7
<b>Net cash inflow from operating activities</b>		<b>18.3</b>	19.7
		2016 £m	2015 £m
<b>Cash and cash equivalents</b>			
Cash and bank balances		119.0	56.9

Cash and cash equivalents comprise cash and bank balances and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of cash and cash equivalents approximates fair value.

The increase in inventories comprises movements in inventories and investment property (transferred to inventory), offset by the issuance of promissory notes in respect of two land acquisitions. The transfer of investment property to inventory and the issuance of promissory notes represent non-cash movements recognised against the associated inventory.

The increase in trade and other payables includes the movement in land payables.

## Notes to the Consolidated Financial Statements continued

### 30. Retirement benefit schemes

The Group operates a stakeholder defined contribution retirement benefit scheme which is open to all employees.

Other than amounts that are deducted from employees' remuneration and accrued pending payment to the benefit scheme, no further obligations fall on the Group as the assets of these arrangements are held and managed by third parties entirely separate from the Group.

The benefit scheme charge for the period represents contributions payable to the benefit scheme and amounted to £2.0m for the year ended 31 August 2016 (2015: £1.7m). Unpaid contributions amounted to £0.2m as at 31 August 2016 (2015: £0.2m).

### 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

	Notes	2016 £m	2015 £m
<b>Financial assets</b>			
<b>Financial assets at fair value through profit or loss:</b>			
Shared equity receivables	19	<b>29.3</b>	28.0
Interest rate cap	21	–	0.3
<b>Loans and receivables:</b>			
Cash and cash equivalents	29	<b>119.0</b>	56.9
Trade and other receivables	19	<b>2.2</b>	5.1
		<b>150.5</b>	90.3
<b>Financial liabilities</b>			
<b>Amortised cost:</b>			
Trade and other payables	22	<b>92.0</b>	77.3
Land payables	23	<b>49.3</b>	36.5
Loans	24	<b>52.5</b>	87.9
Land-related promissory notes	24	<b>11.3</b>	11.3
		<b>205.1</b>	213.0

#### 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 Group is not subject to any externally imposed capital requirements. Equity includes all capital and reserves of the Group that are managed as capital.

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 have been introduced to allow senior employees of the Group to participate in the ownership of one of the Group entities in order to ensure the senior employees are focused on growing the value of the Group to achieve the aims of all shareholders.

#### Financial risk management

The Group's finance function is responsible for all aspects of corporate treasury. It co-ordinates access to financial markets and monitors and manages the financial risks relating to the operations of the Group through internal reports which analyse exposures by degree and magnitude. The risks reviewed include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Board is responsible for managing these risks and the policies adopted are as set out below.

#### 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 Group Chief Executive Officer, the Group Chief Financial Officer, the National Operations 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 regional and Group level

### 31. Financial risk management *continued*

The value of the Group's house price linked financial assets is sensitive to UK house prices since the amount repayable is dependent upon the market price of the property to which the asset is linked. At 31 August 2016, if UK house prices were 5% lower for a one-year period and all other variables were held constant, the Group's house price linked financial assets would decrease in value, excluding the effects of tax, by £1.1m with a corresponding reduction in both the result for the year and equity.

#### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a low exposure to credit risk due to the nature and legal framework of the UK housing industry. As stated in the Group's accounting policy for revenue recognition, a sale is only recognised upon legal completion and this is accompanied by full cash receipt in virtually all cases.

In certain circumstances the Group offers sales incentives resulting in a long-term debt being recognised under which the Group will receive a proportion of the resale proceeds of 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.

Trade receivables consist of a large number of customers, spread across different regions. Ongoing credit evaluation is performed on the financial condition of trade receivables.

The Group does not have any significant credit risk exposure to any single counterparty or group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. There is no material concentration of credit risk in respect of one individual customer.

The carrying amount recorded for financial assets in the financial statements is net of impairment losses and represents the Group's maximum exposure to credit risk. No guarantees have been given in respect to third parties. In addition for contracted rental agreements deposits or advances may be held to mitigate risk. The Group also holds legal recourse and can exercise its right to recover rental equipment from non-performing customers.

#### Liquidity risk management

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group's strategy in relation to managing liquidity risk is to ensure that the Group has sufficient cash flow liquid funds to meet all its potential liabilities as they fall due. The Group produces cash flow forecasts to monitor the expected requirements of the Group against the available facilities. The principal risks with these cash flows relate to achieving the level of sales volumes and prices in line with current forecast.

