Countrywide
integrated solutions local expertise

# Bringing people and property together

Countrywide plc Annual Report 2016







# Countrywide is the UK's leading integrated property services group

Customers are at the heart of our business. We are uniquely placed to support them at every stage of their property journey through a combination of national reach and local expertise – available online, on the phone and on the high street. This is supported by a diverse range of products and services: sales and lettings, mortgages and insurance, surveying, conveyancing, land and new homes, asset management and commercial.

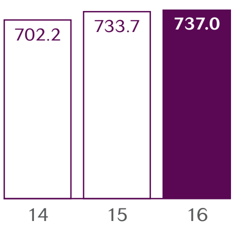
For more information, view our website:
**www.countrywide.co.uk**


## Financial highlights

- Maintained income through market share gains, benefit of 2015 acquisitions
- Challenging residential market, investment to support future growth impacts profitability and cash flow
- Positive progress in Lettings, Financial Services and Surveying
- Key cost initiatives underway to underpin future profits

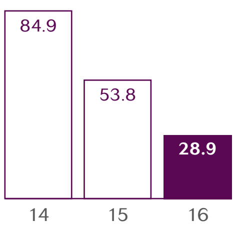
**Total income** (£m)

737.0 +0%



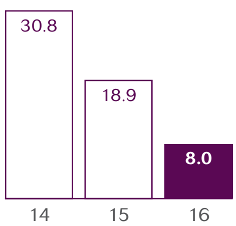

**Operating profit** (£m)

28.9 -46%



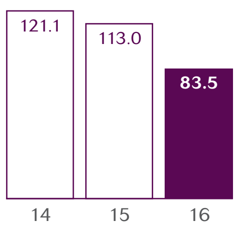

**Basic EPS** (p)

8.0 -58%



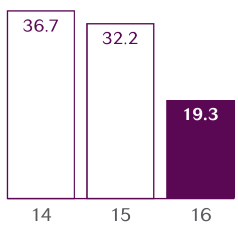

**Adjusted EBITDA[1]** (£m)

83.5 -26%




**Adjusted EPS[2]** (p)

19.3 -40%




1 Earnings before interest, tax, depreciation, amortisation, exceptional items, contingent consideration, share-based payments and share of profits from joint venture, referred to hereafter as 'EBITDA'.

2 Adjusted earnings per share is calculated on profit for the year before exceptional items, amortisation of acquired intangibles, contingent consideration and share-based payments (net of taxation).

## Operational highlights

### Volatile residential property market

- Stamp duty changes
- Additional 3% stamp duty land tax on buy to let/second homes
- EU referendum creates uncertainty

### Focus on key organic strategic initiatives

- Record level of mortgage market share
- Significant improvement in remortgage activity
- Encouraging trend in landlord retention

### Investment in foundations for future success

- Multichannel proposition
- Lettings customer service
- Underlying infrastructure

## At a glance

# Our diverse offering

Customers are at the heart of our business. We bring people and property together to help our customers at every step of their property journey.

## Our experienced leadership team

Our chairman's review **page 4**

Our chief executive officer's review **page 6**

Our chief financial officer's review **page 33**

Read about our Board **page 38**

## Our focused strategy

### Our customers

Delivering a better, more personalised customer experience

### Our people

Creating an internal environment for great people to flourish

### Our portfolio

Aligning our portfolio to where the growth is, thereby creating greater shareholder value

Read more on our strategy **page 10**

## Our diverse products and services

FOR SALE
Sales

TO LET
Lettings

Mortgages and insurance

Surveying

Conveyancing

Land and New Homes

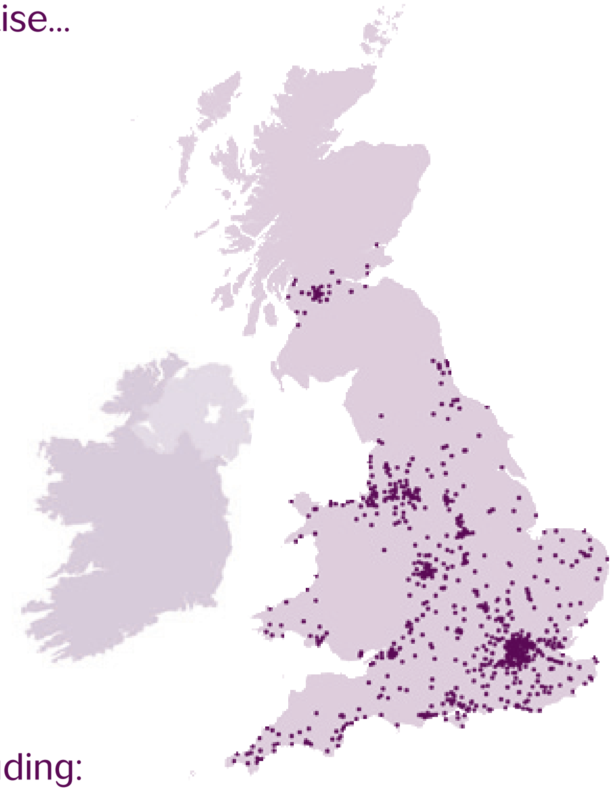
Asset management

Commercial

Read more on our business model **page 8**

Read more on our segmental reviews **page 23**

## Our national reach and local expertise...



66,000+
properties exchanged*

991
branches**

127,000+
properties under management*

£15.7bn
of mortgages completed*

* For the year ended 31 December 2016.

** As at 28 February 2017.

## ...with a strong brand portfolio, including:

HAMPTONS INTERNATIONAL

JOHN D WOOD & CO.

Bairstow eves

TAYLORS Estate Agents

Blundells blundells.com

bridgfords

Slater Hogg & Howison Estate Agency and Lettings

Lambert Smith Hampton

Read more on our portfolio **page 14**

## Our chairman's review

# Building for the future

### In summary

- Diversified portfolio helped contribute to maintaining revenue against a very challenging backdrop
- Tough market conditions are a catalyst for accelerating our transformation agenda
- Executive team is committed to building a customer focused company, driving and delivering efficiency and creating a sustainable and profitable business

My first year as chairman coincided with a particularly challenging market backdrop. Overall the property market was destabilised by fiscal change and heightened economic uncertainty, which inevitably had an impact on transactions.

Changes to the stamp duty regime, the UK's decision to leave the European Union and proposed changes to tenants' fees all had an effect on the sector and the Group. Property will always be a part of the national conversation and how the industry reacts to these conditions will remain a key focus for a wide variety of stakeholders going forward.

Tough market conditions can act as a catalyst for necessary change and true leaders show their strength by responding, transforming their business model to build and ultimately to thrive. I have been impressed at how quickly Countrywide has faced into these challenges and how the executive team has responded, by accelerating our transformation agenda.

2016 results delivered a modest growth in income to £737.0 million (2015: £733.7 million), despite the unpredictable residential sales market. EBITDA decreased by 26% to £83.5 million (2015: £113.0 million), and statutory operating profit by 46%, as a result of a reduced sales transaction market and investment in key areas of our business, impacting underlying profitability.

The Company is at a critical point in its evolution, and is determined to reinforce its leadership by developing a business that better reflects the needs of our customers. We accept that the market will continue to be constrained and that we need to transform our business, but we do so from a position of strength. We have genuine national reach, a broad service offering and a portfolio of high quality, well known brands.

> "The Company is at a critical point in its evolution, and is determined to reinforce its leadership by developing a business that better reflects the needs of our customers.

As we transform, the executive team is committed to building a customer focused company, driving and delivering efficiency and maintaining a sustainable and profitable business. Some of the decisions taken this year have put us ahead on this journey, not least:

- defining a new operating model which will include resizing the retail estate, updating the technology platform and driving down our cost base
- implementing a multichannel offering through a comprehensive digital, phone and high street presence
- seizing the growth opportunity represented in the financial services sector
- pausing all M&A activity after the first quarter of 2016 and focusing primarily on organic growth, delivering what we do already, but better.

As previously stated, we commenced a strategic review of our commercial business, Lambert Smith Hampton, during 2016 to consider how best to maximise value in that sector over the coming years. That review continues and we anticipate it will conclude later this year.

Despite the uncertain market environment, we remain committed to reducing our leverage and at the same time enable the management team to future proof the business and exploit growth opportunities. To that end, and following consultations with our major shareholders, the Board has decided to make a small placing of up to 9.99% of our share capital available via a cash box structure today. In addition, we have reviewed our dividend policy and have rebased that to between 30 and 35% of earnings going forward. No final dividend will be paid for 2016.

I am confident that we are building a business for the long term, working towards a more resilient and efficient operating model that promotes organic growth through customer retention and by building on our unique strengths to be the best in the market at what we do.

Peter Long

**Peter Long**
**Chairman**
9 March 2017

## Our vision

**1 Recommended**
more than any other company in the property sector.

**2 Recognised**
as one of the best places to work in the UK.

**3 Transforming**
the reputation of our industry.

**4 Celebrated**
for excellent sustainable financial performance.

## Our values

**Responsible**
We do the right thing. We listen, take time to understand and always tell the truth.

**Personal**
We are a people business. We care about our customers and each other. We have fun.

**Straightforward**
We keep it simple, dealing with the complicated things so our customers don't have to.

**Passionate**
We love working with property and we work hard, knowing what we do really matters.

# Geographic and service diversification

## underpins performance in uncertain markets

### In summary

- A year of unprecedented change
- Focus on organic growth, execution and acceleration of proposition improvements, and business transformation
- Growth in market share in Mortgages and Surveying, maintenance of our leading market share position in Sales and Lettings and growth in the number of properties under management
- Successful launch of our multichannel proposition
- Streamlining our branch footprint as we move to fewer, bigger brands and fewer, better branches

2016 was a year of two halves for the property market in the UK. The first half of the year saw Countrywide benefit from a strong residential sales market and the actions we took to strengthen the core business in both Sales and Lettings. The changes to stamp duty land tax on second homes provided a lift to first quarter volumes as our sales team capitalised on those buying second homes – most notably investor landlords who pulled forward transactions to beat the April deadline for the additional 3% levy. However, the introduction of higher rate stamp duty land tax rates for second home purchasers combined with previous stamp duty land tax rate rises on £1 million homes suppressed the market. This was most evident at the upper end of the sector where the stamp duty burden is greatest, inevitably meaning that this – effectively geographic – tax hurts aspiring working households in London and the South East more than anywhere else in the UK.

| Neighbourhood | City | Price of a two bed terrace house | Stamp duty for owner-occupiers | Stamp duty for investors/ second home buyers |
|---|---|---|---|---|
| Wimbledon | London | £714,000 | £25,700 | £47,120 |
| Moseley | Birmingham | £272,000 | £3,600 | £11,760 |
| Gosforth | Newcastle | £198,000 | £1,460 | £7,400 |

Source: Countrywide 2016

Read more on our markets **page 15**

The outcome of June's referendum on the UK's membership of the European Union predictably had an impact on confidence in the housing market in the second half of the year. Transactions fell in the third quarter, and in the fourth quarter were also down (9% year on year); consumers showed an appetite for mitigating risks and the number of customers seeking to remortgage was up, with approvals up by 14% compared to 2015, with the number of loans at its highest level since 2009.

Thanks to the diversity of our geographic footprint and service offer, despite these headwinds, we maintained Group revenue at the same level as 2015. We increased our market share in Mortgages and Surveying, maintained our leading market share position in both Sales and Lettings, and took a significant step forward in our ability to grow the number of properties under management in our Lettings business.

> "Our focus on building a business which is genuinely multichannel in nature, delivers more choice and flexibility to customers and lowers our cost of doing business is imperative.

Our focus on delivering improved levels of service to our landlords and their tenants has been a core focus for Countrywide over the last year and the turnaround in performance is really pleasing.

Challenges in the property market are likely to be with us for some time whilst uncertainty around the UK economy weighs heavily on consumer confidence. The Chancellor's intent to remove tenants' fees brings further challenges to the rental sector, where increasing regulatory burdens risk some agents putting quality a poor second to rates of return.

In our view, these market conditions create an impetus to change our business faster. Our focus on building a business which is genuinely multichannel in nature, delivers more choice and flexibility to customers and lowers our cost of doing business is imperative for us now. The launch of our digital sales pilot in summer 2016 has surpassed our ambitions and we have now accelerated the rollout to more than 25% of our network. Whilst that rollout will continue at pace development is now focused on building both telephone and digital channels in our Mortgage and protection business and our across our Lettings proposition.

Our focus on reducing the cost base came immediately post the EU referendum and has continued at pace. We initiated significant cost cutting, with estimated run rate reductions of £10 million already embedded and a further £9 million expected in 2017. The strategic review of our Commercial business is underway as we seek a route to enable our growth agenda without increasing our debt. These exceptional costs of restructuring our business of £27.7 million (including £1.4 million impairment of brands we rationalised) were incurred in parallel with goodwill impairment charges of £19.6 million arising from market conditions.

The current market provides an opportunity to accelerate towards our vision of being recognised as the most recommended company in the property sector. The work we started in 2015 to improve our customers' experience, while increasing the efficiency and productivity of our business, continues at pace. In 2016 that marked a shift away from growth delivered though acquiring independent businesses to organic growth. In building a multichannel network we have taken the opportunity to review our footprint across the UK and in pursuit of fewer, bigger, better brands and branches, we closed 200 branches across the UK. That, coupled with a reduction in the layers of management, has enhanced our ability to move at pace, and focus on growing our business through achieving more for our customers. Seeing colleagues leave our business is never easy and, although tough, the decisions we took in 2016 will stand us in good stead as we navigate the market challenges ahead.

As we enter 2017 we do so with confidence – both in the capabilities our business and our people have to serve our customers, and in our clear plans for transformation. The progress made, and momentum gained from responding rapidly to the changing market conditions in 2016, put us firmly on the front foot and mean we are well placed to deliver on our strategy: delivering a better, more personalised customer experience; creating an internal environment for great people to flourish; and aligning our portfolio to where the growth is.

Alison Platt

**Alison Platt**
**Chief executive officer**
9 March 2017

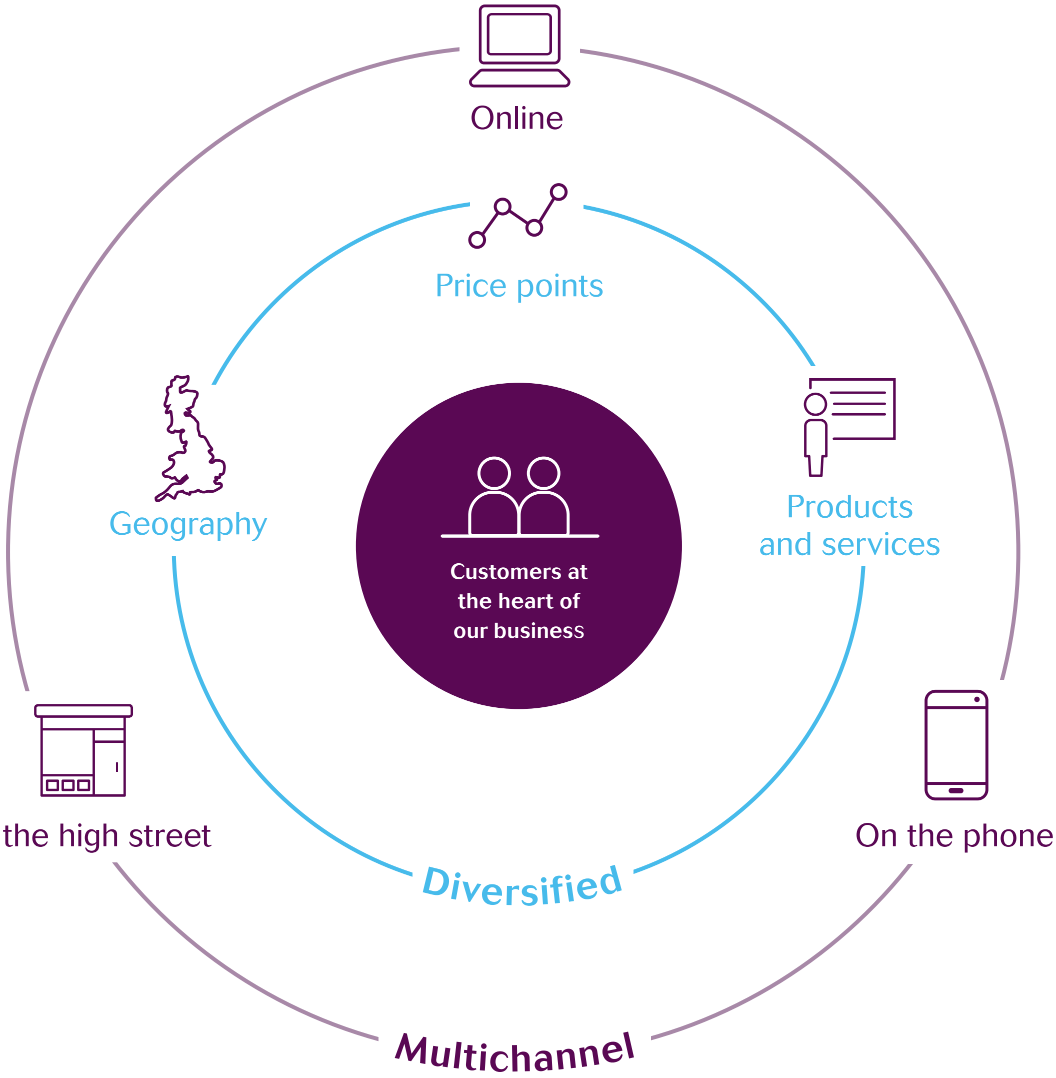
---

This strategic report was approved by the Board of directors on 9 March 2017 and signed on its behalf by:

Alison Platt

**Alison Platt**
**Chief executive officer**

# Customers are at the heart of what we do




Read more on our multichannel proposition **page 12**

# Resilience through diversification

## Geography

We operate across the UK residential property market and have over 900 branches around England, Scotland and Wales.

### How this benefits us

Our national reach and local expertise give us unrivalled access to, and knowledge of, customers and communities up and down the country. This diversified brand footprint also helps ensure that our overall business model is more resilient as we offer our products and services to customers all over Britain, not just in particular parts of the country.

## Price points

Our focus is on having the right brand in the right location to reach customers across all price points.

### How this benefits us

Last year we exchanged over £17 billion worth of properties across the country – more homes than anyone else – and we had over 90,000 properties under our management, representing the largest portfolio in the sector.

Network of over

**50**
**brands**

## Products and services

We're not just estate and lettings agents – we are also the largest single mortgage broker in the UK, and we are experts in surveying, conveyancing and the commercial market too, supporting our corporate clients with all of their commercial needs.

### How this benefits us

We bring people and property together and, with our diverse range of products and services available to customers around the country in an increasingly multichannel way, we are able to:

- support our customers at every step of their property journey
- diversify our revenue streams
- give customers the added peace of mind to move seamlessly across channels if needed.

# Our strategic priorities

The headwinds of 2016 have not caused us to move away from our core belief – that as an organisation we will maintain our leadership in this sector by focusing on three strategic priorities:

- delivering a better, more personalised **customer** experience
- creating an internal environment for great **people** to flourish
- aligning our **portfolio** to where the growth is, thereby creating greater shareholder value

We will deliver on these priorities by creating a resilient business with a shape that reflects market conditions and customer preference. This will be achieved through focus on the following key areas:

## 1 Growing our business

- Continuing the rollout of our multichannel offering for customers
- Continuing to deliver growth in our Financial Services business
- Continuing to grow landlord retention and properties under management

## 2 Delivering cost optimisation

- Fewer, better branches
- Fewer, bigger brands
- Rationalising our back office functions
- Updated technology platforms

## 3 Reassessing capital allocation

- Building a robust balance sheet and driving cash generation
- Putting our M&A plans on hold
- Investing in organic growth

In some cases market conditions have given us licence to accelerate our change programme, for example: the rollout of our multichannel proposition; the reshaping of our brand and branch network; and the shift from growth primarily through M&A to organic growth.

## Our customers

### Delivered in 2016

- Pilot and launch of our multichannel proposition in six brands
- Extended branch opening hours
- Increased Group net promoter score by 58%
- Introduction of a new Fixflo application for tenants to report maintenance and repairs issues
- Retained 78.0% of landlords
- Invested in our recruitment model, training and IT infrastructure

### Focus in 2017

- Accelerated rollout of our multichannel proposition to the majority of our branch network
- Further improvement in net promoter scores, particularly in Lettings
- Further improving landlord retention rates
- Further improving remortgage rates

## Our people

### Delivered in 2016

- Held senior leadership programmes throughout the year to improve management skills and drive performance
- Launch of first Group-wide intranet, 'Our Place'
- Introduction of 'Under One Roof' – a new benefit programme helping colleagues, and their families, move and save money
- Completed our largest national investment in training our listing colleagues

### Focus in 2017

- Better trained colleagues, supported by better IT
- Identifying our leaders of the future
- Designing a range of development initiatives to nurture our existing talent
- Increasing referrals and improving our ability to cross sell
- Delivering new leadership programmes to enhance the knowledge, skills and capability of our leaders

## Our portfolio

### Delivered in 2016

- Organic growth and M&A – improvements in our core service yielded strong returns and helped us grow our market share across the Group. The rollout of our multichannel proposition also improved productivity and made adding more high street branches unnecessary
- Almost doubled remortgage rates year on year, from 13% in 2015 to 25% in 2016
- Reviewed and consolidated brands and branches ensuring we have the strongest performing brands and branches with the most sustainable future
- Acquisitions of Finders Keepers, The Buy to Let Business, Mortgage Bureau and Capital Private Finance

### Focus in 2017

- Transforming our operating model
- Organic growth with less M&A – our focus will shift further towards organic growth and away from using our capital to acquire businesses. We see potential for greater returns from accelerating our progress by having better products, propositions and channels
- Fewer, bigger brands
- Fewer, better branches in locations that are convenient for customers
- Even greater growth of the Financial Services business as we seek to become the preferred partner offering the best advice in mortgages and protection for customers throughout their lives
- Balance sheet – we will aim to bring down the ratio of debt to earnings, to below 2x earnings over a period of time, and broadly maintain that level as we invest to grow organically

## Strategy in action

# Our customers

Our ambition to be 'the most recommended company in the property sector' means putting customers at the heart of our business. In 2015, we carried out our largest ever piece of customer research (>3,000 people) to identify their needs and sharpen our customer segmentation – this insight is the foundation for everything we do as we centre the business around our customers.

### 1 Deliver what we say we are going to

Our breadth of services provides a strong platform to support customers throughout their whole property journey. Trust, reliability, efficient communication, personal connection – the same needs are common across customer segments, and the industry as a whole is still not delivering consistently. We will be known for delivering on our promises. We continue to invest in our recruitment model, our training and our IT infrastructure to provide a better customer experience across all our channels. It is essential that we communicate well at key handover points as customers avail themselves of various services across the Group.

### 2 Personalise our customers' journey

Property transactions are often complicated and emotional journeys, and all customers are different. We aim to better understand each customer at the start of their journey – whether in sales, lettings or financial services – so we can match their needs. With the launch of our multichannel proposition we are tailoring the journey to give customers more choice – choice of product, choice around how they interact with us, and choice in where they value support and where they want to take more control themselves. It allows for more convenience and greater transparency in the services they are paying for. We piloted and launched our multichannel proposition in 2016 and will roll this out to the majority of our branch network in 2017.

### 3 Measure the right things

In a competitive marketplace, the reputation of our people and our brands is what drives customers to choose us ahead of others. We have rolled out net promoter scores in all our branches, and at regional and business unit level, which are core to how we manage and reward our people. We have continued to see an upward trend in scores at key touchpoints in the customer journey.

## Key performance indicators

**Landlord retention**

78.0% +3%

(2015: 75.4%)

**Level of remortgages**

25% +91%

(2015: 13%)

**Net promoter scores**

58%

improvement year on year

**Six of our brands offered our multichannel proposition by the end of 2016**

## Case study: Multichannel proposition

In line with our strategy of putting customers at the heart of what we do, in June 2016 we launched our new and unique multichannel proposition. It was informed by extensive consumer research which revealed that people are looking for choice, control, convenience and support when selling their home. Our unique proposition was designed specifically to meet these needs. It gives customers the greatest choice in the market: the ability to manage the process themselves online for a competitive fixed fee or use our full high street service providing the expertise and knowledge of our local teams, plus the flexibility and choice to switch at any time from the online service to the full high street service.

> It was really important to have a choice and it was great to see your services are based around what the customer wants.
>
> Mr J C
> **Customer**

# Our people

To deliver a world class experience for our customers, Countrywide needs to be a great place to work. We must ensure our colleagues have the right tools for the job in an environment that is safe and one in which they can continually develop. By being recognised as one of the best places to work in the UK, we can continue to attract, develop and retain talented people who will take the Group forward throughout 2017 and beyond.

## Key performance indicators

**Annualised staff attrition**

35% -3%

(2015: 34%)

**Staff engagement levels**

66% -6%

(2015: 70%)

## 1 Our great people

Connecting our people to our purpose motivates us all to deliver our best. Our people will feel valued, engaged and committed to providing a brilliant and personalised customer experience. We will ensure that our people have a great experience from the moment they join Countrywide and throughout their career with us.

We want to give our people everything they need to bring our values to life, excel in their role and delight our customers. It is clear that by taking action on the feedback we receive from the MyCountrywide survey, and working together with our people across the business, we can continue to make changes that bring us ever closer to being recognised as one of the best places to work in the UK.

## 2 Striving for a high performance culture

Great people flourish with the support of great leaders. Throughout the year, we held events to support and mentor our wider leadership team across the Countrywide Group, so they can lead our people effectively and drive performance. This was supported by the creation of a dedicated online community for our leaders to share information and best practice and discuss business topics, as well as providing business research, analytics and key communications.

## 3 Developing and training our talent

We are proud that our apprenticeship and graduate recruitment schemes continue to bring high quality people into Countrywide. These programmes run alongside City & Guilds accredited training for our colleagues within our Retail operations, including the opportunity of sponsorship to achieve recognised professional qualifications that are relevant to our sector.

As well as this, our trainee surveyor programme continued to provide additional capacity for our surveyor network during 2016, with a further 34 colleagues achieving Royal Institution of Chartered Surveyors (RICS) accreditation and Registered Valuer status as part of an in house career development route.

We are also looking to maximise the Apprenticeship Levy and the opportunities it presents in line with each of our business areas. For 2017 we will focus on upskilling our colleagues as we develop a solid platform to build on in the years to come.

## Case study: Under One Roof

Our exclusive employee benefit scheme has been a huge success since it was introduced in 2016. Employees, and their close family, get discounts on Countrywide products and services. Some key benefits are an average £2,000 saving on estate agency fees, reduced survey and conveyancing rates, 50% off landlord property management services and free mortgage advice. So far, our colleagues have saved over £1.2 million.

“As a first time buyer, using Under One Roof saved me £2,000 which will definitely help towards the cost of all the new kitchen appliances I need to buy. I found keeping the whole process within Countrywide so helpful and much less daunting!

**Sam Foster**
**General Insurance Team Leader, Milton Keynes**

## Strategy in action continued

# Our portfolio

Our growth agenda is aligned with demand and addresses areas where we are under-represented, reducing potential cyclical exposure to UK residential property sales.

## Key performance indicators

**Financial Services market share**

7% +17%

(2015: 6%)

**Properties exchanged (Retail and London)**

61,314 -2%

(2015: 62,490)

**Properties under management (Retail and London)**

91,144 +11%

(2015: 81,917)

### 1 Financial Services

Grow existing customer value.

We are the UK's single largest mortgage broker and the growth of our Financial Services business within the Group, particularly within the remortgage market, was one of our biggest success stories in 2016.

The remortgage conversion rate for existing customers has almost doubled, from 13% to 25%, and there are opportunities for us to increase this further. We are committed to helping first time buyers and home movers to get the best possible mortgages for their circumstances, as well as ensuring that this also happens for our existing customer base.

We see further potential within the financial services market and remain committed to growing this part of the Group, strengthening our diversified portfolio and retaining customers as their property and financial needs evolve throughout the course of their lives.

### 2 Organic growth

Leverage our existing brands and branches across the whole of the property value chain, increasing referrals and cross-selling opportunities.

#### Lettings

We are the UK's largest lettings agent with over 90,000 homes under our management across the country.

In 2016, we increased our share of lettings listings in London from 4.5% to 4.8% and maintained our listings in Retail at 6.4%. We believe that there are opportunities to increase our volume and share of lettings in this expanding market in 2017.

We aim to continue improving our landlord retention rate and grow the number of properties we manage, driven by the improvements to service levels for both landlords and their tenants.

#### Sales

We are the largest estate agent in the UK and in 2016 sold over 61,000 homes across the country, more than anyone else in the sector.

We have strengthened our overall customer offering with the launch of our multichannel proposition and through this will gain further market share in estate agency.

Investment in our people and processes is driving better conversion of opportunities to instructions and lower withdrawal rates.

We have the largest market share in London and see significant potential for growth specifically within the £350,000–£1,000,000 segment of the market.

#### Increase take-up of the range of services offered

Opportunities to increase take-up of mortgages, insurance and conveyancing by tailoring our product offering and services to meet the needs of our customers in Retail and London.

### 3 Cost optimisation

Deliver a new, more efficient and effective operating model that ensures cost competitiveness by having:

- fewer, bigger brands
- fewer, better branches
- rationalised back office functions
- updated technology platforms.

# A look back over the past twelve months...

## ...and a look forward to what 2017 has in store

Housing markets in 2016 were heavily influenced by external factors, namely the introduction of the 3% additional stamp duty charge for second home owners and weaker housing market sentiment in the run up to and after the EU referendum. In addition, the market in London in particular continued to be adversely impacted by the changes that were made to stamp duty land tax in December 2014.

### Sales

The introduction of an increase in rates of stamp duty for second home buyers caused a surge in sales activity at the start of the year as investors brought forward purchases to avoid the charge. 41% more homes were sold in Q1 2016 (299,439 Land Registry and Registers of Scotland) compared to Q1 2015 (213,261). While we expected a lull in activity in the following months, the underlying trend in activity also seems to have softened somewhat, particularly in Southern England.

Uncertainty weighing on housing sentiment in the run up to and after the EU referendum combined with the hangover from stamp duty has led to falling sales volumes since April. In H2 2016, 8% fewer homes were sold than in the same period in 2015 according to HMRC, with the Land Registry reporting a reduction in Q3 2016 of 13% compared to Q3 2015.

Both the after effects of the 3% stamp duty charge and uncertainty related to the referendum have had a much more pronounced impact on the London sales market. Markets in the Midlands, the North, Wales and Scotland have seen transaction levels fare much better.

Combined with the softening in transactions, there has been a slowdown in house price growth across the country too – again, more pronounced in the South and coinciding with the result of the referendum, although that is not the only cause. Deteriorating affordability has had a part to play, particularly in the South, but so has the change in expectations about future price growth which plays a big part in pricing. When combined with weaker house price growth expectations this makes potential buyers keener to negotiate on price.

### Lettings

Stamp duty and the EU referendum have also affected the rental market, increasing stock and contributing to growth of the sector. The number of homes coming onto the rental market rose by 12% over 2016, twice the rate of tenant growth (6%).

Increased investment activity from landlords at the start of the year, combined with some owners deciding to let rather than sell, meant stock of homes to rent was high for most of 2016. The growth in stock outpaced tenant demand, leading to rental price growth slowing in 2016. Rents grew by 1.6%, half the rate of 2015 (3.1%).

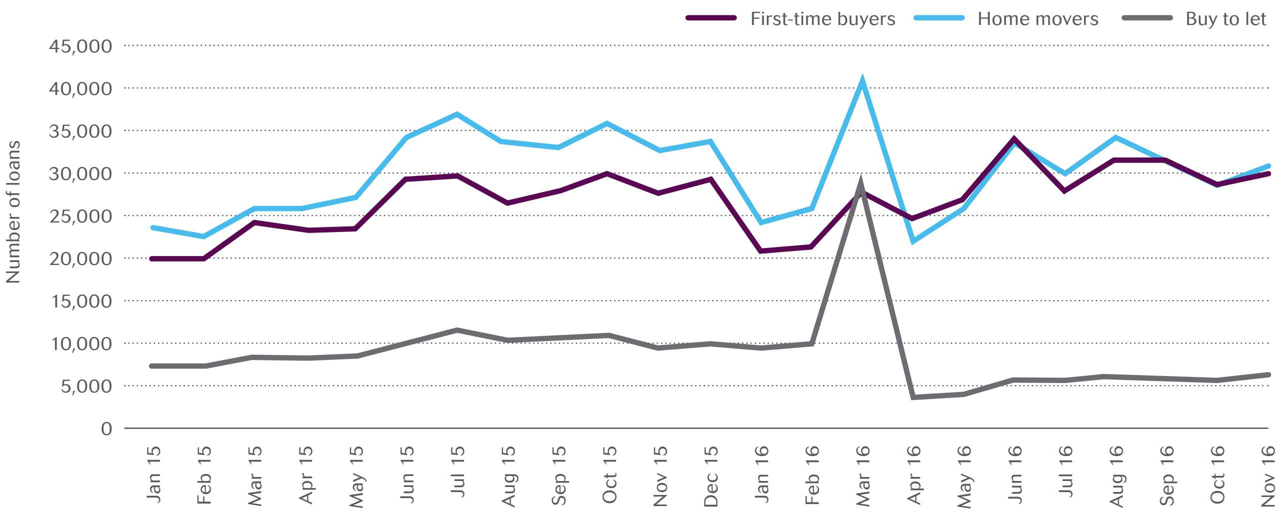
While the gap between London rents and those in the rest of the country hit a high watermark in 2015, 2016 was the year the gap started to narrow. The pressure on affordability and the number of homes coming onto the rental market in the capital, partly as a result of the stamp duty surcharge, meant that rents are likely to lag behind the rest of the country over 2017.

### The mortgage market

Total gross mortgage lending reached £245 billion in 2016, 11% higher than in the previous year. There were 1.47 million mortgage loans in the year, but higher average loan sizes means that the total increase in the number of loans was just 6% higher than in 2015 (Bank of England (BoE)).

The mortgage market was also distorted by the introduction of the stamp duty surcharge on additional homes in April. This caused a spike in activity at the start of the year (approximately 30% more mortgage transactions in March than the average for the rest of the year), although a significant proportion of total additional sales in the period were not mortgaged. Buy to let activity was responsible for much of this increase, and the estimated (from mortgage approvals data) increase in average loan sizes implied in this period suggests that activity was skewed to more expensive parts of the country.

### Mix of loans for house purchase



# **Our markets** continued

## **The mortgage market** continued

Remortgage lending was buoyant in 2016 with approvals up 15% on 2015. Average loan sizes and numbers increased as deals were churned, but with added reception to this from borrowers wanting to take advantage of falling rates at a time when the potential for further falls in mortgage rates is slim.

Credit availability was supported by loose monetary policy and something of an increase in lenders' risk appetites during the year. Available lending rates across all loan-to-value (LTVs) came down during the year, helping to encourage both house purchase and remortgage transactions.

## **Looking forward to 2017**

2017 is a particularly difficult year to forecast. The path of the housing market is dependent on economic performance in the face of the UK's negotiations to leave the EU, consumers' confidence in the housing market and policy responses from Government. The Housing White Paper seems to point to little additional intervention in the sales market from Government for now, but it does reaffirm its position on banning tenant fees.

The same challenges of affordability and a lack of housing supply that the housing market faces every year remain. This structural undersupply of new homes will continue to support prices, although deterioration in the state of household finances and uncertainty about the labour market and the UK's economic prospects will weigh against that. While the economy has outperformed most expectations in recent months, the outlook is faced with many risks.

### Sales

Transaction volumes in 2017 are likely to be slightly down on 2016. Activity in the first quarter will be much lower, mainly due to the stamp duty distortion, but should settle at around average 2016 levels for the rest of the year. Credit is available and cheap, but sentiment is fragile and subject to changing economic circumstances. The risks are balanced, but with a wide range.

In London, weaker house price expectations and twitchiness over the prospects for the City of London are likely to drag on activity and lead to more negotiation on price. In the prime markets, the price adjustments of the last two years combined with weaker Sterling will help to support activity, but at low levels. In the rest of the market we expect activity to be softened by uncertainty, but not significantly below 2016.

In 2017, our forecast is for a small fall in house prices across the country, but with a larger adjustment in London and the South East, reflecting previous rapid price growth and the resulting weakening in expectations. A weaker economy and tighter household finances lie behind our predictions, but the continuing supply issue could become a bigger supporting factor as existing owners as well as housebuilders bring less stock to the market. As a result the risk to our house price forecasts are to the upside.

### Lettings

Many of the challenges facing the sales market in 2017 should support the private rental sector. Labour market uncertainty and weaker house price growth expectations are likely to delay first-time purchase decisions, adding to the demand for rented accommodation. That will support rental growth rates, meaning we expect overall rents to grow in line with incomes.

On the supply side, lower than usual landlord investment activity due to last year's increase in stamp duty and the upcoming tapering of income tax relief on mortgage interest payments will likely be offset by weaker housing market sentiment, meaning more potential vendors choose to let rather than sell their home.

Overall the prospects for the rental market are good, but there are risks. These are mainly to do with the regulatory and policy environment that landlords operate in as uncertainty about the availability of credit and additional taxation on purchase, sale and ongoing tax reliefs have still to play out. Wider uncertainties about economic performance, particularly if wage growth slows or employment falls, could also affect the sector.

### Mortgages

The availability of credit to households drives the performance of the mortgage lending market. The latest evidence from the Bank of England's Credit Conditions survey suggests that lenders' market share objectives will continue to support credit growth into 2017. In addition, the Bank of England's loose monetary policy stance will support the availability of credit at low rates through the Term Funding Scheme and a low base rate. Although the bank rate is expected to remain anchored until at least the second half of the year, rising inflation will increase expectations of a rise. This will feed into swap rates and cause mortgage rates to begin to rise, from current lows.

The prospect of rising rates will give consumers reason to remortgage or purchase, supporting growth of the market. Higher mortgage rates though would increase the difficulty of affordability tests, particularly when combined with tight household finances, which could limit lending growth in 2017. We expect gross lending to be only slightly higher in 2017 reflecting higher prices rather than increased purchase activity. Buy to let purchases are likely to be below 2016 levels, but the appetite for remortgaging in both the home ownership and buy to let sectors should remain.

# An integral component of protecting shareholder value

Successful management of risks is essential to support the achievement of our strategic objectives. Therefore, risk management is at the heart of what we do at Countrywide. The Group's Risk Management Framework (RMF) provides a number of key processes and tools for management to ensure consistent and effective identification, assessment and control of risks across the business. The RMF has been approved by the Board and during 2016 it was strengthened to ensure it aligns to business needs and evolving regulatory requirements. Selected key 2016 priorities that have been delivered during the year to further enhance the RMF have been to:

- articulate and agree the Group's appetite by developing and agreeing statements and limits to guide and inform our strategic decision-making throughout the period
- develop a number of key policies, sponsored by the Group executive, covering Countrywide's main risks, members of senior management who own the policy and are responsible for successful implementation, principles for managing these risks and minimum control standards that are expected to mitigate them
- continue to roll out our three lines of defence model for risk management (see overleaf for further detail)
- implement more consistent processes to identify and assess risks, improve our understanding of key risk drivers, enhance the measurement of top risks, broaden the awareness of risk across the business and increase our ability to adapt to our changing landscape
- continue to develop our quarterly risk reporting covering key risks, incidents and progress on planned mitigating actions. These outputs are discussed regularly by the Group Executive and respective leadership teams in each of the main business units.

## Internal control

Controls operate across the Group at entity level, through policies and control standards, and at a local business unit level where local controls are operated in accordance with specific operational processes. Assurance on the effectiveness of the control environment is provided to the Group Executive and the Board by each of the three lines of defence. Specifically, management considers outputs from reviews performed by the:

- **First line** – risk management activity in areas such as quality assurance, customer complaints, KPI monitoring and other aspects
- **Second line** – thematic risk reviews which over the past twelve months have been completed in areas such as health and safety, business continuity, anti-money laundering, information security, data protection and governance
- **Third line** – Internal Audit's delivery of the programme of agreed audits and related findings, recommendations and progress in overseeing the implementation of agreed management actions.

The results of this assurance activity are reported and escalated to the relevant level including key committees and individuals within the Group. A number of key aspects of the control environment have been improved this year. This includes enhancing decision-making processes relating to the Group's annual business plans and establishing the Group Change Committee to oversee the approval of major change programmes/investments and the monitoring of the delivery of associated benefits.

> “During 2016 we have continued to invest in and strengthen our approach to risk management. It's a critical component of our customer, people and portfolio focused strategy.
>
> **Alison Platt**
> **Chief executive officer**

# Risk management continued

## Three lines of defence:

### 1 First line of defence

Senior management is responsible for ensuring risks associated with our business activities are identified, assessed, controlled, monitored and reported.

### 2 Second line of defence

Our 'control' functions, or Group Executive Committee, set policy and frameworks for managing key risks.

### 3 Third line of defence

Internal Audit supports the Group Audit and Risk Committee and provides independent assurance on the system of risk and internal control.

Underpinning the Countrywide RMF is the 'three lines of defence' model:

### Third line

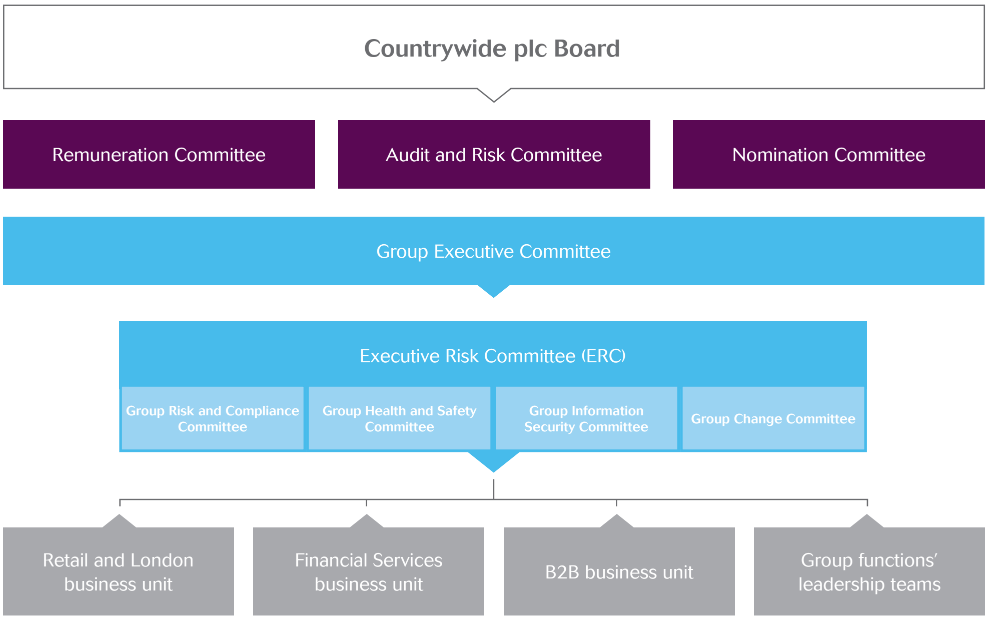
- Review first and second lines
- Provide an independent perspective and challenge the process
- Objective assurance over the control environment

### Second line

- Develop and oversee the RMF
- Oversee and challenge risk management
- Provide guidance and direction
- Set policy

### First line

- Deliver day to day risk management
- Follow the Group RMF
- Apply internal controls and risk responses




### Internal Audit

The scope of the Internal Audit team's programme of work has continued to expand to cover new areas of risk including topics such as information leakage and conduct, as well as key business areas such as HR and Marketing.

During 2016 we developed and implemented a new web-based system to store internal audit reports, analyse findings and track progress on actions across the business. The roll out and use of the new system has been important in continuing to increase the engagement of senior management in completing required actions to address key audit findings in an effective and timely manner throughout the year.