The maturity of the financial liabilities of the Group at 31 August 2016 is as follows:

	2015				
	Carrying value £m	Contractual cash flows £m	Within 1 year £m	2-5 years £m	5+ years £m
Loans	90.0	102.8	3.9	98.9	–
Other financial liabilities carrying interest	11.3	11.7	0.3	11.4	–
Financial liabilities carrying no interest	113.8	113.8	113.8	–	–
<b>Total</b>	<b>215.1</b>	<b>228.3</b>	<b>118.0</b>	<b>110.3</b>	<b>–</b>

	2016				
	Carrying value £m	Contractual cash flows £m	Within 1 year £m	2-5 years £m	5+ years £m
Loans	<b>55.0</b>	<b>64.7</b>	<b>2.0</b>	<b>62.7</b>	–
Other financial liabilities carrying interest	<b>11.3</b>	<b>11.4</b>	<b>11.4</b>	–	–
Financial liabilities carrying no interest	<b>141.3</b>	<b>141.3</b>	<b>141.3</b>	–	–
<b>Total</b>	<b>207.6</b>	<b>217.4</b>	<b>154.7</b>	<b>62.7</b>	<b>–</b>

Other financial liabilities carrying interest are promissory notes, which attract availability and discount fees. Financial liabilities carrying no interest are trade and other payables and land payables. The timing and amount of future cash flows given in the table above is based on the year-end position.

# Notes to the Consolidated Financial Statements continued

## 31. Financial risk management continued

### Interest rate risk management

Interest rate risk reflects the Group's exposure to fluctuations to interest rates in the market. The risk arises because the Group's RCF is subject to floating interest rates based on LIBOR. From 2015 the interest rate risk has been partially mitigated by the purchase of an interest rate cap. See note 21 for further details.

In the year ended 31 August 2016, if UK interest rates had been 0.5% higher or lower, as this is a reasonably possible change, and all other variances were held constant, the Group's pre-tax profit would decrease/increase by £0.5m (2015: £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.

##### Interest rate swaps

At each period end, the Directors appoint a valuer to perform an external valuation of the fair value of each interest rate swap or cap outstanding. Fair values are based on broker quotes, which are reviewed by the Directors and reflect the actual transactions in similar instruments.

#### Valuation of level 1, 2 and 3 financial assets and liabilities

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes)
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates

#### Fair value measurements recognised in the Consolidated Statement of Financial Position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. The grouping into Levels 1 to 3 is based on the degree to which their fair value is observable:

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

The financial instruments held by the Group that are measured at fair value all relate to financial assets measured at fair value through profit and loss (FVTPL) using methods associated with Level 3. The sensitivities are not material on assets held at fair value.

	2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets at FVTPL</b>				
Shared equity receivables	–	–	28.0	28.0
Interest rate cap	–	–	0.3	0.3
<b>Total financial assets designated at FVTPL</b>	–	–	28.3	28.3
	2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets at FVTPL</b>				
Shared equity receivables	–	–	29.3	29.3
Interest rate cap	–	–	–	–
<b>Total financial assets designated at FVTPL</b>	–	–	29.3	29.3

### 31. Financial risk management continued

There were no transfers between Levels 1, 2 or 3 in the year.

Financial assets comprise shared equity loans secured by way of a second charge on the property, investment properties and an interest rate cap.

Financial assets are recorded at fair value, being the estimated amount receivable by the Group, discounted to present day values.

For shared equity receivables the fair value of future anticipated cash receipts takes into account the Directors' views of an appropriate discount rate, a new build premium, future house price movements and the expected timing of receipts. These assumptions cover a variety of different schemes and the range of assumptions used are stated below. The assumptions are reviewed at each period end.

Assumptions	2016	2015
Discount rate	<b>4.7 to 5.1%</b>	4.7 to 5.2%
New build premium	<b>5%</b>	5%
House price inflation	<b>0 to 4.0%</b>	0 to 3.2%
Timing of receipt	<b>5 to 12 yrs</b>	6 to 12 yrs

### Sensitivity-effect on value of other financial assets(less)/more

	2016 Increase assumptions by 1%/year £m	2016 Decrease assumptions by 1%/year £m
Discount rate	<b>(2.4)</b>	<b>2.7</b>
House price inflation	<b>2.3</b>	<b>(2.1)</b>
Timing of receipt	<b>(1.3)</b>	<b>1.3</b>

The Directors review the anticipated future cash receipts from the assets at each reporting date and the difference between the anticipated future receipt and the initial fair value is credited to finance income.