### Group-wide projects covering risk and compliance matters

During 2016 we launched some important Group-wide risk and compliance related projects to ensure our ongoing and future compliance with changing or increasing legal and regulatory expectations. These projects cover increasing expectations of our regulators and other stakeholders for continued compliance with:

- the new General Data Protection Regulations
- the increasing expectations of various stakeholders in areas such as anti-money laundering
- evolving internal and external requirements for branch audit and quality assurance so that it remains fit for purpose and aligned to the organisational changes that have been made during the year.

### Risk culture

During 2016 we continued to refine, enhance and embed the expectations of our leadership community in understanding its role in owning and managing risks within Countrywide. We have therefore ensured that each member of the Group Executive had a clear risk-based objective in 2016 and, as such, this aspect of their performance is considered as a priority and measured as objectively as possible. We are rolling out similar risk-based objectives for Countrywide's top 100 senior managers in 2017.

# Principal risks and uncertainties facing the Group

The Board has undertaken a robust assessment of the Group's principal risks, including those that would threaten its business model, future performance, solvency or liquidity. Crystallisation of these risks could cause the Group's future results of operations, financial condition and prospects to differ materially from current expectations. This includes the ability to meet debt covenant ratios and dividend expectations, maintain appropriate levels of capital or achieve stated targets, commitments and other expected benefits. In addition, risks relating to the Group that are not currently known, or that are currently deemed immaterial, may individually or cumulatively have the potential to have a material adverse effect on the Group's future operations, financial condition and prospects.

The table below sets out the principal risks faced by the Group, together with mitigating factors and associated commentary on any changes in risk profile.

| Risk and impact | Mitigation | Change | Commentary |
|---|---|---|---|
| **Exposure to UK housing market trends** | | | |
| The UK housing market continues to follow cyclical trends and has been impacted in 2016 by changes to stamp duty and continuing uncertainty around the implications of the UK's exit from the EU. There is a high correlation between the volumes and prices of houses sold and business performance within areas such as estate agency, conveyancing, surveying, mortgage broking and other complementary services that we offer. | We carry out continuous high level reviews of UK housing market results and trends including analysis of a number of key forward looking indicators. This helps us to be able to anticipate and plan for likely market changes in advance. We have also actively diversified the mix of products and services that we offer in recent years to reduce our dependency on UK house prices and sales volumes. For example, we have increased the size of our Lettings business which, by its nature, tends to be more stable and counter-cyclical to the UK housing market. Additionally, we have taken positive action to manage our cost base and will continue to see this as an area of focus in 2017. | Increase | A core component of our strategy has been to integrate our Sales and Lettings business across the country. These changes have helped to simplify our organisational arrangements, increase the resilience of our revenue streams, improve the diversity of our offerings and make better use of our people and resources.<br>The core driver for the UK housing market remains a lack of supply – particularly in the South East of England. We therefore anticipate that the reduction in the number of new houses being built since the financial crisis will continue to restrict supply and, as such, that sales and letting markets will continue to show relatively high levels of demand compared to supply in 2017. |
| **Potential loss of a major business partner or contract** | | | |
| The Group has a number of important commercial relationships with major banks, insurers and other firms that may affect revenues in more than one area of our business. The regulatory requirements placed on UK financial services firms continue to increase and, in line with this, the expectations of these companies from their commercial partners are following a similar trend. The loss of such key partners or contracts, or a significant reduction in volumes or fees, could have a significant impact on our future profitability. | We have a centralised team responsible for liaising with key customers and developing new contracts. The business areas also carry out regular reviews with key clients at leadership team level and other levels of management. Regular reviews also take place at Group level of Countrywide's most material partners and contractual relationships. A key outcome from this work is that we have contingency plans in place to help manage and mitigate the impact of the loss of a key business partner or contract. | No change | We continue to benefit from strong relationships with our corporate partners and we have retained, as well as won, a number of contracts with key clients.<br>We recognise the importance of the continuing success of the key partner alliances that we have in place and the confidence that these partners have in us on an ongoing basis means that we have resilience to loss. |
| **Resilience of IT infrastructure and arrangements for protection of data** | | | |
| Dependence on efficient systems for operational performance and financial information would be impacted by significant failures or interruptions to IT services.<br>Data security is also essential to the secure processing, storage and transmission of personal, confidential and proprietary information. | There has been notable ongoing investment to support our operational expansion and transformation of our IT systems and infrastructure.<br>We have established a Group-wide project to support the business areas in delivering the additional data-related safeguards required as a result of the planned introduction of the General Data Protection Regulations in May 2018. Routine penetration testing is also conducted. | No change | During 2016 we have continued to complete activities to transform our IT infrastructure in line with our planned development roadmap. This has included strengthening our core IT team and technical capabilities.<br>This year we also completed an independent review of our IT infrastructure's exposure to cyber risk and have developed action plans to address increasing requirements in this area.<br>As part of the ISO 27001 certification which we have achieved for a number of our key business areas, there are business continuity plans in place for key business processes. |

# Risk management continued

## Principal risks and uncertainties facing the Group continued

| Risk and impact | Mitigation | Change | Commentary |
|---|---|---|---|
| **Professional indemnity exposure** | | | |
| The previous downturn in the UK housing and commercial markets and impact of sub-prime lending exposed the Group to a higher level of professional insurance claims within the Surveying division. | Monitoring arrangements include operational controls implemented for review of surveyor outputs and targeted use of automated valuation models in perceived higher risk cases, as well as maintenance of risk management arrangements. In respect of legacy issues, we continue to review the claim trends and inputs underpinning the existing professional indemnity provision.<br>We carry different professional indemnity insurance arrangements for our commercial business – Lambert Smith Hampton – as potential individual exposures could be larger. By doing this we protect our overall Group cover and effectively ring fence commercial risks delivering a financially beneficial position for the Group overall. | Decrease | We have continued to see improvements in this area and through maintained focus during 2016, and the volume of claims has considerably reduced. In addition, we have seen a positive experience in the number of claims withdrawn, which has resulted in a reversal of previously held reserves.<br>Risk management remains a top priority for us and delivers recognisable benefits for our clients as well as for Countrywide. |
| **Attracting, developing and retaining excellent people** | | | |
| Our success depends on the service provided by our employees and their experience in providing valuable advice to our customers. The performance of our leadership population is also key in the delivery of our strategy. | Remuneration policies are regularly reviewed to ensure employees are appropriately incentivised. Succession planning and leadership development programme outputs are also considered by the Board. Management reviews trends, including the views of leavers in exit interviews, and the views of employees which are expressed in our annual employee engagement surveys to develop action plans accordingly. | No change | We have worked throughout 2016 to build an employer of choice brand for Countrywide and are continuing this work into 2017. Our organisational structure has evolved to meet the needs required to deliver our strategy and we have continued to strengthen our leadership and development programme, and developed our performance metrics and related action plans to support these. |
| **Financial misstatement or fraud** | | | |
| Material financial misstatement may arise due to error or fraud, in the form of fraudulent financial reporting or misappropriation of assets.<br>Reputational damage and inappropriate decision-making data availability to management may arise from non-fraudulent misstatement in financial reports and financial loss to the Group may occur as a result of misappropriations. | Our key financial controls include clear segregation of duties within the business areas to ensure robust preventative and detective controls are in place. Independent financial reviews are undertaken within the businesses as an additional control which is also supplemented by centralised monitoring of financial performance against targets.<br>The risk of misappropriation of funds is mitigated by centralised treasury monitoring of all bank accounts. Additional operational controls ensure clear delegation of authority, restricted access to accounts and mandated dual authorisation controls. | No change | We have reviewed and enhanced a number of key policies to manage a range of risks from a treasury and financial reporting perspective. These policies are owned by senior finance directors across the various business areas and include control standards which are expected to be met.<br>We have continued to monitor key financial controls and conduct independent management reviews across each of our main business areas. We have also ensured that where best practice developments emerge these are shared across the business and implementation plans are developed accordingly. In addition, we have continued to adopt recommendations arising from internal and external audits and reviews. |

| Risk and impact | Mitigation | Change | Commentary |
|---|---|---|---|
| **Increasing competition in the evolving markets that we operate in** | | | |
| Countrywide operates across a range of highly competitive markets, a number of which are experiencing changes in the traditional operating models. Competition could lead to a reduction in market share and/or a decline in revenues. | Our business strategy is to concentrate on our strengths of bringing people and property together, increasing customer choice through, for example, providing digital solutions to complement our core service offering. We continue to focus on retaining existing customers as well as winning new customers by ensuring that our service offering continually improves to meet and exceed their expectations.<br>During 2016 we have taken significant steps to simplify our organisational structures to improve our agility, streamline decision-making process and reduce costs. We have also taken notable steps to review the number and locations of our branches in light of changing customer expectations and evolving market trends which we expect to continue over the medium and longer terms. | Increase | During 2016 we have made significant inroads in digital with the development, launch and implementation of our innovative multichannel sales model – offering potential sellers the ability to not only list and transact online at a really competitive fee, but, uniquely, to upgrade to a full supported service without losing a penny of the fees they have already paid. We have clear plans to progress this through 2017.<br>Our strengths lie in the expertise and advice we are able to offer our customers across our range of services. We are continuing to evolve our propositions to support our customers and their changing needs to ensure their overall experience with Countrywide is a positive one. |
| **Changing regulatory environment** | | | |
| Failure to meet current or increased legal or regulatory requirements could result in reputational and financial damage, including withdrawal of authorisation or licences for the conduct of business streams. | Expertise within the main business areas continues to be supported by centralised legal and compliance teams which closely monitor existing business practices and any reform proposals. Employees receive appropriate training and our managers attend industry forums and Government consultations. Robust complaints management systems are in place across all operating divisions, with root cause analysis in place. | Increase | We maintain close links and open dialogue with our regulatory bodies and have continued to monitor regulatory developments and their impacts on the business.<br>Our Group executive and senior management are actively involved in ongoing consultations with the UK Government following the announcement of its planned changes to current estate agent methods of charging fees to tenants in England and Wales.<br>We also have a positive ongoing relationship with the Financial Conduct Authority and will provide input to it as required to support its planned industry-wide review of mortgage brokers and risks relating to conflicts of interest across the sector.<br>Where appropriate, we have developed implementation plans to deliver required changes and enhancements. We have also continued to adopt recommendations arising from internal and external audits and reviews. Where necessary, we deploy specialist external resource to supplement our in house expertise on legal and regulatory change. |

# Risk management continued

## Principal risks and uncertainties facing the Group continued

### The EU referendum

The result of the EU referendum in June 2016 and the proposed exit of the UK from the EU has increased the overall level of macroeconomic uncertainty. The Group considered the impact of this uncertainty on the business, recognising the potential knock-on effect on property prices, mortgage approvals and volume of transactions. The directors believe the Group's strategy creates a diversified stream of revenues which reduces the impact as outlined in the 'exposure to UK housing market trends' risk.

### Viability statement

The Group's prospects are assessed through the Group's strategic planning process, including review by the executive team of three year rolling plans with business unit functional leaders. The Board participates by means of an annual strategic away day and approval of the operating plan. Financial projections for the next three years are compiled from estimates of financial performance after taking into account principal risks. A central review of debt covenant compliance and headroom is completed.

Key assumptions underpinning the strategic plan include: market volume forecasts in line with consensus; market share growth forecasts aligned to operating model developments, including benefits from existing major rationalisation benefits; no impact from future acquisitions until H2 2018; no assumptions were necessary around refinancing as the maturity of the revolving credit facility extends beyond the three year timeframe to March 2020.

#### Assessment of viability

The directors have assessed the viability of the Group over a three-year period, taking account of the Group's current position and the potential impact of the principal risks and mitigating actions detailed above. The directors have determined that a three year period to 31 December 2019 is the most appropriate timeframe as: this period aligns with the Group's business planning and budgeting cycle and the performance measurement period for the long term incentive plan; and demand is driven by consumer confidence which is difficult to project beyond a three-year period.

The strategic plan reflects the directors' best estimates of the prospects of the business. The plan was then flexed by overlaying the possible financial impact of a number of scenarios beyond those included in the plan. These scenarios are based on those principal risks (above) considered to be most important, namely: exposure to UK housing market trends (volumes and house price levels); increasing competition (volumes and fees); and regulatory compliance (incorporating professional indemnity and changing regulatory environment).

These scenarios tested against: an aggressive but short term house price crash/decline in transactional volumes with a slow return to growth; and a slower, yet continuing, decline in house prices/transactional volumes. These scenarios included the relative knock-on impact of reduction in earnings within our agency operations and to other cross related areas of the business. The results take into account the availability and effectiveness of mitigating actions, including the flexing of capital expenditure and acquisition investment and changes to our cost base. Each of these actions would be potentially available to avoid or reduce the impact of the identified risks.

The directors considered the financial and operational impact of these severe, but plausible scenarios to determine their overall effect on the Group's financial position. This assessment considered the Group's expected financial position, existing banking facilities and potential management actions. The results of the stress testing showed that the Group would be able to withstand the impact of those scenarios by adjusting its operating plans.

#### Viability statement

Based on their assessment of prospects and viability above, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period ending 31 December 2019. The directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the basis of preparation paragraph in note 2 of the accounts.



# Retail

## Highlights

- Revenue up 3%; EBITDA down 28%
- 50,891 properties exchanged – up 1%
- 10% improvement in landlord retention
- Multichannel sales proposition launched

### Operating review

The market was unique in 2016 with the second home stamp duty charge and the EU referendum accelerating activity in the first quarter and subduing the second half. We sought to maximise the opportunities that were available and managed to actually exchange more homes in 2016 than 2015 whilst introducing our multichannel proposition to the market. Although acquisition activity was limited, we did bring Finders Keepers, the market leading lettings business in and around Oxford, into the Group in the first quarter.

Investment in the foundations to support future growth, combined with challenging market conditions impacted our profitability and EBITDA reduced by 28% to £31.0 million. Exceptional costs of £19.9 million further depressed our profit before tax and arose as a result of our focus on reducing branches and layers of management, and include a £5.0 million impairment charge arising as a result of the market changes and a £1.4 million impairment charge arising from rationalisation of four brands.

### Sales

We started the year very strongly with a significant increase in activity aided in part by the impending 3% additional stamp duty charge for second home owners that came into effect in April 2016. This led to a record conversion of our sales pipeline in March: property exchanges across the Group were 29% ahead compared to the same period in 2015, as buyers – primarily landlords – brought forward transactions to meet the deadline. Leading up to the EU referendum in June, the second quarter saw a slowing of activity as uncertainty increased in the run up to the vote.

In the second half of the year the June referendum had a sustained impact on sentiment, with fewer buyers and sellers coming to the market. In the immediate wake of the vote, we also saw higher levels of sale cancellations and a reduction in front end activity.

As a result of these exceptional circumstances, the number of potential homebuyers registered was down 3% year on year at 886,000 and the number of homes exchanged only increased by 1% year on year. Positively, we continued to improve productivity with better conversion of valuations to instructions in the second half of 2016, up by 4%. Overall our delivery for customers improved and we agreed sales on a higher proportion of our new instructions in the year, improving performance by 7%.

### Lettings

Overall, demand continued to outstrip supply, with more than 430,000 potential applicants in Retail registering an interest in property, which is up 11% on last year. Demand slowed in the second half of the year and the quality of stock and competitiveness of rents came to the fore.

Our ongoing focus on delivering greater service to our landlords delivered 10% better client retention than in 2015, and we also grew properties under management by over 8,500 or 14%. As such our Lettings revenue grew by 13%.

# Segmental review continued

## Digital innovation

The major development in our customer offering has been the pilot and subsequent rollout of our multichannel proposition which offers sellers the ability to not only list, monitor and complete the full property sale transaction online at a very competitive fixed fee, but uniquely to upgrade to a fully supported service without putting at risk the fees they have already paid. Customers have told us that they value the choice, transparency and peace of mind that our proposition – which is unique to Countrywide – offers them. With six of our brands offering this at the end of 2016, we will roll this out to the majority of our branch network in 2017.

Continuing with the theme of leveraging digital technology to enhance the customer experience, we introduced the Fixflo reporting system into our Lettings business in summer 2016. This provides tenants with an online tool to help them report repairs quickly and more accurately. As a result, our property managers are able to deal with repair issues much more efficiently for our tenants. This service has been well received by landlords and tenants alike and reflects our desire to provide the highest levels of service to both.

## Brand and branch efficiency

In 2016 we focused our business on organic growth and driving improved results from our national branch network. This has led to increased focus on meeting all of our customers' needs in a property transaction as well as maintaining our leading market share position in Sales and Lettings.

A detailed review of our branch network has been completed, ensuring we have the right presence in the right locations to deliver sustainable growth. We saw some branches close as a result of this review as we looked to retain the strongest brands and branches with the greatest customer bases and potential for growth. Strong control on our external recruitment meant that we retained almost all colleagues affected by the branch closures, redeploying them within the business and retaining their expertise. Our management structure has also been aligned to the branch network and drives a focused and more effective performance culture.

We acquired Finders Keepers, the number one lettings business in the Oxford area with excellent customer service and reviews. Finders Keepers now forms a key component of our premier offering, working in partnership with our Hamptons International brand.

## Outlook

2016 was a challenging year for the property sector and we expect the market to remain uncertain throughout 2017. We anticipate sales transactions will be slightly down on 2016. Our forecast for house price growth in 2017 is for a small fall in prices across the country.

Many of the risks facing the sales market in 2017 should support the private rental sector. Labour market uncertainty and weaker house price expectations are likely to delay first time purchase decisions, adding to the demand for rented accommodation.

In last year's Autumn Statement it was announced that tenants' fees will be banned. The timing of any ban being introduced is uncertain at present, but it is anticipated that this will have some effect on our revenue. However, work is already underway as part of our existing plans to improve the resilience of our business operating model to mitigate this. Furthermore, our continued focus on customer service for both landlords and tenants will help with both retention and growth in this sector.

With our customers at the heart of what we do, we believe we are well placed to support them in navigating these uncertain times as they seek out experienced, informed, trusted and reputable agents. Our focus on customer service and our multichannel sales proposition offers them choice and transparency coupled with a strong high street presence that is unique in the UK market. This provides us with a strong foundation for growth in 2017.

## Plans for 2017

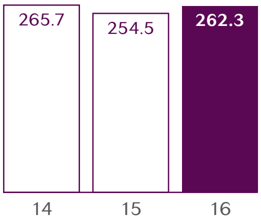
The Retail business will have a more streamlined and focused footprint delivering our multichannel offering across an increased proportion of our network. We will continue to invest in our customer journey, specifically around the initial valuation, and we will continue to leverage our technology to enhance the overall customer experience and ensure a successful sale or let.

We remain committed to ensuring organic growth and retaining customers, both new and those from our existing portfolio.

## Key performance indicators

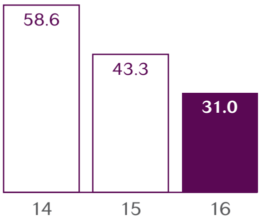
**Total income** (£m)

262.3 +3%



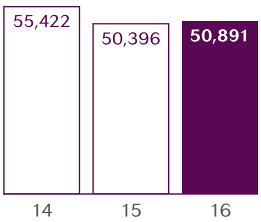

**Adjusted EBITDA** (£m)

31.0 -28%



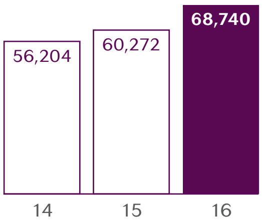

**Number of exchanges**

50,891 +1%




**Properties managed**

68,740 +14%




"With our customers at the heart of what we do, we believe we are well placed to support them in navigating these uncertain times as they seek out experienced, informed, trusted and reputable agents.

Sam Tyrer
**MD Retail and London**

# Q&A

with Sam Tyrer
MD Retail and London

**Q What have been your highlights of 2016?**

A It's an exciting time to be in the sector and I'm incredibly fortunate to be supported by an amazing group of people. We've accomplished a lot over the last twelve months: we launched our multichannel proposition with additional training for our colleagues; we have maintained our leading market share position in Sales and Lettings; plus we are building the operating model that will become the future of our business for Sales and Lettings.

**Q What is the benefit of bringing the Retail and London divisions together?**

A There are unique differences between many of our brands; however, the core of our customer journeys are essentially the same, whether that's across different brands, geographies or price points. Bringing Retail and London together has delivered a more streamlined approach across the business. There is a clear, consistent focus on operational excellence, standardisation, simplifying processes and systems for our colleagues, and optimising our resources to make improvements to our overall customer experience. Our new structure has reduced leadership layers and we benefit from being closer to our customers and our colleagues. We are also more agile and able to deploy future business change.

**Q What are you most excited about for 2017?**

A The continued roll out of our multichannel proposition within our Estate Agency business, but also our relentless drive to improve our customer experience. Being able to see the results of our hard work reflected in overall performance is always thrilling. We also have a real determination to improve our back office operations to increase productivity and improve our colleague experience in branches, support centres and property management centres.

# London

## Highlights

- Revenue down 10%; EBITDA down 47%
- 10,423 properties exchanged, down 14%
- Improved performance of listers, increasing conversion 6%
- Improvement in landlord retention with a 4% increase in managed properties
- Progress on creating leaner, more customer focused network and brand proposition

## Operating review

The London market, more than any other part of the UK, was most impacted by the external factors referenced earlier: the 3% additional stamp duty charge for second home owners, a weaker housing market sentiment in the run up to and after the EU referendum and the adverse impact of increases in stamp duty land tax on homes valued over £1 million.

Overall revenues in London benefited from the continued diversification of its income stream, with Lettings now representing a greater proportion of total London income at 42% vs 36% in 2015. During the first quarter of 2016, we also completed the acquisition of Patterson Bowe, adding a portfolio of managed lettings properties to the Hamptons International network.

Uncertainty weighing on housing sentiment in the run up to and after the EU referendum, combined with the hangover from stamp duty changes, had a more pronounced impact on the London sales market. Our EBITDA reduced by 47% to £18.0 million, but key cost initiatives were implemented to restructure our cost base. Exceptional costs of £20.6 million were principally driven by a £13.5 million impairment charge arising as a result of the market changes and costs arising from our transformation agenda and restructuring the business.

## Sales

With the challenging sales environment, the average fee in the year was 4% lower even though the average sale price increased by 7%, and overall we exchanged on 10,423 properties, 14% lower than in 2015.

Demand was a key factor in the London market with the number of potential buyers coming to the market down 18% on 2015 at 242,000. As a result of negative market sentiment, the likelihood of a sale falling through increased by 15% in 2016.

## Lettings

Our London Lettings business continued to perform well in the market, with 13,700 properties let in 2016, in line with the prior year. Revenue grew by 7.2% and the number of properties under our management increased 4% to over 22,000. As part of our targeted strategy to capitalise on the strength and breadth of our branches, London continued to diversify its revenue streams, with Lettings now representing almost half (42%) of revenue in 2016 compared with just over a third (36%) in 2015. This demonstrates the strength of our branch network, supporting our differentiated brands and associated price point propositions for tenants and landlords across the capital.

We improved our referrals from Sales to Lettings and between brands and branches, contributing to the growth in our London Lettings market share, which increased from 4.5% in 2015 to 4.8% in 2016. With particular focus on the opportunity in the London mid-market, we increased our market share of instructed properties (in this segment) from 4.1% in 2015 to 4.3% in 2016.

## Digital innovation

In line with our strategy of putting customers at the heart of what we do, we continued to invest in and adopt our use of technology to improve the customer experience through developments such as webchat, the rollout of net promoter scores across all London brands and the relaunch of our new innovative proposition, Urban Spaces. Focused on a 'property as a service' ethos, Urban Spaces follows a branchless estate agency model that leverages technology to enhance the customer's experience. This makes it simpler for customers to interact with the brand through the use of client portals for property management and virtual reality viewing.

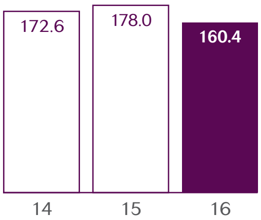
## Brand and branch efficiency

London also consolidated its branch network during the year, closing a number of smaller branches and creating impactful hub-style branches with more colleagues and extended opening hours. The hubs were deployed in brands including Gascoigne-Pees, Hamptons International and Greene & Co. Early signs are encouraging as these branches show good levels of activity, driven by greater collaboration across Sales and Lettings and a wider geographic reach from a single base, enabling us to meet customer needs more effectively.

## Key performance indicators

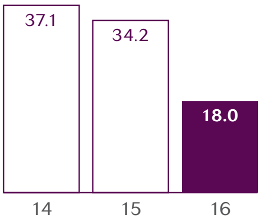
**Total income** (£m)

160.4 -10%



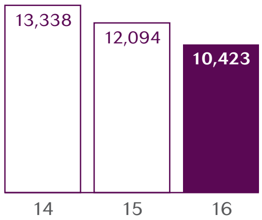

**Adjusted EBITDA** (£m)

18.0 -47%



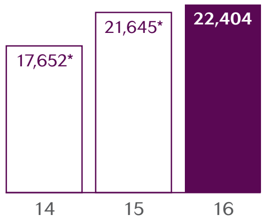

**Number of exchanges**

10,423 -14%




**Properties managed**

22,404 +4%




* Restated prior year comparatives.

### International

Hamptons International benefited from the launch of a new property website, built over the course of 2016. The leading international site represents circa 150,000 listings across the world from over 7,000 partner international offices. In addition, the enhanced international volumes help drive traffic to the main UK site.

Building on firm foundations established in 2015, our international department continued to grow throughout 2016 with new partners in the Canary Islands, Switzerland, Ibiza and mainland Spain.

Countrywide brands Hamptons International, John D Wood & Co and Bridgfords now represent one of the largest international property portfolios in the UK.

### Outlook

In London, we expect that weaker house prices are likely to drag on activity and lead to more negotiation on price. While we expect a small decrease in house prices nationally, we anticipate there will be a larger adjustment in London and the South East.

The undersupply of housing is more acute in London, meaning a greater reliance on the private rented sector. However, stamp duty on homes in excess of £1 million has an effect on mobility throughout the housing chain, as does the stamp duty on second homes, which has had an impact on people looking to move home as well as buy to let landlords.

### Plans for 2017

We remain committed to growing organically by focusing on enhancing the services we offer to our customers and by using our strong portfolio of London brands to play across the different segments of the market.

## Case study: Urban Spaces

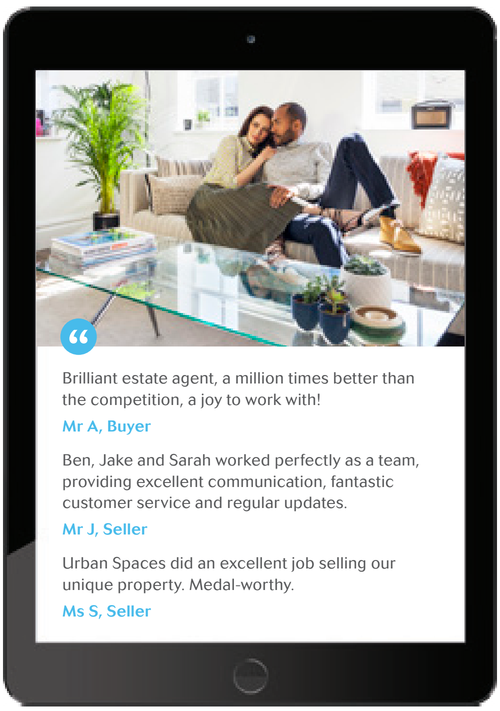
Operating as an innovation lab within Countrywide, Urban Spaces focuses on adopting new technology with a view to creating a low fixed-cost operating model capable of delivering ‘second to none’ services for the customer of tomorrow.

Urban Spaces operates a branchless model leveraging advancements in virtual reality, removing the geographic constraints associated with a traditional branch model. Guided by their personal property consultant, customers are able to attend virtual viewings from the comfort of their own home, office or cafe.

Innovation in customer relationship management and data strategy has improved operational efficiency and customer intimacy. By using the latest technology and implementing a cross-departmental platform focused around the customer*, our colleagues can pick up a conversation with our customers precisely where they left off, regardless of channel used. Whether a customer has just enquired online or met with one of our account managers in the field, our model enables a more personal conversation and deeper understanding of their needs.

By introducing a revised account management model that combines sales and lettings, Urban Spaces is able to provide clients with a bespoke service tailored specifically to meet their needs plus a single point of contact throughout their entire customer journey. This high tech, high touch approach provides Urban Spaces with the capability to service a wide spread of market segments including high value city property.

The business is focused on customer centricity and employee engagement, which underpin the success of Urban Spaces. Every colleague plays an important part in shaping the future of the brand, allowing the Company to stay ahead of the curve in an evolving market.




* This is currently in the implementation phase.

# Financial Services

## Highlights

- 10% EBITDA growth
- In our field sales force, remortgage conversion for existing customers has increased from 13% to 25% year on year
- 12% increase in protection revenues
- Market share now stands at 7%, up from 6% at the end of 2015

## Operating review

Mortgage market conditions in the first half of 2016 were stronger than the same period in 2015, with gross lending 40% ahead in Q1 and 9% ahead in Q2. Activity in Q1 was driven principally by buying demand ahead of the 3% stamp duty surcharge on second homes and buy to let properties, and we observed the purchase end of the market cool after April. This was then followed by a wider slowdown in the residential estate agency markets as uncertainty grew around the outcome and, subsequently, the future of the country post the EU referendum. As a result, the property market was more challenging in the second half of the year, with only 3% year on year lending growth in Q3 and a 1% contraction in lending in Q4. Overall gross lending finished at £245 billion (2015: £222 billion), representing 11% year on year growth.

Despite these market conditions, we were very encouraged by the performance of our businesses, with Mortgage Intelligence achieving 26% growth by value, The Buy to Let Business 35%, Mortgage Bureau 11% and Slater Hogg 22%. Our main employed sales force, with close links to our Estate Agency operations, experienced more challenging trading, though still increased exchanged mortgages 8% year on year.

The decisions of the Bank of England's Monetary Policy Committee were closely followed during the year and the move to decrease interest rates to a record low of 0.25% in August ensured that the mortgage landscape continued to be as competitive as ever. Despite the remortgage market growing in 2016, many customers are still choosing to wait and see rather than remortgage due to the record low interest rates and without the spectre of imminent interest rate rises. Nonetheless, we have continued to focus on building long-lasting relationships with our existing customers and it was encouraging to see our remortgage conversion for existing customers increasing to 25% (2015: 13%).

This year we have also achieved encouraging results from both our core protection and general insurance sales, with 4% growth in protection income and 3% overall growth in our general insurance book. We continue to work with our protection and general insurance partners to improve both the available benefits and the value of the products offered and this will continue in 2017 with further product launches.

## Outlook

2016 was a year of volatility in the mortgage and real estate markets and we expect that uncertainty around the future of the country is set to continue into 2017. Whilst we forecast the mortgage markets to remain broadly flat in 2017, we see excellent opportunities to help our existing customers navigate these uncertain times and widen our reach to new customers needing expert advice.

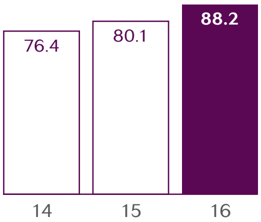
## Plans for 2017

As part of the Group's strategy we have worked tirelessly during the year to progress our transformation agenda, both with a series of strategic acquisitions to strengthen our specialist capability in specific markets (The Buy to Let Business, Mortgage Bureau and Capital Private Finance) and also through organic changes to our core proposition. Our most notable achievement in the core business was the deployment of our new point of sales technology,

## Key performance indicators

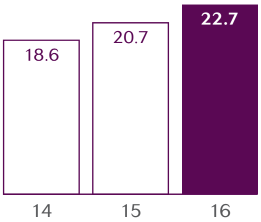
**Total income** (£m)

88.2 **+9%**



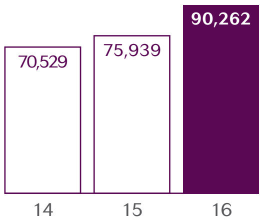

**Adjusted EBITDA** (£m)

22.7 **+10%**



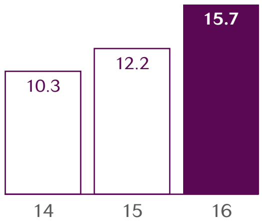

**Total mortgages exchanged**

90,262 **+19%**




**Mortgage lending** (£bn)

15.7 **+29%**




enabling us to provide high quality advice in a flexible, efficient and user-friendly way, whilst giving access to the full suite of premium protection and general insurance products from our partners.

We have continued our focus on building the best team through investing resources in the training and development of our existing sales force. We have also supported our consultants through the recruitment of additional field-based business assurance managers in order to boost on the job training and maintain our high standards of quality advice.

As we look to 2017, our growth agenda concentrates on transforming the mortgage buying experience for our customers – through making the process more efficient and transparent and providing consumer flexibility and choice in how they can access our services.

> “We have continued our focus on building the best team, through investing resources in the training and development of our existing sales force.
>
> **Peter Curran**
> **MD Financial Services**

## Q&A with Peter Curran
### MD Financial Services

**Q What were the highs and lows for you in 2016?**

**A** It was encouraging to see the resilience and tenacity of our sales force in what was a challenging year. We focused on helping our existing customers to remortgage to a better deal when their current mortgage product came to an end and we are certainly gaining traction in this area. We also want to make sure that customers are all adequately protected and there is plenty more to do on both accounts. That being said, we have worked on improving the number of customers receiving protection advice and subsequently committing to taking out the right product for their individual needs. The selling of the right protection products lies at the heart of our advice mindset and this will continue into 2017.

**Q What excites you most about 2017?**

**A** We have the opportunity to significantly increase our share of the mortgage market through a robust customer contact strategy, where we ensure our existing customers continue to receive great mortgage and protection advice. We are also looking to build a digital offering which is both compelling and intuitive for all customers who are looking for help with their mortgage and protection needs.

# B2B

## Highlights

- Strong performance from Surveying business delivering 4% revenue growth and a 14% increase in EBITDA contribution
- Conveyancing revenues declined in line with housing market transactions; EBITDA margin improved by 3%
- Other professional services revenue fell by 4% principally due to a declining repossessions market
- Land and New Homes performance grew with the addition of Lanes Property Agents and Lanes Land
- Lambert Smith Hampton, like other commercial property businesses, was affected mid-year as the transactional and capital markets paused around the EU referendum, but finished the year strongly

### Operating review

2016 was our first full year for this portfolio of businesses working together and we are pleased to report a solid performance in the face of a difficult market. Working together to deliver coherent professional services for Countrywide's corporate client base we have increased revenues from our lender clients by 8% year on year, retained all our asset management client contracts and secured surveying panel management contracts for 2017. Further, 10% of the Group's house exchanges were on behalf of B2B clients.

Our Surveying business has performed extremely well during 2016. While survey instructions broadly tracked increased mortgage and remortgage approvals, the business delivered EBITDA growth of 14% owing to an increase in the average fee of 5% and moderate marginal expenses arising from this additional revenue. Following the result of the EU referendum we experienced a clear North/South divide in demand for valuations. The South and South East in particular slowed down compared to our northern regions and it was several months before productivity began to recover.

Professional indemnity claims have been a significant focus for the business over the past eight years and we are pleased to report that we received very few valuation claims in 2016 and our operating costs reduced by £500,000 as a result. In addition, we have been successful in defending a number of claims and this has led to a revision of the balance sheet provision and the release of £2.9 million.

Managing risk on behalf of our clients is a key service we provide. In order to build on our experience we are upgrading our operational systems and successfully rolled out new hardware with minimal disruption to service. During 2017 we will deliver additional functionality to support the evaluation of risk and develop a broader range of services provided directly to home buyers.

Our Conveyancing business suffered lower volumes reflecting the reduced house exchanges across the Group and a decline in penetration rate from 51.5% to 48.6%. Nevertheless, the business delivered £30.6 million (2015: £32.2 million) of Group revenue and a gross margin of 43% (2015: 37%) (before internal payaway) and it provides a key service to our home mover customers.

At the beginning of 2016 we set out to improve our service and throughout 2016 we have steadily seen this change. Our complaints have reduced and our net promoter score has increased significantly.

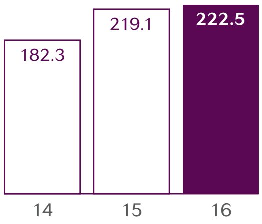
The in house Conveyancing business delivered 69% (2015: 68%) of the completions through its three property law centres; the remainder are outsourced to panel firms. In view of the reduced volumes and excess capacity in our centres, the decision was taken to close the smallest centre in Bridgend removing £1.2 million from the cost base and reducing our spare capacity in the remaining centres. This process will be completed in Q1 2017. At the same time we will complete our investment in our customer portal technology in the first half of 2017 and this will deliver improved service to customers and efficiencies for our employees.

Other professional services comprise a portfolio of small businesses which have been brought together under a single leadership team, offering asset management primarily around the repossessions market, block management, emergency relocation and auctions. During 2016 these businesses delivered 30.6% (2015: 29.2%) EBITDA margin before internal payaway.

## Key performance indicators

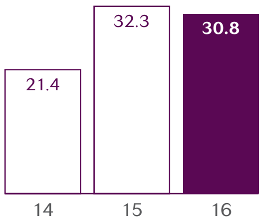
**Total income** (£m)

222.5 **+2%**



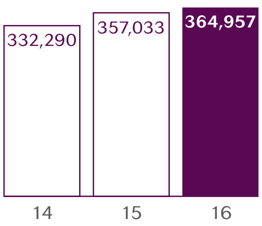

**Adjusted EBITDA** (£m)

30.8 **-5%**



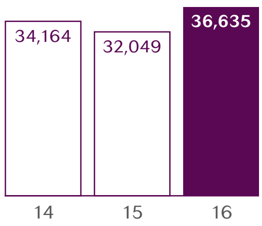

**Surveys and valuations**

364,957 **+2%**



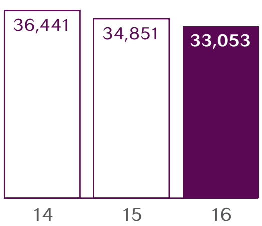

**Corporate properties under management**

36,635 **+14%**



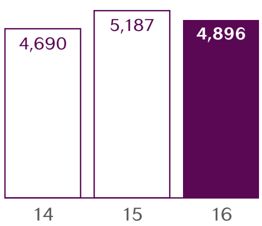

**Conveyances completed**

33,053 **-5%**




**Exchanges – new homes**

4,896 **-6%**




## Q&A

with Paul Creffield
MD B2B

### Q What have been the successes of 2016?

A I was delighted to see surveyors realise such strong growth following investment in 2014 and 2015 in our graduate programme, supported by contract wins. We have broadened our asset management client base, countering the impact of a declining repossessions market and our block management and relocation teams delivered record results.

### Q What are you most excited about for 2017?

A We're launching new technology to transform our Surveying business. Similarly we will complete the roll out of Countrywide Connect, refreshing our Conveyancing customer experience and improving interaction between customer, estate agent and lawyer. The Vista UK Residential Real Estate Fund will launch two significant build to rent schemes in Liverpool and Manchester.

### Q Are there any major industry changes that are coming into effect?

A We anticipate several changes ahead. The White Paper and Government focus on diversifying the housebuilder market to bring in smaller and medium size housebuilders plays to our strengths in this area. We have already seen the rise of office to residential development and we expect that to continue. Recognition of the importance of build to rent schemes to increase the availability of good quality rental stock allows us to expand our expertise in this area. The residential property valuation market is undergoing change with lenders seeking to increase valuation automation and property risk assessment. With increasing non-disclosure of valuation reports by lenders, we expect greater demand from homebuyers seeking survey reports.

# Segmental review continued

## Total income

| | 2016 £'000 | 2015 £'000 | Change |
|---|---|---|---|
| Survey and valuation | 68,672 | 66,295 | +4% |
| Conveyancing | 30,572 | 32,206 | -5% |
| Other professional services | 18,680 | 19,605* | -4% |
| Professional services | 117,924 | 118,106 | — |
| Land and New Homes | 28,146 | 27,736 | +1% |
| Commercial | 101,973 | 101,686 | — |
| Total gross revenue generated by B2B clients | 248,043 | 247,528 | — |
| Income passed to other business units | (25,568) | (28,477)* | -10% |
| B2B net income | 222,475 | 219,051 | +2% |

* Restated to include the commission from asset management paid to our Estate Agency branches.

### Operating review continued

Land and New Homes held its own during 2016 and delivered EBITDA growth of 15% despite lower new homes exchanges across the country, due to the acquisition of Lanes, a specialist Land and New Homes business in Hertfordshire. Performance in this sector was severely impacted by the EU referendum particularly in and around London. It took several weeks for developers to assess the longer term impact on price and during the third quarter we experienced a material number of cancellations as buyers pulled out due to being nervous about the future. Whilst we have seen sales recovering, this was late into the fourth quarter. Our pipeline is some £700,000 lower as we move into 2017 and reflecting this we have removed some management heads to reduce costs.

Finally, our commercial business, Lambert Smith Hampton, experienced a difficult year as a result of the EU referendum. While income was flat year on year, EBITDA reduced by 18% to £11.3 million (2015: £13.8 million). The decline in transactional business was offset by an increase in consultancy revenues but not to the extent that the costs had increased owing to the full year impact from acquired businesses.

### Outlook

2016 was the first year the portfolio of B2B businesses came together as a division and, moving into 2017, we will build on the foundations we have established. Our plans are focused on four key issues: development of the risk hub in Surveying; driving increased referrals from the branches and delivering further efficiencies though Conveyancing; growth in new homes sales; and streamlining our estate and asset management services.

### Plans for 2017

We do not anticipate that the mortgage and housing markets will grow in 2017. However, our contracts with lender and corporate clients together with a healthy number of instructions from developers, supports our expectation of modest growth in the coming year. The outlook for commercial for London is expected to recover but not to the levels experienced in 2015. However, regional markets show signs of more activity.

# Creating further organic growth



## In summary

- Income supported by market share gains and benefit of 2015 acquisitions
- Investment in foundations to support future growth impacts profitability
- Positive progress in Lettings, Financial Services and Surveying
- Key cost initiatives underway to underpin 2017 profit outlook

## Introduction

Despite the considerable external challenges in 2016, the Group demonstrated its resilience by marginally growing total income. As expected, the investment in key areas of our business, together with the impact of a reduced sales transaction market, impacted our underlying profit performance.

There are a number of immediate challenges in our sector which, together with the current uncertainty around the UK economy, will impact our areas of focus in coming months. This will include a plan to reduce our current levels of debt, putting M&A activity on hold and increased focus on organic growth opportunities.

We have also commenced work to reduce and restructure our costs to reflect our current strategic plan for the Group. This involves significant branch rationalisation as well as streamlining our back office functions. Exceptional costs of restructuring our business amounting to £27.8 million (including £1.4 million impairment of brands we rationalised) were incurred in parallel with goodwill impairment charges of £19.6 million arising from market conditions. Further details are provided in note 10.

The reduction in appetite for M&A activity increases the focus on delivering our organic growth plan. This includes rolling out our multichannel proposition across our branch network and other key areas for organic growth including our Financial Services business.

## Results

Our business units reported improvements in income, with the exception of London, which experienced challenging market conditions. 2016 has been a period of investment in our Financial Services business unit to provide foundations for the next stage of our growth. Our central costs remained comparable to 2015 and will remain a focus.

## Income statement, cash flow and balance sheet items

### Depreciation and amortisation

Our depreciation and amortisation charge continues to be separated on the face of the income statement to indicate the depreciation and amortisation that relates to assets purchased for use in the business and amortisation arising on those intangible assets that have been recognised as a result of business combinations. The underlying depreciation and amortisation charge increased by £1.3 million, the principal driver of which was £1.6 million in respect of leasehold improvements as a result of branch refurbishments. Amortisation of intangible assets recognised through business combinations has increased by £0.2 million as a result of the incremental rate of growth in acquisitions during the year. It should be noted that £6.6 million of the annual charge relates to intangible assets recognised in 2007, when the Group was taken private, and this will end in 2017.