At initial recognition, the fair values of the assets are calculated using a discount rate appropriate to the class of assets that reflects market conditions at the date of entering into the transaction. The Directors consider at the end of each reporting period whether the initial market discount rate still reflects up to date market conditions. If a revision is required, the fair values of the assets are remeasured at the present value of the revised future cash flows using this revised discount rate. The difference between these values and the carrying values of the assets is recorded against the carrying value of the assets and recognised directly in the Consolidated Statement of Comprehensive Income.

The following tables present the changes in Level 3 instruments for the years ended 31 August 2015 and 2016:

	2015		
	Shared equity receivables £m	Interest rate cap £m	Total £m
Opening balance	24.3	–	24.3
Additions	4.8	0.4	5.2
Disposals	(2.0)	–	(2.0)
Revaluation gains or (losses) recognised in the income statement	0.9	(0.1)	0.8
<b>Closing balance</b>	<b>28.0</b>	<b>0.3</b>	<b>28.3</b>

	2016		
	Shared equity receivables £m	Interest rate cap £m	Total £m
Opening balance	<b>28.0</b>	<b>0.3</b>	<b>28.3</b>
Additions	<b>0.5</b>	–	<b>0.5</b>
Disposals	<b>(1.7)</b>	–	<b>(1.7)</b>
Revaluation gains or (losses) recognised in the income statement	<b>2.5</b>	<b>(0.3)</b>	<b>2.2</b>
<b>Closing balance</b>	<b>29.3</b>	<b>–</b>	<b>29.3</b>

## Notes to the Consolidated Financial Statements *continued*

### 32. Share-based payments

#### Cash-settled and equity-settled share-based payment scheme

Within the year the existing Management Incentive Plan that had been granted to certain employees crystallised. This Plan was a partly equity-settled and partly cash-settled share-based payment arrangement whereby the employees were entitled to a cash bonus and shares if certain future conditions were met.

The split of equity and cash was based on a hurdle mechanism which accrued from a predetermined starting equity value compounded at a set rate of interest per annum. The cash payment was a percentage of the final valuation above the starting equity but below the hurdle. The shares entitled the participants to a percentage of the total value created above the hurdle delivered in McCarthy & Stone plc shares. The number of Directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes was six (2015: five).

#### Equity-settled share-based payment

The cost of the equity-settled transactions with the participants is measured by reference to their fair value at the date at which they are granted and is recognised as an expense over the expected vesting period. In 2014, 19,150 shares were issued to the participants and the fair value of the shares at the grant date was measured at £1.3m based on management's most recent valuation. Therefore, the Group recognised a cost of £0.1m in the year ended 31 August 2016 (2015: £0.9m) in the Consolidated Statement of Comprehensive Income in relation to the equity-settled share-based payment.

Upon crystallisation a total of 43,706,526 shares were issued to participants of the Management Incentive Plan (post consolidated figure of 10,926,632 shares). Further information on movements to share capital within the year is included in note 26.

#### Cash-settled share-based payment

The total cash payment made under this scheme was £0.8m. The fair value in relation to the cash payment of the scheme as at 31 August 2016 was £nil following full settlement (2015: £0.9m). Due to the crystallisation within the year there is no fair value in relation to the cash payment of the scheme as at 31 August 2016 (2015: £0.9m). The Group recognised a total cost of £0.3m (2015: £0.6m) in relation to the cash-settled share-based payment during the year ended 31 August 2016.

#### Equity-settled share-based payment plans

Following the IPO of the Group in November 2015, the Group entered into new share incentive plans: the McCarthy & Stone plc Long Term Incentive Plan (the LTIP), and the McCarthy & Stone plc Annual and Deferred Bonus Plan (the ABP). In addition, the Group has also established two all-employee share incentive plans: the McCarthy & Stone plc Share Incentive Plan (the SIP) and the McCarthy & Stone plc Sharesave Plan (the SAYE).

#### Long Term Incentive Plan

During the period the Group introduced a LTIP for 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 first grant under the LTIP are earnings per share (EPS), comparative shareholder return (TSR) and return on capital employed (ROCE). The TSR performance condition is a market-based condition. In order to value the TSR performance conditions against the FTSE 250, a Monte Carlo simulation model is required which can simulate correlation between companies.

LTIP	2016
Date of grant	25 November 2015
Options granted	1,930,524
Fair value at measurement date <sup>1</sup> (£)	2.12
Share price on date of grant (£)	2.32
Exercise price (£)	0
Vesting period	3 years
Expected dividend yield	n/a
Expected volatility	26.07%
Risk free interest rate	0.8% p.a.
Valuation model	Black-Scholes and Monte Carlo
<b>Movements in the year:</b>	
Options at beginning of the year	0
Granted during the year	1,930,524
Exercised during the year	0
Lapsed during the year	113,888
Expired in the year	0
Options at the end of the year	1,816,636
Exercisable at end of the year	0

<sup>1</sup> This is the average fair value of the fair values for the three tranches of the LTIP scheme.



### 32. Share-based payments continued

The weighted average of the average price for the LTIP award is nil.

Expected volatility was determined by calculating the average historical volatility over a period commensurate with the expected life of the award for the LTIP based on the FTSE 250, which McCarthy & Stone are a constituent of post-IPO.

#### Sharesave Plan

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 Capita 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	2016	2016	Total	Weighted average exercise price 2016
Date of grant	10 December 2016	10 December 2016		
Options granted	2,912,247	1,197,514		
Fair value at measurement date (£)	0.68	0.75		
Share price on date of grant (£)	2.34	2.34		
Exercise price (£)	1.674	1.674		
Vesting period	3 years	5 years		
Expected dividend yield	26.20%	28.16%		
Expected volatility	26.07%	26.07%		
Risk free interest rate	0.8% p.a.	1.2% p.a.		
Valuation model	Black-Scholes	Black-Scholes		
<b>Movements in the year:</b>				
Options at beginning of the year	–	–	–	–
Granted during the year	2,912,247	1,197,514	4,109,761	1.674
Exercised during the year	–	–	–	–
Lapsed during the year	(259,219)	(35,839)	(295,058)	1.674
Expired in the year	–	–	–	–
Options at the end of the year	2,653,028	1,161,675	3,814,703	1.674
Exercisable at end of the year	–	–	–	–

Expected volatility was determined by calculating the average historical volatility over a period commensurate with the expected life of the savings term for the SAYE options, based on the FTSE 250, which McCarthy & Stone are a constituent of post-IPO.

#### Share Incentive Plan

In May 2016, the Group established a Share Incentive Plan available to all employees. This allows 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

The ABP incorporates the Company's executive bonus scheme as well as a mechanism for the deferral of bonus into awards over ordinary shares. All employees (including the Executive Directors) of the Group are eligible to participate in the ABP at the discretion of the Board. At 31 August 2016, three Executive Directors were participating in the scheme. As maximum bonus targets have not been achieved, a cash portion of the bonus has been awarded.

#### Total Share Incentive Plan

Analysis of the income charge:	2016 £m	2015 £m
<b>Equity-settled and cash-settled share-based payments:</b>		
Management Incentive Plan	0.4	1.5
<b>Equity-settled share-based payments:</b>		
SAYE	0.4	–
LTIP	0.7	–
	1.1	–
	1.5	1.5