# Our chief financial officer's review continued

## Segment results

| | Total income | | | Adjusted EBITDA | | |
|---|---|---|---|---|---|---|
| | 2016 £'000 | 2015 £'000 | Variance % | 2016 £'000 | 2015 £'000 | Variance % |
| Retail | 262,275 | 254,451 | 3 | 31,004 | 43,343 | (28) |
| London | 160,408 | 177,982 | (10) | 18,024 | 34,162 | (47) |
| Financial Services | 88,174 | 80,994 | 9 | 22,682 | 20,709 | 10 |
| B2B | 222,475 | 219,051 | 2 | 30,791 | 32,302 | (5) |
| Central services | 3,623 | 1,258 | 188 | (18,953) | (17,539) | (8) |
| Total Group | 736,955 | 733,736 | — | 83,548 | 112,977 | (26) |

## Income statement, cash flow and balance sheet items continued

### Share-based payments

Share-based payment charges are also reported separately on the face of the profit and loss account. The most significant proportion of this charge relates to a specific scheme granted at the point of the IPO in 2013 when we granted 7.2 million options to employees who were former equity holders of Countrywide Holdings, Ltd under the IPO plan. The majority of these nil-cost options vested based on adjusted Group EBITDA for 2014 in March 2015 (80%) and the residual balance due to directors vested in March 2016. The charge to the income statement in 2016 was £0.3 million (2015: £3.3 million; 2014: £10.6 million).

In addition, we also operate annual grants under a three-year long term incentive plan (LTIP) to senior managers which commenced in September 2013. These are nil-cost options which will vest subject to certain performance criteria disclosed within the remuneration report and the charge for the year was £1.3 million (2015: £0.5 million credit).

### Contingent consideration

Contingent consideration charges amounting to £6.8 million (2015: £8.9 million) have been incurred. Each of these contingent consideration arrangements require the vendors to remain in employment and as such have been treated as a post-combination employment expense and excluded from consideration. Values are being accrued over the relevant periods of one to five years (2015: one to three years) specific to each of the agreements.

### Exceptional items

We have reported net exceptional costs of £12.5 million, which have been disclosed in further detail within note 10, comprising:

- non-recurring costs of £26.4 million related to the branch restructuring undertaken during the year, accelerating our transformation agenda and resizing the Retail estate, principally comprising £8.1 million of redundancy costs and £15.8 million of property closure costs;
- £19.6 million of goodwill impairment charges arising from write downs to recoverable value in Retail (£5.0 million) and London (£13.5 million) as a result of changing market conditions, and £1.1 million from closure of conveyancing operations;
- £1.4 million of brand impairment charges in Retail from abandoning the use of four smaller brands in pursuit of our fewer, better brands strategy; and
- £0.9 million of acquisition expenses.

Offset by:

- £32.8 million of income in respect of the sale of our remaining shareholding in ZPG Plc; and
- £2.9 million in respect of an exceptional credit arising from the release of professional indemnity provisions (originally booked as exceptional costs). Despite the judgemental nature of the provision, the progress made during the year on individually significant claims, aligned with the low level of claims made, has resulted in the assessment of a £2.9 million release in provision.

### Finance charges

Our draw down on bank borrowing facilities increased from £200 million at the prior year end to £290 million at 31 December 2016. Consequently, our finance costs have increased by £3.3 million and are now incurred at a margin of 2.75% over LIBOR.

To mitigate exposure and volatility arising from interest rate changes, the Group entered into an interest rate swap to convert floating levels of interest on the revolving credit facility into a fixed rate of 0.766% on specified levels of revolving credit facility draw down from 20 June 2016. The interest cash flows on the first proportion of the revolving credit facility have been hedged, and therefore this value moves over the period to March 2020 in line with the forecast drawdowns.

### Taxation

Our total tax charge for 2016 of £2.0 million (2015: £5.9 million) represents an effective tax rate of 10.0% (2015: 12.5%). The principal reasons for the lower effective rate are the £32.8 million gain on the disposal of ZPG Plc shares being sheltered by unrecognised capital losses and the impact of a further 1% reduction in the tax rate on deferred tax liabilities generated a £2.3 million tax credit.

Countrywide's business activities operate predominantly in the UK. All businesses are UK tax registered apart from small operations in Hong Kong (which are in the process of closure), and Ireland. We act to ensure that we have a collaborative and professional relationship with HMRC and continue to enjoy a low risk rating. We conduct our tax compliance with a generally low risk approach whilst endeavouring to maintain shareholder value and optimise tax liabilities. Tax planning is done with full disclosure to HMRC when necessary and being mindful of reputational risk to the Group. Transactions will not be undertaken unless they have a business purpose or commercial rationale.

In addition to our corporation tax contribution, our businesses generate considerable tax revenue for the Government in the UK.

For the year ended 31 December 2016, we will pay corporation tax of £5.2 million (2015: £8.5 million) on profits for the year, we collected employment taxes of £158 million (2015: £172 million) and VAT of £94 million (2015: £99 million), of which the Group has incurred £44.3 million and £3.3 million (2015: £61 million and £2.5 million) respectively. Additionally, we have paid £12.8 million (2015: £12 million) in business rates and collected £41.7 million (2015: £35.5 million) of stamp duty land tax though our Conveyancing business.

## Cash flow

Net cash generated from operating activities decreased by £37.5 million to £29.6 million for the year (2015: £67.1 million). Both years have been impacted by payments to settle professional indemnity claims. Payments in 2015 were lower than expected at £10.8 million, principally due to the timing of settlements, and as a result payment levels increased, as anticipated, to £13.8 million during 2016.

## Capital expenditure

Cash expenditure on capital items in the year amounted to £29.0 million (2015: £22.0 million), principally relating to an ongoing programme of planned branch refurbishments, and an additional £11.1 million (2015: £5.4 million) has been incurred on software, including new technology platforms to deliver online offerings to our customers, which has been treated as an intangible asset.

## Net assets

At 31 December 2016, our net assets per issued share were £2.18, a total of £479.5 million (2015: £544.6 million) a decrease of £65.1 million, or 12%, driven by a post-tax profit for the year of £17.5 million offset by £29.9 million of reserve movements from realisation of gains on the sale of Zoopla shares, dividend returns to shareholders of £33.0 million and the purchase of treasury shares of £18.1 million.

## Net bank debt

At 31 December 2016 we had cash balances of £45.3 million (2015: £24.3 million) and £290 million drawn down within our revolving credit facility (RCF) (2015: £200 million). The £69.0 million increase in net bank debt arose principally as a result of net outflow on acquisitions amounting to £35.4 million and £29.0 million capital expenditure during the year.

Shareholders' funds amounted to £479.5 million (2015: £544.6 million) giving balance sheet gearing of 34% (2015: 25%). Net bank debt represented 63% of the Group's market capitalisation at 31 December 2016, and 293% of the Group's adjusted EBITDA for the year.

## Committed bank facilities

The Group's available bank facilities (excluding overdraft arrangements available) at 31 December 2016 comprised of a £340 million revolving credit facility repayable in March 2020.

In February 2016, the Group increased its borrowing capacity to facilitate the strategic plans announced during 2015 and renegotiated our existing £250 million RCF, which was repayable in March 2018, to a £340 million RCF with the existing lenders and an accompanying £60 million accordion facility repayable in March 2020.

## Dividend policy

Following consultations with major shareholders we have reviewed our dividend policy and there has been a change to the Group's previously stated policy in respect to normal dividends which was previously stated as 35-45% of underlying profit after tax. As noted in the Chairman's Statement, in light of the uncertainty surrounding the outlook for the residential property market and our desire to invest in key organic strategic initiatives, our policy has been slightly revised to 30-35% of underlying profit after tax. Underlying profits are measured as profit after tax but before exceptional items, amortisation of acquired intangibles, contingent consideration and share-based payments.

The Board do not recommend the payment of a final dividend (2015: 10.0 pence), giving a total 2016 dividend of 5.0 pence (net) per share (2015: 15.0 pence).

## Events after the balance sheet date

Despite the uncertain market environment, we remain committed to reducing our leverage and at the same time facilitate the acceleration of our ability to future proof the business and exploit growth opportunities. To that end, and following consultations with our major shareholders, the Board has decided to make a small placing of up to 9.99% of our share capital available via a cash box structure today.

**Jim Clarke**
**Chief financial officer**
9 March 2017

# Our people

# We know that we are only as good as our people

## Our people

Our colleagues are our biggest single group of ambassadors and they are key to achieving our vision.

If we want our customers to see us as the best, then we need to put them at the heart of everything we do. However, we can only do that if we treat our people as customers first, engaging and motivating them to understand how they support our mission, vision, values and business objectives.

We must support our people so that, as well as feeling connected to our purpose, they are inspired to be the best they can be and feel valued, engaged and committed to providing a brilliant customer experience.

We also believe in attracting the right, people into the right roles. In 2016 we invested in our Talent Acquisition function that gives us a fully aligned, Group-wide team which supports our hiring managers in bringing the best people into the business.

Aligned to this, we have launched a new careers website for 2017 and standardised our recruitment processes to ensure that every potential colleague has the best experience possible when they interact with us as part of the recruitment experience.

Further, we have identified the need to ensure a great onboarding experience from the moment someone considers joining Countrywide, as well as throughout their career with us.

## Developing a high performance culture

We created a series of senior leadership programmes throughout the year, supporting management to lead our people effectively and drive performance.

The 'One Countrywide' senior leadership community launch event in January brought together all of our senior leaders from every area of the business for the first time in a single event.

Following this, a series of leadership communications and events was delivered throughout the year to drive momentum and maintain focus. This was supported by the creation of an exclusive online community for our leaders to share information and best practice and discuss business topics, as well as providing business research, analytics and key communications.

## Development and training

To further support our senior management, we have been developing a number of component parts of our talent development and leadership approach. We have produced a new Countrywide leadership model and framework which incorporates our purpose, brings our values to life and helps define the leadership skills needed for a strong future and to create a high performing culture. This has helped us identify a robust internal pipeline of skilled, engaged and motivated leaders throughout our senior population and allows us to move our talented colleagues around the business to where they are needed most.

As well as identifying our leaders of the future we are designing a range of development initiatives to bring through and grow our internal talent. During 2017 we will be delivering new leadership programmes to build the knowledge, skills and capability of our 'leaders of people' in branches and offices and our 'leaders of leaders' across our wider leadership community.

## Listening to our people

In 2016 we carried out a three-week staff engagement survey. Over 9,000 people across the business took part in the first MyCountrywide Pulse survey, comparable with the number of people who took the full MyCountrywide survey in 2015.

The overall MyCountrywide engagement score was 66%, with 76% of our people saying that they feel motivated to go beyond expectations to deliver for Countrywide.

It is clear that only through taking action on the feedback received and working together to make the right improvements can we deliver performance improvements. This will be a key focus in 2017 where we will also carry out a full MyCountrywide survey that will allow us to benchmark against the previous full engagement survey in 2015. Across Countrywide we will continue to listen to our people and make the changes that bring us ever closer to being recognised as one of the best places to work in the UK.

## Communication and engagement

We use engaging, clear and honest communication to inform and inspire our people, as well as reinforce our purpose.

We work collaboratively with our leadership teams across Countrywide providing insight, guidance, expertise and tools to support performance and drive business growth.

During 2016 we launched our first ever Group-wide intranet, 'Our Place'. This is designed to be the hub of internal communications and engagement going forward and work will continue in 2017 to fully establish this channel as a news and information resource. Colleagues across the business have been trained and developed to enable all areas of Countrywide to contribute information about their area of work. This work is supported by our Agents of Change, a group of staff ambassadors selected to tell stories across the business, highlighting good practice, supporting the cascade of key information and recognising instances where our people go above and beyond in delivering their work. In addition, this platform, and leadership cascades, ensures we achieve an awareness with all employees of the financial and economic factors that affect the performance of the Group.

Our people are also encouraged to become shareholders in the Company. The Group's Share Incentive Plan (SIP) has been running successfully since its inception in October 2013. During 2016 we made changes to the offering for the benefit of our colleagues. The SIP is now open to all Countrywide employees who are normally referred to as UK tax resident and have been in our employment for at least twelve months at the time the first salary deduction into the scheme is made. The Company now also gives two free matching shares for every three partnership shares acquired (within the maximum investment terms established by HMRC).

## Gender diversity


* Senior management comprises employees with responsibility for planning, directing or controlling the activities of the Group or a strategically significant part of it. Directors of subsidiary companies are included only to the extent that the subsidiary is significant in the context of the Group as a whole.

> "We believe that great people plus a great environment will deliver a world class experience for our people and our customers.

Towards the end of 2016 we formed a new people engagement team which, during 2017, will deliver activities to help colleagues understand how Countrywide is fulfilling its mission, vision and values and is performing against its business objectives. Further, the team will ensure our employees feel included and supported as they work towards helping Countrywide, and themselves, achieve ambitious, but realistic goals.

In 2016 the first Countrywide calendar was launched with a competition for children of employees to draw a picture of their home and tell us why they love living there. The winning pictures went on to form the calendar for 2017 which is hosted on our intranet, 'Our Place'. Every child who submitted a picture received a personalised thank you card which displayed their picture as well as a small prize.

### Charitable giving

Countrywide supports a workplace charitable giving scheme so that employees can donate to their favourite charities directly through a payroll deduction scheme, which is also tax efficient.

We operate in local markets, our people are local and our brands are local, making our contribution to the local community another important part of our charitable giving. Our subsidiary businesses are encouraged to support causes within their local communities, and employees from across the country participated in a number of local initiatives last year.

For example, Hamptons International raised over £10,000 for Cancer Research UK with a 'Relay Around the Regions'. The relay took place over a two-week period around Hamptons International's 95 branches, spanning London and the South of the UK. Over 300 colleagues took part in the event, which saw teams travel from branch to branch using various modes of transport.

Some teams walked, cycled, ran or roller-skated, whilst others used more unusual means of transport including a horse and cart and a convoy of classic cars – there was even a dragon boat race down the Thames. In total, our colleagues travelled a distance of over 1,000 kilometres in 20 different ways as part of their fundraising efforts.

### Equal opportunities

We are committed to a policy of equal opportunity and diversity in employment and recognise that this is essential to ensuring the success and growth of the organisation.

To this end, we make every effort to select, recruit, train and promote the best candidates for the job.

We aim to treat all employees and applicants fairly and appropriately, regardless of age, gender reassignment, civil partnership or marital status, pregnancy or maternity leave, disability, race, religion or belief, sex or sexual orientation, to ensure that all opportunities are available to everyone and that no one suffers discrimination, harassment or intimidation.

### Human rights

The Group is accountable to investors, but we take into account the interests of all our stakeholders – including our employees, our customers and our suppliers, as well as the local communities and the environments we operate in.

Countrywide's reputation is one of its key assets, and as a leader in the UK property services sector it is vital that we adhere to and promote the highest standards of integrity, personal conduct, ethics and fairness.

Due to regulatory requirements in the UK, we have judged that human rights are not a material risk for the business. We do, however, work closely with our third-party external suppliers to ensure their human rights and ethics policies are aligned with those of Countrywide.

Our support function in India, WNS, has the WNS Cares Foundation, providing education and many other facilities and benefits for children within local communities. This foundation exists in all the countries WNS operates from and is actively involved in child education.

More information on the foundation can be found by visiting www.wnscaresfoundation.org.

### Modern slavery

We are committed to ensuring that there is no modern slavery, or human trafficking, in our supply chains, or in any part of our business. Our Anti-Slavery Policy reflects our commitment to acting ethically and with integrity in all our business relationships, and to implementing and enforcing effective systems and controls to ensure slavery and human trafficking are not taking place anywhere in our business or in our supply chains.

# Board of directors

## As at the date of signing the directors' report, the following people were directors of the Company:

### Peter Long

Non-executive chairman*

N

Peter was appointed non-executive director of the Company in February 2016 and took over as non-executive chairman at the Company's AGM on 27 April 2016. Peter is chairman of Royal Mail plc and in April 2016 was appointed non-executive chairman of Parques Reunidos Servicios Centrales S.A.U. Having ceased to be joint chief executive of TUI AG with effect from 9 February 2016 he is a member of TUI AG's supervisory board. Prior to this, he held a variety of senior roles in the travel and leisure sector. He was formerly senior independent non-executive director of RAC plc (2001-2005) and Rentokil Initial plc (2005-2014). He was also a non-executive director of Debenhams plc (2006-2009).

* Grenville Turner served as chairman from 1 September 2014 to 27 April 2016.

### Alison Platt

Chief executive officer

None

Alison joined the Group in September 2014. Alison was previously managing director at Bupa, responsible for international development markets, and has held a range of senior posts including chief operating officer of the UK private hospitals business at Bupa and a number of key positions at British Airways.

In April of 2016 Alison joined the board of Tesco Plc as a non-executive director. Between 2012 and 2016 she was a non-executive director of Cable & Wireless Communications plc. From 2009 to 2013 she was chair of Opportunity Now, which seeks to accelerate change for women in the workplace. She was a non-executive director of the Foreign & Commonwealth Office (FCO) between 2005 and 2010, and in the 2011 New Year Honours she was appointed a CMG for her services to the board of the FCO.

### David Watson

Deputy chairman and senior independent non-executive director

A N R

David joined the Group in September 2013 as non-executive director of the Company and was appointed chairman of the Audit and Risk Committee and subsequently senior independent director. David is currently a non-executive director of Ageas UK, Kames Capital plc, Hermes Fund Managers Limited and T R Property Investment Trust plc. He chairs the audit committees of Hermes Fund Managers Limited and T R Property Investment Trust plc. He has extensive industry and accounting experience. David has had a distinguished career as a finance director. Most recently he was finance director of the general insurance division of Aviva. Prior to that he held various other senior financial roles at Aviva and at Prudential and M&G Group. David is a chartered accountant and a graduate of City University Business School.

### Jim Clarke

Chief financial officer

None

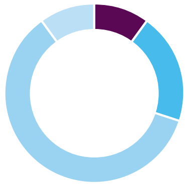
Jim joined the Group in November 2007. He was previously finance director and company secretary of JD Wetherspoon and has previously worked for David Lloyd Leisure (a division of Whitbread plc) and HP Bulmer Holdings plc. Jim is a graduate of Stirling University and he qualified as a chartered accountant in 1984.

### Cathy Turner

Independent non-executive director

A N R

Cathy was appointed non-executive director of the Company and chairman of the Company's Remuneration Committee on 31 July 2013. Cathy is also a non-executive director and chair of the remuneration committee for Aldermore PLC and Old Mutual Wealth. She is a partner at the senior advisory firm Manchester Square Partners LLP. She is an honorary fellow of UNICEF UK and a member of the board of the Gurkha Welfare Trust. She is a former council member of the Royal College of Art. She has extensive industry experience working with Deloitte & Touche, Ernst & Young and Towers Watson in her early career. She subsequently joined Barclays PLC, where she was a member of the group executive committee with responsibility for human resources, corporate affairs, strategy and brand and marketing. During her time with Barclays she was also director of investor relations for four years and had extensive experience in remuneration in her many roles. She was chief administrative officer of Lloyds Banking Group PLC. Cathy is a graduate of the University of Lancaster.



| | |
|---|---|
| Chairman | 1 |
| Executive directors | 2 |
| Independent non-executive directors | 5 |
| Non-independent non-executive director | 1 |

**Richard Adam**

Independent non-executive director

A N R

Richard was appointed non-executive director of the Company in June 2014 and chairman of the Company's Audit and Risk Committee in August 2014. A chartered accountant qualifying with KPMG in 1982, Richard has nearly 30 years' experience as a finance director of private and listed businesses having gained a wealth of experience from executive and non-executive roles spanning the media, infrastructure, construction and services sectors. In February 2017, Richard was appointed non-executive director of FirstGroup plc and chair of its audit committee. He is also senior independent non-executive director of Countryside Properties plc and chairs its audit committee. From April 2007 to December 2016 Richard was group finance director of Carillion plc and before that of Associated British Ports Holdings plc. He was previously non-executive director and chairman of the audit committee of SSL International plc. Richard is a graduate of the University of Reading.

**Jane Lighting**

Independent non-executive director

A N R

Jane was appointed non-executive director of the Company in June 2014. She has spent her career in broadcast media, including chief executive officer of Channel 5 Broadcasting, CEO of Flextech plc and founder and CEO of Minotaur International. She was formerly non-executive director at Paddy Power plc, a senior independent director at Trinity Mirror, a trustee of the Royal Television Society, governor of the National Film and Television School and a member of British Screen Advisory Council.

**Rupert Gavin**

Independent non-executive director

N R

Rupert was appointed non-executive director of the Company in June 2014. He is chairman of the board of trustees of Historic Royal Palaces and also chairs the Honours Committee for Arts and Media. Rupert has a range of other board positions, at both chairman and director level in a variety of businesses, with a strong consumer bias. Most recently he was chief executive officer of Odeon and UCI Cinemas Group between 2005 and 2014. He was previously at the BBC where he was chairman and chief executive of BBC Worldwide and also at BT where he was managing director of the consumer division, prior to which he was at the Dixons Stores Group latterly as deputy managing director.

**Caleb Kramer**

Non-executive director

None

Caleb joined the Group in May 2009 and was appointed as a director. He is a managing director and portfolio manager (Europe) at Oaktree Capital Management (UK) LLP. Prior to joining Oaktree in 2000, Caleb co-founded Seneca Capital Partners LLC, a private equity investment firm. From 1994 to 1996, Caleb was employed by Archon Capital Partners, an investment firm. Prior to 1994, Caleb was an associate in mergers and acquisitions at Dillon Read and Co. Inc. and an analyst at Merrill Lynch and Co. Inc. Caleb received a BA degree in economics from the University of Virginia.

Key to Committee membership:

A Audit and Risk Committee

N Nomination Committee

R Remuneration Committee

Chairman of Committee

# Chairman's introduction to corporate governance

"Since taking over as non-executive chairman in April 2016, maintaining our high standards of corporate governance continues to be a priority for both me and the Company. We believe that good governance is an essential part of the way we conduct our business on a daily basis, while maintaining effective risk management, control and accountability, and is pivotal to building a sustainable business for the long term.

## Dear shareholder

I am pleased to introduce my first corporate governance statement as non-executive chairman of the Board of Countrywide plc. My predecessor, Grenville Turner, took his responsibility for maintaining high standards of corporate governance very seriously, and this will continue to be a priority throughout my tenure.

In his chairman's statement last year, Grenville indicated his desire to step down from the role of chairman and on 11 February 2016, the Company announced he would retire as chairman and I was appointed non-executive director. My appointment as non-executive chairman was confirmed at the Annual General Meeting on 27 April 2016. There were no other Board changes in 2016.

Your Company continues to be led by a strong and balanced Board, which is well qualified to challenge, motivate and support the management of the business. The Nomination Committee will continue to review the composition of the Board to ensure that we have the appropriate balance of skills, experience, diversity and independence to support building a sustainable business for the long term.

The Board aims to present a fair, balanced and understandable assessment of the Group's position and prospects. It understands the importance of effective reporting, risk management and internal control procedures. In 2015, as part of the strategic planning process, the Group reviewed its risk appetite and ensured there were governance improvements to align our risk and internal audit capabilities. I am pleased to report that we continued to make significant progress in these areas during 2016. The appointment of a chief risk and compliance officer during 2015 continues to provide an integrated assurance plan and has made significant steps in co-ordinating our approach to the Group's risk management and audit activities.

## Future priorities

My role as chairman is to lead the Board and ensure that it is operating effectively and focusing its time, energy and attention on the right areas. In 2016, following the results of the initial phase of the external Board evaluation review (which concluded during February 2016) we agreed a set of priorities against which we can report progress. This is discussed in further detail on page 44.

Your Board is fully committed to supporting both the principles and application of best practice in corporate governance. In 2016 we continued to make excellent progress in significantly strengthening effective corporate governance systems and procedures which will underpin building a sustainable business for the long term.

Peter Long

**Peter Long**
**Non-executive chairman**
9 March 2017

# Corporate governance statement

## Introduction

This corporate governance report intends to give shareholders a clear understanding of Countrywide's corporate governance arrangements and their operation within the Group during the year, including an analysis of the level of compliance with the principles of the UK Corporate Governance Code ('the Code') issued by the Financial Reporting Council in September 2014. The Code can be viewed at www.frc.org.uk.

### Compliance with the 2014 Code

The directors have considered the contents and requirements of the Code and note the following instance of non-compliance: the appointment of Grenville Turner as chairman from 1 September 2014 to 27 April 2016, having held the position of chief executive officer immediately prior to that date, results in non-compliance with provision A.3.1 of the Code that a chief executive should not go on to be chairman of the same company. Additional counterbalances were in place for this period and, following my appointment as Grenville's successor, I am delighted to confirm that with the exception of provision A.3.1 for the period stated above, the Company has complied in all respects with the provisions of the Code.

The corporate governance report comprises pages 41 to 51. Additional information in respect of the operation, and terms of reference, of the Remuneration Committee is included within the separate directors' remuneration report.

### The role of the Board, decision making and division of responsibilities

The Board provides leadership to the Group and is collectively responsible for the long term success of the Company. It sets the strategy and oversees its implementation, ensuring that acceptable risks are taken and appropriate governance structures and controls are in place. It ensures that the right people and resources are in place for the Group to meet its objectives, review management performance and deliver long term value to shareholders and other stakeholders.

In pursuit of these leadership objectives, the Board retains control of key decisions and has in place a formal schedule of matters specifically reserved for its approval which can be found at www.countrywide.co.uk/investor-relations/corporate-governance/. The Board retention of decision making and control of these key areas ensures effective stewardship and risk management by providing integrated reporting, e.g. in respect of strategic priorities and associated risk and mitigating governance controls.

Specific decisions reserved for the Board are summarised as follows:

The roles of chairman and chief executive are separated, clearly defined and approved by the Board. A copy of the division of responsibilities between the roles of the chairman and the chief executive is available to view on the corporate governance section of the Company's website.

The Board delegates matters to the three Board Committees (Audit and Risk, Nomination and Remuneration), in line with their terms of reference and the formal schedule of matters reserved for Board approval. Further information on the work of these Committees during the year can be found in each of their separate reports following this corporate governance introduction and the specific terms of reference for each of the Committees can be found on the corporate governance section of our website. The Board delegates the detailed implementation of matters approved by the Board and the day to day operational aspects of the business to the executive directors.

### Effectiveness

The Board and its Committees continue to benefit from an appropriate balance of expertise, experience, independence and knowledge of the Group and its business sectors. At 31 December 2016, the Board comprised two executive and seven non-executive directors.

The Nomination Committee considers the skill set and sector experience of the Board, appointments to the Board, director development and succession planning. Details of these activities and the process of Board evaluation and development are discussed in the Nomination Committee report on pages 43 to 45.

The Board has eight scheduled meetings during the year; additional meetings are arranged if required. The Board Committee meetings are scheduled around the regular Board meetings. The directors' attendance at the scheduled Board meetings and Board Committee meetings is shown in the table on page 42. Attendance is expressed as the number of meetings that each director attended out of the number they were eligible to attend as chairmen or Committee members (i.e. excluding attendance where this was by invitation only).

| Responsibility | Specific actions during the year | | |
|---|---|---|---|
| **Strategy and direction** | Approval of strategy and annual budgets. | Authorisation of acquisition and disposal activity. | Review of internal control arrangements and affirmation of risk management strategies. |
| **Risk management and accountability controls** | Approval of financial statements, other updates to the market and recommendations on dividends. | Approval of authority levels and financial and treasury policies. | Review of internal control and risk management, including health and safety. |
| **Governance** | Appointments to and removals from the Board. | Terms of reference for and membership of the Board. | Review of governance arrangements. |

# Corporate governance statement continued

## Board attendance

| Director | Date of appointment | Board meetings[1] | Audit and Risk Committee meetings | Nomination Committee meetings[2] | Remuneration Committee meetings |
|---|---|---|---|---|---|
| Peter Long | 11 February 2016 | 8/8 | — | 1/1 | — |
| Alison Platt | 1 September 2014 | 9/9 | — | — | — |
| Jim Clarke | 28 December 2012 | 9/9 | — | — | — |
| Caleb Kramer[3] | 19 February 2013 | 7/9 | — | — | — |
| David Watson[3] | 2 September 2013 | 8/9 | 4/4 | 2/2 | 7/7 |
| Cathy Turner | 31 July 2013 | 9/9 | 4/4 | 2/2 | 7/7 |
| Richard Adam | 9 June 2014 | 9/9 | 4/4 | 2/2 | 7/7 |
| Jane Lighting[3] | 9 June 2014 | 8/9 | 4/4 | 2/2 | 7/7 |
| Rupert Gavin[3] | 25 June 2014 | 9/9 | — | 2/2 | 6/7 |
| Grenville Turner[4] | 19 February 2013 | 3/3 | n/a | 0/1 | n/a |

1 There were eight Board meetings during the year and one additional Board meeting to discuss a corporate transaction.

2 One formal Nomination Committee meeting was held during the year with an additional sub-committee meeting held in connection with Peter Long's appointment as non-executive chairman.

3 Caleb Kramer was engaged in overseas activities which meant he was unable to attend two Board meetings. David Watson, Jane Lighting and Rupert Gavin were also absent from each of the specific meetings above due to unexpected, unavoidable personal commitments.

4 Grenville Turner resigned from the Board with effect from 27 April 2016. He was not present at the Nomination Committee meeting as a result of the formation of a separate sub-committee.

The Company maintains directors' and officers' liability insurance cover for its directors and officers. The Company has made qualifying third-party indemnity provisions (as defined in the Companies Act 2006) for the benefit of its directors during the year; these provisions remain in force at the date of this report.

## Independence

The Code notes that the Board should identify in the annual report each non-executive director that it considers to be independent. Excluding the former chairman until his departure on 27 April 2016, each of the non-executive directors is considered to be independent, with the exception of Caleb Kramer as he holds the position of managing director at Oaktree Capital Management (UK) LLP, a substantial shareholder of the Company. As stated above, Grenville Turner was not deemed to be independent prior to his appointment as chairman from 1 September 2014.

The Code recommends that at least half the Board, excluding the chairman, should comprise non-executive directors determined by the Board to be independent. Excluding the chairman, there are five (of a possible six) non-executive directors determined to be independent and two executive directors, and therefore the Board complies with recommendation B.1.2 of the Code. Similarly, the composition of the three Board Committees complies in all respects with the independence provisions of the Code.

## Accountability

The Board remains committed to presenting a fair, balanced and understandable assessment of the Group's position and prospects and of the importance of effective reporting, risk management and internal control procedures. Both the Audit and Risk Committee and the Board received drafts of the annual report to facilitate review and provide an opportunity for challenge and discussion.

The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. Principal risks associated with the Group's business are summarised on pages 19 to 21 of the strategic report. The Board has an Audit and Risk Committee which monitors and reports on the Group's risk management systems. The Audit and Risk Committee also considers how the Board should apply corporate reporting and internal control principles and is responsible for maintaining an appropriate relationship with the Group's auditor, PricewaterhouseCoopers LLP. The report of the Audit and Risk Committee is set out on pages 46 to 51.

## Remuneration

Details relating to the Company's policy on remuneration together with the level and components of remuneration available to the Company's directors are provided in the Remuneration Committee's report on pages 52 to 66.

## Dialogue with shareholders

As chairman, I ensure that views of shareholders are communicated to the Board as a whole and offer non-executive directors the opportunity to attend discussions with major shareholders.

We actively seek channels through which to engage with investors and during 2016 the Company undertook a wide variety of investor relations activities, including road shows in the US and the UK. Institutional shareholders represent the largest group of shareholders and much of the activity is focused on this group. The chief executive officer and the chief financial officer host or attend the majority of the events held, whilst key senior executives also participate in meetings and activities with institutional shareholders.

Shareholder relations are given high priority by the Board. The prime means of communication with the majority of our shareholders is via the interim and annual reports, supplemented by interim trading updates, which aim to provide shareholders with a clear understanding of the Group's activities and results. General presentations are given to both shareholders and analysts following the publication of the interim and annual results and at other appropriate points to share the strategic plans and offer an opportunity to engage with the business unit managing directors and other senior executives.

## Constructive use of the AGM

Shareholders have the opportunity to address questions to the chairman and the chairmen of the Audit and Risk, Remuneration and Nomination Committees at the AGM, where all directors will be in attendance. All shareholders are encouraged to attend the AGM. Shareholders wishing to lodge questions in advance of the AGM, or to contact the Board at any other time, are invited to do so by writing to the company secretary at the registered office address given in note 1 to the financial statements.

**Peter Long**
**Non-executive chairman**
9 March 2017

# Report of the Nomination Committee

> 2016 saw the Committee continue its focus on Board evaluation and succession planning, including my appointment as non-executive chairman of the Board.

The Committee's terms of reference are available at: **www.countrywide.co.uk/investor-relations/corporate-governance**

## Dear shareholder

I became chairman of the Nomination Committee with effect from 27 April 2016. In 2016 the Committee continued its focus on Board evaluation and Board Committee composition and succession planning, including my own appointment as non-executive chairman following Grenville Turner stepping down as chairman.

## Role and responsibilities

The Committee is responsible for ensuring that the composition of the Board and its Committees is appropriate and enables it to function effectively. This requires evaluation of the balance of skills, experience, knowledge and diversity and the resultant identification of any gaps, either in the short, medium or longer term, and recommendations to address these. Succession planning for key Board positions forms part of our wider remit and, as such, we have insight into the Group's Leadership and Development Programme.

We are also responsible for agreeing the annual Board effectiveness review process and monitoring any actions arising.

## Committee composition

The membership of the Committee during 2016, together with appointment date, is set out below:

| Member | Nomination Committee member since |
|---|---|
| Peter Long (chairman from 27 April 2016) | 27 April 2016 |
| Grenville Turner (chairman until 27 April 2016) | 1 September 2014* |
| Cathy Turner | 31 July 2013 |
| David Watson | 2 September 2013 |
| Richard Adam | 9 June 2014 |
| Rupert Gavin | 25 June 2014 |
| Jane Lighting | 9 June 2014 |

* Grenville Turner resigned from the Board, and therefore the Committee, with effect from 27 April 2016.

The composition of the Committee changed during the period with Grenville Turner resigning as chairman from the Board and Committee in April 2016, and my subsequent appointment as non-executive chairman of the Board and the Committee. We therefore remained in full compliance with the Code recommendation that a majority of members should be independent non-executive directors throughout the period.

Attendance by members at the meetings is shown on page 42.

## The Committee's work

The Committee held one formal meeting in November 2016.

Further to the Board authorising the Committee to establish a sub-committee in October 2015 chaired by Cathy Turner (which excluded Grenville Turner due to having a potential conflict of interest) to engage in the search and selection process for a new chairman, one formal sub-committee meeting was held in January 2016 to review my appointment and proposed remuneration terms. The main matters that the Committee considered during the year are described on page 45.

# Report of the Nomination Committee continued

## Board and Committee composition

As described above, the Board went through a period of change with the appointment of me as non-executive chairman.

The Company believes that diversity of experience and approach, including gender and race diversity, amongst Board members is of great importance and it is the Company's policy to give careful consideration to issues of Board balance and diversity when making new appointments. The search for candidates and any subsequent appointments are, therefore, made purely on merit regardless of gender, race, religion, age or disability in order to secure an appropriate balance of skills and attributes that are needed to ensure effective stakeholder engagement and delivery of the business strategy.

Given our commitment to appointing the best people and ensuring that all employees have an equal chance of developing their careers within the Group, we do not think it is appropriate to set targets for Board appointments. As gender diversity remains a topic of significant discussion, we note that three of the nine members of our Board are female. In addition to Board diversity, we believe in promoting diversity at all levels of the organisation and further details of our workforce diversity are set out on page 37.

Following my appointment to the Board, as with all directors of the Company, I received a tailored induction programme which provided me the opportunity to gain a good understanding of the Group business and organisation, operations and governance environment, and allowed me to maximise my contribution to the Board as quickly as possible. Key stages of the induction programme are: provision of documents in relation to the Board, strategy, performance and corporate governance; meetings with the executive directors to gain an overview of the business and current trading and key commercial issues; meetings with other directors and senior executives to discuss commercial issues and projects; and site visits, as required, to key locations to gain an understanding of the business and operations.

All directors are also offered subsequent training to suit their needs and continuous professional development requirements. All directors also have access to the advice and services of the company secretary in addition to access to independent professional advice at the Company's expense where they judge it necessary to discharge their duties as directors.

## Board effectiveness

During 2015, the Board appointed an independent agency, Lintstock, to conduct a formal externally facilitated evaluation of the performance of the Board, its Committees, the directors and the chairman in compliance with the Code recommendation for triennial external evaluation. Lintstock has no prior connection with the Group.

The Board instructed Lintstock to provide a phased three-year plan:

- 2015: During November 2015, questionnaires were distributed to all directors to cover: full Board review; individual performance review; chairman review; and review of each of the three Board Committees. These questionnaires were also supplemented to include Lintstock interviews with each of the directors.
- 2016: Completion of questionnaires as detailed above.
- 2017: Completion of questionnaires as supplemented again by Lintstock interviews with each of the directors. By 2017, following my appointment in 2016, the Board memberships will have been in operation for a full year and will thus provide a well grounded base of experience to refresh an effective discussion of opportunities to improve Board effectiveness.

The initial phase of this process concluded in February 2016 and Lintstock produced a report which addressed the following areas of Board performance:

- the size and composition of the Board was considered, as were the attributes to prioritise in new non-executive appointments;
- the Board members' understanding of Countrywide's businesses and of technological issues facing the Company was reviewed, as was the Board's knowledge of the views and requirements of Oaktree Affiliates and other major shareholders, customers and regulators;
- the involvement of the non-executives outside Board meetings was assessed, and the relationships between Board members, the Chief Executive and top management were considered;
- the annual cycle of work and the agenda were addressed, as were the Board packs and the presentations made by management at meetings;
- the effectiveness with which the Board tests and develops strategy and reviews its implementation was assessed, as was the adequacy of the KPIs that inform the analysis of the performance of the business;
- the Board's oversight of risk was considered, as were the structure of Countrywide at senior levels and the oversight of development and succession plans for management; and
- the performance of the Committees of the Board was also addressed in the review, as was the performance of the chairman and that of the individual directors.

Further to these areas of core performance the review also included a case study concerning the effectiveness of the Board's recent Strategy Day.

The table below summarises key headline recommendations and action taken in 2016.

| Recommendation | Action taken in 2016 |
|---|---|
| **Strategic oversight**<br>Review suite of key performance indicators (KPIs).<br>Shift towards overseeing strategic execution. | Group management information (MI) pack revised to address consistency of style and message-standard KPIs developed. Review strategic KPIs as part of 2017 annual operating planning process.<br>Reworked Board agenda format to provide more focus on strategy-related papers. |
| **Time management**<br>More focused Board meetings, tracking key metrics of performance. | Supported by the implementation of a revised Group MI pack and time scheduled in Board agendas for discussion of key strategic matters. |
| **Board dynamics**<br>Introduce less formal opportunities for the Board to meet, such as Board dinners and front-line visits. | Board dinners were introduced, along with a series of front-line location visits across the Countrywide Group. |
| **Board information and support**<br>Review the balance of information the Board receives.<br>Improve Board packs.<br>Consider improving the dissemination of Board papers. | Implementation of:<br>• a revised Group MI pack;<br>• pro-forma papers and decision criteria; and<br>• a web-based system for managing, preparing and distributing Board and Committee papers electronically. |

Lintstock issued a further questionnaire in January 2017, in order to follow up on the issues raised. The review content for each subsequent evaluation is designed to build upon learning gained in the previous year to ensure that the recommendations agreed in the review are implemented and that year-on-year progress is measured.

Following the externally facilitated evaluation, I am pleased to confirm the effective performance of each non-executive director and the time commitment of each non-executive director. I am therefore confident that each of them is in a position to discharge their duties to the Company in the coming year and, accordingly, as detailed in the notice of the AGM, all directors will stand for re-election.

**Peter Long**
**Chair of the Nomination Committee**
9 March 2017

# Report of the Audit and Risk Committee

> The Committee continued its key financial oversight role to reassure shareholders that their interests are properly protected.

The Committee's terms of reference are available at: **www.countrywide.co.uk/investor-relations/corporate-governance**

## Dear shareholder

During the year, the Committee continued its key financial oversight role for the Board, outlined in its terms of reference, to reassure shareholders that their interests are properly protected in respect of the Group's financial management and reporting.

During 2016, the Committee has:

- continued to monitor the integrity of the Group's financial statements and satisfy itself that any significant financial judgements made by management are sound;
- supported the Board with its ongoing monitoring and evaluation of the effectiveness of the Group's risk management and internal controls systems;
- determined the focus of the Group's internal audit activity, monitored its effectiveness, reviewed its findings and verified that recommendations were being appropriately implemented;
- scrutinised the activities, performance, independence and effectiveness of the external auditors;
- commenced the tender of the external audit during the year, resulting in the recommendation to the Board to approve the reappointment of PricewaterhouseCoopers LLP (PwC), which is subject to shareholder approval at the AGM on 27 April 2017; and
- reviewed management assessments of going concern and our viability statement including the advantage of strengthening the Group's balance sheet through a share placing.

The assurance framework required by the Committee is provided by complementary contributions from management reports, internal and external audit reports and risk management and compliance reports. However, as chairman of the Committee I have also held meetings with the Company's internal (Deloitte) and external (PwC) auditors, the chief financial officer, the chief risk and compliance officer, senior members of the Group finance department, and other senior executives in which key issues relevant to the Committee's work were discussed.

I will be available at the Annual General Meeting to answer any questions about the work of the Committee.

**Richard Adam**
**Chair of the Audit and Risk Committee**
9 March 2017

### Committee composition

The membership of the Committee, together with appointment date, is set out below:

| Member | Audit and Risk Committee member since |
|---|---|
| Richard Adam (chairman) | 9 June 2014 |
| Jane Lighting | 9 June 2014 |
| Cathy Turner | 31 July 2013 |
| David Watson | 2 September 2013 |

There have been no changes to the composition of the Committee during 2016 and therefore the Committee remained in full compliance with the UK Corporate Governance Code ('the Code') recommendation of a minimum of three independent non-executive directors throughout the period.

The Committee members have all been selected with the aim of providing the wide range of financial and commercial expertise necessary to fulfil the Committee's duties. The Board considers that as chartered accountants both David Watson and I have recent and relevant financial experience. The biography of each member of the Committee is set out on pages 38 to 39.

Attendance by members at the meetings is shown on page 42. Meetings are attended, by invitation, by the chief financial officer, the Group chief risk and compliance officer, the Group financial controller, the company secretary and the Group's external auditors, PwC. In addition, the Group's outsourced internal audit provider, Deloitte, is invited to attend appropriate sections of the meetings. The Committee holds private sessions with both the external and internal auditors which are not attended by management.

### The Committee's work

The Committee works to a structured programme of activities, developed from its terms of reference, with agendas for the four scheduled meetings of the Committee during 2016 organised to coincide with key events in the annual reporting cycle.

As chairman of the Committee, I report at each subsequent Board meeting on the business of the Committee meeting and recommendations made by the Committee. The main matters that the Committee considered during the year are described below.

### Financial reporting and significant judgements

#### Financial reporting

The Board and the Committee have reviewed this annual report, the half year financial statements, as well as the going concern basis of preparation of the Group's consolidated financial statements at these points, in particular the underlying assumptions and sensitivities.

We considered the presentation of the financial statements and, in particular, the compliance with financial reporting and disclosure requirements associated with the Group's premium listing. In respect of each of these matters, the Committee reviewed papers presented by management and discussed critical judgements and estimates inherent within the conclusions, providing challenge where necessary. The Committee also reviewed the reporting from the external auditors, incorporating accounting and reporting matters, internal control findings and their management representation letter to ensure that these matters had been considered and consistent conclusions had been reached.

The Committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. The Committee also considered the Group's tax strategy and concluded that management's current approach remained appropriate.

The Committee also considered whether the 2016 annual report was fair, balanced and understandable and whether it provided the necessary information for the shareholders to assess the Group's performance, business model and strategy. In reaching this view, the Committee took into account: its own knowledge of the Group, and its strategy and performance in the year; debates and discussions regarding principal risks and uncertainties; robust processes to ensure internal verification of the factual content within the document; and a detailed review, by senior management and the external auditor, to ensure consistency and overall balance. After careful review and consideration of all relevant information, the Committee was satisfied that, taken as a whole, the annual report is fair, balanced and understandable and affirmed that view to the Board.

Prior to the publication of the 2016 annual report, the Committee undertook a detailed assessment of the viability statement and reviewed with management the appropriateness of the Group's choice of a three-year assessment period, the Group's current position and future plans and potential impact of risks to the business and recommended to the Board that the directors can believe that they 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 period of their assessment. The Committee noted the positive impact that the Company's proposed share placing would have on the prospects for the Group as part of this review. The viability statement, together with further details of the Group's approach, appears within our risk section of our strategic report on page 22.

During February 2016, the Financial Reporting Council's (FRC's) Corporate Reporting Review Team concluded its review of the Group's 2014 annual report. The Committee monitored the dialogue between the Company and the FRC and discussed with the external auditor the matters raised and responses provided by the Company. The Committee noted that there were no significant findings and, pursuant to the review, appropriate limited enhanced disclosures were made in the 2015 annual report.

# Report of the Audit and Risk Committee continued

## **Financial reporting and significant judgements** continued

### Financial reporting continued

### Significant issues considered in relation to the financial statements

In the year under review, the Committee considered the following significant matters, which include an element of judgement, in relation to the financial statements.

| Matter | Action the Committee has taken |
|---|---|
| Impairment of goodwill and intangibles with an indefinite life | Management provided the Committee with a paper assessing the recoverable value and the associated headroom against the carrying value of the goodwill and, where relevant, the brand names in each of the cash generating units of the Group.<br><br>Management adopted a robust approach to assessing the reasonableness of future cash flows in light of the continued impact of political and economic uncertainty on market confidence, with particular regard to the London property sector. Management concluded that an impairment charge against goodwill of £5.0 million and £13.5 million in respect of the Retail and London cash generating units respectively was appropriate.<br><br>As a result of the restructuring undertaken during the year, management identified impairment charges of: £1.4 million required to write off four brand names which had ceased usage during the year; and £1.1 million required to write off goodwill associated with conveyancing operations being closed.<br><br>We reviewed the discounted cash flows and sensitivities prepared by management, discussing assumptions adopted and resultant levels of headroom. Based on the work performed, the Committee concurred that:<br><br>• the impairment charge against goodwill of £5.0 million and £13.5 million in respect of the Retail and London cash generating units respectively was appropriate in current market conditions and would be disclosed as an exceptional charge; and<br><br>• the impairment charges of £1.4 million identified by management in respect of brand names and £1.1 million in respect of conveyancing goodwill were appropriate and, having arisen as a result of the strategic review concluded as part of the restructuring during the second half of the year, would be disclosed as an exceptional charge.<br><br>For more detail in respect of impairments see notes 10 and 14a. |
| Acquisition accounting including assignment of fair values and the treatment of contingent consideration | The Board approved a number of acquisitions which concluded in the first half of 2016.<br><br>We reviewed a management paper summarising the acquisitions undertaken during the year, which included:<br><br>• the fair valuation of intangible assets. We were satisfied with the fair value accounting approach and intangible asset valuations proposed by management and resultant goodwill recognised; and<br><br>• a summary of the contingent consideration that was linked to both the future performance of the business and the continued employment of the vendors. We discussed the estimates in relation to deemed remuneration in respect of current year acquisitions and accruals in respect of prior year acquisitions and concurred with the approach taken by management.<br><br>For more detail in respect of acquisitions see note 29. |
| Presentation and disclosure of exceptional items | As a result of the Group restructuring during the year, management compiled a summary demonstrating the nature of the expenditure, and the rationale for presenting these items as exceptional. We reviewed this summary, providing challenge to management to demonstrate the robust classification of items as exceptional, including consistency of the application of the term to the treatment of debits and credits. Following discussion, including the external auditor at the February Committee meeting, we were satisfied with the judgement exercised in the presentation and disclosure of exceptional items.<br><br>For more detail in respect of exceptional items see note 10. |

| Matter | Action the Committee has taken |
|---|---|
| Professional indemnity provisions | The Committee receives quarterly updates on the status of the professional indemnity provision which includes the status of existing claims, including legal updates on those cases which are individually significant, and the number and nature of new claims arising.<br><br>At the year end, we reviewed the methodology and resultant professional indemnity provision prepared by management and provided robust challenge to any underlying assumptions adopted in respect of claim rates, claim liability rates, average loss per claim and provisions on discrete cases of significance based on current legal advice.<br><br>The Committee concluded that the methodology and assumptions adopted were reasonable, and concurred with the release of £2.9 million within exceptional items. However, we note that evaluating these potential liabilities is highly judgemental and in smaller populations of claims, estimates can be significantly affected by the outcome, good or bad, of a limited number of claims. Accordingly additional sensitivity disclosures have been provided in note 3. |
| Going concern | The Committee reviewed a management paper detailing the ability of the Group to continue as a going concern, including: future profitability of the Group, forecast future cash flows, associated headroom under financing facilities (due to mature in March 2020) and banking covenants. The key judgements, assumptions and estimates underpinning this review, and the associated sensitivities, were discussed and considered and the Committee concluded that the adoption of the going concern basis of preparation of the financial statements was appropriate. |
| Viability statement | Management provided the Committee with a paper on the viability of the Group, over a three-year period, which included a review of the principal risks and considered and modelled a number of severe but plausible scenarios. The key judgements, assumptions and scenario modelling were discussed. The Committee approved the viability statement and recommended its adoption by the Board. |

For further information on the critical accounting estimates and assumptions refer to the notes to the consolidated financial statements on page 87. For a discussion of the areas of particular audit focus by the auditor, refer to pages 71 to 73 of the independent auditors' report.

## Risk management and internal control

The Board recognises that the successful management of risk as part of our everyday activities is essential to support the achievement of our strategic objectives. Through delegation by the Board, the Committee is responsible for reviewing and monitoring the effectiveness of the Group's risk management systems and internal control. Operation of the Group's Risk Management Framework, which is designed to support consistent and effective management of risk throughout the Group is overseen by an oversight structure, as detailed on pages 17 and 18, which includes the Committee.

The Board has an ongoing process to identify, evaluate and manage the significant risks faced by the Group. This was in place throughout the year and up to the date of the approval of the annual report. This process is regularly reviewed by the Board and accords with UK Corporate Governance Code guidance. Management is responsible for the identification, evaluation and management of significant risks applicable to its areas of the business together with the design, operation and monitoring of suitable controls to manage risks to an acceptable level. These risks are assessed on a continual basis at business unit leadership meetings and updated accordingly in the quarterly Board risk report.

The Committee considered, discussed and made decisions in relation to a range of risk and internal control-related matters during the course of the year, the most significant of which are outlined below:

- reviewed the outputs of a review into the Group's risk management practices and approved the revisions to the Group's Risk Management Framework;
- reviewed, and recommended to the Board for approval, changes to the Committee's terms of reference and calendar of duties;
- reviewed, and recommended for Board approval, the Group's risk strategy and risk appetite;
- reviewed the quarterly Countrywide Group Risk Report from the Group Executive Risk Committee on the 'top risks' facing the Group, the relative assessment of impact and likelihood and actions underway/taken to deliver target risk ratings in a six-month horizon;
- approved the annual internal audit plan, outlining those areas to be covered by the work of internal audit during 2017 and monitored the progress against the plan at each meeting. This included updates on management actions relating to findings and the closure of recommended actions. The Committee also receives and approves updates on changes to the plan for the forthcoming year;
- completed an annual review of the effectiveness of the Group's internal audit function, under the direction of the Group chief risk and compliance officer, using a questionnaire for key stakeholders as an underlying framework;
- received updates from the Group chief risk and compliance officer in relation to the Group's FCA-regulated operations, including regulatory relationship matters and outputs from the Financial Services business unit's internal audit committee;
- approved the 2017 Group risk function plan, outlining the objectives and activities of the Group risk function for the forthcoming year;
- monitored the risks and associated controls over the financial reporting processes, including the process by which the Group's financial statements are prepared for publication;
- reviewed reports from the external auditors on any issues identified during the course of its work, including a report on control weaknesses identified; and
- reviewed, and recommended for approval, the Group's risk management disclosures for inclusion within the annual report and accounts, including the consideration of the Group's viability statement as required under the Code.

# Report of the Audit and Risk Committee continued

## Oversight of the external audit

The Committee's oversight of the external auditors includes reviewing and approving the annual audit plan. In reviewing the plan, the Committee discusses and challenges the auditors' assessment of materiality and financial reporting risk areas most likely to give rise to material error.

PwC reported to the Board and confirmed its independence in accordance with ethical standards and that it had maintained appropriate internal safeguards to ensure its independence and objectivity. Assignments awarded to PwC have been, and are, subject to controls by management that have been agreed by the Committee to monitor and maintain the objectivity and independence of the external auditors.

To further safeguard the objectivity and independence of the external auditors, the Committee has a formal policy governing the engagement of the external auditors to provide non-audit services, providing details of prohibited, audit-related and permitted services. The Committee has approved changes to this policy during the year to align with revised FRC Ethical Standard 2016 and EU audit regulations. The policy requires approval by the chief financial officer of any work undertaken by PwC and mandates Committee approval, prior to the commencement of work, of all non-audit assignments with an individual fee above a de minimis threshold of £50,000, as assignments below this threshold have been deemed to be 'clearly trivial'.

The total of non-audit fees and audit fees paid to PwC during the year is set out in the table below:

| Matter | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Audit-related assurance services | 50 | 44 |
| Accounting advisory services | — | 11 |
| Tax advisory services | 40 | 9 |
| Other non-audit services | 16 | — |
| Non-audit fees | 106 | 64 |
| Audit fees (excluding audit-related assurance services) | 579 | 606 |

Amounts paid to PwC were reported to and considered by the Committee. Non-audit fees incurred in 2016 represent 10% of the recurring base audit fee, falling below the 70% cap set by the European Union, and will remain subject to scrutiny and approval by the Committee.

> "Following their initiation and supervision of the process, the Committee concluded their recommendation to the Board to approve the reappointment of PwC.
>
> **Richard Adam**
> **Chair of the Audit and Risk Committee**

The assessment of the effectiveness of our external auditors is based on a framework setting out the key areas of the audit process for the Committee to consider. The framework takes the form of an annual questionnaire covering all key aspects of the audit, including the contribution of management to an effective audit process, and is completed by each member of the Committee and by the chief financial officer. Feedback was also sought from other members of the Group finance team, divisional management and the Group chief risk and compliance officer. Based on responses to the questionnaires, management produced a report for detailed consideration by the Committee. The feedback from this process was considered by the Committee and noted a joined up approach to significant issues for discussion. Following robust debate and challenge, action plans were developed in relation to better communication during the audit cycle with divisional teams. In its evaluation of the external audit function, the Committee concluded that it was satisfied with the work of PwC and that PwC continued to be effective, objective and independent.

The Committee considered the findings of the FRC's Audit Quality Review (AQR) team's report into the conduct of PwC audits generally. In addition, the AQR team selected to review the audit of the Group's 2015 financial statements as part of its 2016 annual inspection of audit firms. The chairman of the Committee received a copy of the findings of the AQR team and has discussed this with PwC. Whilst there were no significant findings, some matters were identified as requiring improvement and we are satisfied with the responses implemented by PwC in the audit of the Group's 2016 financial statements.

## External audit tender

As indicated in its 2015 annual report, the Group decided to put its external audit contract out to tender in advance of its 2017 audit. This was because as a listed company, also in the FTSE 350 at the time of the decision, the Group would be obliged by the following regulations/legislation to tender its audit for the year ending 31 December 2017:

- the UK Corporate Governance Code has recommended audit tendering every ten years (on a comply or explain basis) since 2012;
- the Competition and Markets Authority (CMA) issued its final order (The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014), following investigation into the statutory audit market, which came into effect from 1 January 2015. This requires that FTSE 350 companies must have held a tender for the audit appointment within the last ten years; and
- the new EU Audit Regulations, introduced in June 2014 and effective from 17 June 2016, require that EU public interest entities must rotate their audit firms after a maximum period of tenure. This will currently require mandatory rotation at the 20-year point if a competitive tender is held at the ten-year point.

As a result, the Committee initiated the process for the tender of the external audit during the final quarter of 2016 in order to allow the process to conclude for consideration and recommendation to the Board in the February 2017 Committee meeting. There were no contractual obligations restricting our choice of external auditors and no auditor liability agreement had been entered into. However, Deloitte provides internal audit services to the Group and, to allow continued provision of services, was excluded from the tender process by mutual consent.

Consistent with the new European regulations, invitations to tender were restricted to four firms based on decision-making criteria of: industry expertise, FTSE 250 market segment expertise, breadth of sector experience and specialist expertise required to deliver an audit of the desired quality. Accordingly, the Committee issued a request for proposal (RFP) for audit services to four firms which identified the criteria of importance to the Committee and management in an audit relationship. Evaluation criteria were, in no particular order of importance: team competence and rapport; understanding our business (including our competitive position), industry and related risks; audit quality; transition planning; service approach; communication; and fees.

Following access to a data room, the evaluation was undertaken by a process of meetings with the Committee chairman and management (at both head office and business unit level). In accordance with the RFP, the assessment of firms at these meetings, along with scoring of the proposal, by way of scorecards detailed in the RFP, formed part of the overall selection process and subsequent shortlisting for progression to presentation stage.

Following the meeting stage and submission of proposal documents, the Committee invited two firms (KPMG and PwC) to present in January 2017 to a selection panel led by the Committee chairman but also incorporating the senior independent non-executive director (and Committee member), the chief executive officer, the chief financial officer, the chief risk officer and the group financial controller.

Following its initiation and supervision of the process, the Committee concluded its deliberations at its meeting in February 2017, resulting in the recommendation to the Board to approve the reappointment of PwC, which is subject to shareholder approval at the AGM on 27 April 2017.

During the year, the Group can confirm that it has complied 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.

## Annual evaluation of Committee performance

The Committee's activities formed part of the evaluation of Board effectiveness performed in the year. Details of this process and the actions taken arising from the external evaluation undertaken by Lintstock can be found on page 44.

# Directors' remuneration report

## Annual statement

Dear shareholder

On behalf of the Board, I am pleased to present our directors' remuneration report for the year ended 31 December 2016.

The Committee's terms of reference are available at: **www.countrywide.co.uk/investor-relations/corporate-governance**

### Policy review

At the 2014 AGM we obtained shareholder approval for our existing directors' remuneration policy. Mindful of the fact that the policy will expire in 2017, the Remuneration Committee has conducted a full review of our current approach to senior executive remuneration.

This review was conducted in the context of the macroeconomic environment and the specific developments in our sector. Countrywide is responding to changing customer behaviour and expectations as well as embracing digital capability within its service offerings. Our belief, being increasingly evidenced through piloting new digital developments, is that an integrated multichannel approach will offer customers the best choice. Transforming the business, systems, cost base and culture to achieve this will take several years to fully deliver. We are making good progress, with such progress and associated investment being maintained notwithstanding the increasingly challenged macroeconomic environment that unfolded throughout 2016.

The market, in terms of transactional volumes, was tough in 2016 (lower volumes than in 2015) and is likely to continue to be so in 2017. We are in the process of responding to multiple external headwinds – changes in stamp duty, the EU referendum, the announcement to ban tenant fees in the rental market, etc. Therefore, the focus of our review has been to support the strategic change agenda whilst responding tactically to each external development. As a result, we are disappointed that the harsh environment impacts our short term profitability but are confident that we are refashioning the business for sustained market leadership.

It is in this context that the Committee has decided that continuity in the underlying structure of our remuneration policy is appropriate, with some broadening of the performance measures used in our bonus plan and LTIP to align further with our strategic priorities and to reflect the increasing trend in the market to adopt a richer mix of performance drivers in assessing overall performance and associated remuneration. We have also used this review as an opportunity to update our share ownership guidelines which will result in an increased requirement relative to current policy. Therefore, in the round, the new policy for which we are seeking shareholder approval at the AGM does not fundamentally differ from the existing policy.

Consequently, no changes are proposed to be made to the underlying structure of Alison Platt and Jim Clarke's remuneration (our CEO and CFO respectively), which will remain as follows:

| Element of pay | Approach |
|---|---|
| Base salary | • Alison Platt – £575,000<br>• Jim Clarke – £340,000<br>• No base salary increases in 2017 |
| Pension | • 15% cash supplement |
| Other benefits | • Include car allowance and private medical and life insurance, etc. |
| Annual bonus | • 120% maximum<br>• One-third of any bonus deferred into shares for three years<br>• Malus/clawback provisions operate |
| LTIP | • Regular annual awards under the LTIP<br>• Policy award level of 150% for the CEO and 130% for the CFO*<br>• Two-year post-vesting holding period<br>• Malus/clawback provisions operate |

* Higher awards were made on a 'one-off' basis in 2016 as explained in last year's report.

However, we are intending to broaden the performance conditions for the annual bonus and LTIP to align further with our strategy.

| Plan | Current approach | Approach for 2017 onwards |
|---|---|---|
| Annual bonus | • 70% – Financial through Group-adjusted EBITDA targets<br>• 15% – Customer<br>• 15% – Personal/strategic | • 70% – Financial through: a blend of profit-related and other financial and operational metrics. For 2017, this will be 40% Group-adjusted EBITDA, 15% Group revenue growth and 15% Group cost to income ratio<br>• 15% – Customer<br>• 15% – Personal/strategic<br>• Underlying performance underpin applies to all non-EBITDA metrics |
| LTIP | • Two-thirds – EPS<br>• One-third – Relative TSR* | • 37.5% – EPS<br>• 37.5% – Relative TSR<br>• 25% – Strategic objectives which, for 2017, will relate to market share (5%), people engagement (10%) and customer experience (10%), subject to an underlying performance underpin |

* The 2016 awards had an equal 50:50 weighting between EPS and TSR to reflect the higher one-off award level explained on page 62.

The Committee believes that evolving our performance evaluation in this way has a number of advantages:

### Annual bonus:

- the 70% weighting on financial targets in the annual bonus is retained, albeit now using a broader range of metrics which provide a more rounded assessment of overall performance as Countrywide's strategy evolves;
- no more than 30% of bonus continues to be allocated to non-financial (but still stretching) targets; and
- to guard against inappropriate payouts, no portion of the non-EBITDA elements of the bonus will be payable unless the Committee is satisfied that Countrywide's underlying performance warrants such payouts.

### LTIP:

- the majority of awards remain subject to EPS and relative TSR measures;
- again, a broader range of metrics will provide a more rounded assessment of overall long term performance, with the strategic element allowing the Committee to set long term targets that are directly related to delivery against objectively measurable key strategic priorities which will drive the generation of sustainable long term returns to shareholders;
- in addition, the introduction of strategic targets for the executive directors' awards for 2017 onwards will reflect the policy change made in 2016 for below Board LTIP awards, where a portion of awards made to these participants were made subject to the achievement of three-year strategic objectives (in addition to EPS/TSR), thereby providing alignment across the senior executive population and providing a sharper focus on the critical requirements to deliver the strategic plan; and
- again, to guard against the payment of inappropriate rewards, no vesting of the strategic element will be allowed unless the Committee considers that Countrywide's underlying performance over the vesting period warrants such vesting.

In tandem, to reflect best practice developments:

- the share ownership guidelines for the executive directors will be increased to 200% of salary (from the current 100%);
- formal caps will be applied to base salary increases, pension provision and benefits;
- the Committee will reserve the right to adjust the bonus outturn/LTIP vesting if payouts/vesting based on a formulaic assessment of performance against the targets does not reflect shareholders' experience and/or underlying performance; and
- the application of a two-year post-vesting holding period for LTIP awards made after 2016 will be formalised.

In finalising this review, the Committee also took into account that whilst there was strong shareholder support for our 2015 remuneration report, a significant number were dissatisfied with several aspects of the LTIP awards made in 2016.

### 2016 performance and reward

During 2016, against challenging market conditions, Group adjusted EBITDA of £83.5 million for the year ended 31 December 2016 was 26% below the £113.0 million achieved in 2015.

The Committee acknowledged and supports the strategic transformation being led by management but was disappointed with the absolute level of profitability. This outcome, coupled with our commitment to pay for performance, led to significant negative remuneration outcomes for the 2016 financial performance:

- annual bonus: no bonuses were payable to the executive directors for 2016; and
- LTIP: there will be no vesting of 2014 LTIP awards for Alison Platt and Jim Clarke, due to the non-achievement of the challenging absolute EPS and relative TSR-based performance conditions attached to these awards.

Other than considering the above matters and conducting the policy review, the Committee undertook no other material activities during the course of the year.

### Structure of this report and 2017 AGM resolutions

This directors' remuneration report is divided into the following three sections:

- this annual statement, summarising and explaining the major decisions on, and any substantial changes to, the directors' remuneration in the year;
- the remuneration policy report, setting out the proposed new remuneration policy that will, subject to the passing of the binding vote to be tabled at the 2017 AGM, apply immediately following the AGM; and
- the annual report on remuneration, explaining the remuneration earned by the directors in the year ended 31 December 2016 and a statement of how the proposed new remuneration policy will be implemented in 2017 that will be subject to an advisory vote at the 2017 AGM.

I hope that you find this report informative in respect of how we remunerate and incentivise our directors through an evolving remuneration policy that is supportive of, and aligned to, the Company's strategic aims and objectives.

**Cathy Turner**
**Chair of the Remuneration Committee**
9 March 2017

# Directors' remuneration report continued

## PART A: remuneration policy report

### Introduction

This report contains the material required to be set out in the directors' remuneration report for the purposes of Part 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, which amended The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the Regulations').

Part A of this report represents the directors' remuneration policy. Part B constitutes the implementation sections of the report ('Annual Report on Remuneration'). The auditor has reported on certain sections of Part B and stated whether, in its opinion, those parts have been properly prepared in accordance with the Companies Act 2006. Those sections of Part B which have been subject to audit are clearly indicated.

### PART A: DIRECTORS' REMUNERATION POLICY

The remuneration policy as set out in this section of the remuneration report will take effect for all payments made to Directors from the date of the AGM to be held on 27 April 2017. The policy has been developed with regard to the UK Corporate Governance Code and is felt to be appropriate to support the long term success of the Company while ensuring that it does not promote inappropriate risk-taking.

### Remuneration strategy

Our remuneration strategy is underpinned by remuneration packages that are designed to motivate high performing people to deliver our strategy. These packages:

- are transparent and aligned with the interests of our shareholders;
- are weighted to incentivise performance over the short and long term;
- are structured to ensure higher rewards are only achieved for exceptional performance against challenging targets; and
- encourage management to adopt a level of risk commensurate with the risk profile of the business as approved by the Board.

### Statement of employment conditions elsewhere in the Company

The remuneration policy described within this report provides an overview of the structure that operates for the most senior executives in the Group. The remuneration policy for the executive directors is more heavily weighted towards variable pay than for other employees to make a greater part of their pay conditional on the successful delivery of the business strategy.

This aims to create a clear link between the value created for shareholders and the remuneration received by the executive directors. When setting the policy for remuneration for the executive directors the Committee takes into account the overall approach to reward for employees in the Group, including consideration of salary increases for the general employee population (disclosed in the annual report each year); overall spend on annual bonus; Group-wide benefit offerings; and any other relevant factors as determined by the Committee.

Although the Company has not carried out a formal employee consultation regarding Board remuneration (policy or implementation), in accordance with prevailing commercial practice, it does take due account of regulations and practices regarding employee consultation more broadly (with the Committee keeping abreast of developments in this area). The Group people director ensures that the Committee is made aware of any relevant employee feedback regarding the Company's remuneration policy.

The Committee is mindful of the requests from, amongst others, the Investment Association, for companies to publish ratios comparing CEO to employee pay. The Company has prepared this analysis internally and it has been reviewed and considered by the Remuneration Committee. The Remuneration Committee has not, however, published this data in this report as it is concerned that no common methodology has yet been established amongst UK companies and their investors for these comparisons; the Company's expectation is that it will publish ratios showing comparisons in future years when, as can be expected, UK regulations or guidance develop a common methodology.

Further information about our engagement with employees across the Group is provided on page 36 of the annual report.

### Statement of consideration of shareholder views

The Company welcomes dialogue with its significant shareholders and, in the event that material changes to the policy are proposed, will consult with major shareholders and representative bodies in advance of changes being made (as has been the case in connection with the proposed new policy).

### Summary remuneration policy

The table below summarises the Committee's future policy on the remuneration of executive directors which, if approved by shareholders at the forthcoming AGM on 27 April 2017, will replace the existing policy for which shareholder approval was obtained at the 2014 AGM and will become binding immediately thereafter. The material differences between the existing and proposed new policy (which has also been designed with due account taken of the UK Corporate Governance Code) are explained in the Committee chairman's letter and in the table below. It is currently intended that the policy will remain valid until the 2020 AGM.

| Purpose/link to strategy | Operation | Opportunity | Applicable performance measure |
|---|---|---|---|
| **Salary and fees** | | | |
| To aid the recruitment, retention and motivation of high performing people<br><br>To reflect their experience and importance to the business | Fixed annual sum normally payable monthly and reviewed annually<br><br>Review reflects changes in scope of role and responsibility, personal and Group performance and increases throughout the rest of business<br><br>Salary of newly appointed directors may be phased to take account of experience | During the life of this policy, no executive director's base salary shall increase by an average of more than 10% p.a. (save following a recruitment – see below)<br><br>The Committee is guided by the general increase for the broader employee population but may decide to award a higher increase for executive directors to recognise, for example, an increase in the scale, scope or responsibility of the role, to apply salary progression for a newly appointed director and/or to take account of relevant market movements | n/a |
| **Benefits** | | | |
| To provide support and protection and the ability to focus on effective delivery | Benefits currently include company car allowance, private medical insurance and life assurance. Other benefits may be provided where appropriate | No executive director will receive benefits of a total aggregate value exceeding £50,000 per annum | n/a |
| **Annual bonuses** | | | |
| To incentivise the delivery of stretching short term business targets and strategic and/or personal objectives<br><br>To recognise performance through variable remuneration, allowing flexible control of the cost base and response to market conditions | All measures and targets are reviewed and set by the Committee as soon as is practicable following the beginning of the year and payments are determined after the year end based on performance against targets<br><br>One-third of any bonus payable will normally be deferred into options/awards over ordinary shares with a three year vesting period<br><br>Dividend equivalent payments (cash and/or shares) may be payable on awards to the extent they vest<br><br>Non-pensionable | 120% of salary per annum | The performance measures applied may be financial or non-financial, corporate, divisional or individual and in such proportions as the Committee considers appropriate<br><br>When determining the portion of bonus that is payable for achieving any threshold and target level of performance for any measure, the Committee will take account of a number of factors such as (i) the stretch inherent in the threshold/target performance level, (ii) how that threshold/target level compares with internal and external forecasts, (iii) bonus outturns and associated performance in the prior year and (iv) the general financial and market conditions that apply when the targets are set<br><br>Malus and clawback provisions operate for deferred bonuses |

# Directors' remuneration report continued

## PART A: remuneration policy report continued

### Summary remuneration policy continued

| Purpose/link to strategy | Operation | Opportunity | Applicable performance measure |
|---|---|---|---|
| **Long Term Share Incentive Plans** | | | |
| To incentivise value creation over the long term and reward execution of our strategy<br>To align the long term interest of directors and shareholders<br>To promote retention | Annual grant of awards<br>Structured as nil-cost options/conditional awards<br>Non-pensionable<br>Dividend equivalent payments (cash and/or shares) may be payable on awards to the extent they vest<br>Awards made to executive directors from 2016 are subject to a two-year post-vesting holding period | **Normal grant limit**<br>Up to 150% of salary per annum<br>**Maximum limit**<br>200% of salary per annum<br>**Exceptional limit**<br>300% of salary per annum | The Committee may set such performance conditions on awards as it considers appropriate, whether financial or non-financial and whether corporate, divisional or individual<br>Performance periods may be over such periods as the Committee selects at grant, which will not be less than, but may be longer than, three years<br>No more than 25% of awards vest for attaining the threshold level of performance conditions<br>Malus and clawback provisions operate |
| **Pensions** | | | |
| To help recruit and retain high performing executives<br>To reward continued contribution to the business by enabling executive directors to build long term savings | Participation into a money purchase pension scheme and/or cash equivalent | Directors will receive a pension contribution appropriate to their role either as a formal pension and/or cash equivalent<br>Pension contributions will not exceed 20% of salary per annum | n/a |
| **All Employee Share Plans** | | | |
| To encourage all employees to make a long term investment in the Company's shares in a tax-efficient manner | Share Incentive Plan and/or Save As You Earn Plan as per HMRC-approved rules | Consistent with prevailing HMRC limits | n/a |
| **Share ownership guidelines** | | | |
| To provide close alignment between the longer term interests of directors and shareholders in terms of the Company's growth and performance | Executive directors to retain no less than 50% of net of tax shares from vesting of share options/awards until such time as a shareholding equivalent in value to 200% of base salary has been achieved | n/a | n/a |

| Purpose/link to strategy | Operation | Opportunity | Applicable performance measure |
|---|---|---|---|
| **Non-executive directors** | | | |
| To provide fees reflecting time commitments and responsibilities of each role, in line with those provided by similarly sized companies | Cash fee paid on a monthly basis<br><br>Fees are reviewed annually<br><br>Non-executive directors do not participate in any cash or share incentive arrangements<br><br>Non-executive directors may receive benefits (including travel and office support, together with any associated tax liability that may arise) | The maximum aggregate fees payable to the non-executive directors is as set out in the Company's Articles of Association (currently £2 million)<br><br>The Committee is guided by market rates, time commitments and responsibility levels<br><br>No additional fees are payable for membership of Board Committees, though additional fees may be paid for specific additional responsibilities such as chair of Audit Committee, chair of Remuneration Committee and senior independent director or to reflect a substantially greater time commitment than normal in any year | n/a |



## Notes to summary policy table

1 A description of how the Company intends to implement the remuneration policy for 2017 is set out in the Annual Report on Remuneration.

2 The performance-related elements of remuneration take into account the Group's risk policies and systems, and are designed to align the senior executives' interests with those of shareholders. The Committee reviews and sets the metrics and targets applying to awards to the executives every year, in order to ensure that they are aligned with the Group's strategy. All financial targets will (where appropriate) be set on a sliding scale. Non-financial targets are set based on individual and management team responsibilities and strategic objectives. A summary of the targets to be used in 2017 under the annual bonus and LTIP can be found on page 60. Appropriate levels of reward are available for achieving threshold performance with maximum rewards requiring substantial out-performance of challenging strategic plans. The Committee retains discretion to set different targets and introduce additional metrics in line with the Company's strategy for future awards providing that, in the opinion of the Committee, the new targets are no less challenging in light of the prevailing circumstances than those set previously. If substantially different targets to those used previously are proposed, major shareholders will be consulted. Furthermore, the Committee reserves the right to adjust any bonus outturn and/or LTIP vesting that is based on a formulaic assessment of performance against the targets if such outturn/vesting does not reflect shareholders' experience and/or underlying performance.

3 The Committee operates incentive arrangements for executive directors in accordance with their respective rules and the Listing Rules and HMRC rules where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of the plan rules. These include (but are not limited to) the following:

- who participates;
- the timing of grant of award and/or payment;
- the size of an award (up to plan/policy limits) and/or a payment;
- the result indicated by the performance conditions;
- discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- determination of a good leaver (in addition to any specified categories) for incentive plan purposes;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring and special dividends); and
- the ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose.

4 For the avoidance of doubt, in approving this directors' remuneration policy, authority is given to the Company to honour any commitments entered into with current or former directors (such as the payment of a pension or the vesting or exercise of past share awards).

5 The Committee may make minor amendments to the policy set out above for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for that amendment.

6 The regulations and related investor guidance encourage companies to disclose a cap within which each element of the policy will operate. Where maximum amounts for elements of remuneration have been set within the policy, these will operate simply as caps and are not indicative of any aspiration.

7 While the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality, whether paid for by the Company or another, and business travel for Directors and in exceptional circumstances their families may technically come within the applicable rules and so the Committee expressly reserves the right for the Committee to authorise such activities within its agreed policies.

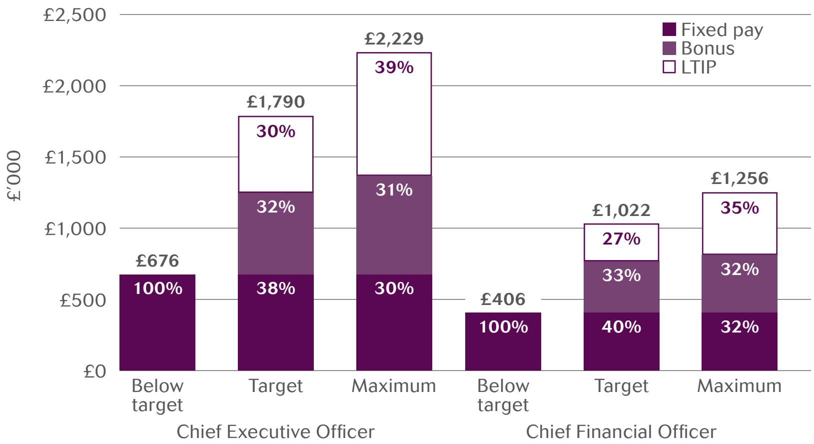
8 While the appropriate benchmarks vary by role, the Company seeks to apply the philosophy behind this policy across the Company as a whole. Where the Group's pay policy for Directors differs from its pay policies for groups of staff, this reflects the appropriate market rate position and/or typical practice for the relevant roles. The Company takes into account pay levels, bonus opportunity and share awards applied across the Group as a whole when setting the executive directors' policy.

# Directors' remuneration report continued

## PART A: remuneration policy report continued

### Illustration of the application of the remuneration policy

Our aim is to ensure that superior rewards are only paid for exceptional performance, with a substantial proportion of executive directors' remuneration payable in the form of variable, performance-related pay. The charts that follow illustrate the opportunity at different levels of performance for the remuneration policy.




These scenarios adopt the following assumptions:

- fixed pay consists of base salary as at 1 January 2017, benefits and pension allowances. The value of benefits and pension is as set out in the single figure table for 2016;
- on-target performance is based on the value of fixed pay plus on-target incentive pay, based on 83% of the maximum bonus and 62.5% of the maximum long term incentive award values;
- maximum performance is based on the value of fixed pay plus maximum incentive pay (i.e. a 120% of base salary annual bonus and a 150%/130% of salary LTIP award); and
- no assumptions have been made as to the share price growth and any dividend accrual has been excluded from the above.

### Recruitment of executive directors and promotions

When setting the remuneration package for a new executive director, the Committee will apply the same principles and implement the policy as set out in the table on pages 55 to 57. Base salary will be set at a level appropriate to the role and experience of the director being appointed. This may include setting a below market salary with an agreement on future increases (subject to performance) up to market rate, in line with increased experience and/or responsibilities. Our policy on maximum annual bonus and LTIP awards would apply.

In relation to external appointments, the Committee may structure an appointment package that it considers appropriate to recognise awards or benefits forfeited on resignation from a prior position, taking into account timing and valuation and other specific matters it considers relevant. This may take the form of cash and/or share awards. The maximum payment under any such arrangements (which may be in addition to normal variable remuneration) would be no more than the Committee considers is required to provide reasonable compensation to the incoming director and would not go beyond a like-for-like compensation. If a director is required to relocate in order to take up the position, the Company may consider reasonable relocation, travel, subsistence and any other incidental payments as appropriate. Any such payments will be at the discretion of the Committee.

In the case of an employee who is promoted to the position of director, it is the Company's policy to honour pre-existing commitments in accordance with their terms.

### Service agreements and letters of appointment

Each of the executive directors' service agreements is for a rolling term and may be terminated by the Company or the director by giving no more than twelve months' notice.

The non-executive directors of the Company (including the chairman) do not have service agreements. The independent non-executive directors are appointed by letters of appointment and have an initial two-year term. Caleb Kramer's services are provided to the Company under an agreement between the Company and Oaktree Capital Management FIE LLC which runs for an initial period of three years. The initial terms of the non-executive directors' positions are subject to their re-election by the Group's shareholders at the AGM.

The dates of appointments of the non-executive directors who served during the year are set out below:

| Non-executive director | Commencement date of original term | Unexpired term as at 27 April 2017 AGM |
|---|---|---|
| Peter Long | 11 February 2016 | 14 months |
| David Watson | 2 September 2013 | n/a |
| Cathy Turner | 31 July 2013 | n/a |
| Richard Adam | 9 June 2014 | n/a |
| Rupert Gavin | 25 June 2014 | n/a |
| Jane Lighting | 9 June 2014 | n/a |
| Caleb Kramer | 19 March 2013 | n/a |
| Grenville Turner | 1 September 2014 | n/a |

All individuals (save for Grenville Turner, who stepped down from the Board on 27 April 2016) will be subject to re-election at the 2017 AGM.

The directors' service agreements and letters of appointment are available for inspection at the Company's registered office and will be available at the AGM.

## Policy on payment for loss of office

If an executive director's employment is terminated, in the absence of a breach of service agreement by the director, the Company may (although it is not obliged to) terminate the director's employment immediately by payment of an amount equal to the basic salary and specified benefits (including pension scheme contribution or equivalent salary supplement payment) in lieu of the whole or the remaining part of the notice period. Discretionary bonus payments will not form part of any payments in lieu of notice. An annual bonus may be payable with respect to the period of the financial year served, although it would be paid in cash and pro-rated for time and paid at the normal payout date. Payments in lieu of notice may be paid in monthly instalments over the length of the notice period with such instalments to be reduced or to cease upon the director receiving payment from a new position.

Any share-based entitlements granted to an executive director under the Company's share plans will be determined based on the relevant plan rules.

The default treatment under the LTIP is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances (such as ill health, injury or disability, retirement, transfer of the employing company outside of the Group or in other circumstances at the discretion of the Committee), 'good leaver' status may be applied. For good leavers, awards will normally vest on the normal vesting date, subject to the satisfaction of the relevant performance conditions and reduced pro-rata to reflect the proportion of the performance period actually served. However, the Committee has discretion to determine that awards for good leavers vest at cessation and/or to disapply time pro-rating. In the event of death, awards will normally vest on the date of death subject to performance conditions and time pro-rating, although the Committee has discretion to determine that awards vest at the normal vesting date and/or to disapply time pro-rating.

The default treatment for deferred bonus awards is that any outstanding awards vest on cessation of employment unless cessation is as a result of dismissal for gross misconduct or a similar 'bad leaver' reason.

The Company has the power to enter into settlement agreements with Directors and to pay compensation to settle potential legal claims. In addition, and consistent with market practice, in the event of the termination of an executive director, the Company may pay a contribution towards that individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees will be disclosed as part of the detail of termination arrangements. For the avoidance of doubt, the policy does not include an explicit cap on the cost of termination payments.

## External appointment of executive directors

The Board allows executive directors to accept appropriate outside non-executive director appointments provided the aggregate commitment is compatible with their duties as executive directors. The executive directors concerned may retain fees paid for these services, which will be subject to approval by the Board. Details of such appointments and fees retained for 2016 are disclosed on page 61.

# Directors' remuneration report continued

## PART B: annual report on remuneration

### Implementation of the remuneration policy for the year ending 31 December 2017

Details of how the Committee intends to operate the remuneration policy for directors for the year ending 31 December 2017 are set out below.

### Base salary

Base salaries for the executive directors are reviewed annually by the Committee, taking account of the director's performance, experience and responsibilities. When determining base salaries, the Committee also has regard to economic factors, remuneration trends and the general level of salary increases awarded throughout the Group. As can be seen in the table below, the executive directors' base salaries will not be increased in 2017:

| | 1 January 2016 £'000 | 1 January 2017 £'000 |
|---|---|---|
| Alison Platt | 575 | 575 |
| Jim Clarke | 340 | 340 |

### Benefits in kind and pension

Executive directors will continue to receive benefits in kind including a company car allowance, life assurance, private medical insurance and permanent health insurance. Alison Platt and Jim Clarke will continue to receive a salary supplement in lieu of pension entitlement of up to 15% of base salary.

### Annual bonus

For 2017, maximum bonus potential will continue to be 120% of salary for executive directors, with one-third of any bonus payable to be deferred into Company shares for a period of three years.

The metrics used in 2017 will be as follows:

- 70% – Financial through:
  - 40% – Group adjusted EBITDA targets
  - 15% – Group revenue growth
  - 15% – Group cost to income ratio
- 15% – Customer satisfaction metrics
- 15% – Personal/strategic metrics

In addition, bonuses will only be payable under the non-EBITDA targets if the Committee is satisfied that the Company's underlying performance warrants such payments.

The Committee does not believe it to be in shareholders' interests to disclose the actual performance targets in advance for 2017 as these include items which the Committee considers commercially sensitive. However, retrospective disclosure of the targets and performance against them will be presented in the 2017 annual report on remuneration.

Malus and clawback provisions will continue to operate in respect of deferred bonus awards.

### Long term incentives

The annual award of LTIPs to be granted in 2017 will be assessed over the three-year performance period from 1 January 2017 to 31 December 2019 and will be subject to the following targets:

- EPS (37.5% of awards) – 25% of this part of an award will vest for EPS growth of 5% per annum increasing pro-rata to 100% vesting for EPS compound growth of 15% per annum;
- relative TSR (37.5% of awards) – the Company's TSR measured against the constituents of the FTSE 250 (excluding financial services companies and investment trusts). 25% of this part of an award will vest for performance at median of the comparator group, increasing pro-rata to 100% vesting at upper quartile; and
- strategic metrics (25% of awards) – the strategic metrics that the Committee will use for this portion of the 2017 awards will relate to market share (as to 5% of the award), people engagement (10% of the award) and customer experience (e.g. NPS, 10% of the award). In addition, no element of this portion of the award will vest unless the Committee is satisfied that the Company's underlying performance warrants such vesting. The Committee does not believe it to be in shareholders' interests to disclose the actual targets in advance at this time as these include items which the Committee considers commercially sensitive. However, robust, quantifiable targets have been set, with these targets – together with performance against these targets – disclosed in the 2019 annual report on remuneration.

Alison Platt will receive an LTIP award over shares worth 150% of salary and Jim Clarke will receive an LTIP award over shares worth 130% of salary. Malus and clawback provisions will operate. In addition, awards made to executive directors from 2016 are subject to a two-year post-vesting holding period.

Shareholding guidelines will continue to operate, albeit on an enhanced basis. Executive directors will be required to retain no less than 50% of net of tax shares from vesting of share options or awards until such time as a shareholding equivalent in value to 200% of base salary (previously 100%) has been achieved.

### Non-executive directors

Non-executive director fee levels for 2017 are as follows:

| Director | Committee chairman role | 2016 £'000 | 2017 £'000 |
|---|---|---|---|
| Peter Long | Chairman, Nomination | n/a | 180 |
| David Watson | Deputy chairman and senior independent director | 95 | 95 |
| Cathy Turner | Remuneration | 55 | 55 |
| Richard Adam | Audit and Risk | 55 | 55 |
| Rupert Gavin | — | 45 | 45 |
| Jane Lighting | — | 45 | 45 |
| Caleb Kramer | — | 40 | 40 |

## Directors' remuneration for the year ended 31 December 2016 (audited)

The remuneration of the directors for the years 2016 and 2015 was as follows:

| | Salary and fees | | Taxable benefits[3] | | Annual bonuses[4] | | Long term incentives[6] | | Pension[5] | | Total[7] | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| **Executive directors** | | | | | | | | | | | | |
| Alison Platt[1] | 575 | 575 | 15 | 15 | — | 288 | — | — | 86 | 86 | 676 | 964 |
| Jim Clarke | 340 | 323 | 15 | 15 | — | 170 | — | — | 51 | 45 | 406 | 553 |
| **Non-executive directors** | | | | | | | | | | | | |
| Grenville Turner[2] | 48 | 150 | 1 | — | — | — | — | — | — | — | 49 | 150 |
| Peter Long[2] | 159 | — | — | — | — | — | — | — | — | — | 159 | — |
| Caleb Kramer | 40 | 40 | — | — | — | — | — | — | — | — | 40 | 40 |
| David Watson | 95 | 95 | — | — | — | — | — | — | — | — | 95 | 95 |
| Cathy Turner | 55 | 55 | — | — | — | — | — | — | — | — | 55 | 55 |
| Richard Adam | 55 | 55 | — | — | — | — | — | — | — | — | 55 | 55 |
| Rupert Gavin | 45 | 45 | — | — | — | — | — | — | — | — | 45 | 45 |
| Jane Lighting | 45 | 45 | — | — | — | — | — | — | — | — | 45 | 45 |
| | 1,457 | 1,383 | 31 | 30 | — | 458 | — | — | 137 | 131 | 1,625 | 2,002 |

1 Alison Platt acted as a non-executive director for Cable & Wireless Communications plc between January and April 2016 and retained a fee of £23,333, and also acted as a non-executive director for Tesco plc between April and December and retained a fee of £61,500.