## Notes to the Consolidated Financial Statements continued

### 33. Subsidiaries

Name	Principal activity	Company number	Class of shares	2016 %	2015 %
McCarthy & Stone (Developments) Limited	Holding company	06622183	Ordinary	100	90
McCarthy & Stone Retirement Lifestyles Limited	Developer	06622231	Ordinary	100	100
McCarthy & Stone (Equity Interests) Limited	Property investment	05663330	Ordinary	100	100
McCarthy & Stone (Home Equity Interests) Limited	Property investment	05984851	Ordinary	100	100
McCarthy & Stone Investment Properties No. 23 Limited*	Property investment	06496130	Ordinary	100	100
McCarthy & Stone (Total Care Living) Limited*	Property investment	06069509	Ordinary	100	100
McCarthy & Stone (Alnwick) Limited*	Property investment	07517819	Ordinary	100	100
McCarthy & Stone (Extra Care Living) Limited	Property investment	06897363	Ordinary	100	100
McCarthy & Stone Total Care Management Limited	Property investment	06897301	Ordinary	100	100
McCarthy & Stone Rental Interests No. 1 Limited*	Property investment	06897272	Ordinary	100	100
McCarthy & Stone Management Services Limited	Development management	07166051	Ordinary	100	100
McCarthy & Stone Lifestyle Services Limited*	Holding company	07165986	Ordinary	100	100
McCarthy & Stone Financial Services Limited*	Financial services	07798214	Ordinary	100	100
Keyworker Properties Limited	Property investment	04213618	Ordinary	100	100
McCarthy & Stone Estates Limited*	Property resale	07165952	Ordinary	100	100
YourLife Management Services Limited	Development management	07153519	Ordinary	50	50
McCarthy & Stone Independent Living Limited	Dormant	06897315	Ordinary	100	100
McCarthy & Stone Properties Limited*	Dormant	01925738	Ordinary	100	100
The Planning Bureau Limited*	Dormant	02207050	Ordinary	100	100
Ortus Homes Limited	Dormant	08658235	Ordinary	100	100

\* These UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 August 2016.

Each of the above shareholdings gives the immediate Parent Company 100% voting rights, with the exception of YourLife Management Services Limited where the parent has 50% voting rights, but the power to appoint the majority of the Directors. Accordingly this gives the Group power over the relevant activities of this entity.

The registered address of all of the above subsidiaries is 4th Floor, 100 Holdenhurst Road, Bournemouth, Dorset, BH8 8AQ.

### 34. Related party transactions

Balances and transactions between the Parent Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties are disclosed below.

#### Remuneration of key management personnel

The key management personnel are the executive leadership team. The remuneration that they have received during the year is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2016 £m	2015 £m
Short-term employee benefits	2.5	3.2
Share-based payments	0.9	1.1
Pension contributions	0.2	0.2
Termination payment	0.4	–
	<b>4.0</b>	<b>4.5</b>
Aggregate emoluments of the highest paid Director	<b>0.9</b>	<b>0.7</b>

As part of the Management Incentive Plan shares totalling 33,098,147 were issued to key management personnel, prior to share consolidation. Note 26 details movements in share capital within the year.

### 35. Events after the balance sheet date

There were no events after the reporting period that required adjustment or disclosure in the financial statements.

# Parent Company Statement of Financial Position

As at 31 August 2016

	Notes	2016 £m	2015 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	4	<b>439.4</b>	419.7
<b>Total non-current assets</b>		<b>439.4</b>	419.7
<b>Current assets</b>			
Trade and other receivables	5	<b>104.3</b>	17.5
Cash and cash equivalents		-	-
<b>Total current assets</b>		<b>104.3</b>	17.5
<b>Total assets</b>		<b>543.7</b>	437.2
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Share capital		<b>43.0</b>	381.1
Share premium		<b>100.8</b>	56.4
Retained earnings		<b>394.3</b>	(2.5)
<b>Total equity</b>	6	<b>538.1</b>	435.0
<b>Current liabilities</b>			
Trade and other payables	7	<b>5.6</b>	2.2
<b>Total current liabilities</b>		<b>5.6</b>	2.2
<b>Total liabilities</b>		<b>5.6</b>	2.2
<b>Total equity and liabilities</b>		<b>543.7</b>	437.2

Notes 1 to 12 form part of the financial statements shown above.

There were no recognised gains and losses for the year other than the profit for the year (2015: nil).

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Parent Company profit and loss account. The Company recorded a profit for the year of £1.7m (2015: £nil).

These financial statements of McCarthy & Stone plc (06622199) were approved by the Board on 14 November 2016 and signed on its behalf by:

**Clive Fenton**  
Director

**Nick Maddock**  
Director

## Parent Company Statement of Changes in Equity

For the year ended 31 August 2016

	Notes	Share capital £m	Share premium £m	Retained earnings £m	Total £m
<b>Balance at 1 September 2014</b>		<b>381.1</b>	<b>56.4</b>	<b>(2.5)</b>	<b>435.0</b>
Profit for the period		–	–	–	–
<b>Total comprehensive income for the period</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Balance at 31 August 2015</b>		<b>381.1</b>	<b>56.4</b>	<b>(2.5)</b>	<b>435.0</b>
Profit for the period		–	–	1.7	1.7
<b>Total comprehensive income for the period</b>		<b>–</b>	<b>–</b>	<b>1.7</b>	<b>1.7</b>
<b>Transactions with owners of the Company:</b>					
Issue of ordinary shares	6	4.9	104.8	–	109.7
Capital reduction of share capital and share premium	6	(343.0)	(56.4)	399.4	–
Share-based payments	9	–	–	1.1	1.1
Share issue related costs	6	–	(4.0)	–	(4.0)
Dividends	6	–	–	(5.4)	(5.4)
<b>Balance at 31 August 2016</b>		<b>43.0</b>	<b>100.8</b>	<b>394.3</b>	<b>538.1</b>