2 Grenville Turner stepped down from his role as non-executive chairman on 27 April 2016, with Peter Long assuming this role on the same date (having been appointed as a non-executive director on 11 February 2016).

3 Benefits consist of the provision of a car allowance, life assurance and private medical and health insurance.

4 Details of the annual bonus targets and payments for 2016 (which were £Nil) are set out below.

5 Alison Platt and Jim Clarke received a 15% of salary supplement in lieu of pension entitlements.

6 Long term incentives in respect of the anticipated vesting of the IPO options were reported in full in 2014 (based on an 83% vesting level which had been determined on 2014 EBITDA performance criteria). The actual values at vesting of the first 50% crystallising on 18 March 2015 were £4,151,000 and £2,491,000 respectively for Grenville Turner and Jim Clarke based on the share price at vesting, incorporating the associated cash-settled dividend equivalents. The actual values at exercise of the final 50% crystallising on 18 March 2016 were £3,178,000 and £1,907,000 respectively for Grenville Turner and Jim Clarke based on the share price at vesting, incorporating the associated cash-settled dividend equivalents. As such, the total actual values of the crystallised IPO options at the dates of vesting were £7,329,000 and £4,398,000 respectively for Grenville Turner and Jim Clarke against the original estimates reported in 2014 of £7,116,000 and £4,269,000 respectively.

7 Matching shares are also issued to the eligible executive directors under the Share Incentive Plan, following the introduction of the employee-wide share incentive plan in 2013. The aggregate value of these in each year in respect of each executive director is disclosed within the SIP share awards below.

## 2016 annual bonus award (audited)

Executive directors had the potential to receive an annual bonus of up to 120% of base salary.

### Group adjusted EBITDA targets (up to 70% of salary bonus)

The primary driver of the award was based on Group adjusted EBITDA performance relative to a sliding scale of challenging targets set at the start of the financial year.

More particularly, the table below sets out details of the adjusted EBITDA targets, performance against these targets and the resultant bonus outturn:

| | | Performance required | | | | |
|---|---|---|---|---|---|---|
| Measure | Weighting | Threshold | On-target | Maximum | Actual | Payout |
| Group adjusted EBITDA | 70% (i.e. up to 84% of salary) | £122.9m | £136.6m | £163.9m | £83.5m | 0% of salary |

### Customer satisfaction and personal/strategic targets (up to 30% of bonus)

This part of the bonus was based on the Committee's assessment of performance against customer satisfaction and personal/strategic targets. Details of the targets and the Committee's assessment of performance against them is as follows:

| Target | Weighting | Committee's assessment of whether target was met |
|---|---|---|
| Customer satisfaction (i.e. Group net promoter score) | 15% (i.e. up to 18% of salary) | n/a due to overall financial result |
| Personal/strategic targets | 15% (i.e. up to 18% of salary) | n/a due to overall financial result |

However, this element of the bonus was only payable to the extent that a threshold level of financial performance was delivered. As this threshold level of financial performance was not delivered, no portion of this element of bonus was payable.

# Directors’ remuneration report continued

## PART B: annual report on remuneration continued

### 2016 annual bonus award (audited) continued

#### Total award

Therefore, based on overall performance, and notwithstanding performance against the customer satisfaction and personal/strategic targets, the Committee determined that no bonuses are payable to the executive directors for 2016.

### Vesting of scheme interests in respect of the year ended 31 December 2016 (audited)

Awards granted under the LTIP to Alison Platt and Jim Clarke on 8 September 2014 and 21 March 2014 respectively are due to vest on their third anniversaries of grant in 2017 based upon absolute EPS and relative TSR performance as follows:

| | Threshold target 0% vesting at or below | Maximum target 100% vesting at or above | Actual performance | Vesting % |
|---|---|---|---|---|
| Absolute EPS for the three years ended 31 December 2016 | 58p | 70p | 19p | 0% |
| Relative TSR (vs FTSE 250 ex financial services) for the three years ended 31 December 2016 | Median | Upper quartile | Below median | 0% |

Based on the above, none of the outstanding 2014 LTIP awards held by Alison Clarke and Jim Clarke will vest.

### Scheme interests awarded during the year (audited)

#### LTIP awards

The following LTIP awards, structured as nil-cost options, were granted to executive directors during 2016:

| Executive | Date of grant | Basis of award granted | Share price at date of grant (pence) | Number of shares | Face value of award at grant* £’000 | % of face value that would vest at threshold performance | Vesting determined by performance over | Normal vesting (exercise) date |
|---|---|---|---|---|---|---|---|---|
| Alison Platt | 22/03/2016 | 187.5% of salary | 385 | 279,960 | 1,078,125 | 25% | Three-year period ending 31 December 2018 | 22 March 2019 (22 March 2026) |
| Jim Clarke | 22/03/2016 | 162.5% of salary | 385 | 143,469 | 552,500 | 25% | Three-year period ending 31 December 2018 | 22 March 2019 (22 March 2026) |

* Based on the share price at grant multiplied by the number of shares awarded.

As explained in last year’s report, these award levels – which are higher than the standard policy award levels of 150% and 130% of salary for the CEO and CFO respectively but well within the overall plan limit – were considered appropriate to take account of the specific circumstances that existed at the time. Performance targets for these awards are as follows:

- EPS growth (one-half) – 25% of this part of an award will vest for achieving a minimum of 5% compound growth per annum in EPS increasing pro-rata to 100% vesting for achieving 15% compound growth per annum in EPS for the three-year period ending 31 December 2018; and
- relative TSR (one-half) – the Company’s TSR measured against the constituents of the FTSE 250 (excluding financial services companies and investment trusts). 25% of this part of an award will vest for performance at median of comparator group, increasing pro-rata to 100% vesting at upper quartile.

Following discussions with investors, the originally proposed weighting between EPS and TSR of two-thirds to one-third was changed to 50:50 as described above.

## Outstanding share awards

| | Date of grant | Interest at 1 January 2016 | Options/awards granted during the year | Options/awards lapsed during the year | Options/awards exercised during the year | Interest at 31 December 2016 | Exercise price pence | Expected exercise/vested to expiry date (if appropriate) |
|---|---|---|---|---|---|---|---|---|
| **Alison Platt** | | | | | | | | |
| LTIP | 08/09/14 | 246,305 | — | — | — | 246,305 | — | 08/09/17 (08/09/24) |
| LTIP | 16/03/15 | 163,507 | — | — | — | 163,507 | — | 16/03/18 (16/03/25) |
| LTIP | 22/03/16 | — | 279,960 | — | — | 279,960 | — | 22/03/19 (22/03/26) |
| Deferred bonus | 05/05/16 | — | 27,010 | — | — | 27,010 | — | 05/05/19 |
| **Grenville Turner** | | | | | | | | |
| IPO options | 18/03/13 | 758,638 | — | — | (758,638) | — | 382 | n/a |
| Deferred bonus | 22/05/15 | 14,660 | — | — | — | 14,660 | — | 22/05/18 |
| LTIP | 06/09/13 | 129,545 | — | (129,545) | — | — | — | n/a |
| **Jim Clarke** | | | | | | | | |
| IPO options | 18/03/13 | 455,183 | — | — | (455,183) | — | 359 | n/a |
| LTIP | 06/09/13 | 70,909 | — | (70,909) | — | — | — | n/a |
| LTIP | 21/03/14 | 58,735 | — | — | — | 58,735 | — | 21/03/17 (21/03/24) |
| LTIP | 16/03/15 | 73,934 | — | — | — | 73,934 | — | 16/03/18 (16/03/25) |
| Deferred bonus | 22/05/15 | 13,889 | — | — | — | 13,889 | — | 22/05/18 |
| LTIP | 22/03/16 | — | 143,469 | — | — | 143,469 | — | 22/03/19 (22/03/26) |
| Deferred bonus | 05/05/16 | — | 15,189 | — | — | 15,189 | — | 05/05/19 |

The executive directors' interests in ordinary shares of the Company under the SIP as at 31 December 2016 are shown in the table below. The shares are held under a SIP trust and will vest based on service conditions of continued employment and have a vesting date of a minimum holding period of three years from each rolling monthly award date.

| | Total SIP shares at 1 January 2016 | Partnership shares purchased | Matching shares awarded | Dividend shares purchased | Total SIP shares at 31 December 2016 |
|---|---|---|---|---|---|
| Alison Platt | — | 501 | 334 | 10 | 845 |
| Jim Clarke | 1,126 | 660 | 413 | 84 | 2,283 |

Alison became eligible to join the SIP in 2016 once she had completed 18 months' service.

The matching shares were awarded each month in the ratio of one matching share for every two partnership shares purchased at the prevailing market price on the date of the award until April 2016 and from May 2016 matching shares were awarded each month in the ratio of two matching shares for every three partnership shares purchased at the prevailing market price on the date of the award.

## Statement of directors' shareholding and share interests (audited)

The interests of the directors who served during 2016 have been subject to audit and are set out in the table below:

| | Legally owned | | LTIP awards | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 31 December 2016 | 31 December 2015 | Unvested | Vested | SIP matching share awards restricted | DSBP options (unvested) | Total 31 December 2016 | Shareholding guideline (200% of salary)[2] |
| Alison Platt | 42,211 | 41,700 | 689,772 | — | 334 | 27,010 | 759,327 | 13% |
| Jim Clarke | 1,545,285[1] | 1,088,596[1] | 276,138 | — | 777 | 29,078 | 1,851,278 | 800% |
| Peter Long | 200,000 | — | — | — | — | — | 200,000 | n/a |
| Grenville Turner | 100,373 | 171,529[1] | — | — | — | 14,660 | 100,373 | n/a |
| David Watson | 16,370[1] | 16,370[1] | — | — | — | — | 16,370 | n/a |
| Cathy Turner | 9,747 | 9,747 | — | — | — | — | 9,747 | n/a |
| Richard Adam | 10,000 | 10,000 | — | — | — | — | 10,000 | n/a |
| Rupert Gavin | 9,500 | 6,500 | — | — | — | — | 9,500 | n/a |
| Jane Lighting | 9,500 | 9,500 | — | — | — | — | 9,500 | n/a |
| Caleb Kramer | — | — | — | — | — | — | — | n/a |

1 Includes jointly controlled shares held by close family members.

2 For the purposes of the above table, compliance with the share ownership guidelines has been calculated by using the share price of 176 pence on 31 December 2016. In addition, as part of the policy review, the Committee has brought the share ownership guidelines into line with market/best practice by no longer counting unvested share awards for these purposes.

# Directors' remuneration report continued

## PART B: annual report on remuneration continued

### Statement of directors' shareholding and share interests (audited) continued

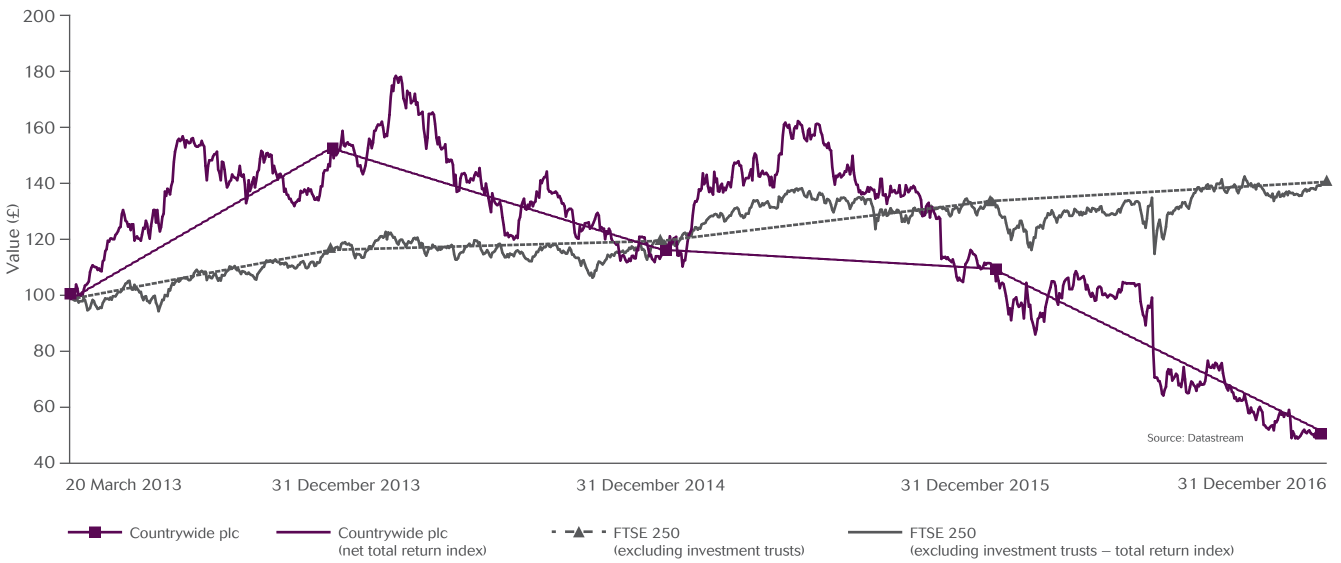
There have been the following changes in the interests of any director between 1 January 2017 and the date of this report:

- purchase of SIP partnership shares by Alison Platt (243 shares);
- issue of SIP matching share awards to Alison Platt (162 shares);
- purchase of SIP partnership shares by Jim Clarke (243 shares);
- issue of SIP matching share awards to Jim Clarke (162 shares); and
- purchase of shares at placing by Richard Adam (2,843), Jane Lighting (1,129), Peter Long (171,429), Cathy Turner (975) and David Watson (5,700).

### Payments to past directors and payments for loss of office (audited)

No payments have been made for loss of office.

### Performance graph and table




### Total shareholder return

The graph shows the value, by 31 December 2016, of £100 invested in Countrywide plc in March 2013 (IPO) compared with the value of £100 invested in the FTSE 250 Index (excluding investment trusts). In the opinion of the directors, this index (excluding investment trusts) is the most appropriate peer group and also closely aligns with the comparator group used for the LTIPs, which comprises the FTSE 250 Index excluding investment trusts and financial services companies.

The table below sets out the details for the director undertaking the role of chief executive officer:

| Year | | Chief executive officer single figure of total remuneration £'000 | Annual bonus payout against maximum % | Long term incentive vesting rates against maximum opportunity % |
|---|---|---|---|---|
| 2016 | Alison Platt | 676 | — | — |
| 2015 | Alison Platt | 964 | 42 | n/a |
| 2014 | Alison Platt[1] | 555 | n/a | n/a |
| 2014 | Grenville Turner[2] | 7,744 | 67 | 83 |
| 2013 | Grenville Turner | 1,015 | 83 | n/a |
| 2012 | Grenville Turner | 914 | 83 | n/a |
| 2011 | Grenville Turner | 689 | 46 | n/a |
| 2010 | Grenville Turner | 892 | 79 | n/a |
| 2009 | Grenville Turner | 972 | 100 | n/a |

1 Alison Platt was appointed chief executive officer from 1 September 2014.

2 Grenville Turner stepped down as chief executive officer with effect from 1 September 2014.

## Percentage change in remuneration of director undertaking the role of chief executive officer

The table below shows the percentage change in remuneration of the director undertaking the role of chief executive officer and the Company's employees as a whole between the years 2015 and 2016:

| | Percentage increase/(decrease) in remuneration in 2016 compared with remuneration in 2015 | |
|---|---|---|
| | Chief executive officer | Average pay based on all Countrywide employees |
| Salary and fees | 0 | 4.6 |
| All taxable benefits | 0 | 4.9 |
| Annual bonuses/variable pay | (100) | (21.4) |

## Relative importance of spend on pay

The following table shows the Company's actual spend on pay (for all employees) relative to dividends, tax and retained profits:

| | 2016 £'000 | 2015 £'000 | Change % |
|---|---|---|---|
| Employee costs | 425,156 | 418,583 | 1.6 |
| Dividends | 32,780 | 32,944 | (0.5) |
| Tax charge | 1,955 | 5,942 | (67.1) |
| Retained (losses)/profits | (15,376) | 8,407 | (282.9) |

## The Remuneration Committee and its composition

The Committee's composition, responsibilities and operation comply with the principles of good governance (as set out in the UK Corporate Governance Code). The full terms of reference of the Committee are available on request to shareholders and on the Company's website at www.countrywide.co.uk. The terms of reference are reviewed annually by the Board and, if necessary, updated.

The membership of the Committee, together with appointment date, is set out below:

| Member | Remuneration Committee member since |
|---|---|
| Cathy Turner (chairman) | 31 July 2013 |
| Richard Adam | 9 June 2014 |
| Rupert Gavin | 25 June 2014 |
| Jane Lighting | 9 June 2014 |
| David Watson | 2 September 2013 |

There have been no changes to the composition of the Committee during the year. Attendance by members at the meetings is shown on page 42. All members of the Committee are considered independent non-executive directors.

The chairman of the Committee reports on the Committee's activities to the Board at the meeting immediately following the Committee meeting.

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

Membership of Board Committees that considered remuneration (both the Remuneration Committee and the Nomination Committee (when directors are appointed)) are disclosed within the corporate governance section of the annual report. Invitations to attend are also extended to executive management where appropriate.

At the start of the year, the Committee received advice on remuneration from New Bridge Street, part of Aon plc. New Bridge Street was not connected to the Group, was a member of the Remuneration Consultants Group and a signatory to its Code of Conduct, and in 2016 received fees of £59,872 (2015: £55,455) in connection with its work for the Committee. During the year FIT Remuneration Consultants LLP (FIT) was appointed as the Committee's independent advisor in place of New Bridge Street. FIT is not connected to the Group, is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct, and in 2016 received fees of £50,136 in connection with its work for the Committee, which it provided pursuant to its standard terms of business.

# Directors' remuneration report continued

## PART B: annual report on remuneration continued

### Shareholder voting and engagement

At the Company's Annual General Meeting held on 27 April 2016, voting in respect of the resolution relating to the remuneration report was as follows:

| | Votes for | | Votes against | | Total votes cast | Votes withheld |
|---|---|---|---|---|---|---|
| Resolution | Number of shares | % of shares voted | Number of shares | % of shares voted | % of issued share capital | Number of shares |
| Approval of remuneration report | 155,912,863 | 79.26% | 40,809,433 | 20.74% | 90.94% | 394 |

When conducting its review of the remuneration policy, the Committee took account of the fact that, while 79% of shareholders who voted on the 2016 remuneration report were supportive, a significant number of shareholders voted against this resolution, primarily due to the fact that higher LTIP awards were made in 2016 with lower EPS targets (in absolute terms) than had been applied to previous awards. As explained above, the new policy does not envisage LTIP awards being made in excess of 150% of salary, with a revised approach proposed in relation to the performance conditions that are to apply to these awards.

### Approval

This report was approved by the Board of directors on 9 March 2017 and signed on its behalf by:

**Cathy Turner**
**Chair of the Remuneration Committee**

# Directors' report

## Group directors' report for the year ended 31 December 2016

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2016. The review of the business, future developments and outlook, as well as specific disclosures in relation to employee policies, are contained within the strategic report and are incorporated into the directors' report by cross-reference.

Information about the use of financial instruments by the Company and its subsidiaries and financial risk management policies are given in notes 33 and 34 to the financial statements.

In accordance with the UK Financial Conduct Authority's Listing Rules (LR 9.8.4C), the information to be included in the annual report and accounts, where applicable, under LR 9.8.4, is set out in this directors' report, with the exception of the information set out in the table below, which can be found at the location specified.

| Listing Rule | Information | Location |
|---|---|---|
| LR 9.8.4(4) | Details of long term incentive schemes as required by LR 9.4.3, regarding information about the recruitment of a director | Pages 62 to 63 of the directors' remuneration report |
| LR 9.8.4(11) | Details of contracts for the provision of services to the Company by a controlling shareholder | Page 58 of the directors' remuneration report |
| LR 9.8.4(14) | Details of transactions with controlling shareholders | Page 120 (note 35 to the accounts) |

## General information

Countrywide plc is a public limited company, listed on the London Stock Exchange, incorporated and domiciled in the UK. The registered address of the Company is included in note 1 to the financial statements.

## Dividends

The directors do not recommend the payment of a final dividend. An interim dividend of 5.0 pence (net) per share was paid on 7 October 2016, and the total dividend in respect of the year is therefore 5.0 pence (net) per share (2015: 15.0 pence (net) per share).

## Capital structure

Details of the issued share capital are shown in note 26 to the Group financial statements on page 110 of this annual report. The Company has one class of ordinary shares which carries the right to one vote at a general meeting of the Company and has no right to fixed income.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or on voting rights.

Details of employee share schemes are provided in note 27 to the Group financial statements. Shares held by the Group Employee Benefit Trust abstain from voting.

## Purchase of the Company's own shares

Further to the shareholders' resolutions passed at the Company's AGM held on 29 April 2015, during the first half of 2016 the Company purchased 4,534,655 ordinary shares with a nominal value of £45,347, and representing 2.1% of the Company's called up ordinary share capital, for a consideration of £16,524,000. The reason for the purchase was to improve the return available to shareholders and enhance earnings per share. Some of the shares purchased by the Company during 2016 were then used to settle the IPO options vesting in March 2016 and the balance is held in treasury.

At the end of the year, the directors had authority, under a shareholder resolution approved at the AGM on 27 April 2016, to make one or more market purchases of its ordinary shares, limited to: a maximum number of 21,902,833 ordinary shares; a minimum price (exclusive of expenses) of the nominal value; and a maximum price of 5% above the average market value for the preceding five business days or the higher of the price of the last independent trade and highest current independent bid on the trading venues where the purchase is carried out at the relevant time. This authority expires at the conclusion of the AGM on 27 April 2017.

As a routine matter, the Company will be seeking to have this authority renewed at the 2017 AGM.

## Substantial shareholdings

At 8 March 2017, being the latest practicable date prior to the publication of this annual report, the Company had been notified of the following interests amounting to 3% or more of the voting rights in the issued share capital of the Company.

| Shareholder | Number of shares | % holding |
|---|---|---|
| Oaktree Capital Management | 65,196,855 | 30.14 |
| Brandes Investment Partners, LP | 35,356,206 | 16.34 |
| Franklin Templeton Investment Management | 17,842,381 | 8.25 |
| Harris Associates LP | 16,580,200 | 7.66 |
| Jupiter Asset Management | 9,646,820 | 4.46 |

## Relationship agreement with controlling shareholders

Any person who exercises or controls on their own, or together with any person with whom they are acting in concert, 30% or more of the votes able to be cast on all or substantially all matters at general meetings of a company is known as a 'controlling shareholder'. The Financial Conduct Authority's Listing Rules require companies with controlling shareholders to enter into a written and legally binding agreement which is intended to ensure that the controlling shareholder complies with certain independence provisions. The agreement must contain undertakings that:

(a) transactions and arrangements with the controlling shareholder (and/or any of its associates) will be conducted at arm's length and on normal commercial terms;

(b) neither the controlling shareholder nor any of its associates will take any action that would have the effect of preventing the listed company from complying with its obligations under the Listing Rules; and

(c) neither the controlling shareholder nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

# Directors' report continued

## Relationship agreement with controlling shareholders continued

The Board confirms that, in accordance with the Listing Rules, on 19 March 2013, the Company entered into such an agreement ('the Relationship Agreement') with, among others, OCM Luxembourg Castle Holdings S.Á R.L. and OCM Luxembourg EPF III Castle Holdings S.Á R.L. (together, 'the Oaktree Shareholders') which currently have a combined total holding of approximately 30.14% of the Company's voting rights. Under the terms of the Relationship Agreement, the Oaktree Shareholders have agreed to the independence obligations contained in the Relationship Agreement.

The Board confirms that, since the entry into the Relationship Agreement on 19 March 2013 until 25 February 2016, being the latest practicable date prior to the publication of this annual report:

(i) the Company has complied with the independence provisions included in the Relationship Agreement; and

(ii) so far as the Company is aware, the independence provisions included in the Relationship Agreement have been complied with by Oaktree and its associates.

As there are no controlling shareholders of the Company other than the Oaktree Shareholders there is no need for the Relationship Agreement to require the Oaktree Shareholders to procure compliance by any third parties with the independence provisions of the Relationship Agreement.

## Appointment and removal of directors

Directors may be appointed by the Company by ordinary resolution or by the Board. The Company may, by special resolution, remove any director before the expiration of their period of office.

## Powers of the directors

Subject to the Articles, the Companies Act and any directions given by the Company by special resolution, the business of the Company will be managed by the Board which may exercise all the powers of the Company.

## Amendment of Articles

The Articles may be altered by special resolution, in accordance with the Companies Act.

## Directors and directors' interests

The directors of the Company who were in office during the year and up to the date of signing the financial statements are disclosed on pages 38 to 39 and their interests in the shares of the Company are disclosed on page 63.

## Directors' indemnities

The Company has made qualifying third-party indemnity provisions (as defined in the Companies Act 2006) for the benefit of its directors during the year; these provisions were in force during the financial year and remain in force at the date of this report.

## Auditor and disclosure of information to auditors

All directors at the date of approval of this annual report confirm that:

- so far as the directors are aware, there is no relevant information of which the Company's auditors are unaware; and
- the directors have taken steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors is aware of any such information.

The auditors, PricewaterhouseCoopers LLP, has expressed its willingness to continue in office as auditor and a resolution to reappoint PricewaterhouseCoopers LLP will be proposed at the forthcoming AGM.

## Corporate governance

The Company's statement on corporate governance can be found in the corporate governance statement on pages 41 to 42 of this annual report. The corporate governance statement forms part of this directors' report and is incorporated into it by cross-reference.

## Political donations

No political donations or contributions were made or expenditure incurred by the Company or its subsidiaries during the year and there is no intention to make or incur any in the current year.

## Greenhouse gas (GHG) emissions

### GHG emissions data for the period 1 January to 31 December 2016

| | Tonnes of $CO_2e$* | |
|---|---|---|
| | **2016** | 2015 |
| **Scope 1** | | |
| Controlled vehicle fleet | **5,194** | 5,175 |
| **Scope 2** | | |
| Electricity and heat purchased for own use | **11,541** | 12,422 |
| Tonnes of $CO_2e$*/£m revenue | **22.7** | 23.9 |

* $CO_2e$ is a universal unit of measurement used to indicate the global warming of GHG expressed in terms of the global warming potential of one unit of carbon dioxide.

We have reported on all of the emission sources required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. We have used the operational control consolidation method. These sources fall within our consolidated financial statements, but exclude non-wholly owned subsidiaries and joint ventures.

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2016 to calculate the above disclosures.

## Post-balance sheet events

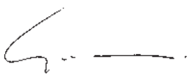
Particulars of important post-balance sheet events of the Company are set out in note 36 to the Group financial statements on page 120 of this annual report and are incorporated into this directors' report by cross-reference.

## AGM notice

Accompanying this report is the notice of the AGM which sets out the resolutions for the meeting, together with an explanation of them.

The financial statements on pages 76 to 134 were approved by the Board of directors on 9 March 2017 and signed on its behalf.

By order of the Board



**Gareth Williams**
**Company secretary**
9 March 2017

# Directors' responsibilities report

The directors are responsible for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Group website, www.countrywide.co.uk. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Having taken advice from the Audit and Risk Committee, the directors consider that the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

## Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the directors, whose names and functions are listed within the corporate governance statement, confirm that, to the best of each person's knowledge and belief:

- the Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the strategic report contained in the annual report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

# Independent auditors' report

To the members of Countrywide plc

## Report on the Group financial statements

### Our opinion

In our opinion, Countrywide plc's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

### What we have audited

The financial statements, included within the Annual Report, comprise:

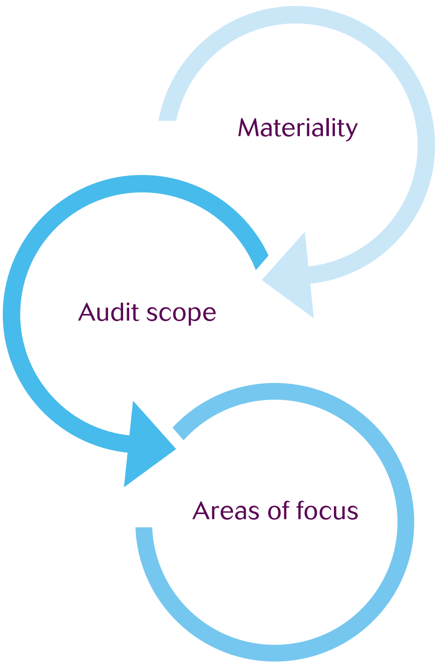
- the Consolidated balance sheet as at 31 December 2016;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated cash flow statement for the year then ended;
- the Consolidated statement of changes in equity for the year then ended; and
- the Notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

### Our audit approach

#### Overview




- Overall Group materiality: £2.7 million (2015: £3.1 million) which represents 5% of a 3-year average of the Group's profit before tax adjusted for exceptional items.

- The Group has four operating segments as set out in the Annual Report (refer to pages 88 to 89). Each of the operating segments is broken down into a number of legal entities which are consolidated into the Group financial statements along with head office legal entities.
- Legal entities from the four operating segments were included in the scope of our work and the Group audit team performed an audit of the financial information at each of these locations.
- In some of the legal entities we audited complete financial information and in others we focused on the larger business units within those legal entities to obtain appropriate audit coverage. We performed audit work over the complete financial information of business units which accounted for approximately 88% (2015: 97%) of the Group's revenues and 88% (2015: 93%) of the Group's absolute profit before tax and exceptional items (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant business units). The benchmark used to disclose coverage of profit has been changed from profit before tax and exceptional items to absolute profit before tax and exceptional items due to the existence of loss making components which distort the accuracy of the profit before tax and exceptional items benchmark.
- Included in the coverage above are central reporting entities and Group functions, together with the company, which were subject to a full scope audit.

The areas of focus are :

- judgements and estimates in relation to professional indemnity provisions;
- impairment assessment of goodwill and other indefinite life intangible assets;
- accounting for acquisitions, particularly the identification of intangible assets relating to the businesses acquired;
- classification of exceptional items; and
- risk of the entity's ability to continue as a going concern.

#### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

## **The scope of our audit and our areas of focus** continued

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

| Area of focus | How our audit addressed the area of focus |
|---|---|
| **Judgements and estimates in relation to professional indemnity provisions**<br><br>Refer to page 49 (Report of the Audit and Risk Committee), page 88 (Critical accounting estimates and judgements), and pages 105 to 106 (notes).<br><br>Professional indemnity (PI) provisions principally relate to the Surveyors and Lambert Smith Hampton businesses within the Business to Business operating segment.<br><br>In common with other valuers, the Group is subject to significant claims in relation to incorrect mortgage valuation reports primarily carried out between 2004 and 2007. The Group holds professional indemnity insurance for such matters, but management uses judgement to estimate the net costs that will be incurred by the Group. All the claims received are listed and analysed through the Bordereaux report and the provisions held are based on experience of settling past claims, discussions with the Group's insurers and advice from legal counsel.<br><br>The provisions are for both claims already received and claims yet to be received. The second category requires significant management judgement given the need to estimate the incidence and amount of future claims.<br><br>We focused on this area because the determination of the size of the provisions held and the likely settlements arising are inherently judgemental. | *Claims received*<br>• We checked that the amounts in the Bordereaux report were appropriately reflected in the books and records, and tested the mathematical accuracy of the report and the input data.<br>• With respect to the input data, we agreed a sample of claims received and provisions made to the advice from lawyers and correspondence with claimants. We also agreed a sample of settlements on closed claims to supporting information and bank payments.<br>• Open large legal claims were discussed with Group Legal, and appropriate documentation considered to understand the legal position and the basis of material risk positions. For large claims, we also compared a sample of historical provisions to the actual amounts settled, determining that management's estimation techniques were satisfactory.<br>• Management hold a provision above that suggested in the Bordereaux report to reflect the latest observed trends in claims received and settled, the number of claims with losses, and the average loss on each claim. We evaluated the model and approach used by management by testing the mathematical accuracy of the underlying calculations and satisfied ourselves that the input data used reflected the latest observed trend of claims of losses and average loss incurred.<br><br>*Claims yet to be received*<br>• For claims not yet received but incurred, we evaluated the model and approach used by management by testing the mathematical accuracy of the underlying calculations and satisfied ourselves that the input data used reflected the latest observed trend of claims of losses and average loss incurred.<br><br>From the evidence obtained, we consider the level of provisioning at the balance sheet date is reasonable. |
| **Impairment assessment of goodwill and other indefinite-life intangible assets**<br><br>Refer to page 48 (Report of the Audit and Risk Committee), page 87 (Critical accounting estimates and judgements), and pages 95 to 98 (notes).<br><br>We focused on this area due to the size of the goodwill balance (£490 million) across the Group and the value of the other intangible assets, principally brand names (£190.7 million) which are assumed to have indefinite useful economic lives. We consider this to have heightened risk this year due to reduced trading performance and the impact of continued political and economic uncertainty on market confidence.<br><br>Management concluded that there is sufficient headroom between the recoverable value of the Group's Cash Generating Units (CGUs) and their carrying value except in the London and Retail CGUs where an aggregate impairment charge of £18.5 million against goodwill has been recorded. Management has also impaired £1.1 million of goodwill in the B2B – Professional Services CGU following the closure of a discrete operation.<br><br>In addition, management have impaired £1.4 million of the carrying value of brands to reflect the cessation in the use of certain brand names following a restructuring of the business.<br><br>The key judgements involved in assessing impairment were forecast growth assumptions, cost reduction arising from restructuring activity and the weighted average pre-tax cost of capital (WACC) calculation as set out in note 14.<br><br>This is an area of focus for us because the assessment of the recoverable value of the CGUs and brand names involves judgements about the future results of the business and the appropriate discount rates to apply to the future cash flows. | *Impairment assessment of goodwill and other indefinite life intangible assets*<br>• We assessed management's impairment methodology, as required under IAS 36 – Impairment of Assets. We evaluated management's cash flow forecasts, and the process by which they were drawn up, comparing them to the latest Board approved budget and forecasts for consistency. We also tested the underlying spreadsheet model.<br>• We challenged the directors' key assumptions and calculation of the discount rates and compared them to a comparator group to confirm they are in line with other industry competitors.<br>• We performed sensitivity analysis around the key drivers of the cash flow forecasts. Our tests included applying:<br>  – probability based reductions on EBITDA growth forecasts;<br>  – sensitivities to forecast cost reductions; and<br>  – an increase in the WACC rate.<br>• Having ascertained the extent of change in those assumptions that either individually or collectively lead to an impairment of the goodwill and other indefinite life intangible assets, we concluded that an impairment charge booked against goodwill associated with the London and Retail CGUs was reasonable and supported by the available evidence. We concluded that no impairment was required in the other CGUs, other than in the B2B – Professional Services CGU following the closure of a discrete operation.<br>• We considered the related disclosures in note 14 to the financial statements by checking they were compliant with IFRS. We found that they appropriately describe the inherent degree of subjectivity in the estimates, including specific disclosures on the key assumptions most sensitive to change.<br>• In addition, with respect to brand names, having reviewed the discounted cash flows prepared, we agree with the impairment charge recognised of £1.4 million relating to the brand names abandoned as part of the reorganisation of the Group.<br><br>On an overall basis, we agree with management's view of the impairment charges arising and that no further impairment is required. |

# Independent auditors' report continued

To the members of Countrywide plc

## Report on the Group financial statements continued

Our audit approach continued

### The scope of our audit and our areas of focus continued

| Area of focus | How our audit addressed the area of focus |
|---|---|

#### Accounting for acquisitions, particularly the identification of intangible assets relating to the businesses acquired

Refer to page 48 (Report of the Audit and Risk Committee), page 87 (Critical accounting estimates and judgements) and page 114 (notes).

During the first half of the year the Group made a number of acquisitions for a total consideration of £39.7 million, some of which is deferred and contingent on the future performance of the acquired entity. As a result of these acquisitions, the following intangible assets were recognised:

- customer contracts and relationships (£5.7 million);
- brands (£8.8 million);
- pipeline in the estate agency business (£0.5 million);
- goodwill (£19.7 million); and
- Others (0.8 million)

Accounting for business combinations can be complex, particularly in relation to the identification of intangible assets and accounting for deferred contingent consideration.

The accounting treatment of intangible assets, including their ongoing impact on the income statement, varies depending on whether they are seen as having finite or indefinite useful economic lives, and the estimated life applied to those with finite lives.

We focused on the management judgements, particularly in relation to the identification of intangible assets and any estimated deferred consideration where linked to the continued employment of the vendors and, in certain cases, contingent upon future profitability.

*Net assets (excluding intangibles) and consideration*

- We obtained all material acquisition agreements and read them to ensure that we understood the substance of the transaction, including the consideration and the assets and liabilities acquired.
- We agreed the net assets acquired, which consisted mainly of working capital, by agreeing them to completion statements or other similar supporting documentation and confirmed that they had been treated in line with the terms of the contract. We also assessed the need for any fair value adjustments to the carrying values of those businesses on acquisition.
- We tested cash consideration to bank statements and checked that any deferred consideration had been correctly recognised in line with the acquisition agreements, with no issues being identified.
- We verified that the contingent employment linked consideration is appropriately calculated based on the forecast profit levels and charged to the income statement in accordance with IFRS 3 – Business Combinations.

*Recognition of intangible assets*

- We challenged management on the fair value recognition of brand names, customer relationships and contracts and were able to corroborate these to supporting documentation, such as customer lists. With respect to brands recognised on acquisition, we validated the Group's continued use of those brand names post acquisition and also performed a look back test on historic acquisitions where no brand was recognised, to provide evidence that these businesses were subsumed into the Group's existing portfolio.
- On a sample basis, we tested the accuracy and completeness of models used for calculating the separately identified intangible assets by comparing them to models used on previous acquisitions within the Group and validated these against our experience of other valuation models. We carried out an independent assessment of key assumptions such as royalty rates used to value brands and considered them to be reasonable.
- We also tested the accuracy of the calculation of goodwill arising on the business combinations and noted no issues.

We concluded that the assumptions and models used by management to value the acquired businesses are appropriate and are satisfied with the judgements supporting the treatment of estimated deferred contingent consideration.

#### Classification of exceptional items

Refer to page 48 (Report of the Audit and Risk Committee), page 88 (Critical accounting estimates and judgements) and pages 92 to 93 (notes).

The Group recognised net exceptional expenses of £12.5 million comprising the following:

- restructuring costs including the rationalisation of branches (£26.4 million);
- impairment of goodwill and other indefinite lived intangible assets (£21.0 million);
- acquisition costs of (£0.9 million);
- release of professional indemnity provisions of (£2.9 million); and
- income from the sale of ZPG shares (£32.8 million).

Separately identifying and disclosing items as exceptional on the face of the income statement requires judgement as such presentation could be misleading to investors.

We focused on this judgement, the potential for management bias, as well as the consistency and accuracy of the amounts disclosed within exceptional items.

- We assessed the rationale behind management's classification and the appropriateness of the transactions recognised as exceptional items using our knowledge of the business, inquiries of management, examination of documents supporting the reorganisation of the Group and rationalisation of branches, and through consideration of expenses that are typically connected with restructuring activities.
- We also assessed the completeness of exceptional items through identifying other large or unusual items in underlying profit, considering their potential disclosure where significant.
- We agreed a sample of expenses to calculations and invoices, and verified payments made to bank statements to conclude on the consistency and accuracy of classification.
- For onerous property leases and dilapidation provisions arising from branch closures, we obtained supporting calculations prepared by management. We reviewed the assumptions used in the calculations in light of available information including a test of the historical accuracy of similar provisions created by management in the past.

We are satisfied that the classification, judgements and disclosures made by management are appropriate and in line with the Group accounting policy on exceptional items.

## Report on the Group financial statements continued

### Our audit approach continued

### The scope of our audit and our areas of focus continued

| Area of focus | How our audit addressed the area of focus |
|---|---|
| **Risk of the entity's ability to continue as a going concern**<br>Refer to page 49 (Report of the Audit and Risk Committee) and page 81 (notes).<br>The directors have concluded that it is appropriate for them to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements are signed.<br>In adopting this basis, the directors have assumed that the Group will continue to comply with a variety of financial and non-financial covenants over its £400 million revolving credit banking facilities. The Group successfully refinanced its debt facilities including banking covenants through to 20 March 2020.<br>As at 31 December 2016, a total of £290 million was drawn down from these facilities. The financial covenants attached to the borrowings are the leverage ratio (being the ratio of net debt to EBITDA) and interest cover (being the ratio of EBITDA to net interest payable).<br>The directors monitor their cash flow and profit forecasts against these covenants regularly to assess the likelihood of a breach, and establish mitigating actions should a potential breach be identified. While the Group's forecasts and projections, which have been prepared for the period to 31 December 2020 for going concern assessment purposes, show that it will be able to operate within the level of its current facilities and comply with its banking covenants, the level of headroom against those covenants, when reasonable downside sensitivities are applied, remains relatively low.<br>As such, we identified a heightened risk in this area and focused our work on the directors' cash flow and profit forecasts, in particular on the assumptions around projected EBITDA. | We obtained the Directors' financial budget for the next 12 months and forecasts for future periods and:<br>• challenged the assumptions used in building the budget and forecasts by considering the latest information available in FY2017 and latest market trends. As part of this we discussed at length the budget and forecasts with the Group finance team. The results of these discussions were used to sensitise the budget and forecasts prepared;<br>• performed procedures to verify the appropriateness of management's model linking the budget and forecasts to anticipated cash flows including analytical procedures and agreeing forecasted cash flows back to audited information;<br>• re-calculated the directors' calculations of forecast compliance with banking covenants and cash flow headroom; and<br>• considered scenarios where profitability of the business is reduced ensuring that, in the event of under-performance against the forecast, the directors have identified sufficient potential mitigating actions to manage covenant compliance and liquidity.<br>Our conclusions relating to this area of focus are set out in the Going Concern section below. |

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| Overall Group materiality | £2.7 million (2015: £3.1 million). |
| How we determined it | 5% of the 3-year average of the Group's profit before tax and exceptional items ("Adjusted PBT"). |
| Rationale for benchmark applied | We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark. We have excluded the effect of exceptional items to eliminate their disproportionate effect and provide a consistent year-on-year basis for our work. We do not exclude the adjusted measures of share-based payment charges, amortisation and employment linked contingent consideration expenses on the basis that these items recur annually. Further, a 3-year average Adjusted PBT (2015: Adjusted PBT for the year) was used in calculating the overall materiality to eliminate the volatility in trading profitability. |
| Component materiality | For each component in our audit scope, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.1 million and £2.6 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.15 million (2015: £0.2 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 81, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

# Independent auditors' report continued

## To the members of Countrywide plc

### Report on the Group financial statements continued

### Our audit approach continued

### Going concern continued

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

### Other required reporting

### Consistency of other information and compliance with applicable requirements

### Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Corporate Governance Statement set out on pages 41 to 51 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- the information given in the Corporate Governance Statement set out on pages 41 to 51 with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies complies with rules 7.2.2, 7.2.3 and 7.2.7 of the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the information referred to above in the Corporate Governance Statement. We have nothing to report in this respect.

### ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

| | |
|---|---|
| • information in the Annual Report is:<br>• materially inconsistent with the information in the audited financial statements; or<br>• apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or<br>• otherwise misleading. | We have no exceptions to report. |
| • the statement given by the directors on page 69, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit. | We have no exceptions to report. |
| • the section of the Annual Report on pages 48 to 49, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. | We have no exceptions to report. |

### The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

| | |
|---|---|
| • the directors' confirmation on page 19 of the Annual Report, in accordance with provision C.2.1 of the Code, 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. | We have nothing material to add or to draw attention to. |
| • the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated. | We have nothing material to add or to draw attention to. |
| • the directors' explanation on page 22 of the Annual Report, in accordance with provision C.2.2 of the Code, 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 have nothing material to add or to draw attention to. |

## Other required reporting continued

### The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group continued

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

### Adequacy of information and explanations received

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. We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

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 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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. With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we consider whether those reports include the disclosures required by applicable legal requirements.

## Other matter

We have reported separately on the company financial statements of Countrywide plc for the year ended 31 December 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.

**Christopher Burns (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
London
9 March 2017

# Consolidated income statement

## For the year ended 31 December 2016

| | Note | 2016 Pre-exceptional items, amortisation, contingent consideration and share-based payments £'000 | 2016 Exceptional items, amortisation, contingent consideration and share-based payments £'000 | 2016 Total £'000 | 2015 Pre-exceptional items, amortisation, contingent consideration and share-based payments £'000 | 2015 Exceptional items, amortisation, contingent consideration and share-based payments £'000 | 2015 Total £'000 |
|---|---|---|---|---|---|---|---|
| Revenue | | 723,970 | — | 723,970 | 718,699 | — | 718,699 |
| Other income | 5 | 12,985 | — | 12,985 | 15,037 | — | 15,037 |
| | 4 | 736,955 | — | 736,955 | 733,736 | — | 733,736 |
| Employee benefit costs | 6 | (415,845) | (9,311) | (425,156) | (405,242) | (13,341) | (418,583) |
| Depreciation and amortisation | 14, 15 | (21,445) | (11,427) | (32,872) | (20,180) | (11,178) | (31,358) |
| Other operating costs | 7 | (237,562) | — | (237,562) | (215,517) | — | (215,517) |
| Share of loss from joint venture | 16(b) | (13) | — | (13) | (914) | — | (914) |
| **Group operating profit/(loss) before exceptional items** | | 62,090 | (20,738) | 41,352 | 91,883 | (24,519) | 67,364 |
| Exceptional income | 10 | — | 35,714 | 35,714 | — | 2,534 | 2,534 |
| Exceptional costs | 10 | — | (48,203) | (48,203) | — | (16,133) | (16,133) |
| **Operating profit/(loss)** | 4 | 62,090 | (33,227) | 28,863 | 91,883 | (38,118) | 53,765 |
| Finance costs | 8 | (9,672) | — | (9,672) | (6,376) | — | (6,376) |
| Finance income | 9 | 304 | — | 304 | 321 | — | 321 |
| Net finance costs | | (9,368) | — | (9,368) | (6,055) | — | (6,055) |
| **Profit/(loss) before taxation** | | 52,722 | (33,227) | 19,495 | 85,828 | (38,118) | 47,710 |
| Taxation (charge)/credit | 11 | (10,686) | 8,731 | (1,955) | (15,168) | 9,226 | (5,942) |
| **Profit/(loss) for the year** | | 42,036 | (24,496) | 17,540 | 70,660 | (28,892) | 41,768 |
| **Attributable to:** | | | | | | | |
| Owners of the parent | | 41,900 | (24,496) | 17,404 | 70,243 | (28,892) | 41,351 |
| Non-controlling interests | | 136 | — | 136 | 417 | — | 417 |
| **Profit/(loss) attributable for the year** | | 42,036 | (24,496) | 17,540 | 70,660 | (28,892) | 41,768 |
| **Earnings per share attributable to owners of the parent** | | | | | | | |
| Basic earnings per share | 13 | | | 8.03p | | | 18.93p |
| Diluted earnings per share | 13 | | | 8.03p | | | 18.82p |

The notes on pages 81 to 120 form an integral part of these consolidated financial statements.

# Consolidated statement of comprehensive income

## For the year ended 31 December 2016

| | Note | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| Profit for the year | | 17,540 | 41,768 |
| **Other comprehensive (expense)/income** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Actuarial (loss)/gain arising in the pension scheme | 25 | (4,783) | 3,248 |
| Deferred tax arising on the pension scheme | 25 | 909 | (650) |
| | | (3,874) | 2,598 |
| **Items that may be subsequently reclassified to profit or loss** | | | |
| Foreign exchange rate gain/(loss) | | 136 | (255) |
| Cash flow hedges | 21 | (2,367) | — |
| Deferred tax arising on cash flow hedge | | 473 | — |
| Available-for-sale financial assets: | | | |
| – Gains arising during the year | 16(c) | 2,132 | 7,836 |
| – Less reclassification adjustments for gains included in the profit and loss | | (29,943) | (237) |
| | | (29,569) | 7,344 |
| **Other comprehensive (expense)/income for the year** | | (33,443) | 9,942 |
| **Total comprehensive (expense)/income for the year** | | (15,903) | 51,710 |
| **Attributable to:** | | | |
| Owners of the parent | | (16,039) | 51,293 |
| Non-controlling interests | | 136 | 417 |
| **Total comprehensive (expense)/income for the year** | | (15,903) | 51,710 |

The notes on pages 81 to 120 form an integral part of these consolidated financial statements.

# Consolidated statement of changes in equity

## For the year ended 31 December 2016

| | Note | Share capital £'000 | Share premium £'000 | Other reserves £'000 | Retained earnings £'000 | Total £'000 | Non-controlling interests £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the parent | | | | | | |
| **Balance at 1 January 2015** | | 2,194 | 211,841 | 98,683 | 218,660 | 531,378 | 190 | 531,568 |
| Profit for the year | | — | — | — | 41,351 | 41,351 | 417 | 41,768 |
| **Other comprehensive (expense)/income** | | | | | | | | |
| Currency translation differences | | — | — | (255) | — | (255) | — | (255) |
| Realisation of capital reorganisation reserve on liquidation of Countrywide Holdings, Ltd | | — | — | (92,820) | 92,820 | — | — | — |
| Movement in fair value of available-for-sale financial assets | 16(c) | — | — | 7,836 | — | 7,836 | — | 7,836 |
| Reclassification of gains on disposal of available-for-sale financial assets | | — | — | (237) | — | (237) | — | (237) |
| Actuarial gain in the pension fund | 25 | — | — | — | 3,248 | 3,248 | — | 3,248 |
| Deferred tax movement relating to pension | 25 | — | — | — | (650) | (650) | — | (650) |
| Total other comprehensive (expense)/income | | — | — | (85,476) | 95,418 | 9,942 | — | 9,942 |
| **Total comprehensive (expense)/income** | | — | — | (85,476) | 136,769 | 51,293 | 417 | 51,710 |
| **Transactions with owners** | | | | | | | | |
| Issue of share capital | | 2 | (2) | — | — | — | — | — |
| Share-based payment transactions | 27 | — | — | — | 3,226 | 3,226 | — | 3,226 |
| Deferred tax on share-based payments | | — | — | — | (767) | (767) | — | (767) |
| Liquidation of non-controlling interest in subsidiary | | — | — | — | 50 | 50 | (50) | — |
| Purchase of treasury shares | 28 | — | — | (7,760) | — | (7,760) | — | (7,760) |
| Utilisation of treasury shares for IPO options | 28 | — | — | 20,035 | (20,035) | — | — | — |
| Dividends paid | 12 | — | — | — | (32,944) | (32,944) | (454) | (33,398) |
| **Transactions with owners** | | 2 | (2) | 12,275 | (50,470) | (38,195) | (504) | (38,699) |
| **Balance at 1 January 2016** | | 2,196 | 211,839 | 25,482 | 304,959 | 544,476 | 103 | 544,579 |
| Profit for the year | | — | — | — | 17,404 | 17,404 | 136 | 17,540 |
| **Other comprehensive income/(expense)** | | | | | | | | |
| Currency translation differences | | — | — | 136 | — | 136 | — | 136 |
| Movement in fair value of available-for-sale financial assets | 16(c) | — | — | 2,132 | — | 2,132 | — | 2,132 |
| Reclassification of gains on disposal of available-for-sale financial assets | | — | — | (29,943) | — | (29,943) | — | (29,943) |
| Cash flow hedge: fair value losses | 21 | — | — | (2,367) | — | (2,367) | — | (2,367) |
| Cash flow hedge: deferred tax on losses | | — | — | 473 | — | 473 | — | 473 |
| Actuarial loss on the pension fund | 25 | — | — | — | (4,783) | (4,783) | — | (4,783) |
| Deferred tax movement relating to pension | 25 | — | — | — | 909 | 909 | — | 909 |
| Total other comprehensive expense | | — | — | (29,569) | (3,874) | (33,443) | — | (33,443) |
| **Total comprehensive (expense)/income** | | — | — | (29,569) | 13,530 | (16,039) | 136 | (15,903) |
| **Transactions with owners** | | | | | | | | |
| Issue of share capital | 26 | 1 | (1) | — | — | — | — | — |
| Share-based payment transactions | 27 | — | — | — | 2,261 | 2,261 | — | 2,261 |
| Deferred tax on share-based payments | | — | — | — | (299) | (299) | — | (299) |
| Acquisition of non-controlling interest in subsidiary | | — | — | — | 29 | 29 | (29) | — |
| Purchase of treasury shares | 28 | — | — | (18,100) | — | (18,100) | — | (18,100) |
| Utilisation of treasury shares for IPO options | 28 | — | — | 4,246 | (4,246) | — | — | — |
| Dividends paid | 12 | — | — | — | (32,780) | (32,780) | (210) | (32,990) |
| **Transactions with owners** | | 1 | (1) | (13,854) | (35,035) | (48,889) | (239) | (49,128) |
| **Balance at 31 December 2016** | | **2,197** | **211,838** | **(17,941)** | **283,454** | **479,548** | **—** | **479,548** |

The notes on pages 81 to 120 form an integral part of these consolidated financial statements.

# Consolidated balance sheet

## As at 31 December 2016

| | Note | 2016 £'000 | Reclassified* 2015 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 14(a) | 471,749 | 471,626 |
| Other intangible assets | 14(b) | 250,310 | 239,457 |
| Property, plant and equipment | 15 | 49,445 | 49,974 |
| Investments accounted for using the equity method: | | | |
| Investments in joint venture | 16(b) | 2,292 | 2,305 |
| Available-for-sale financial assets | 16(c) | 16,058 | 57,760 |
| Deferred tax assets | 24 | 9,250 | 10,645 |
| Total non-current assets | | 799,104 | 831,767 |
| **Current assets** | | | |
| Trade and other receivables | 17 | 120,355 | 123,432 |
| Cash and cash equivalents | 18 | 45,326 | 24,336 |
| Total current assets | | 165,681 | 147,768 |
| **Total assets** | | 964,785 | 979,535 |
| **Equity and liabilities** | | | |
| **Equity attributable to the owners of the parent** | | | |
| Share capital | 26 | 2,197 | 2,196 |
| Share premium | | 211,838 | 211,839 |
| Other reserves | 28 | (17,941) | 25,482 |
| Retained earnings | | 283,454 | 304,959 |
| | | 479,548 | 544,476 |
| Non-controlling interests | 16(a) | — | 103 |
| **Total equity** | | 479,548 | 544,579 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 20 | 292,505 | 204,586 |
| Derivative financial instruments | 21 | 2,367 | — |
| Net defined benefit scheme liabilities | 25 | 3,663 | 415 |
| Provisions | 23 | 12,503 | 16,899 |
| Deferred income | 22 | 2,563 | 4,967 |
| Trade and other payables | 19 | 13,659 | 4,709 |
| Deferred tax liability | 24 | 38,694 | 40,669 |
| **Total non-current liabilities** | | 365,954 | 272,245 |
| **Current liabilities** | | | |
| Borrowings | 20 | 721 | 4,662 |
| Trade and other payables | 19 | 95,072 | 128,503 |
| Deferred income | 22 | 3,890 | 4,111 |
| Provisions | 23 | 19,600 | 22,336 |
| Current tax liabilities | | — | 3,099 |
| **Total current liabilities** | | 119,283 | 162,711 |
| **Total liabilities** | | 485,237 | 434,956 |
| **Total equity and liabilities** | | 964,785 | 979,535 |

* See note 20 to the consolidated financial statements.

The notes on pages 81 to 120 form an integral part of these consolidated financial statements.

The financial statements on pages 76 to 120 were approved by the Board of directors and signed on its behalf by:

**Jim Clarke**
**Chief financial officer**
9 March 2017

# Consolidated cash flow statement

## For the year ended 31 December 2016

| | Note | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | 19,495 | 47,710 |
| Adjustments for: | | | |
| Depreciation | 15 | 13,893 | 14,244 |
| Amortisation of intangible assets | 14 | 18,979 | 17,114 |
| Share-based payments | 27 | 2,261 | 3,226 |
| Impairment of intangible assets | 14 | 20,928 | 6,126 |
| Impairment of tangible assets | 15 | 120 | — |
| Profit on disposal of available-for-sale financial assets | 10 | (32,804) | (237) |
| Loss/(profit) on disposal of fixed assets | | 2,750 | (1,176) |
| Unrealised gains on revaluation of available-for-sale financial assets | | — | (1,202) |
| Amortisation of deferred income | 10 | — | (2,534) |
| Loss from joint venture | 16(b) | 13 | 914 |
| Finance costs | 8 | 9,672 | 6,376 |
| Finance income | 9 | (304) | (321) |
| | | 55,003 | 90,240 |
| Changes in working capital (excluding effects of acquisitions and disposals of Group undertakings): | | | |
| Decrease/(increase) in trade and other receivables | | 7,595 | (14,297) |
| Decrease in trade and other payables | | (25,557) | (519) |
| Decrease in provisions | | (7,406) | (8,349) |
| Pension paid | | (1,900) | (1,900) |
| **Net cash generated from operating activities** | | 27,735 | 65,175 |
| Interest paid | | (8,475) | (5,213) |
| Income tax paid | | (8,737) | (13,687) |
| Net cash inflow from operating activities | | 10,523 | 46,275 |
| **Cash flows from investing activities** | | | |
| Acquisitions net of cash acquired | 29 | (29,402) | (62,875) |
| Deferred and contingent consideration paid in relation to current and prior year acquisitions | | (5,955) | — |
| Purchase of property, plant and equipment | 15 | (17,939) | (16,561) |
| Purchase of intangible assets | 14 | (11,071) | (5,431) |
| Purchase of non-controlling interest | | (2,700) | — |
| Proceeds from sale of property, plant and equipment | | 171 | 3,898 |
| Proceeds from disposal of available-for-sale financial assets | | 48,165 | 383 |
| Capital expenditure/purchase of investment property | | — | (171) |
| Purchase of available-for-sale financial assets | 16(c) | (1,504) | (2,438) |
| Interest received | | 304 | 321 |
| Net cash outflow from investing activities | | (19,931) | (82,874) |
| **Cash flows from financing activities** | | | |
| Term and revolving facility loan drawn | 20 | 90,000 | 80,000 |
| Financing fees paid | | (2,587) | (1,127) |
| Capital repayment of finance lease liabilities | 20 | (5,925) | (5,363) |
| Dividends paid to owners of the parent | 12 | (32,780) | (32,944) |
| Dividends paid to non-controlling interests | | (210) | (454) |
| Purchase of own shares | 26 | (18,100) | (7,760) |
| Net cash inflow from financing activities | | 30,398 | 32,352 |
| Net increase/(decrease) in cash and cash equivalents | | 20,990 | (4,247) |
| Cash and cash equivalents at 1 January | | 24,336 | 28,583 |
| Cash and cash equivalents at 31 December | 18 | 45,326 | 24,336 |

The notes on pages 81 to 120 form an integral part of these consolidated financial statements.

# Notes to the financial statements

## 1. General information

Countrywide plc ('the Company'), and its subsidiaries (together, 'the Group'), is the leading integrated, full service residential estate agency and property services group in the UK, measured by both revenue and transaction volumes in 2016. It offers estate agency and lettings services, together with a range of complementary services, and has a significant presence in key areas and property types which are promoted through locally respected brands.

The Company is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK (registered number: 08340090). The address of its registered office is County House, Ground Floor, 100 New London Road, Chelmsford, Essex CM2 0RG.

## 2. 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 the years presented.

### (a) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial liabilities at fair value through profit or loss, and in accordance with International Financial Reporting Standards (IFRSs) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of the consolidated financial information in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

### (b) Going concern

These financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its liabilities when they fall due. The Board of directors has reviewed cash flow forecasts, which have been stress tested with various assumptions regarding future housing market volumes, and concluded that it is appropriate to prepare the financial statements on a going concern basis.

### (c) New standards, amendments and interpretations

#### Standards, amendments and interpretations effective and adopted by the Group

No new standards, amendments or interpretations effective for the first time for the financial year beginning on or after 1 January 2016 have had a material impact on the Group.

#### New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the Group. None of these new standards or interpretations are expected to have a material impact on the consolidated financial statements of the Group, with the exception of the following:

- IFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. The standard is effective for accounting periods beginning on or after 1 January 2018. The impact of IFRS 9 is being assessed by management. The main impact is likely to arise from the relaxation of the requirements for hedge effectiveness testing and amendments to the disclosure of financial instruments.
- IFRS 15 'Revenue from contracts with customers' deals with revenue recognition. The standard is effective for accounting periods beginning on or after 1 January 2018. The impact of IFRS15 is being assessed by management. Implementation of IFRS 15 requires a thorough review of existing contractual arrangements. At present, the directors anticipate there may be some refinement in the recognition of commission assets arising from the acquisition of contracts although the amounts involved are immaterial. The transition work in respect of other areas is ongoing but has not, as yet, highlighted potentially material adjustments.
- IFRS 16 'Leases' deals with the definition of a lease and recognition and measurement of leases and establishes principles for disclosures. A key change is that most operating leases will be brought on balance sheet for lessees. The standard is effective for accounting periods beginning on or after 1 January 2019. The full impact of IFRS16 has not yet been assessed by management.

### (d) Basis of consolidation

#### Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for acquisitions and the cost of acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date. Acquisition costs are written off to the income statement. The accounting policies of subsidiaries acquired are changed, where necessary, to ensure consistency with policies operated by the Group.

# Notes to the financial statements continued

## 2. Accounting policies continued

### (d) Basis of consolidation continued

### Subsidiaries continued

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is recorded as the excess of the aggregate of the consideration transferred and fair value of non-controlling interest over the fair value of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

### Joint ventures

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture, the Group does not recognise further losses except to the extent that it has incurred obligations or made payments on behalf of the joint venture. Accounting policies of the joint venture are aligned where applicable.

### Transactions eliminated on consolidation

Intra-group balances, and any gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial information. Gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Losses are eliminated in the same way as gains, but only to the extent that there is no evidence of impairment.

### (e) Foreign currency translation

The functional currency of the Company is Pounds Sterling because that is the currency of the primary economic environment in which the Group operates. The Group's presentational currency is Pounds Sterling.

### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within 'other income' or 'other operating costs'.

### Group companies

The results and financial position of all the Group entities (none of which have the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in equity.

The following exchange rates were applied for £1 Sterling at 31 December:

| | 2016 | 2015 |
|---|---|---|
| Hong Kong Dollars | 9.54 | 11.49 |
| Euros | 1.17 | 1.36 |

### (f) Property, plant and equipment

### Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

## 2. Accounting policies continued

### (f) Property, plant and equipment continued

#### Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership of an asset are classified as finance leases. Property, plant and equipment acquired under finance leases is recorded at fair value or, if lower, the present value of minimum lease payments at inception of the lease, less accumulated depreciation and any impairment losses.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included within borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

#### Depreciation

Depreciation is charged to profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term. Freehold land and assets in the course of construction are not depreciated. The estimated useful lives are as follows:

- Freehold buildings – 50 years
- Leasehold improvements – over the period of the lease
- Furniture and equipment – three to five years
- Motor vehicles – three to five years

The residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

### (g) Intangible assets

#### Goodwill

Goodwill has been recognised on acquisitions of subsidiaries and joint ventures. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquiree at the date of acquisition and the value of the non-controlling interest in the acquiree. Acquisition costs are written off to the income statement.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment or more frequently if events or changes in circumstances indicate potential impairment. The allocation is made to those cash generating units or groups of units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

In respect of joint ventures, the carrying amount of goodwill is included in the carrying amount of the investment in the joint venture.

Excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost arising on an acquisition is recognised in the income statement.

#### Other intangible assets

Intangible assets other than goodwill that are acquired by the Group, principally acquired brands, customer contracts and relationships, computer software, pipeline and other intangibles, are stated at cost less accumulated amortisation, where charged, and impairment losses. Brands are considered to have indefinite lives.

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Internal costs that are incurred during the development of significant and separately identifiable computer software for use in the business are capitalised where the software is integral to the generation of future economic benefits. Internal costs that are capitalised are limited to incremental costs specific to the project. Other development expenditures that do not meet the criteria for capitalisation are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

#### Amortisation

Amortisation is charged to profit or loss on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite. The estimated useful lives are as follows:

- Computer software – one to five years
- Brand names – indefinite life

Assets are tested annually for impairment or more frequently if events or changes in circumstances indicate potential impairment.

- Customer contacts and relationships – five to ten years
- Pipeline (agreed but unexchanged house sales at date of acquisition) – three months
- Other intangibles – six to 20 years

# Notes to the financial statements continued

## 2. Accounting policies continued

### (h) Impairment of non-financial assets

The carrying amounts of the Group's non-current assets are reviewed for impairment annually or whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated.

In respect of goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. The recoverable amount is the higher of fair value less costs to sell and value in use.

Impairment losses represent the amount by which the carrying value exceeds the recoverable amount; they are recognised in profit or loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (i) Financial assets

#### Classification

The Group classifies its financial assets as loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that arise principally through the provision of services to customers. They are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. Loans and receivables comprise mainly cash and cash equivalents and trade and other receivables.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within twelve months of the end of the reporting period.

Available-for-sale (AFS) financial assets are non-derivatives valued on the following bases as detailed in note 16.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the AFS revaluation reserve with the exception of impairment losses which are recognised directly in profit and loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the AFS revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

#### Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date: the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Loans and receivables and available-for-sale financial assets are initially recognised at fair value. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

#### Impairment of financial assets

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

For trade receivables, which are reported net of provisions, such provisions are recorded in a separate provision account with the loss being recognised within other operating costs in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

In the case of assets classified as available-for-sale, impairment losses are recognised in the consolidated income statement and arise from objective evidence that these assets have declined in value such as a significant or prolonged decline in the fair value of the security below its cost.

## 2. Accounting policies continued

### (j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost less an impairment provision. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant trade receivables are reviewed for impairment if they are past due. Trade receivables past due beyond 90 days for individual customers or 180 days for commercial contracts that are not assessed to be impaired individually are, in addition, assessed for impairment on a collective basis.

### (k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows and are presented in current liabilities.

### (l) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost.

### (m) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest payable while the liability is outstanding.

### (n) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The Group has designated certain derivatives as a cash flow hedge and documented at inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 21. The fair value of derivatives has been calculated by discounting all future cash flows by the market yield curve at the balance sheet date. Movements in the hedging reserve in other comprehensive income are shown in note 28. The full fair value of a hedging derivative is classified as a non-current liability when the remaining hedged item is more than twelve months from maturity. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'Finance costs'.

### (o) Pensions

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

#### Defined contribution plans

The Group pays fixed contributions to separately administered pension insurance plans. The Group has no further obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

#### Defined benefit plans

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past service costs are recognised immediately in income.

### (p) Share-based payments

The Group operates a number of equity-settled share-based schemes under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. Where the share awards have non-market-related performance criteria the Group has used the Binomial Lattice and Black Scholes option valuation models to establish the relevant fair values. Where the share awards have TSR market-related performance criteria the Group has used the Monte Carlo simulation valuation model to establish the relevant fair values (see note 27). The resulting values are amortised through the income statement over the vesting period of the options and other grants.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market conditions and recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The social security contributions payable in connection with the grant of the share options are considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

# Notes to the financial statements continued

## 2. Accounting policies continued

### (q) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. The increase in the provision due to passage of time is recognised in finance costs.

### (r) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in share premium as a deduction from the proceeds. Where the employee benefit trust purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

### (s) Revenue

#### Services rendered

Revenue comprises mainly commission and fees receivable. Commission earned on sales of residential and commercial property is accounted for on the exchange of contracts for such sales. Survey, valuation and conveyancing fees are accounted for on completion of the service being provided. Commission earned on sales of insurance policies, mortgages and related products is accounted for when the policies go on risk or the mortgage is exchanged. The Group offers the following residential lettings services to customers: Tenant Introduction, Tenant Renewal, Standard Lettings (often referred to as Rent Collection), or a Full Property Management service, plus a Leasehold Property Management service. Commissions and fees earned for Tenant Introduction (or Tenant Renewal) in respect of securing (or extending) the letting are recognised in full at the point of delivery of the service, which is considered to be when the underlying tenancy agreement commences. A revenue clawback provision, based on historical experience, is recognised for those contracts containing a break clause and which may require a refund if broken early. Fees for standard lettings and property management services, including leasehold property management services, are recognised on a straight line basis over the life of the agreement. Revenue generated by Surveying Services from panel management contracts is reported net of any fees paid on behalf of panel valuers, reflecting the fact that the Group does not act as the principal in these contracts.

Revenue in respect of consultancy services performed is recognised as activity progresses to reflect the Group's partial performance of its contractual obligations. Activity performance in excess of invoices raised is included within 'amounts due from customers for contract work'. Where amounts have been invoiced in excess of work performed, the excess is included within 'amounts due to customers for contract work'. If the right to consideration is conditional or contingent on a specified future event or outcome, the outcome of which is outside the control of the Group, revenue is not recognised until that critical event occurs.

Under certain service contracts, the Group manages client expenditure and is obliged to purchase goods and services from suppliers and recharge them on to the customer at cost. The amounts charged by suppliers and recharged to clients are excluded from revenue and administrative expenses. Receivables, payables and cash relating to these transactions are included in the balance sheet.

#### Deferred income

Where the Group receives an amount upfront in respect of future income streams, the value of the receipt is amortised over the period of the contract as the services are delivered and the unexpired element is disclosed in liabilities as deferred income.

### (t) Other income

Other income is recognised when its receipt is assured and the Group has no further obligations to any other party in respect of that income. Rental income from sub-let properties is recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income. Dividend income is recognised when the right to receive payment is established.

### (u) Operating lease payments

Payments under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense.

### (v) Net finance costs

#### Finance costs

Finance costs comprise interest payable on borrowings (including finance lease commitments), net interest costs on the pension scheme liabilities, the unwinding of the discount rates in respect of financial liabilities and provisions, premiums payable on settlement or redemption and direct issue costs. Interest costs accrue using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan and amortised over the period to which the facility relates.

#### Finance income

Finance income comprises interest receivable on funds invested. Interest income is recognised in profit or loss as it accrues using the effective interest method.

## 2. Accounting policies continued

### (w) Adjusting items

As permitted by IAS 1 'Presentation and disclosure' certain items are presented separately in the income statement as exceptional where, in the judgement of the directors, they need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance. Examples of material and non-recurring items which may give rise to disclosure as exceptional items include costs of restructuring existing businesses, integration of newly acquired businesses, asset impairments, costs associated with acquiring new businesses and profit on sale of available-for-sale financial assets.

The columnar presentation of our income statement separates exceptional items as well as adjusting items, specifically amortisation of intangibles arising on business acquisitions, contingent consideration and share-based payments, to illustrate consistently the Group's underlying business performance.

### (x) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of other assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they are unlikely to reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

### (y) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to the Executive Committee which has been identified as the chief operating decision maker.

### (z) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

## 3. Critical accounting judgements and estimates

The preparation of the Group's consolidated financial statements under IFRS requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates, given the uncertainty surrounding the assumptions and conditions upon which the estimates are based.

The directors consider that the following estimates and judgements are likely to have the most significant effect on the amounts recognised in the Group's consolidated financial statements.

### Impairment of goodwill and indefinite-lived intangible assets

Determining whether goodwill and indefinite-lived intangible assets are impaired requires an estimation of the value in use of the cash generating units to which the assets have been allocated. Calculating the cash flows requires the use of judgements and estimates that have been included in our strategic plans and long range forecasts. In addition, judgement is required to estimate the appropriate interest rate to be used to discount the future cash flows. The data necessary for the execution of the impairment tests is based on management estimates of future cash flows, which require estimating revenue growth rates and profit margins. Further details of impairment reviews are set out in note 14.

### Accounting for acquisitions

The Group accounts for all business combinations under the purchase method. Under the purchase method, the identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair value at the acquisition date. Judgements and estimates are made in respect of the measurement of the fair values of assets and liabilities acquired and consideration transferred. Where necessary, the Group engages external valuation experts to advise on fair value estimates, or otherwise performs estimates internally. Further details of contingent consideration are set out in note 29.

# Notes to the financial statements continued

## 3. Critical accounting judgements and estimates continued

### Exceptional items

Certain items are presented separately in the income statement as exceptional where, in the judgement of the directors, they need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance. Further details of material, non-recurring items the directors have disclosed as exceptional items, including the costs of restructuring the business, are provided in note 10.

### Professional indemnity provisions

When evaluating the impact of potential liabilities arising from claims against the Group, the Group takes legal and professional advice to assist it in arriving at its estimation of the liability taking into account the probability of the success of any claims and also the likely development of claims based on recent trends.

The Group has made provision for claims received under its professional indemnity insurance arrangements. The provision can be broken down to three categories:

- Reserves for known claims: These losses are recommended by our professional claims handlers and approved panel law firms who take into account all the information available on the claims and recorded on our insurance bordereaux. Where there is insufficient information on which to assess the potential losses, initial reserves may be set at an initial level to cover investigative costs or nil. Further provisions are also made for specific large claims which may be subject to litigation and the directors assess the level of these provisions based on legal advice and the likelihood of success.
- Provision for the losses on known claims to increase: It can take one to two years for claims to develop after they are initially notified to the Group. For this reason, the Group creates a provision based on historical loss rates for closed claims and average losses for closed claims.
- Provision for incurred but not reported (IBNR): The Group also provides for future liabilities arising from claims IBNR for mortgage valuation reports and home buyer reports performed by Surveying Services. This provision is estimated on a future projection of historical data for all claims received based on the number of surveys undertaken to date. This projection takes into account the historic claim rate, the claim liability rate and the average loss per claim. In view of the significant events in the financial markets and the UK property market in recent years, the directors have identified a separate sub-population of claims received which is tracked separately from the normal level of claims. This sub-population has been defined as claims received since 2009 for surveys carried out between 2004 and 2008.

The estimate of these provisions by their nature is judgemental. The three key inputs, claim rate, claim liability rate and average loss, are very sensitive to any change in trends.

**Claim rate** – the number of claims received compared to the number of surveys performed.

Following our experience in 2015, the number of valuation claims continued to decline significantly throughout 2016 to historically low levels. In common with 2015, the majority of valuation claims related to surveys completed over six years old. While there is very little experience relating to old claims on which to base any future model, given our experience and the low volumes received, we do not foresee any reason to increase our rates. There is a possible risk that a significant rise in mortgage interest rates could lead to an increase in repossessions and potential losses being incurred by the lenders. While there is uncertainty around the future of the UK economy as the Government deals with Brexit, there are no macroeconomic indicators that this is a reasonable likelihood in the short term and the directors do not consider it appropriate to provide for additional claims due to macroeconomic changes. It should be noted that a 5% increase in the claim rate (which is applied to all surveys performed between 2004 and 2008) could lead to a £3.5 million increase in the provision for future claims.

**Claim liability rate** – the number of claims closed with a loss compared to the number of closed claims.

Our claim handlers and panel lawyers robustly defend all our claims and as a result they have achieved a number of successes in 2016 where clients have withdrawn their claim. Consequently, we have not experienced any increase to the claim liability rate.

The liability rate is sensitive to changes in experience and therefore we have used the average liability rate for claims closed over two years as the most appropriate claim liability rate to estimate the provision for those claims already received. As the number of open claims at the end of the year and unreported claims anticipated is much lower than in previous years, a 10% increase in the average liability rate would impact the provision for claims already received by £0.6 million.

**Average loss** – the average of total incurred losses for closed claims.

Overall, the average losses experienced over all claims have decreased 23%. This is primarily driven by the decrease of 12% in average loss on exceptional claims, being those with surveys carried out between 2004 and 2008, which account for the majority of losses experienced. This is the value used to estimate the further provision required for claims already received. Applying a further 10% increase in the average loss would increase the total provision required by £0.1 million, lower than in previous years owing to the reduced number of claims.

## 4. Segmental reporting

Management has determined the operating segments based on the operating reports reviewed by the Executive Committee that are used to assess both performance and strategic decisions. Management has identified that the Executive Committee is the chief operating decision maker in accordance with the requirements of IFRS 8 'Operating segments'.

The Executive Committee considers the business to be split into four main types of business generating revenue: Retail, London, Financial Services and Business to Business (B2B), and 'all other segments' comprising central head office functions. Whilst the executive teams for Retail and London have been brought together during 2016, these remain separate operating segments based on operating reports reviewed by the Executive Committee.

## 4. Segmental reporting continued

The Retail network combines estate agency and lettings operations. Estate agency generates commission earned on sales of residential and commercial property and Lettings earns fees from the letting and management of residential properties and fees for the management of leasehold properties. The London division revenue is earned from both estate agency commissions and lettings and management fees. The Financial Services division receives commission from the sale of insurance policies, mortgages and related products under contracts with financial service providers. Business to Business services comprise all lines of business which are delivered to corporate clients, including Surveying Services, Conveyancing Services and revenue from Lambert Smith Hampton. Surveying Services generates surveying and valuation fees which are received primarily under contracts with financial institutions with some survey fees being earned from home buyers. Conveyancing Services generates revenue from conveyancing work undertaken from customers buying or selling houses through our network. Lambert Smith Hampton's revenue is earned from commercial property consultancy and advisory services, property management and valuation services. Other income generated by head office functions relates primarily to sub-let rental income or other sundry fees.

The Executive Committee assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes the effects of exceptional items, share-based payment charges and related National Insurance contributions, contingent consideration and income from joint ventures. Finance income and costs are not allocated to the segments, as this type of activity is driven by the central treasury activities as part of managing the cash position of the Group.

The revenue from external parties reported to the Executive Committee is measured in a manner consistent with that in the income statement.

Revenue and other income from external customers arising from activities in the UK was £734,561,000 (2015: £732,099,000) and that arising from activities overseas was £2,394,000 (2015: £1,637,000).

The assets and liabilities for each operating segment represent those assets and liabilities arising directly from the operating activities of each business unit. Pension assets and liabilities, and liabilities arising from the revolving credit facility and related derivative financial instrument are not allocated to operating segments, but allocated in full to 'All other segments' within the segmental analysis as they are managed by central group functions. Non-current assets attributable to the UK of £798,266,000 (2015: £830,828,000) are included in the total assets in the tables on the following pages. Non-current assets of £838,000 (2015: £939,000) are attributable to the overseas operations. The equity investment in joint venture is disclosed within 'All other segments' and is £2,292,000 (2015: £2,305,000).

The available-for-sale financial assets are disclosed within 'All other segments' (£16,058,000 (2015: £52,072,000)) and Retail (£Nil (2015: £5,688,000)).

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Retail £'000 | London £'000 | Financial Services £'000 | B2B £'000 | All other segments £'000 | Total £'000 |
| Revenue | 240,681 | 153,707 | 82,667 | 246,537 | 378 | 723,970 |
| Other income | 3,535 | 3,070 | 1,629 | 1,506 | 3,245 | 12,985 |
| Total income | 244,216 | 156,777 | 84,296 | 248,043 | 3,623 | 736,955 |
| Inter-segment revenue | 18,059 | 3,631 | 3,878 | (25,568) | — | — |
| Total income from external customers | 262,275 | 160,408 | 88,174 | 222,475 | 3,623 | 736,955 |
| **EBITDA before adjusting items** | 31,004 | 18,024 | 22,682 | 30,791 | (18,953) | 83,548 |
| Contingent consideration | — | (397) | (867) | (4,692) | (878) | (6,834) |
| Share-based payments | (307) | (197) | (220) | (391) | (1,362) | (2,477) |
| Depreciation and amortisation | (15,135) | (4,972) | (6,132) | (7,544) | 911 | (32,872) |
| Share of loss from joint venture | — | — | — | — | (13) | (13) |
| Exceptional income | 2,530 | — | — | 2,910 | 30,274 | 35,714 |
| Exceptional costs | (19,918) | (20,552) | (47) | (4,697) | (2,989) | (48,203) |
| Segment operating (loss)/profit | (1,826) | (8,094) | 15,416 | 16,377 | 6,990 | 28,863 |
| Finance costs | | | | | | (9,672) |
| Finance income | | | | | | 304 |
| Profit before tax | | | | | | 19,495 |
| **Total assets** | 354,225 | 171,240 | 116,619 | 247,586 | 75,115 | 964,785 |
| **Total liabilities** | 433,247 | 127,733 | 211,455 | 260,165 | (547,363) | 485,237 |
| **Additions in the year** | | | | | | |
| Goodwill | 14,607 | 1,104 | 2,308 | 1,668 | — | 19,687 |
| Intangible assets | 11,612 | 172 | 9,064 | 4,027 | 2,048 | 26,923 |
| Property, plant and equipment | 11,623 | 1,057 | 1,405 | 1,144 | 5,449 | 20,678 |

# Notes to the financial statements continued

## 4. Segmental reporting continued

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Retail £'000 | London £'000 | Financial Services £'000 | B2B £'000 | All other segments £'000 | Total £'000 |
| Revenue | 231,989 | 170,742 | 75,796 | 239,805 | 367 | 718,699 |
| Other income | 6,611 | 3,814 | 1,186 | 2,535 | 891 | 15,037 |
| Total income | 238,600 | 174,556 | 76,982 | 242,340 | 1,258 | 733,736 |
| Inter-segment revenue | 15,851 | 3,426 | 4,012 | (23,289) | — | — |
| Total income from external customers | 254,451 | 177,982 | 80,994 | 219,051 | 1,258 | 733,736 |
| EBITDA before adjusting items | 43,343 | 34,162 | 20,709 | 32,302 | (17,539) | 112,977 |
| Contingent consideration | — | (1,096) | — | (7,730) | (121) | (8,947) |
| Share-based payments | (464) | (123) | (64) | (250) | (3,493) | (4,394) |
| Depreciation and amortisation | (13,252) | (4,284) | (6,009) | (6,477) | (1,336) | (31,358) |
| Share of loss from joint venture | — | — | — | — | (914) | (914) |
| Exceptional income | — | — | — | — | 2,534 | 2,534 |
| Exceptional costs | (844) | (6,768) | (393) | (1,079) | (7,049) | (16,133) |
| Segment operating profit/(loss) | 28,783 | 21,891 | 14,243 | 16,766 | (27,918) | 53,765 |
| Finance costs | | | | | | (6,376) |
| Finance income | | | | | | 321 |
| Profit before tax | | | | | | 47,710 |
| Total assets | 335,495 | 198,067 | 110,621 | 249,566 | 85,786 | 979,535 |
| Total liabilities | 407,453 | 151,581 | 225,612 | 273,232 | (622,922) | 434,956 |
| **Additions in the year** | | | | | | |
| Goodwill | 30,789 | 16,676 | — | 5,665 | — | 53,130 |
| Intangible assets | 7,821 | 5,619 | 349 | 11,170 | 742 | 25,701 |
| Property, plant and equipment | 9,551 | 4,741 | 1,875 | 1,373 | 3,877 | 21,417 |

### Adjusted items

Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so in order to provide further understanding of the financial performance of the Group. They are material items of income or expense that, in the judgement of the directors, need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance. Examples of material and non-recurring items which may give rise to disclosure as exceptional items include costs of restructuring existing businesses, integration of newly acquired businesses, asset impairments, costs associated with acquiring new businesses and profit on sale of available-for-sale financial assets. The columnar presentation of our income statement separates exceptional items, amortisation of intangibles arising on business acquisitions, contingent consideration and share-based payments to illustrate consistently the Group's underlying business performance.

## 5. Other income

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Rent receivable | 799 | 999 |
| Dividend income on available-for-sale financial assets | 491 | 325 |
| Other operating income | 11,695 | 13,713 |
| | 12,985 | 15,037 |

Other operating income comprises a number of individually immaterial items aggregated across the Group.

## 6. Employees and directors

### (a) Employee costs for the Group during the year

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Wages and salaries | 366,513 | 360,374 |
| Contingent consideration deemed remuneration (note 29) | 6,834 | 8,947 |
| Share options granted to directors and employees (note 27) | 2,465 | 3,372 |
| Defined contribution pension costs (note 25) | 8,633 | 6,687 |
| Defined benefit scheme costs (note 25) | 377 | 193 |
| Social security costs | 40,334 | 39,010 |
| | 425,156 | 418,583 |

## 6. Employees and directors continued

### (a) Employee costs for the Group during the year continued

Average monthly number of people (including executive directors) employed:

| By business segment | 2016 Number | 2015 Number |
|---|---|---|
| Retail | 4,852 | 4,734 |
| London | 2,030 | 2,014 |
| Financial Services | 997 | 968 |
| B2B | 2,759 | 2,613 |
| Head office | 271 | 219 |
| | 10,909 | 10,548 |

### (b) Key management compensation

The following table details the aggregate compensation paid in respect of the members of the Executive Committee including the executive directors.

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Wages and salaries | 2,753 | 3,490 |
| Short term non-monetary benefits | 17 | 46 |
| Share-based payments | 1,099 | 1,605 |
| Post-employment benefits | — | 114 |
| Termination costs | 218 | 903 |
| | 4,087 | 6,158 |

Details of the highest paid director's aggregate emoluments, amounts receivable under long term incentive schemes and payments in lieu of pension entitlements are disclosed within the directors' remuneration report on page 61.

## 7. Other operating costs

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Rent | 29,534 | 27,894 |
| Advertising and marketing expenditure | 21,171 | 19,932 |
| Vehicles, plant and equipment hire | 16,574 | 17,680 |
| Other motoring costs | 17,085 | 14,205 |
| Repairs and maintenance | 12,761 | 7,839 |
| Trade receivables impairment | 2,446 | 607 |
| Profit on disposal of available-for-sale financial assets | — | (237) |
| Profit on revaluation of investment property | — | (400) |
| Other | 137,991 | 127,997 |
| Total operating costs | 237,562 | 215,517 |

### Services provided by the Company's external auditors and network firms

During the year the Company (including its overseas subsidiaries) obtained the following services from the Company's external auditors at costs as detailed below:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Fees payable to the Company's external auditors and its associates for the audit of the consolidated financial statements | 135 | 135 |
| Fees payable to the Company's external auditors and its associates for other services: | | |
| – the audit of the Company's subsidiaries | 444 | 471 |
| – audit-related assurance services | 50 | 44 |
| – other non-audit services | 16 | 11 |
| – tax advisory services | 40 | 9 |
| | 685 | 670 |

Financial statements

# Notes to the financial statements continued

## 8. Finance costs

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Interest costs: | | |
| Interest payable on borrowings | — | 2 |
| Interest payable on revolving credit facility | 7,839 | 4,573 |
| Interest arising from finance leases | 269 | 665 |
| Other interest paid | 318 | 114 |
| Cash payable interest | 8,426 | 5,354 |
| Amortisation of loan facility fee | 1,236 | 868 |
| Net interest costs arising on the pension scheme (note 25) | — | 154 |
| Other finance costs | 10 | — |
| Non-cash payable interest | 1,246 | 1,022 |
| Finance costs | 9,672 | 6,376 |

## 9. Finance income

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Interest income | 292 | 321 |
| Net interest income arising on the pension scheme (note 25) | 12 | — |
| Finance income | 304 | 321 |

## 10. Exceptional items

The following items have been included in arriving at profit before taxation:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Exceptional income** | | |
| Profit on disposal of available-for-sale financial assets | 32,804 | — |
| Release of professional indemnity provisions | 2,910 | — |
| Deferred income amortisation arising from fair valuation of ZPG Plc shares crystallised upon the merger in May 2012 | — | 2,534 |
| | 35,714 | 2,534 |
| **Exceptional costs** | | |
| Restructuring costs: | | |
| People-related restructuring costs | (8,109) | (3,767) |
| Consultancy costs | — | (3,288) |
| Profit on sale of leasehold property | — | 836 |
| Property closure costs | (15,813) | (1,211) |
| Impairment of goodwill | (19,564) | — |
| Impairment of brands | (1,358) | (6,126) |
| Marketing review and channel optimisation | (2,032) | — |
| Other costs | (400) | (669) |
| Total restructuring costs | (47,276) | (14,225) |
| Regulatory settlement costs (including legal fees) | — | (826) |
| Acquisition expenses | (927) | (1,082) |
| Total exceptional costs | (48,203) | (16,133) |
| Net exceptional costs | (12,489) | (13,599) |

### 2016

### Exceptional income

The £32,804,000 profit on disposal of available-for-sale financial assets relates entirely to the sale of the Group's residual interest in ZPG Plc.