Notes 1 to 12 form part of the financial statements shown above.

# Parent Company Cash Flow Statement

For the year ended 31 August 2016

	Notes	2016 £m	2015 £m
<b>Net cash inflow from operating activities</b>	8	<b>5.4</b>	0.0
<b>Financing activities</b>			
Proceeds from issue of share capital	6	<b>86.0</b>	–
Dividends paid	6	<b>(5.4)</b>	–
<b>Net cash from financing activities</b>		<b>80.6</b>	–
<b>Investing activities</b>			
Amounts owed in respect of share issuance	6	<b>(86.0)</b>	–
<b>Net cash used in investing activities</b>		<b>(86.0)</b>	–
<b>Net increase in cash and cash equivalents</b>		<b>0.0</b>	0.0
<b>Cash and cash equivalents at beginning of year</b>		<b>0.0</b>	0.0
<b>Cash and cash equivalents at end of year</b>		<b>0.0</b>	0.0

Notes 1 to 12 form part of the financial statements shown above.

# Notes to the Parent Company Financial Statements

## 1. Accounting policies

McCarthy & Stone plc is a limited liability company incorporated in England. The registered office is 4th Floor, 100 Holdenhurst Road, Bournemouth, Dorset, BH8 8AQ. The following accounting policies have been applied consistently in dealing with the items that are considered material in relation to the financial statements, on an ongoing basis and in accordance with the Companies Act 2006.

### Basis of preparation

The Company financial statements have been prepared under the historical cost accounting rules and in accordance with applicable UK Accounting Standards.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The Company recorded a profit for the year of £1.7m (2015: £nil).

The principal accounting policies adopted are set out below.

### Adoption of Financial Reporting Standard (FRS) 102

Following the publication of FRS 100 *'Application of Financial Reporting Requirements by the Financial Reporting Council'*, the Company is required to change its accounting framework for its Parent Company financial statements, which is currently UK GAAP. The Company has adopted FRS 102 *'The Financial Reporting Framework'* for its Parent Company financial statements. Details of the transition to FRS 102 are disclosed in note 12.

No disclosure exemptions have been applied in the preparation of the Company financial statements.

### Investments in subsidiaries

Investments in Group undertakings are included in the Statement of Financial Position at cost less any provision for impairment.

### Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

### Share-based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market-based vesting conditions and no expense is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market-based vesting condition.

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each reporting period end thereafter until the awards are settled. Market-based conditions are taken into account when determining fair value.

Further details regarding the Schemes are set out in note 32 to the consolidated financial statements.

### Dividend distribution

Dividend distributions to McCarthy & Stone's shareholders are recognised in the Company's financial statements in the periods in which the final dividends are approved at the Annual General Meeting, or when paid in the case of an interim dividend.

### Financial instruments

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument.

#### Financial assets

All financial assets are normally recognised and derecognised on the date that an agreement has been entered into where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. They are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified as 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### 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.

## 1. Accounting policies *continued*

### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

### Financial liabilities

Financial liabilities are classified as 'other financial liabilities'.

### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

### Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction from the proceeds.

### Related parties

The Company discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the Directors, separate disclosure is necessary to understand the effect of the transactions on the financial statements.

## 2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgements in applying the Company's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

### Share-based payments

Assumptions are made in determining the fair value of employee services received in exchange for the grant of options under share-based payment awards at the date of grant. Assumptions are around lapse rates, share performance and the expected outcome of performance conditions.

### 3. Staff costs

The Company had no employees during the period covered by these financial statements. Costs relating to time incurred by Directors for Group activities are recharged to McCarthy & Stone plc.