During 2016 the Group received reduced numbers of professional indemnity valuation claims, in line with expectations, and achieved closure of a number of challenging cases. Estimating the liability for PI claims remains highly judgemental and we have updated our financial models to reflect the latest inputs and trends and taken advice from our panel of lawyers in respect of open claims. Despite the judgemental nature of the provision, the progress made during the year on individually significant claims, aligned with the low level of claims made, has resulted in the assessment of a £2,910,000 release in the provision.

## 10. Exceptional items continued

### 2016 continued

### Exceptional costs

#### Restructuring costs

During 2016 the Group undertook a significant branch restructuring, accelerating our transformation agenda and resizing the Retail estate, resulting in a number of exceptional, non-recurring costs in relation to the project and related restructuring costs. The principal elements are:

- £8,109,000 in respect of associated redundancy costs to achieve the appropriate organisational structure;
- £15,813,000 of property provisions, comprising: £4,162,000 dilapidation costs; £7,430,000 onerous contract costs in respect of closed premises; £3,084,000 associated asset write downs arising from rationalisation of our branch footprint; and £1,137,000 of other property closure costs;
- £19,564,000 of impairment charges from writing down goodwill associated with conveyancing operations (£1,083,000), and £5,016,000 and £13,465,000 respectively in relation to the Retail and London cash generating units following an assessment of the recoverable value against the carrying value of the goodwill (see note 14);
- £1,358,000 of impairment charges from writing down four brands which have been abandoned as part of our review of the Retail marketplace (see note 14); and
- £2,032,000 in respect of costs expensed during the year as part of the organisational redesign of our marketing function and revisions to our channels to market aligned with the launch of our digital offering.

#### Acquisition expenses

The Group incurred acquisition expenses of £927,000 across a number of transactions undertaken during the year (note 29).

### 2015

### Exceptional income

This income arose from the continued amortisation of the deferred income in relation to ZPG Plc warrants which ceased unwind at 31 December 2015.

### Exceptional costs

#### Strategic and restructuring costs

During 2015, the Group undertook the 'Building our Future' strategic review and incurred a number of exceptional, non-recurring costs in relation to the project and related restructuring costs. The principal elements are:

- Following an initial period of organisational design work, a number of redundancies were made throughout the year as the leadership structure evolved to meet the future needs of the Group. All redundancy costs directly related to this strategic review amounted to £3,289,000. This included the costs of redundancies which were communicated to the individuals prior to 31 December 2015, and settlements agreed, but whose employment ceased during 2016.
- The organisational redesign also resulted in the creation of a number of posts created to meet the revised needs of the Group. As a result, recruitment costs of £478,000 were incurred during 2015.
- As part of the strategic review, external agencies were involved where specialists skills were required. Consultancy costs of £3,288,000 were incurred in relation to a number of projects that included: strategic support and change management; IT transformation; organisational redesign; talent development and leadership skills training; and internal communication in support of specific strategic objectives identified.
- The Group decided to rationalise its property footprint in London to integrate the London and B2B teams into our existing commercial and corporate rented property in Oxford Street. As a result, the Group sold its existing leasehold premises in Grosvenor Square generating a profit on sale of £836,000 (net of legal costs). Offsetting this profit were costs in relation to exiting additional space in London that was surplus to requirements. As a result, costs of £1,211,000 were incurred in relation to dilapidation costs, onerous lease provisions and the rental costs of the additional Oxford Street space during the three-month period of refurbishment and relocation when costs were also being incurred in the original sites.
- Following the reorganisation of business units, an initial review of London brands was undertaken and as a result of this rationalisation of intended future brand use an impairment of £6,126,000 was identified (note 14).

Other costs directly related to the strategic review were collated and, whilst individually immaterial, these aggregated to a total cost of £669,000 and principally related to the costs of strategic sessions and leadership training.

#### Regulatory settlement costs

On 19 March 2015, the Competition and Markets Authority (CMA) concluded its investigation into an association of estate and lettings agents in Hampshire. Hamptons Estates Limited was one of three parties forming part of an association that admitted arrangements which had the object of reducing competitive pressure on estate agents and lettings agents' fees in the local area in and around Fleet in Hampshire in a period prior to the Group's ownership. The exceptional cost above reflects the penalty payable to the CMA and associated legal costs.

#### Acquisition expenses

The Group incurred acquisition expenses of £1,082,000 across a number of transactions.

# Notes to the financial statements continued

## 11. Taxation

### Analysis of charge in year

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Current tax on profits for the year | 5,200 | 8,543 |
| Adjustments in respect of prior years | (623) | (82) |
| **Total current tax** | **4,577** | 8,461 |
| Deferred tax on profits for the year | | |
| Origination and reversal of temporary differences | (154) | 1,196 |
| Impact of change in tax rate | (2,308) | (3,483) |
| Adjustments in respect of prior years | (160) | (232) |
| **Total deferred tax (note 24)** | **(2,622)** | (2,519) |
| **Income tax charge** | **1,955** | 5,942 |

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Tax on items charged to equity** | | |
| Deferred tax adjustment arising on share-based payments | (299) | (767) |
| **Tax on items credited/(charged) to other comprehensive income** | | |
| Deferred tax adjustment arising on the pension scheme assets and liabilities | 909 | (650) |
| Deferred tax adjustment arising on cash flow hedge | 473 | — |

The tax charge for the year differs (2015: differs) from the standard rate of corporation tax in the UK of 20.0% (2015: 20.25%). The differences are explained below:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Profit on ordinary activities before tax | 19,495 | 47,710 |
| Profit on ordinary activities multiplied by the rate of corporation tax in the UK of 20.0% (2015: 20.25%) | 3,899 | 9,661 |
| Effects of: | | |
| Profits from joint venture | 3 | 185 |
| Tax relief on contingent consideration | 1,367 | 1,812 |
| Other expenses not deductible | 1,351 | 80 |
| Permanent difference relating to depreciation not deductible | 858 | 907 |
| Tax relief on purchased goodwill | 3,741 | (152) |
| Tax relief on share-based payments charged to equity | (32) | (1,715) |
| Rate change on deferred tax provision | (2,308) | (3,510) |
| Income not subject to tax due to availability of unprovided losses | (6,294) | (1,128) |
| Adjustments in respect of prior years | (783) | (314) |
| Overseas losses | 153 | 116 |
| **Total taxation charge** | **1,955** | 5,942 |

The changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020.

The relevant deferred tax balances have been remeasured using rates applicable to when the balances are expected to unwind.

## 12. Dividends

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the year: | | |
| – final dividend for the year ended 31 December 2015 of 10.0 pence (net) per share (2014: 10.0 pence (net) per share) | 21,963 | 21,963 |
| – interim dividend for the year ended 31 December 2016 of 5.0 pence (net) per share (2015: 5.0 pence (net) per share) | 10,817 | 10,981 |
| **Total** | **32,780** | 32,944 |

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2016.

## 13. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares of Countrywide plc.

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Profit for the year attributable to owners of the parent | 17,404 | 41,351 |
| Weighted average number of ordinary shares in issue | 216,683,218 | 218,447,386 |
| Basic earnings per share (in pence per share) | 8.03p | 18.93p |

For diluted earnings per share, the weighted average number of ordinary shares in existence is adjusted to include all dilutive potential ordinary shares arising from share options.

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Profit for the year attributable to owners of the parent | 17,404 | 41,351 |
| Weighted average number of ordinary shares in issue | 216,683,218 | 218,447,386 |
| Adjustment for weighted average number of contingently issuable share options | 12,824 | 1,264,900 |
| Weighted average number of ordinary shares for diluted earnings per share | 216,696,042 | 219,712,286 |
| Diluted earnings per share (in pence per share) | 8.03p | 18.82p |
| **Adjusted earnings** | | |
| Profit for the year attributable to owners of the parent | 17,404 | 41,351 |
| Adjusted for the following items, net of taxation: | | |
| Amortisation arising on intangibles recognised through business combinations | 6,365 | 4,542 |
| Contingent consideration | 6,834 | 8,947 |
| Share-based payments charge | 2,145 | 3,628 |
| Exceptional income | (35,133) | (2,534) |
| Exceptional costs | 44,285 | 14,309 |
| Adjusted earnings, net of taxation | 41,900 | 70,243 |
| Adjusted basic earnings per share (in pence per share) | 19.34p | 32.16p |
| Adjusted diluted earnings per share (in pence per share) | 19.34p | 31.97p |

## 14. Intangible assets

### (a) Goodwill

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Cost** | | |
| At 1 January | 888,982 | 835,852 |
| Arising on acquisitions (note 29) | 19,687 | 53,130 |
| At 31 December | 908,669 | 888,982 |
| **Accumulated impairment (note 14(c))** | | |
| At 1 January | 417,356 | 417,356 |
| Impairment (note 10) | 19,564 | — |
| At 31 December | 436,920 | 417,356 |
| **Net book amount** | | |
| At 31 December | 471,749 | 471,626 |

The restructuring undertaken during the year has resulted in an impairment charge of £1.1 million against goodwill associated with conveyancing operations. Impairment charges of £5.0 million and £13.5 million respectively have been made in relation to the Retail and London cash generating units following an assessment of the recoverable value against the carrying value. These charges have been booked against exceptional items (note 10).

# Notes to the financial statements continued

## 14. Intangible assets continued

(b) Other intangible assets

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Computer software £'000 | Brand names £'000 | Customer contracts and relationships £'000 | Pipeline £'000 | Other intangibles £'000 | Total £'000 |
| **Cost** | | | | | | |
| At 1 January | 52,661 | 223,185 | 125,545 | 5,693 | — | 407,084 |
| Acquisitions through business combinations (note 29) | 419 | 8,830 | 5,687 | 513 | 403 | 15,852 |
| Additions | 11,071 | — | — | — | — | 11,071 |
| Disposals | (1,564) | — | — | — | — | (1,564) |
| Transfers | 4,273 | — | — | — | — | 4,273* |
| At 31 December | 66,860 | 232,015 | 131,232 | 6,206 | 403 | 436,716 |
| **Accumulated amortisation and impairment losses (note 14(c))** | | | | | | |
| At 1 January | 38,730 | 39,970 | 83,300 | 5,627 | — | 167,627 |
| Charge for the year | 7,552 | — | 10,808 | 579 | 40 | 18,979 |
| Impairment (note 10) | 6 | 1,358 | — | — | — | 1,364 |
| On disposals | (1,564) | — | — | — | — | (1,564) |
| At 31 December | 44,724 | 41,328 | 94,108 | 6,206 | 40 | 186,406 |
| **Net book amount** | | | | | | |
| At 31 December | 22,136 | 190,687 | 37,124 | — | 363 | 250,310 |

* Transfers from assets in the course of construction (note 15).

Computer software includes the following amounts where the Group is a lessee under a finance lease:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Cost – capitalised finance lease | 6,381 | 6,381 |
| Accumulated depreciation | (3,084) | (1,808) |
| **Net book amount** | 3,297 | 4,573 |

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Computer software £'000 | Brand names £'000 | Customer contracts and relationships £'000 | Pipeline £'000 | Other intangibles £'000 | Total £'000 |
| **Cost** | | | | | | |
| At 1 January | 62,748 | 218,739 | 110,258 | 5,159 | — | 396,904 |
| Acquisitions through business combinations (note 29) | 3 | 4,446 | 15,287 | 534 | — | 20,270 |
| Additions | 5,431 | — | — | — | — | 5,431 |
| Disposals | (15,521) | — | — | — | — | (15,521) |
| At 31 December | 52,661 | 223,185 | 125,545 | 5,693 | — | 407,084 |
| **Accumulated amortisation and impairment losses (note 14(c))** | | | | | | |
| At 1 January | 48,315 | 33,844 | 72,590 | 5,159 | — | 159,908 |
| Charge for the year | 5,936 | — | 10,710 | 468 | — | 17,114 |
| Impairment (note 10) | — | 6,126 | — | — | — | 6,126 |
| On disposals | (15,521) | — | — | — | — | (15,521) |
| At 31 December | 38,730 | 39,970 | 83,300 | 5,627 | — | 167,627 |
| **Net book amount** | | | | | | |
| At 31 December | 13,931 | 183,215 | 42,245 | 66 | — | 239,457 |

All amortisation and impairment charges are treated as an expense in the income statement. Brand names are treated as having an indefinite-life, as a result of the fact that the Group will continue to operate these brands into perpetuity, and are therefore subject to annual, or more frequent, impairment reviews if events or changes in circumstances indicate potential impairment.

## 14. Intangible assets continued

### (b) Other intangible assets continued

Management identified four brand names which had ceased usage following the restructuring undertaken during the year. This resulted in an impairment charge of £1.4 million included within exceptional items (see note 10). All remaining brands have been reviewed with no further impairment identified. The carrying amounts of various brand names owned by the Group are disclosed below:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Brand names** | | |
| Bairstow Eves | 17,173 | 17,173 |
| John D Wood | 14,464 | 14,464 |
| Mann & Co | 5,462 | 5,462 |
| Slater Hogg & Howison | 9,709 | 9,709 |
| Taylors Estate Agents | 10,071 | 10,071 |
| Hamptons International | 58,774 | 58,774 |
| Blundell Property Services | 6,494 | 6,494 |
| Lambert Smith Hampton | 28,377 | 28,377 |
| | 150,524 | 150,524 |
| **Other brands** | 31,333 | 32,691 |
| **Net book value** | 181,857 | 183,215 |

### (c) Impairment

Cash generating units (CGUs) represent the smallest identifiable group of assets that generate cash flows that are largely independent of cash flows from other groups of assets. In accordance with internal management structures, the group of CGUs against which goodwill is monitored comprise Retail, London and Financial Services, with the B2B business unit being split further into Professional Services, Countrywide Residential Development Solutions and Commercial. In many cases the operations of the acquired businesses have been fully integrated with existing business and consequently the economic flows are not monitored at a lower level than the CGUs identified for goodwill impairment review. Management further considers that each group of branches operating under the same brand name to constitute a CGU. These brand name CGUs are therefore the level at which brand names are assessed for impairment. Where necessary, assets have been reallocated to the goodwill-level CGUs that are expected to benefit from the business combination in which the goodwill or intangible asset arose as follows:

| | | | | B2B CGUs | | | |
|---|---|---|---|---|---|---|---|
| 2016 | Retail £'000 | London £'000 | Financial Services £'000 | Professional Services £'000 | Countrywide Residential Development Solutions £'000 | Commercial £'000 | Total £'000 |
| Goodwill | 177,475 | 59,593 | 89,885 | 132,890 | 2,111 | 9,795 | 471,749 |
| Indefinite-life intangible assets | 70,172 | 86,784 | 4,343 | — | 1,011 | 28,377 | 190,687 |
| | 247,647 | 146,377 | 94,228 | 132,890 | 3,122 | 38,172 | 662,436 |

| | | | | B2B CGUs | | | |
|---|---|---|---|---|---|---|---|
| 2015 | Retail £'000 | London £'000 | Financial Services £'000 | Professional Services £'000 | Countrywide Residential Development Solutions £'000 | Commercial £'000 | Total £'000 |
| Goodwill | 168,650 | 71,960 | 87,888 | 132,890 | 775 | 9,463 | 471,626 |
| Indefinite-life intangible assets | 68,054 | 86,784 | — | — | — | 28,377 | 183,215 |
| | 236,704 | 158,744 | 87,888 | 132,890 | 775 | 37,840 | 654,841 |

Under IAS 36 'Impairment of assets', the Group is required to:

- review its intangible assets in the event of a significant change in circumstances that would indicate potential impairment; and
- review and test its goodwill and indefinite-life intangible assets annually or in the event of a significant change in circumstances.

The restructuring undertaken during the year resulted in an impairment charge of £1.1 million against goodwill associated with conveyancing operations being closed. The 2016 impairment review was performed on the remaining goodwill in accordance with IAS 36 'Impairment of assets' by comparing the carrying amount of each CGU against its recoverable amount.

The recoverable amount of each CGU is based on value in use calculations that have been determined from pre-tax cash flow projections derived from formally approved strategic budgets and forecasts covering the period from 2017 to 2020 with nil growth for 2021. Growth rates applied within the strategic plan are based on past experience, market data and expectation of future market outlook and development. For the purpose of the impairment review, cash flows beyond the five-year period are extrapolated using a terminal value which includes a growth rate of 0% into perpetuity. The discount rate used is based on the CGU's estimated cost of capital.

For each of the CGUs with significant amounts of goodwill, the key assumptions on which the forecast cash flows are based are set out below. Key assumptions are those to which the recoverable amount of a CGU is most sensitive.

# Notes to the financial statements continued

## 14. Intangible assets continued

### (c) Impairment continued

### Market and organic growth assumptions

Cash flows assume a 5% reduction in UK housing volumes in 2017 followed by annual growth of 2% in 2018 to 2020. Mortgage approval volumes remain flat in 2017 followed by annual growth of 5% in 2018 to 2020. Annual growth of between 3% and 5% is assumed for the remortgage market over the period from 2017 to 2020. Organic growth, for example through improved market appraisal conversion and increased instructions, is assumed in each CGU reflecting the strategic direction of the business. Zero growth is assumed throughout from 2021 for the purpose of this calculation.

### Benefits of past restructuring changes

Benefits are taken into account where there is appropriate certainty over cost reductions.

### Discount rate

Cash flows have been discounted using a pre-tax discount rate of between 8.7% and 10.5%, reflecting the weighted average cost of capital assigned to each CGU.

The initial 2016 goodwill impairment review identified low headroom between the carrying amount and the recoverable amount (value-in-use) of the London and Retail CGUs. In light of the continued impact of political and economic uncertainty on market confidence, with particular regard to the London sector, management adopted a robust approach to assessing the reasonableness of the future cash flows for the two CGUs. Probability risk factors ranging between 0% and 100% were assigned to each category of cash flow movement between 2016 and 2017 (for example, income growth, cost reductions, and other synergies), reflecting the likelihood each of being achieved. The refined cash flows, discounted using a rate of 8.7%, identified recoverable amounts of £312 million for the Retail CGU and £156 million for the London CGU. The calculation concluded that impairment charges of £5.0 million and £13.5 million were appropriate against goodwill held by the Retail and London CGUs respectively.

The 2016 goodwill impairment review concluded that the recoverable amount for all other CGUs to which goodwill is allocated exceeded their respective carrying values, resulting in no further indication of impairment (2015: £Nil).

A similar impairment review of indefinite-life intangible assets identified an impairment of £1.4 million (2015: £6.1 million) against brand names as a direct result of the restructuring undertaken within the Retail business unit (see note 10). The strategic review concluded that certain Retail brand names will be abandoned, with the existing businesses rebranded to other Retail brand names held by the Group.

An impairment review was performed on the remaining brand names at 31 December 2016 in accordance with IAS 36 by comparing the carrying amount of each brand name with its recoverable amount based on value in use calculations. The calculations used assumptions that were consistent with the goodwill impairment review, pre-tax cash flows from the same sources and a discount rate of between 8.7% and 10.5%. No further impairment of CGUs containing indefinite-life intangible assets was identified.

The 2015 impairment review was based on cash flows from the five-year approved strategic plan for the period from 2016 to 2020, with a terminal value from the fifth year and a growth rate of 0% into perpetuity. The discount rate used for the 2015 impairment review was 8.7%.

Cumulative impairments, including the goodwill and brand impairments identified during the current year combined with previous impairments including those that resulted from the severe financial crisis that originated in 2008, amount to the following:

| | Goodwill £'000 | Brand names £'000 | Computer software £'000 | Total £'000 |
|---|---|---|---|---|
| **Cash generating unit** | | | | |
| Retail | 223,101 | 35,202 | 5 | 258,308 |
| London | 59,432 | 6,126 | 1 | 65,559 |
| Financial Services | 114,387 | — | — | 114,387 |
| B2B – Professional Services | 40,000 | — | 10,500 | 50,500 |
| B2B – Countrywide Residential Development Solutions | — | — | — | — |
| B2B – Commercial | — | — | — | — |
| | 436,920 | 41,328 | 10,506 | 488,754 |

### Sensitivity analysis

Management has undertaken sensitivity analyses to determine the effect of changes in assumptions on the outcome of the 2016 impairment reviews. Recoverable amounts derived from the value in use calculations for the Retail and London CGUs are most sensitive to changes in the discrete growth rates underpinning the cash flow forecasts, including housing market volumes, organic growth and changes in the discount rate. The recoverable amounts of the remaining CGUs have low sensitivity to changes in underlying assumptions.

In addition to the above review which concluded that impairment charges of £5.0 million and £13.5 million were appropriate against goodwill held by the Retail and London CGUs, further scenarios were modelled. Applying a further 10% reduction to EBITDA from operating cash flows, but keeping all other cash flows such as capital investment in line with the strategic plan, would result in goodwill allocated to the Retail CGU being impaired by an additional £47 million and goodwill allocated to the London CGU being impaired by an additional £24 million.

Similarly, increasing the discount factor of 8.7% by 10% would indicate further impairment of £28 million against goodwill allocated to the Retail CGU and £14 million against goodwill allocated to the London CGU. Management does not consider the above impairment scenarios to be likely; mitigating actions are available should such scenarios arise.

An aggressive scenario sensitivity analysis conducted at the end of 2015, applying nil rate growth rates in 2016 and beyond across all CGUs, but keeping all other cash flows such as capital investment in line with the strategic plan, resulted in goodwill allocated to the Retail CGU being impaired by £91 million. Management did not consider this impairment scenario to be likely; mitigating actions would be available.

## 15. Property, plant and equipment

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Land and buildings £'000 | Leasehold improvements £'000 | Motor vehicles £'000 | Furniture and equipment £'000 | Assets in the course of construction £'000 | Total £'000 |
| **Cost** | | | | | | |
| At 1 January | 1,926 | 41,464 | 799 | 65,073 | 6,031 | 115,293 |
| Acquisition of subsidiaries (note 29) | — | 228 | 140 | 234 | — | 602 |
| Additions at cost | — | 2,627 | 80 | 8,765 | 8,604 | 20,076 |
| Disposals | (4) | (15,980) | (82) | (32,776) | — | (48,842) |
| Transfers | — | 5,912 | — | 2,496 | (12,681) | (4,273)* |
| At 31 December | 1,922 | 34,251 | 937 | 43,792 | 1,954 | 82,856 |
| **Accumulated depreciation** | | | | | | |
| At 1 January | 334 | 22,326 | 176 | 42,483 | — | 65,319 |
| Charge for the year | 21 | 5,634 | 236 | 8,002 | — | 13,893 |
| Impairment | — | 83 | — | 37 | — | 120 |
| Disposals | (4) | (13,391) | (82) | (32,444) | — | (45,921) |
| At 31 December | 351 | 14,652 | 330 | 18,078 | — | 33,411 |
| **Net book amount** | | | | | | |
| At 31 December | 1,571 | 19,599 | 607 | 25,714 | 1,954 | 49,445 |

* Transfers to computer software (note 14b).

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Land and buildings £'000 | Leasehold improvements £'000 | Motor vehicles £'000 | Furniture and equipment £'000 | Assets in the course of construction £'000 | Total £'000 |
| **Cost** | | | | | | |
| At 1 January | 2,093 | 32,537 | 578 | 67,904 | 5,529 | 108,641 |
| Acquisition of subsidiaries (note 29) | — | 100 | 4 | 1,625 | — | 1,729 |
| Additions at cost | — | 2,585 | 219 | 6,943 | 9,941 | 19,688 |
| Disposals | (167) | (3,197) | (2) | (11,399) | — | (14,765) |
| Transfers | — | 9,439 | — | — | (9,439) | — |
| At 31 December | 1,926 | 41,464 | 799 | 65,073 | 6,031 | 115,293 |
| **Accumulated depreciation** | | | | | | |
| At 1 January | 340 | 18,932 | 57 | 43,789 | — | 63,118 |
| Charge for the year | 22 | 4,038 | 120 | 10,064 | — | 14,244 |
| Disposals | (28) | (644) | (1) | (11,370) | — | (12,043) |
| At 31 December | 334 | 22,326 | 176 | 42,483 | — | 65,319 |
| **Net book amount** | | | | | | |
| At 31 December | 1,592 | 19,138 | 623 | 22,590 | 6,031 | 49,974 |

Assets in the course of construction with a value of £1,954,000 relate principally to branch refurbishments in progress for which no depreciation has been charged. Depreciation commences when the asset enters operational use and the asset is transferred to the operational asset category.

Furniture and equipment includes the following amounts in respect of computer hardware where the Group is a lessee under a finance lease:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Cost – capitalised finance lease | 12,737 | 9,683 |
| Accumulated depreciation | (6,953) | (5,404) |
| **Net book amount** | 5,784 | 4,279 |

The Group leases various assets, principally computer hardware and related costs, under finance lease agreements whose terms are between three and eight years.

# Notes to the financial statements continued

## 15. Property, plant and equipment continued

### Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred, relating to 2016 and the three subsequent years, is as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Property, plant and equipment | 2,590 | 4,437 |

## 16. Investments

### (a) Principal subsidiary undertakings of the Group

The Company substantially owns directly or indirectly the whole of the issued and fully paid ordinary share capital of its subsidiary undertakings, most of which are incorporated in Great Britain, and whose operations are conducted in the United Kingdom. Principal subsidiary undertakings of the Group at 31 December 2016 are presented below:

| Subsidiary | Nature of business | Country of incorporation | Proportion of ordinary shares held by parent % | Proportion of ordinary shares held by the Group % |
|---|---|---|---|---|
| Countrywide Group plc | Holding company | UK | — | 100 |
| Balanus Limited | Holding company | UK | — | 100 |
| **Retail** | | | | |
| Countrywide Estate Agents | Estate Agency and Lettings | UK | — | 100 |
| **London** | | | | |
| Hamptons Group Limited | Holding company | UK | — | 100 |
| Hamptons Estates Limited | Estate Agency and Lettings | UK | — | 100 |
| **B2B** | | | | |
| Lambert Smith Hampton Limited | Holding company | UK | — | 100 |
| Lambert Smith Hampton Limited (N Ireland) | Property consultancy | UK | — | 100 |
| Lambert Smith Hampton Limited (Ireland) | Property consultancy | Ireland | — | 100 |
| Lambert Smith Hampton Group Limited | Property consultancy | UK | — | 100 |
| Countrywide Surveyors Limited | Surveying Services | UK | — | 100 |
| United Surveyors Limited | Surveying Services | UK | — | 100 |
| Countrywide Property Lawyers Limited | Conveyancing Services | UK | — | 100 |
| TitleAbsolute Limited | Conveyancing Services | UK | — | 100 |
| **Financial Services** | | | | |
| Countrywide Principal Services Limited | Financial Services | UK | — | 100 |
| The Buy To Let Business Limited | Financial Services | UK | — | 100 |
| Mortgage Bureau Limited | Financial Services | UK | — | 100 |
| Slater Hogg Mortgages Limited | Financial Services | UK | — | 100 |
| Mortgage Intelligence Limited | Financial Services | UK | — | 100 |
| Mortgage Next Limited | Financial Services | UK | — | 100 |
| Capital Private Finance Limited | Financial Services | UK | — | 100 |
| Life and Easy Limited | Financial Services | UK | — | 100 |

A full list of subsidiary undertakings and their registered addresses at 31 December 2016 is included within the appendix. The appendix on pages 129 to 134 forms part of these financial statements.

Following the exercise of the put option in July 2016, the Group has acquired the remaining 49% of the ordinary share capital of Capital Private Finance Limited and accordingly there are no longer any non-controlling interests within the Group.

### (b) Interests in joint venture

#### TM Group (UK) Limited

At 31 December 2016 the Group had a 33% (2015: 33%) interest in the ordinary share capital of TM Group (UK) Limited (TMG), a UK company. TMG has share capital consisting solely of ordinary shares and is a private company with no quoted market price available for its shares. TMG is one of the largest companies in the provision of searches to the property companies sector (measured by completed searches). It delivers a range of property searches and data to land and property professionals in the UK, arranges for property searches directly with specific suppliers on behalf of its own customers, and supplies IT applications and products to UK mortgage lenders.

There are no outstanding commitments or contingent liabilities relating to the Group's interest in the joint venture.

## 16. Investments continued

### (b) Interests in joint venture continued

### TM Group (UK) Limited continued

During the year, TMG was a joint venture company.

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| At 1 January: | | |
| Net assets excluding goodwill | 825 | 1,739 |
| Goodwill | 1,480 | 1,480 |
| | 2,305 | 3,219 |
| Share of losses retained | (13) | (914) |
| At 31 December: | | |
| Net assets excluding goodwill | 812 | 825 |
| Goodwill | 1,480 | 1,480 |
| | 2,292 | 2,305 |

The summarised financial information of TM Group (UK) Limited, which is accounted for using the equity method, is presented below:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Cash and cash equivalents | 4,620 | 7,465 |
| Other current assets (excluding cash) | 3,227 | 2,149 |
| Total current assets | 7,847 | 9,614 |
| Non-current assets | 816 | 806 |
| Current liabilities | (6,202) | (7,946) |
| Net assets | 2,461 | 2,474 |
| Net assets adjusted for the percentage of ownership | 812 | 825 |
| Income | 59,735 | 61,447 |
| Depreciation | (395) | (284) |
| Expenses (excluding depreciation) | (59,423) | (63,957) |
| Interest income | 44 | 52 |
| Post-tax results | (39) | (2,742) |
| Share of post-tax results | (13) | (914) |

There is no other comprehensive income arising in the joint venture in either year.

### (c) Available-for-sale financial assets

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| At 1 January | 57,760 | 33,290 |
| Transferred from investment property | — | 13,806 |
| ZPG shares purchased for cash | — | 2,090 |
| Disposal of ZPG shares | (45,304) | (383) |
| Acquisition of shares in unlisted equity and debentures | 1,504 | 348 |
| Increase in fair value through income statement on the date of purchase | — | 802 |
| Movement in fair value | 2,132 | 7,836 |
| Amortisation | (34) | (29) |
| At 31 December | 16,058 | 57,760 |

# Notes to the financial statements continued

## 16. Investments continued

### (c) Available-for-sale financial assets continued

Available-for-sale financial assets, which are all Sterling denominated, include the following:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Listed equity securities: ZPG Plc | — | 42,856 |
| Unlisted residential property fund units | 14,139 | 14,455 |
| Unlisted equity | 1,797 | 353 |
| Wimbledon debentures (acquired and amortised over the life of the debenture) | 122 | 96 |
| At 31 December | 16,058 | 57,760 |

In June 2014, Zoopla Property Group plc listed on the London Stock Exchange and as a result crystallised some additional warrants into shares which were due under a further commercial agreement signed in 2014 to extend the listing period on the ZPG Plc website. The excess in the assessed fair value of these shares on initial recognition, over the nominal cost, has been treated as deferred income (£2,835,000) and is being released over the three-year period of the contract from 2016 to 2018 (see note 22).

The fair value hierarchy of the holding within the investment property fund has remained at Level 2, and is based on receipt of a net asset valuation statement from the trustees on a quarterly basis (see note 34).

## 17. Trade and other receivables

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Trade receivables not past due | 44,964 | 51,361 |
| Trade receivables past due but not impaired | 35,090 | 29,400 |
| Trade receivables past due but impaired | 3,421 | 3,124 |
| **Trade receivables** | 83,475 | 83,885 |
| Less: provision for impairment of receivables | (3,421) | (3,124) |
| **Trade receivables – net** | 80,054 | 80,761 |
| Amounts due from customers for contract work | 3,368 | 2,241 |
| Other receivables | 15,542 | 19,413 |
| Prepayments and accrued income | 21,391 | 21,017 |
| | 120,355 | 123,432 |

Trade and other receivables are all current and any fair value difference is not material. Trade receivables are considered past due once they have passed their contracted due date. Significant trade receivables are reviewed for impairment if they are past due. All trade receivables are reviewed for impairment if they are past due beyond 90 days for individual customers or 180 days for commercial contracts. Further information in respect of financial assets, including credit risk, is provided in note 33.

As at 31 December 2016, trade receivables of £35,090,000 (2015: £29,400,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Less than three months | 17,229 | 18,417 |
| Over three months | 17,861 | 10,983 |
| | 35,090 | 29,400 |

Trade and other receivables are denominated in Pounds Sterling with the exception of £673,000 (2015: £728,000) which is receivable in Euros (2015: Hong Kong Dollars and Euros).

A summary of the movement in the provision for impairment of receivables is detailed below:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| At 1 January | 3,124 | 4,165 |
| Additional provisions (note 7) | 2,446 | 607 |
| Amounts utilised | (2,149) | (1,648) |
| At 31 December | 3,421 | 3,124 |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

## 18. Cash and cash equivalents

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Cash and cash equivalents** | | |
| Cash at bank and in hand | 5,299 | 21,246 |
| Short term bank deposits | 40,027 | 3,090 |
| | 45,326 | 24,336 |

Of the short term bank deposits, a number were interest bearing within the following range: 2016: 0.35%–0.55% (2015: 0.5%–0.55%).

The following amounts were held in foreign currencies:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Hong Kong Dollars | 152 | 126 |
| Euros | 463 | 325 |
| | 615 | 451 |

## 19. Trade and other payables

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Trade payables | 16,333 | 13,261 |
| Other financial liabilities | — | 2,700 |
| Deferred consideration | 6,164 | 7,987 |
| | 22,497 | 23,948 |
| Other tax and social security payable | 26,253 | 31,577 |
| Accruals and other payables | 59,981 | 77,687 |
| | 108,731 | 133,212 |
| Trade and other payables due within one year | 95,072 | 128,503 |
| Trade and other payables due after one year | 13,659 | 4,709 |
| | 108,731 | 133,212 |

The principal components of trade and other payables due after one year are: deferred and contingent consideration payments of £12,964,000 (2015: £3,099,000); and accrued National Insurance share-based payment charges of £695,000 (2015: £1,610,000).

At 31 December 2015, other financial liabilities included put options of £2,700,000 to acquire the non-controlling interests in Capital Private Finance Limited, an entity acquired in 2011 (see note 16(a)). These financial liabilities were held at the present value of the expected redemption amount, which was based on management's expectation of performance, consistent with operating plans approved. The Group exercised the put options in July 2016 at £2,700,000.

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Exercisable in 2016 | — | 2,700 |

The fair value of financial liabilities approximates their carrying value due to short maturities. Financial liabilities are denominated in Pounds Sterling with the exception of £26,000 (2015: £419,000) which is receivable in Euros.

## 20. Borrowings

| | 2016 £'000 | Reclassified* 2015 £'000 |
|---|---|---|
| **Non-current** | | |
| Bank borrowings | 290,000 | 200,000 |
| Other loans | 2,699 | 1,000 |
| Capitalised banking fees | (3,223) | (1,872) |
| Finance lease liabilities | 3,029 | 5,458 |
| | 292,505 | 204,586 |
| **Current** | | |
| Finance lease liabilities | 721 | 4,662 |
| | 721 | 4,662 |
| **Total borrowings** | 293,226 | 209,248 |

* The revolving credit facility (RCF) of £200 million was classified as bank borrowings within current debt at 31 December 2015 based on the rolling utilisation request, but has been reclassified to bank borrowings within non-current debt on the basis that no repayments are mandated before 20 March 2020 (2015: 20 March 2018) (see Borrowing and other loans below).

Financial statements

# Notes to the financial statements continued

## 20. Borrowings continued

### Analysis of net debt

| | Reclassified at 1 January 2016 £'000 | Cash flow £'000 | Non-cash changes £'000 | At 31 December 2016 £'000 |
|---|---|---|---|---|
| Cash and cash equivalents | 24,336 | 20,990 | — | **45,326** |
| Capitalised banking fees | 1,872 | 2,587 | (1,236) | **3,223** |
| Other loans | (1,000) | — | (1,699) | **(2,699)** |
| Revolving credit facility due after one year | (200,000) | (90,000) | — | **(290,000)** |
| Finance leases due after one year | (5,458) | — | 2,429 | **(3,029)** |
| Finance leases due within one year | (4,662) | 5,925 | (1,984) | **(721)** |
| **Total** | (184,912) | (60,498) | (2,490) | **(247,900)** |

Net debt excludes derivative financial instruments. Details of the interest rate swap liability are disclosed in note 21.

### Borrowings and other loans

On 18 February 2016 the Company entered into an Amendment and Restatement Agreement relating to the term and revolving credit facility agreement (RCF), originally dated 20 March 2013, which is due to expire in March 2020. The facility is now a £340 million RCF, with no term loan elements, and an additional £60 million accordion facility, with any outstanding balance repayable in full on 20 March 2020. Interest is currently payable based on LIBOR plus a margin of 2.75%. The margin is linked to the leverage ratio of the Group and the margin rate is reviewed twice a year (and can vary between 1.75% and 3.0%). The RCF is available for utilisation subject to satisfying fixed charge and leverage covenants and £90 million was drawn down during the period.

'Other loans' disclosed above comprise: £1 million of unsecured loan notes which are non-interest bearing, repayable in 2029, and arose on the purchase of Mortgage Intelligence Holdings Limited; and loan notes payable to The Buy to Let Group Limited joint shareholder (49%) and director of £1,590,000 capital and associated interest charges accruing at a rate of 8% per annum.

### Finance lease liabilities

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Gross finance lease liabilities – minimum lease payments:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| No later than one year | **953** | 5,026 |
| Later than one year and no later than five years | **3,163** | 5,795 |
| Greater than five years | **45** | — |
| | **4,161** | 10,821 |
| Future finance charges on finance lease liabilities | **(411)** | (701) |
| **Present value of finance lease liabilities** | **3,750** | 10,120 |

The present value of finance lease liabilities is as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| No later than one year | **721** | 4,662 |
| Later than one year and no later than five years | **3,029** | 5,458 |
| | **3,750** | 10,120 |

## 21. Derivative financial instruments

| Liabilities due after one year | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Interest rate swaps – cash flow hedge | **2,367** | — |

The full fair value of a hedging derivative is classified as a non-current liability when the remaining hedged item is more than twelve months from maturity.

On 1 June 2016 the Group entered into an interest rate swap to hedge the interest cash flows on the first proportion of the revolving credit facility in alignment with forecast drawdowns. The notional principal amount of the outstanding interest rate swap contract at 31 December 2016 was £217,500,000.

At 31 December 2016, the fixed interest rate was 0.766% and the main floating rate was 0.5%. There was no ineffectiveness to be recorded in the income statement. The loss of £2,367,000 on the interest rate swap contract has been recognised in the hedging reserve in equity (note 28) and will be continuously released to the income statement within 'Finance cost' in line with monthly interest settlements.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative liability in the balance sheet.

## 22. Deferred income

Deferred income will unwind as follows:

| | 2016 | | | 2015 |
|---|---|---|---|---|
| | Cash £'000 | Non-cash £'000 | Total £'000 | Total £'000 |
| Within one year | 2,945 | 945 | 3,890 | 4,111 |
| After one year: | | | | |
| Between one and two years | 975 | 945 | 1,920 | 4,022 |
| Between two and three years | 567 | — | 567 | 945 |
| Between three and four years | 76 | — | 76 | — |
| | 1,618 | 945 | 2,563 | 4,967 |
| | 4,563 | 1,890 | 6,453 | 9,078 |

The Group recognises deferred income as a result of cash received in advance in relation to certain sales distribution contracts and lease incentives relating to the Group's operating leases. The cash received is amortised over the life of the contracts to which they relate.

The non-cash proportion of deferred income relates to the unamortised income portion created on acquisition of shares in ZPG Plc. This deferred income is being amortised over the period of the commercial agreements which gave rise to these assets (2016 to 2018 – see note 16).

## 23. Provisions

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Onerous contracts £'000 | Property repairs £'000 | Clawback £'000 | Claims and litigation £'000 | Other £'000 | Total £'000 |
| At 1 January | 1,262 | 3,477 | 3,735 | 28,909 | 1,852 | 39,235 |
| Acquired in acquisition (note 29) | — | — | 274 | — | — | 274 |
| Utilised in the year | (1,762) | (784) | (3,592) | (13,820) | — | (19,958) |
| Charged/(credited) to income statement | 6,359 | 3,649 | 3,164 | (688) | 62 | 12,546 |
| Unwind of discount rate | 6 | — | — | — | — | 6 |
| At 31 December | 5,865 | 6,342 | 3,581 | 14,401 | 1,914 | 32,103 |
| Due within one year or less | 1,254 | 3,991 | 2,121 | 10,711 | 1,523 | 19,600 |
| Due after more than one year | 4,611 | 2,351 | 1,460 | 3,690 | 391 | 12,503 |
| | 5,865 | 6,342 | 3,581 | 14,401 | 1,914 | 32,103 |

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Onerous contracts £'000 | Property repairs £'000 | Clawback £'000 | Claims and litigation £'000 | Other £'000 | Total £'000 |
| At 1 January | 1,145 | 3,870 | 3,424 | 36,786 | 2,267 | 47,492 |
| Acquired in acquisition (note 29) | — | — | — | — | 94 | 94 |
| Utilised in the year | (598) | (1,248) | (6,920) | (10,760) | (118) | (19,644) |
| Charged/(credited) to income statement | 709 | 855 | 7,231 | 2,883 | (391) | 11,287 |
| Unwind of discount rate | 6 | — | — | — | — | 6 |
| At 31 December | 1,262 | 3,477 | 3,735 | 28,909 | 1,852 | 39,235 |
| Due within one year or less | 83 | 1,092 | 2,478 | 18,146 | 537 | 22,336 |
| Due after more than one year | 1,179 | 2,385 | 1,257 | 10,763 | 1,315 | 16,899 |
| | 1,262 | 3,477 | 3,735 | 28,909 | 1,852 | 39,235 |

# Notes to the financial statements continued

## 23. Provisions continued

The provision for onerous contracts relates to property leases and represents the estimated unavoidable costs of leasehold properties which have become surplus to the Group's requirements following the closure or relocation of operations. The provision is based on the present value of rentals and other unavoidable costs payable during the remaining lease period after taking into account rents receivable or expected to be receivable from sub-lessees, on a case-by-case basis, typically over an average of a two-year period. Provisions are released when properties are assigned or sub-let.

The provision for property repairs represents estimates of the cost to repair existing dilapidations under leasehold covenants, in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets'. The average unexpired lease length of properties against which a provision has been made is two years.

Clawback represents the provision required to meet the estimated cost of repaying indemnity commission income received on life assurance policies that may lapse in the two years following issue.

Claims and litigation provisions comprise the amounts set aside to meet claims by customers below the level of any professional indemnity insurance excess, the estimation of IBNR claims and any amounts that might be payable as a result of any legal disputes. The provisions represent the directors' best estimate of the Group's liability having taken professional advice.

In addition to the claims provisions recognised, the Group also provides for future liabilities arising from claims (IBNR) for mortgage valuation reports and home buyer reports provided by the Surveying Services division. The basis for calculating this provision is outlined further in note 3. While there are many factors which determine the settlement date of any claims, the expected cash flows are estimated based on the average length of time it takes to settle claims in the past, which is around two years.

Other provisions mainly comprise items relating to operational reorganisation including some business closure costs and some IT transition expenses which are expected to be utilised over the next three years.