## 4. Investments in subsidiaries

Cost	2016 £m	2015 £m
1 September	419.7	419.7
Additions	19.7	–
31 August	439.4	419.7
<b>Net book value</b>	<b>439.4</b>	<b>419.7</b>

Investments in subsidiary undertakings relate to a 100% ownership interest in McCarthy & Stone (Developments) Limited.

The Group's subsidiary undertakings for the period that are significant for the period and traded during the period are listed in note 33 to the consolidated financial statements.

# Notes to the Parent Company Financial Statements

## continued

### 5. Trade and other receivables

	2016 £m	2015 £m
<b>Amounts falling due within one year:</b>		
Other receivables and prepayments	–	0.1
Amounts owed by subsidiary undertakings	<b>104.3</b>	17.4
	<b>104.3</b>	17.5

Amounts repayable from McCarthy & Stone Retirement Lifestyles Limited are repayable on demand and carry interest of 2.2% at the year end date; this was amended from 3.5% within the year (2015: nil%).

### 6. Shareholders' funds

The movements of the share capital, share premium and equity reserve accounts are disclosed in note 26 to the consolidated financial statements.

Dividends within the year are disclosed within note 26 to the consolidated financial statements.

### 7. Trade and other payables

	2016 £m	2015 £m
<b>Amounts falling due within one year:</b>		
Amounts owed to subsidiary undertakings	<b>5.6</b>	2.2
	<b>5.6</b>	2.2

Amounts payable to McCarthy & Stone (Developments) Limited are repayable on demand and carry interest of 2.2% at the year end date; this was amended from 3.5% within the year (2015: nil%).

### 8. Notes to the cash flow statement

	Notes	2016 £m	2015 £m
<b>Profit for the financial year</b>		<b>1.7</b>	–
Adjustments for:			
Interest income		<b>(2.6)</b>	–
Share option charge		<b>1.1</b>	–
Income tax expense		<b>0.4</b>	–
<b>Operating cash flows before movements in working capital</b>		<b>0.6</b>	–
(Increase) in trade and other receivables	5	<b>(0.8)</b>	(2.2)
Increase in trade and other payables	7	<b>3.4</b>	2.2
<b>Operating cash flows before interest and tax paid</b>		<b>3.2</b>	–
Interest received		<b>2.6</b>	–
Tax paid		<b>(0.4)</b>	–
<b>Cash generated by operations</b>		<b>5.4</b>	–
<b>Net cash inflow from operating activities</b>		<b>5.4</b>	–
		<b>2016 £m</b>	<b>2015 £m</b>
<b>Cash and cash equivalents:</b>			
Cash and bank balances		<b>0.0</b>	0.0
		<b>0.0</b>	0.0

### 9. Share-based payments

Following the IPO of the Company in November 2015, the Company entered into new share incentive plans. Details of share awards granted by the Company to employees of subsidiaries, and that remain outstanding at the year end over the Company's shares, are set out in note 32 to the consolidated financial statements.

The Company recognised an expense of £1.1m relating to equity-settled share-based payment transactions in the year (2015: £nil), this is recharged to Group companies.



## 10. Financial instruments

The Company has the following financial instruments:

	2016 £m	2015 £m
<b>Financial assets</b>		
Loans and receivables measured at amortised cost:		
Trade and other receivables	104.3	17.5
Cash and bank balances	0.0	0.0
	<b>104.3</b>	<b>17.5</b>
<b>Financial liabilities</b>		
Loans and payables measured at amortised cost:		
Trade and other payables	(5.6)	(2.2)
	<b>(5.6)</b>	<b>(2.2)</b>

The Company has no derivative financial instruments. The fair value of the financial instruments is equal to their carrying values.

## 11. Related party transactions

The Company is exempt from disclosing related party transactions with other companies that are wholly owned within the Group. See note 34 to the consolidated financial statements.

Remuneration to key management personnel has been disclosed within note 34 to the consolidated financial statements.

## 12. Explanation of transition to FRS 102

For all periods up to and including the year ended 31 August 2015, the Company prepared its financial statements in accordance with UK GAAP. As stated in note 1, these financial statements for the year ended 31 August 2016 are the first the Company is required to prepare in accordance with FRS 102.

Accordingly, the Company has prepared financial statements which comply with FRS 102 applicable for periods beginning on or after 1 September 2014 and the significant accounting policies meeting those requirements are described in note 1 and which have been consistently applied throughout the period.

As a consequence of adopting FRS 102, the following accounting policy has changed to comply with that standard:

Amounts owed to/by Group undertakings: Under UK GAAP these balances were held at the net proceeds value received. Under FRS 102 amounts owed to Group undertakings will initially be recognised at the transaction value and subsequently at amortised cost. Due to the balances not having a set repayment date, and therefore being current balances the amortised costs are deemed to equal the value recorded at the transaction date, and therefore there will be no adjustment required to comply with FRS 102.

## General Company Information

McCarthy & Stone plc is registered in England and Wales, registered number 6622199.

### Our offices

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### Cautionary statement regarding forward-looking statements

Some of the information in this document may contain forward-looking statements regarding McCarthy & Stone plc and its subsidiaries (the Group). You may be able to 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 or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. McCarthy & Stone plc (the Company) wishes to caution you that actual events or results may differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and the Company undertakes no obligation 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 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. Nothing in this document should be construed as a profit forecast.

**Our advisers****Bankers**

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UK Corporate Broking  
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**Chartered accountants and statutory auditor**

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**Joint corporate brokers**

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UK Corporate Broking  
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**Financial and corporate communications**

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Our ordinary shares are listed on the London Stock Exchange.

Ticker symbol: MCS  
ISIN: GB00BYNVD082

**Registrar**

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Kent  
BR3 4TU

Tel (from the UK): 0871 664 0300 (calls cost 10p per minute, plus any network extras; lines are open Monday to Friday from 9am to 5.30pm, excluding UK public holidays)

Tel (from outside the UK): +44 208 639 3399

Email: [shareholderenquiries@capita.co.uk](mailto:shareholderenquiries@capita.co.uk)

## Glossary

<b>‘Adjusted EPS’</b>	FY15 EPS has been adjusted to reflect the 4:1 share consolidation that took place in FY16
<b>‘Capital turn’</b>	calculated by dividing revenue by the average opening and closing tangible gross asset value in the year
<b>‘CGU’</b>	cash-generating unit
<b>‘DCLG’</b>	the Department for Communities and Local Government
<b>‘EPS’</b>	earnings per share, being profit attributable to ordinary shareholders (excluding exceptional items and deferred tax rate changes) divided by the weighted average number of ordinary shares in issue during the financial year
<b>‘FRI’</b>	freehold reversionary interest being the freehold of each of the Group’s developments in England and Wales which include the future income stream of ground rents
<b>‘FTSE Index’</b>	the Financial Times Stock Exchange Index
<b>‘Gearing’</b>	gearing is calculated by dividing net debt/cash by net assets
<b>‘HBF’</b>	Home Builders Federation
<b>‘IPO’</b>	Initial Public Offering
<b>‘Land bank’</b>	includes owned sites and exchanged sites
<b>‘LIBOR’</b>	the London interbank offered rate
<b>‘MSMS’</b>	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 Ortus Homes developments
<b>‘Net ASP’</b>	net average selling price – the average price agreed for sales of apartments in the year after deducting list price discounts, part exchange top-ups and other incentives
<b>‘Net assets’</b>	net assets is calculated as total assets less total liabilities
<b>‘Net debt/cash’</b>	cash and cash equivalents less long-term and short-term borrowings (excluding unamortised debt issue costs)
<b>‘NHBC’</b>	National House Building Council
<b>‘ROCE’</b>	return on capital employed – calculated by dividing underlying operating profit by the average opening and closing tangible gross asset value in the year
<b>‘TGA’</b>	tangible gross asset value – calculated as TNAV less net debt/cash
<b>‘TNAV’</b>	tangible net asset value – calculated as net assets excluding goodwill and intangible assets
<b>‘YLMS’</b>	YourLife Management Services Limited – owned 50/50 by MSMS and Somerset Care Group Limited, that provides management services, domestic assistance, personal care and additional support to homeowners in the Group’s Assisted Living developments

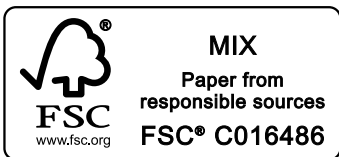
# Notes

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

# Notes





# McCarthy & Stone

The UK's leading retirement housebuilder

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**McCarthy & Stone plc Annual Report and Accounts 2016** [www.mccarthyandstonegroup.co.uk](http://www.mccarthyandstonegroup.co.uk)