## 24. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17%–20% (2015: 18%–20%).

The movement on the deferred tax account is shown below:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Net deferred tax liability at 1 January | (30,024) | (28,643) |
| Credited to income statement | 2,622 | 2,519 |
| Acquired on acquisition of subsidiary (note 29) | (3,125) | (2,483) |
| Credited/(charged) to other comprehensive income | 1,382 | (650) |
| Charged to equity | (299) | (767) |
| Net deferred tax liability at 31 December | (29,444) | (30,024) |
| Deferred tax asset | 9,250 | 10,645 |
| Deferred tax liability | (38,694) | (40,669) |
| Net deferred tax liability at 31 December | (29,444) | (30,024) |
| Deferred tax asset expected to unwind within one year | 1,839 | 43 |
| Deferred tax asset expected to unwind after one year | 7,411 | 10,602 |
| | 9,250 | 10,645 |
| Deferred tax liability expected to unwind within one year | (1,975) | (1,826) |
| Deferred tax liability expected to unwind after one year | (36,719) | (38,843) |
| | (38,694) | (40,669) |

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets to the extent that it is probable that these assets will be recovered through future taxable profits.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

## 24. Deferred tax continued

| | 2016 | | |
|---|---|---|---|
| | Asset/ (liability) £'000 | (Charged)/ credited to income £'000 | Credited/ (charged) to other comprehensive income/equity £'000 |
| **Origination and reversal of temporary differences** | | | |
| Capital allowances | 5,690 | (986) | — |
| Employee pension liabilities | 696 | (296) | 909 |
| Share-based payments | 335 | (881) | (299) |
| Trading losses | — | (116) | — |
| Intangible assets | (37,806) | 5,062 | — |
| Cash flow hedge | 473 | — | 473 |
| Gain deferred by roll-over relief | (887) | — | — |
| Other temporary and deductible differences | 2,055 | (161) | — |
| | (29,444) | 2,622 | 1,083 |

| | 2015 | | |
|---|---|---|---|
| | Asset/ (liability) £'000 | (Charged)/ credited to income £'000 | Charged to other comprehensive income/equity £'000 |
| **Origination and reversal of temporary differences** | | | |
| Capital allowances | 6,705 | (787) | — |
| Employee pension liabilities | 83 | (311) | (650) |
| Share-based payments | 1,516 | (3,027) | (767) |
| Trading losses | 116 | (590) | — |
| Intangible assets | (39,782) | 6,882 | — |
| Gain deferred by roll-over relief | (887) | — | — |
| Other temporary and deductible differences | 2,225 | 600 | — |
| | (30,024) | 2,767 | (1,417) |

Deferred tax assets have not been recognised in respect of unused capital losses of £9,366,000 (2015: £19,759,000), non-trading loan relationships of £217,000 (2015: £106,000), trading losses of £42,000 (2015: £49,000), or the unrealised capital loss of £315,000 (2015: deferred tax liability on unrealised capital gain of £7,473,000) arising from the revaluation of available-for-sale financial assets. There is no expiry date attributable to these unrecognised deferred tax assets, but no assets have been recognised as there are currently no expectations of offsetting income streams arising.

## 25. Post-employment benefits

The Group offers membership of the Countrywide plc Pension Scheme ('the Scheme') to eligible employees, the only pension arrangements operated by the Group. The Scheme has two sections of membership: defined contribution and defined benefit.

### Defined contribution pension arrangements

The pensions cost for the defined contribution scheme in the year was £8,633,000 (2015: £6,687,000).

### Defined benefit pension arrangements

In the past the Group offered a defined benefit pension arrangement; however, this was closed to new entrants in 1988 and subsequently closed to further service accrual at the end of 2003. Members of the defined benefit arrangements earned benefits linked to final pensionable salary and service at the date of retirement or date of leaving the scheme if earlier. The weighted average duration of the defined benefit pension scheme is 15 years.

The defined benefit pension arrangements provide pension benefits to members based on earnings at the date of leaving the scheme. Pensions in payment are updated in line with the minimum of 4% or retail price index (RPI) inflation. The Scheme is established and administered in the UK and ultimately overseen by the Pensions Ombudsman. The regulatory framework requires the Group to fund the scheme every three years and for the Group to agree the valuation with the trustees. As such, the funding arrangements were reviewed as part of the recent valuation (as at 5 April 2015). The Group is responsible for ensuring that pension arrangements are adequately funded and the directors have agreed a funding programme to bring down the deficit in the defined benefit scheme over the next four years. During the year, the Group paid £1.9 million (2015: £1.9 million) to the defined benefit scheme. During the year which commenced on 1 January 2017, the employer is expected to pay contributions of £2.0 million (2016: £1.9 million). Further contributions of £2.0 million will be made in each of the next four years.

The Group's obligations under the pension arrangements are subject to inherent estimation uncertainty. While the trustees and actuary assess the value of the scheme assets, and the extent of the liabilities, they are obliged to make a number of assumptions, sensitivities to which are detailed later on. Furthermore, the scheme assets under defined benefit pension arrangements are exposed to risks in the equities and bond markets and similarly the liabilities can fluctuate according to gilt or corporate bond rate.

# Notes to the financial statements continued

## 25. Post-employment benefits continued

### Defined benefit pension arrangements continued

The Scheme assets under defined benefit pension arrangements are held in a separate trustee-administered fund to meet long term pension liabilities to past and present employees. The trustees are required to act in the best interests of the Scheme's beneficiaries and they take independent advice when deliberating matters relating to the Scheme.

The liabilities of the scheme under defined pension arrangements are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method, which is an accrued benefits valuation method.

The defined benefit liabilities set out in this note have been calculated by an independent actuary based on the results of the most recent full actuarial valuation at 5 April 2015, updated to 31 December 2016. The results of the calculations and the assumptions adopted are shown below.

The Group immediately recognises the actuarial gains and losses directly in other comprehensive income as shown in the consolidated statement of comprehensive income.

The amounts recognised in the balance sheet are as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Present value of funded obligations | (57,203) | (47,850) |
| Fair value of plan assets | 53,540 | 47,435 |
| Net liability recognised in the balance sheet | (3,663) | (415) |

The movement in the defined benefit obligation over the year is as follows:

| | Present value of obligation £'000 | Fair value of plan assets £'000 | Total £'000 |
|---|---|---|---|
| At 1 January 2016 | (47,850) | 47,435 | (415) |
| Expected return on scheme assets | — | 1,747 | 1,747 |
| Actuarial gain | — | 4,782 | 4,782 |
| Employer contributions | — | 1,900 | 1,900 |
| Service cost | (377) | — | (377) |
| Interest cost | (1,735) | — | (1,735) |
| Actuarial loss from changes in financial assumptions | (9,565) | — | (9,565) |
| Benefits paid | 1,947 | (1,947) | — |
| Expenses | 377 | (377) | — |
| At 31 December 2016 | (57,203) | 53,540 | (3,663) |

| | Present value of obligation £'000 | Fair value of plan assets £'000 | Total £'000 |
|---|---|---|---|
| At 1 January 2015 | (50,740) | 45,524 | (5,216) |
| Expected return on scheme assets | — | 1,579 | 1,579 |
| Actuarial gain | — | 1,121 | 1,121 |
| Employer contributions | — | 1,900 | 1,900 |
| Service cost | (193) | — | (193) |
| Interest cost | (1,733) | — | (1,733) |
| Actuarial gain from changes in financial assumptions | 1,700 | — | 1,700 |
| Actuarial gain from changes in demographic assumptions | 1,029 | — | 1,029 |
| Actuarial loss from changes in experience adjustments | (602) | — | (602) |
| Benefits paid | 2,496 | (2,496) | — |
| Expenses | 193 | (193) | — |
| At 31 December 2015 | (47,850) | 47,435 | (415) |

## 25. Post-employment benefits continued

### Defined benefit pension arrangements continued

The major categories of scheme assets as a percentage of total scheme assets are:

| | 2016 % | 2015 % |
|---|---|---|
| Cash | 1 | 1 |
| UK equities | 6 | 5 |
| Overseas equities | 6 | 6 |
| UK fixed interest gilts | 11 | 11 |
| Corporate bonds | 47 | 46 |
| Other – GARS | 10 | 11 |
| Other – insured pensioners | 19 | 20 |
| | 100 | 100 |

Insured pensioners and cash constitute unquoted investments. All other investments are managed funds either quoted directly or comprising quoted investments. The Group does not have any of its own transferable instruments, property occupied or other assets used held as plan assets.

The amounts recognised in the income statement are:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Current service cost | 377 | 193 |
| Net interest (income)/cost on pension scheme liabilities (within net finance costs) | (12) | 154 |
| **Total charge to the income statement** | 365 | 347 |

The amounts recognised in the statement of comprehensive income are:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Actuarial gain on scheme assets | 4,782 | 1,121 |
| Actuarial (loss)/gain on scheme liabilities: | | |
| Actuarial (loss)/gain from changes in financial assumptions | (9,565) | 1,700 |
| Actuarial gain from changes in demographic assumptions | — | 1,029 |
| Changes due to experience adjustments | — | (602) |
| Other comprehensive income | (4,783) | 3,248 |
| Deferred tax adjustment arising on the pension scheme assets and liabilities | 909 | (650) |
| | (3,874) | 2,598 |
| Cumulative actuarial loss recognised in the statement of comprehensive income (after tax) | (8,403) | (4,529) |

The principal assumptions made by the actuaries were:

| | 2016 | 2015 |
|---|---|---|
| Rate of increase in pensions in payment and deferred pensions: | | |
| – on benefits earned prior to 1 December 1999 | 4.30% | 4.20% |
| – on benefits earned after 1 December 1999 | 3.40% | 3.10% |
| Discount rate | 2.60% | 3.70% |
| RPI inflation | 3.00% | 2.20% |
| CPI inflation | 2.00% | 1.20% |
| Expected net return on plan assets | 2.60% | 3.50% |
| Cash commutation | 20% | 20% |
| Life expectancy at age 65 (years): | | |
| – male pensioner member | 22.6 | 22.5 |
| – female pensioner member | 24.6 | 24.2 |
| – male pensioner non-member (age 45 now) | 24.3 | 24.5 |
| – female pensioner non-member (age 45 now) | 26.5 | 26.4 |

To develop the expected long term rate of return on assets assumption, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target assets allocation to develop the expected long term rate of return on assets assumption for the portfolio.

# Notes to the financial statements continued

## 25. Post-employment benefits continued

### Sensitivity analysis

The results of the calculations are sensitive to the assumptions used. The defined benefit obligation position revealed by IAS 19 calculations must be expected to be volatile, principally because the market value of the assets (with a significant exposure to equities) is being compared with a liability assessment derived from corporate bond yields. However, the Group has taken steps to mitigate these risks of asset volatility, including insuring some of the pensioners (as illustrated by the asset portfolio).

The Trustees of the Scheme invest the assets in line with the statement of investment principles, which has been established taking into consideration the liabilities of the Scheme and the investment risk that the Trustees are willing to take after consideration of the strength of the employer covenant. There is no direct use of derivative strategies, although this may be employed by the GARS Fund. The Scheme also has a number of annuity policies with insurance companies written in the name of the Trustees that provide pension payments to some of the pensioner membership. The Scheme also invests in gilt and corporate bond funds which provide some protection for the Scheme with regards to interest and inflation risk.

The sensitivity analyses (below) are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

| | Defined benefit obligation £'000 | Fair value of assets £'000 | Deficit £'000 | Change from disclosed deficit £'000 |
|---|---|---|---|---|
| Defined benefit obligation | 57,203 | 53,540 | 3,663 | — |
| Discount rate less 0.25% | 59,386 | 53,783 | 5,603 | 1,940 |
| RPI and linked assumptions plus 0.25% | 57,448 | 53,545 | 3,903 | 240 |
| Members living one year longer than assumed | 59,719 | 54,122 | 5,597 | 1,934 |

Defined benefit obligation trends:

| | 2016 £'000 | 2015 £'000 | 2014 £'000 | 2013 £'000 | 2012 £'000 |
|---|---|---|---|---|---|
| Scheme assets | **53,540** | 47,435 | 45,524 | 39,143 | 37,906 |
| Scheme liabilities | **(57,203)** | (47,850) | (50,740) | (43,581) | (44,518) |
| Scheme deficit | **(3,663)** | (415) | (5,216) | (4,438) | (6,612) |
| Experience (loss)/gain on scheme liabilities | **—** | (602) | — | 84 | 1,156 |
| Gain from changes in the demographic assumptions for value of scheme liabilities | **—** | 1,029 | — | 1,015 | 644 |
| (Loss)/gain from changes in the assumptions for value of scheme liabilities | **(9,565)** | 1,700 | (6,667) | 28 | (1,150) |
| Experience gain/(loss) adjustments on assets | **4,782** | 1,121 | 4,252 | (474) | (513) |

Expected maturity analysis of undiscounted pension benefits at 31 December 2016:

| | Less than one year £'000 | Between one and two years £'000 | Between two and five years £'000 | Over five years £'000 | Total £'000 |
|---|---|---|---|---|---|
| Undiscounted pension benefits | 2,068 | 2,153 | 6,734 | 77,264 | 88,219 |

## 26. Share capital

### Called up issued and fully paid ordinary shares of 1 pence each

| | Number | £'000 |
|---|---|---|
| At 1 January 2016 | 219,641,834 | 2,196 |
| Share capital issued | 51,138 | 1 |
| **At 31 December 2016** | **219,692,972** | **2,197** |

At 31 December 2016, 3,371,972 of the shares disclosed above have been subject to share buy-back and were held in treasury.

The Company acquired 4,534,655 of its own shares through purchases on the London Stock Exchange throughout February to June 2016. The total amount paid to acquire the shares was £16,524,000. The shares were held as 'treasury shares'. The Company then reissued 1,162,683 of these shares in March 2016 and May 2016 in respect of the IPO option vesting. All shares issued by the Company were fully paid. An additional 51,138 shares were issued at nominal value to complete the satisfaction of the IPO options crystallising in March 2016 as insufficient treasury shares were held at that point in time.

Where the Employee Benefit Trust purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. At the year end, 908,886 shares (2015: 449,172 shares), costing £3,723,609 (2015: £2,241,000), were held in relation to matching shares of the SIP scheme.

## 27. Share-based payments

The Group operates a number of share-based payment schemes for executive directors and other employees. The Group has no legal or constructive obligation to repurchase or settle any of the options in cash. The total cost recognised in the income statement was £2,465,000 in the year ended 31 December 2016 (2015: £3,372,000), comprising £2,261,000 (2015: £3,226,000) of equity-settled share-based payments, and £204,000 (2015: £146,000) in respect of cash-settled share-based payments for the dividend accrual associated with those options. Employer's NI is being accrued, where applicable, at the rate of 13.8%, which management expects to be the prevailing rate at the time the options are exercised, based on the share price at the reporting date. The total NI charge for the year was £12,000 (2015: £1,022,000).

The following table analyses the total cost between each of the relevant schemes, together with the number of options outstanding:

| | Outstanding at 31 December | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Charge £'000 | Number of options (thousands) | Charge £'000 | Number of options (thousands) |
| IPO plan | 322 | — | 3,288 | 1,221 |
| Long term incentive plan | 1,252 | 3,225 | (510) | 2,033 |
| Deferred share bonus plan | 128 | 123 | 78 | 59 |
| Share incentive plan | 763 | 909 | 516 | 449 |
| | 2,465 | 4,257 | 3,372 | 3,762 |

A summary of the main features of each scheme is given below. The schemes have been split into two categories: executive schemes and other schemes. For further details on executive schemes, see the remuneration report on pages 52 to 66.

### Executive schemes

### IPO plan

At the time of the flotation in March 2013, the Company granted nil-cost share options to executive directors and designated senior management as one-off awards in recognition of the loss of rights under a management incentive package that terminated prior to, and as a result of, the flotation.

50% of the IPO options granted to the executive directors became exercisable on the second anniversary of the date of granting the IPO option; the remaining 50% of the IPO options became exercisable on the third anniversary of the date of granting the IPO option. IPO options granted to other participants became exercisable on the second anniversary of the date of granting the IPO option. The number of options that vested in March 2015 was subject to the performance criterion based on EBITDA for 2014 as well as continued service and the vesting level achieved was 83%. The same criterion applied to the options that vested in March 2016.

### Long term incentive plan (LTIP)

The LTIP is open to executive directors and designated senior management, and awards are made at the discretion of the Remuneration Committee. Awards are subject to market and non-market performance criteria and generally vest over a three-year period.

### Deferred share bonus plan (DSBP)

The Group operates a DSBP for executive directors and other senior employees whose bonus awards are settled partly in cash and partly in nil-cost share options at the discretion of the Remuneration Committee. The number of options that will vest is subject to market performance criteria over a three-year period and continued service.

### Other schemes

### Share incentive plan (SIP)

An HMRC approved share incentive plan was introduced in October 2013. Under the SIP, eligible employees are invited to make regular monthly contributions into a scheme operated by Capita. Ordinary shares in the Company are purchased at the current market price and since May 2016 an award of two matching shares is made for every three shares acquired by an employee, subject to a vesting period of three years from the date of each monthly grant. Prior to May 2016, the award comprised one matching share for every two shares acquired by an employee.

The aggregate number of share awards outstanding for the Group is shown below:

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Executive schemes* | | Other schemes | | Executive schemes* | | Other schemes | |
| | IPO Number of options (thousands) | LTIP Number of options (thousands) | DSBP Number of options (thousands) | SIP* Number of options (thousands) | IPO Number of options (thousands) | LTIP Number of options (thousands) | DSBP Number of options (thousands) | SIP* Number of options (thousands) |
| At 1 January | 1,221 | 2,033 | 59 | 449 | 7,185 | 1,550 | — | 225 |
| Granted | — | 2,455 | 90 | 604 | — | 1,130 | 59 | 228 |
| Exercised | (1,221) | — | — | — | (4,579) | — | — | — |
| Lapsed | — | (1,263) | (26) | (144) | (1,385) | (647) | — | (4) |
| At 31 December | — | 3,225 | 123 | 909 | 1,221 | 2,033 | 59 | 449 |

* Executive schemes are granted at £Nil consideration and SIP matching shares are granted at £Nil consideration.

Financial statements

# Notes to the financial statements continued

## 27. Share-based payments continued

### Other schemes continued

### Share incentive plan (SIP) continued

The IPO options that became exercisable on the third anniversary of the date of granting the IPO was the only scheme exercisable at the year end. The LTIP award that was granted on 6 September 2013 lapsed during the year, as minimum threshold levels set out in the performance conditions were not met.

Share options outstanding at the end of the year have the following expiry date (and all have £Nil exercise prices):

| Grant – vest | Expiry date | Exercise price pence | Share options (thousands) 2016 | Share options (thousands) 2015 |
|---|---|---|---|---|
| **IPO plan** | | | | |
| 18 March 2013–18 March 2015/2016 | 18 March 2021 | — | — | 1,221 |
| **LTIP grants** | | | | |
| 6 September 2013–6 September 2016 | 6 September 2023 | — | — | 561 |
| 21 March 2014–21 March 2017 | 21 March 2024 | — | 288 | 363 |
| 8 September 2014–8 September 2017 | 8 September 2024 | — | 246 | 246 |
| 16 March 2015–16 March 2018 | 16 March 2025 | — | 598 | 730 |
| 31 March 2015–31 March 2018 | 31 March 2025 | — | 24 | 24 |
| 21 September 2015–21 September 2018 | 21 September 2025 | — | 100 | 109 |
| 22 March 2016-22 March 2019 | 22 March 2026 | — | 1,666 | — |
| 26 September 2016-22 March 2019 | 22 March 2026 | — | 222 | — |
| 26 September 2016-26 September 2019 | 26 September 2026 | — | 81 | — |
| **DSBP** | | | | |
| 22 May 2015–22 May 2018 | 22 May 2025 | — | 43 | 59 |
| 5 May 2016-5 May 2019 | 5 May 2026 | — | 80 | — |
| **SIP** | | | | |
| Monthly rolling grants and vesting three years later | | — | 909 | 449 |
| | | | 4,257 | 3,762 |

The following information is relevant to the determination of the fair value of the awards granted during the year under the schemes:

| | IPO plan | LTIP (TSR condition) | LTIP (EPS condition) | DSBP | Share incentive plan |
|---|---|---|---|---|---|
| Option pricing model | Binomial Lattice | Monte Carlo/ Stochastic | Black Scholes | Fair value at grant date | Fair value at grant date |
| Share price at grant date | 350p | 216p–660p | 216p–660p | 352p–576p | 172–656p |
| Exercise price | 0p | 0p | 0p | 0p | 0p |
| Weighted average contractual life | 2.2 years | 2.96 years | 2.96 years | 3 years | 3 years |
| Expected dividend yield | 1.5% | 1.4–6.94% | 1.4–6.94% | 2.6–4.26% | n/a |
| Risk-free interest rate | 1.8% | 0.092–0.9% | n/a | 0.43–0.8% | n/a |
| Volatility | n/a | 19.6–38.5% | n/a | n/a | n/a |

## 28. Other reserves

The following table provides a breakdown of 'other reserves' shown on the consolidated statement of changes in equity:

| | Capital reorganisation reserve £'000 | Hedging reserve £'000 | Foreign exchange reserve £'000 | Available-for-sale financial assets reserve £'000 | Treasury share reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2015 | 92,820 | — | (173) | 20,552 | (14,516) | 98,683 |
| Currency translation differences | — | — | (255) | — | — | (255) |
| Realisation of capital reorganisation reserve on liquidation of Countrywide Holdings, Ltd | (92,820) | — | — | — | — | (92,820) |
| Disposal of fair value of available-for-sale financial assets | — | — | — | (237) | — | (237) |
| Movement in fair value of available-for-sale financial assets | — | — | — | 7,836 | — | 7,836 |
| Utilisation of treasury shares for IPO options | — | — | — | — | 20,035 | 20,035 |
| Purchase of treasury shares | — | — | — | — | (7,760) | (7,760) |
| **Balance at 1 January 2016** | — | — | (428) | 28,151 | (2,241) | 25,482 |
| Currency translation differences | — | — | 136 | — | — | 136 |
| Disposal of fair value of available-for-sale financial assets | — | — | — | (29,943) | — | (29,943) |
| Movement in fair value of available-for-sale financial assets | — | — | — | 2,132 | — | 2,132 |
| Cash flow hedge: fair value losses | — | (2,367) | — | — | — | (2,367) |
| Cash flow hedge: deferred tax on losses | — | 473 | — | — | — | 473 |
| Utilisation of treasury shares for IPO options | — | — | — | — | 4,246 | 4,246 |
| Purchase of treasury shares | — | — | — | — | (18,100) | (18,100) |
| **Balance at 31 December 2016** | **—** | **(1,894)** | **(292)** | **340** | **(16,095)** | **(17,941)** |

The following describes the nature and purpose of each reserve within shareholders' equity:

### Share premium

The amount subscribed for share capital in excess of nominal value less any costs directly attributable to the issue of new shares.

### Capital reorganisation reserve

The capital reorganisation reserve represents the difference between the share capital of the Company and the share capital, share premium and capital redemption reserve of Countrywide Holdings, Ltd at the point of the exchange of equity interests on 19 March 2013.

### Treasury share reserve

The treasury share reserve represents the consideration paid when the Company acquires its own shares and holds them as treasury shares, as well as when the Employee Benefit Trust purchases the Company's equity share capital, until the shares are reissued. See note 26 for full details of treasury shares held.

### Foreign exchange reserve

The foreign exchange reserve represents the difference arising from the changes to foreign exchange rates upon assets and liabilities of overseas subsidiaries.

### Available-for-sale financial assets reserve

The available-for-sale financial assets reserve represents the unrealised gain arising on the revaluation of these assets. Following the sale of the Group's residual interest in ZPG Plc, £29.9 million of the gain was recycled into the income statement.

### Hedging reserve

The hedging reserve represents the fair value movements on the interest swap to hedge the interest cash flows on the first proportion of the revolving credit facility in alignment with forecast drawdowns.

### Retained earnings

Cumulative net gains and losses recognised in the Group income statement and pension scheme gains and losses, movement in fair value of available-for-sale financial assets and deferred tax on share-based payments recognised in the statement of comprehensive income.

# Notes to the financial statements continued

## 29. Acquisitions during the year

During the year the Retail business unit acquired four businesses as part of its targeted acquisition strategy to expand in certain under-represented geographical areas. The total consideration in respect of these acquisitions was £23.9 million, the most significant of which was on 1 March 2016, when the Group acquired 100% of the equity share capital of Finders Keepers for the consideration noted in the table below. The London business unit acquired two businesses as part of its targeted acquisition strategy to expand in certain under-represented geographical areas, for a consideration of £1.5 million. The Financial Services business unit acquired two businesses, The Buy to Let Business and Mortgage Bureau, as part of its targeted acquisition strategy to expand the Group's financial services offering, particularly in niche areas such as buy to let mortgaging and remortgaging, for a total consideration of £9.8 million. The B2B business unit acquired two businesses as part of its targeted acquisition strategy to expand the Group's commercial offering, for a consideration of £4.6 million.

| | Finders Keepers £'000 | The Buy to Let Business £'000 | Mortgage Bureau £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|---|
| Intangible assets | 5,994 | 5,056 | 2,470 | 2,332 | 15,852 |
| Property, plant and equipment | 333 | 34 | 33 | 202 | 602 |
| Trade and other receivables | 2,515 | 47 | 623 | 1,821 | 5,006 |
| Cash at bank | 3,118 | 898 | 1,037 | 1,357 | 6,410 |
| Trade and other payables | (1,882) | (312) | (348) | (1,029) | (3,571) |
| Corporation tax | (105) | (82) | (253) | (392) | (832) |
| Deferred tax | (1,210) | (949) | (497) | (469) | (3,125) |
| Provisions | — | — | (274) | — | (274) |
| Net assets | 8,763 | 4,692 | 2,791 | 3,822 | 20,068 |
| Goodwill | 12,136 | 854 | 1,454 | 5,243 | 19,687 |
| Consideration | 20,899 | 5,546 | 4,245 | 9,065 | 39,755 |
| Settled by: | | | | | |
| Initial consideration | 19,649 | 3,358 | 4,245 | 8,560 | 35,812 |
| Deferred consideration | 1,250 | 2,188 | — | 505 | 3,943 |
| | 20,899 | 5,546 | 4,245 | 9,065 | 39,755 |
| Cash paid | 19,649 | 3,358 | 4,245 | 8,560 | 35,812 |
| Cash at bank | (3,118) | (898) | (1,037) | (1,357) | (6,410) |
| Net cash flow arising from acquisitions | 16,531 | 2,460 | 3,208 | 7,203 | 29,402 |
| Revenue post-acquisition | 9,841 | 3,509 | 2,770 | 4,683 | 20,803 |
| Profit post-acquisition | 2,215 | 689 | 352 | 1,026 | 4,282 |
| Proforma revenue to 31 December 2016 | 11,414 | 4,050 | 3,633 | 5,652 | 24,749 |
| Proforma profit to 31 December 2016 | 2,755 | 802 | 344 | 1,233 | 5,134 |

The acquired receivables for all acquired businesses are all current and their fair value is not materially different. There are no contractual cash flows that are not expected to be collected. The goodwill recognised by the Group upon acquisition has no impact on tax deductions. No other contingent liabilities, not included in the net assets above, have been identified on these acquisitions.

The goodwill of £19.7 million arises from a number of factors including expected synergies, cost reductions from purchasing and processing efficiencies, and unrecognised assets such as the assembled workforces.

The deferred consideration noted above is payable over a period of up to three years as fixed payments at specified times in line with the purchase agreements. In addition, contingent consideration arrangements arising on four of the acquisitions made during the year require the Group to pay in cash a potential undiscounted maximum aggregate amount of £19.2 million.

Each of these contingent consideration arrangements require the vendors to remain in employment and as such have been treated as a post-combination employment expense, excluded from the consideration noted above, and are being accrued over the relevant periods of one to five years specific to each of the agreements. £19.2 million of this contingent consideration is also subject to performance conditions being satisfied. These are target EBITDA levels which must be achieved in order to realise the full payment, with a reduced payment made if targets are not fully met. Accruals for contingent consideration will be reviewed at each period end as future earn-out assumptions are revisited and any credits to the income statement in respect of downward revisions to estimates will be treated in the same way. £17.9 million of this potential contingent consideration is payable, on two material acquisitions, between one to three and at five years after the acquisition dates depending on the profitability of those subsidiaries in the relevant years and the former owners being continuously employed over the earn-out period. The fair value of the related contingent consideration liability, estimated by applying the income approach, was revisited at the year end and accrued at £1.7 million, are based on assumed profitability. If the future profitability of the entities was to decline, with a reduction in EBITDA by 10%, the size of the contingent consideration would decrease by approximately £0.9 million.

The costs of these acquisitions amounted to £0.9 million (2015: £1.1 million) and have been written off to profit and loss.

## 30. Acquisitions during the prior year

During the prior year the Group acquired 36 businesses. The total consideration paid was £76.3 million and goodwill recognised was £53.1 million. Changes to the provisional fair values have been booked in the current year. The proforma revenue and EBITDA generated by these businesses in 2015 was £67.4 million and £12.8 million respectively.

## 31. Operating lease commitments – minimum lease payments

Commitments under non-cancellable operating leases due are as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Property £'000 | Vehicles, plant and equipment £'000 | Property £'000 | Vehicles, plant and equipment £'000 |
| Within one year | **23,417** | **14,763** | 24,432 | 14,218 |
| Later than one year and less than five years | **48,658** | **20,753** | 51,723 | 22,717 |
| After five years | **18,371** | **—** | 47,292 | 2 |
| | **90,446** | **35,516** | 123,447 | 36,937 |

At 31 December 2016, the Group had sub-leased a number of surplus premises and was entitled to receive rents under non-cancellable leases as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Sub-leases** | | |
| Within one year | **385** | 528 |
| Later than one year and less than five years | **755** | 769 |
| After five years | **150** | 205 |
| | **1,290** | 1,502 |

## 32. Financial instruments

### Financial instruments by category

| | 31 December 2016 | | |
|---|---|---|---|
| Assets as per balance sheet | Loans and receivables £'000 | Available for sale £'000 | Total £'000 |
| Available-for-sale financial assets | **—** | **16,058** | **16,058** |
| Trade and other receivables excluding prepayments | **99,209** | **—** | **99,209** |
| Cash and cash equivalents | **45,326** | **—** | **45,326** |
| | **144,535** | **16,058** | **160,593** |

| | 31 December 2016 | | |
|---|---|---|---|
| Liabilities as per balance sheet | Derivatives used for hedging £'000 | Other financial liabilities at amortised cost £'000 | Total £'000 |
| Borrowings (excluding finance lease liabilities) | **—** | **289,476** | **289,476** |
| Finance lease liabilities | **—** | **3,750** | **3,750** |
| Derivative financial instruments | **2,367** | **—** | **2,367** |
| Trade and other payables excluding non-financial liabilities | **—** | **80,953** | **80,953** |
| | **2,367** | **374,179** | **376,546** |

| | 31 December 2015 | | |
|---|---|---|---|
| Assets as per balance sheet | Loans and receivables £'000 | Available for sale £'000 | Total £'000 |
| Available-for-sale financial assets | — | 57,760 | 57,760 |
| Trade and other receivables excluding prepayments | 102,415 | — | 102,415 |
| Cash and cash equivalents | 24,336 | — | 24,336 |
| | 126,751 | 57,760 | 184,511 |

| | 31 December 2015 | | |
|---|---|---|---|
| Liabilities as per balance sheet | Liabilities at fair value through profit and loss £'000 | Other financial liabilities at amortised cost £'000 | Total £'000 |
| Borrowings (excluding finance lease liabilities) | — | 199,128 | 199,128 |
| Finance lease liabilities | — | 10,120 | 10,120 |
| Put options | 2,700 | — | 2,700 |
| Trade and other payables excluding non-financial liabilities | — | 96,627 | 96,627 |
| | 2,700 | 305,875 | 308,575 |

# Notes to the financial statements continued

## 33. Financial risk management

### Financial risk factors

The Group is exposed through its operations to one or more of the following financial risks:

- cash flow and fair value interest rate risk;
- liquidity risk;
- counterparty credit risk; and
- price risk.

The policy for managing these risks is set by the Board following recommendations from the chief financial officer. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre. The policy for each of the above risks is described in more detail below.

### Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk on the first proportion of the revolving credit facility by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps the Group agrees with other parties to exchange, monthly, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional amounts.

The interest profile of the Group's financial assets and liabilities are as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Floating rate assets | 5,313 | 21,246 |
| Fixed rate assets | 40,408 | 3,090 |
| Interest-free assets | 114,872 | 160,175 |
| **Total financial assets** | **160,593** | 184,511 |
| Floating rate liabilities | 71,644 | 198,128 |
| Fixed rate liabilities | 222,949 | 10,120 |
| Interest-free liabilities | 81,953 | 100,327 |
| **Total financial liabilities** | **376,546** | 308,575 |

The average rate at which the fixed rate liabilities were fixed in 2016 was 3.58% (2015: 5.53%) and the average period for which the liabilities were fixed was 365 days (2015: 365 days).

There is no material difference between the book and the fair values of the financial assets and liabilities.

The interest payable on the revolving credit facility is at variable rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's liabilities secured on a floating basis which are managed centrally. The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the portion of liabilities exposed to the floating rates.

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Increase in basis points | 100 | 100 |
| Effect on profit before tax (£'000) | (749) | (2,000) |
| Decrease in basis points | (50) | (50) |
| Effect on profit before tax (£'000) | 374 | 1,000 |

### Liquidity risk

The liquidity risk of each Group entity is managed centrally by the Group treasury function which monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs whilst maintaining sufficient headroom on its undrawn committed borrowing facilities.

The Group aims to mitigate liquidity risk by managing cash generation of its operations and acquisition strategy. Acquisitions are carefully selected with authorisation limits operating up to Group Board level and cash payback periods as applied as part of the investment appraisal process. The Group is also cash generative as demonstrated by the cash from operations. The requirement to pay creditors is managed through future cash generation and, if required, the revolving credit facility.

The Group monitors its risk of a shortage of funds by daily cash reporting. This reporting considers maturity of both its financial investments and financial assets (e.g. trade receivables and other financial assets) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility for potential acquisitions.

## 33. Financial risk management continued

### Liquidity risk continued

All surplus cash held by the operating entities is transferred to Group treasury and managed centrally to maximise the returns on deposits through economies of scale. The type of cash instrument used and its maturity date will depend on the Group's forecast cash requirements. The Group maintains an overdraft facility with a major banking corporation to manage any unexpected short term cash shortfalls.

The Group has a £340 million revolving credit facility which incurs interest payments on defined one, three or six-month periods.

The Group's discounted financial liabilities (excluding available-for-sale financial assets) at the year end were as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Trade payables | 16,333 | 13,261 |
| Other financial liabilities | — | 2,700 |
| Deferred consideration | 6,164 | 7,987 |
| Borrowings | 289,476 | 199,128 |
| Finance lease liabilities | 3,750 | 10,120 |
| Derivative financial instruments | 2,367 | — |
| Accruals and other payables | 58,456 | 75,379 |
| | 376,546 | 308,575 |

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows.

| | 2016 £'000 | Reclassified* 2015 £'000 |
|---|---|---|
| In less than one year | 65,718 | 99,018 |
| In more than one year but not more than two years | 11,968 | 2,599 |
| In more than two years but less than three years | 4,163 | 204,991 |
| In more than three years but not more than four years | 293,076 | 967 |
| In more than four years but less than five years | 988 | — |
| Over five years | 1,045 | 1,000 |
| | 376,958 | 308,575 |

* Refer to note 20 of the consolidated financial statements.

### Counterparty credit risk

The Group's financial assets (excluding available-for-sale financial assets) at the year end were as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Cash and cash equivalents | 45,326 | 24,336 |
| Trade receivables | 80,054 | 80,761 |
| Amounts due from customers for contract work | 3,368 | 2,241 |
| Other receivables | 15,787 | 19,413 |
| | 144,535 | 126,751 |

As stated in note 17, trade and other receivables are current assets and are expected to convert to cash over the next twelve months.

There are no significant concentrations of credit risk within the Group. The Group is exposed to credit risk from sales. It is Group policy, implemented locally, to assess the credit risk of major new customers before entering contracts. The majority of customers use the Group's services as part of a housing transaction and consequently the sales are paid from the proceeds of the house sale. The majority of the commercial customers and the major lenders, customers of the Surveying and Asset Management businesses, are large financial institutions and as such the credit risk is not significant. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date. The following table presents a breakdown of the gross trade receivables between the three main types of customer:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Individual customers | 31,797 | 28,525 |
| Major lenders | 10,346 | 13,381 |
| Other commercial customers | 41,332 | 41,979 |
| | 83,475 | 83,885 |

Financial statements

# Notes to the financial statements continued

## 33. Financial risk management continued

### Counterparty credit risk continued

The Group treasury function manages the Group's cash balances and seeks to achieve reasonable rates of interest, but preservation of the capital is the overriding priority. A list of accepted deposit institutions is maintained and their credit ratings are kept under review. The following table presents a breakdown of cash at bank and short term deposits (the rest of 'cash and cash equivalents' is cash in hand):

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Aa2 | 10,445 | — |
| A1 | 32,780 | 3,390 |
| A2 | — | 5,986 |
| A3 | 1,975 | 14,960 |
| Other | 126 | — |
| | 45,326 | 24,336 |

### Price risk

The Group is exposed to price risk because of investments held by the Group and classified on the consolidated balance sheet as available-for-sale amounting to £16,058,000 (2015: £57,760,000). If the price used in the 2016 year-end valuation had decreased by 5% the carrying value of the investment and the unrealised gain recorded within the statement of comprehensive income would have reduced by £0.7 million.

## 34. Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of debt (subject to certain restrictions under the term loan facility), adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group defines capital as the total of equity shareholders' funds and long term borrowings net of available cash balances:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Borrowings (note 20) | 293,226 | 209,248 |
| Cash and cash equivalents (note 18) | (45,326) | (24,336) |
| Net debt | 247,900 | 184,912 |
| Shareholders' equity | 479,548 | 544,476 |
| Total capital | 727,448 | 729,388 |
| Gearing ratio | 34% | 25% |

During the year, the Group has complied with any capital restrictions and covenant requirements in respect of leverage and interest cover ratios associated with the term loan facility.

Net debt excludes derivative financial instruments. Details of the interest rate swap liability are disclosed in note 21.

### Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined, in accordance with IFRS 13 'Fair value measurement', as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016:

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Available-for-sale financial assets | — | 14,139 | 1,919 | 16,058 |
| **Liabilities** | | | | |
| Derivative financial instrument – interest rate swap | — | 2,367 | — | 2,367 |
| Contingent consideration | — | — | 13,163 | — |

## 34. Capital management continued

### Fair value estimation continued

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2015:

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Available-for-sale financial assets | 42,856 | 14,455 | 449 | 57,760 |
| **Liabilities** | | | | |
| Put options | — | — | 2,700 | 2,700 |
| Contingent consideration | — | — | 8,072 | — |

There was no change in valuation technique from that applied at 31 December 2015 to the investment property fund (within available-for-sale financial assets), which is based on the receipt of a net asset valuation statement from the trustees on a quarterly basis, and the fair value hierarchy of the investment within the fund has remained at Level 2.

The fair value of the investment property fund at 31 December 2016 has been arrived at on the basis of a valuation carried out at that date by CBRE Limited, independent valuers not connected with the Group. The valuation conforms to International Valuation Standards. The fair value was determined based on comparable market transactions on arm's length terms and has been based on the Market Rent valuation technique.

The fair value of Level 2 derivatives are estimated by discounting the future contractual cash flows using appropriate yield curves based on quoted market rates at the current period end.

In 2015, Level 1 financial assets comprised quoted equity instruments in ZPG Plc (ZPG shares) which have been disposed of during 2016.

### Fair value measurements using significant unobservable inputs (Level 3) and valuation processes

The following changes were made in Level 3 instruments for the years under review:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Available-for-sale financial assets £'000 | Contingent consideration in a business combination | Put options £'000 | Available-for-sale financial assets £'000 | Contingent consideration in a business combination | Put options £'000 |
| **Opening balance at 1 January** | 449 | 8,072 | 2,700 | 125 | — | 2,560 |
| Acquisitions | 1,504 | — | (2,700) | 324 | — | — |
| Disposals | (34) | — | — | — | — | — |
| Contingent consideration paid | — | (1,744) | — | — | (875) | — |
| Gains and losses recognised in profit or loss | — | 6,835 | — | — | 8,947 | 140 |
| **Closing balance at 31 December** | 1,919 | 13,163 | — | 449 | 8,072 | 2,700 |

As noted in note 19, the fair value of put options at 31 December 2015 of £2,700,000, to acquire the non-controlling interest in Capital Private Finance Limited, was restated to the present value of the expected redemption amount, which was based on management's expectation of performance, consistent with operating plans approved. The Group exercised the put options in July 2016 at £2,700,000.

The contingent consideration relates to amounts payable in the future on nine acquisitions (four arising in the current year and five in the prior year). The amounts payable are based on the amounts agreed in the contracts and based on the future profitability of each entity acquired. In valuing each provision, estimates have been made as to the future profitability of each entity at this date. See note 29 for disclosures of the measurement of contingent consideration.

The Group's finance department performs the valuations of financial instruments measured at fair value required for financial reporting purposes, including Level 3 fair values. This team reports directly to the Chief Financial Officer and the Audit and Risk Committee.

The fair value of all other financial assets and liabilities approximates to their carrying value, including available-for-sale financial assets acquired during the year where purchase cost is recent and has been assumed as equivalent to fair value at the year end.

# Notes to the financial statements continued

## 35. Related party transactions

Key management compensation is given in note 6(b). Other related party transactions are as follows:

### Trading transactions

| | | Transaction amount | | Balance (owing)/owed | |
|---|---|---|---|---|---|
| Related party relationship | Transaction type | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Joint venture | Purchases by Group | **(2,415)** | (2,567) | **(169)** | (192) |
| Joint venture | Rebate received/receivable | **2,165** | 2,792 | **1,134** | 1,441 |
| The Buy To Let Group – Subsidiary | Loan payable | **109** | — | **1,699** | — |
| Oaktree Capital Management | Director's fee paid | **40** | 40 | **10** | 10 |

These transactions are trading relationships which are made at market value. There is a loan payable within The Buy To Let Group Limited of £1,590,000 (and associated interest) that is payable to the joint shareholder and director in February 2019 with interest payable at 8% per annum. The Company has not made any provision for bad or doubtful debts in respect of related party debtors nor has any guarantee been given during 2016 regarding related party transactions.

## 36. Events after the balance sheet date

Despite the uncertain market environment, we remain committed to reducing our leverage and at the same time facilitate the acceleration of our ability to future proof the business and exploit growth opportunities. To that end, and following consultations with our major shareholders, the Board has decided to make a small placing of up to 9.99% of our share capital available via a cash box structure today.

# Independent auditors' report
## to the members of Countrywide plc

### Report on the company financial statements

#### Our opinion

In our opinion, Countrywide plc's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### What we have audited

The financial statements, included within the Annual Report, comprise:

- the company balance sheet as at 31 December 2016;
- the company statement of changes in equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

### Other required reporting

#### Consistency of other information and compliance with applicable requirements

##### Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

##### ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & 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; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

#### Adequacy of accounting records and information and explanations received

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; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

#### Directors' remuneration

##### Directors' Remuneration Report - Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

##### Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

# Independent auditors' report continued

## to the members of Countrywide plc

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the directors

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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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. With respect to the Strategic Report, the Directors' Report and the Corporate Governance Statement, we consider whether those reports include the disclosures required by applicable legal requirements.

### Other matter

We have reported separately on the Group financial statements of Countrywide plc for the year ended 31 December 2016.

**Christopher Burns (Senior Statutory Auditor)**
**for and on behalf of PricewaterhouseCoopers LLP**
**Chartered Accountants and Statutory Auditors**
**London**
9 March 2017

# Company balance sheet

## as at 31 December 2016

| | Note | 2016 £'000 | Reclassified* 2015 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments in subsidiaries | 5 | 386,372 | 386,372 |
| **Current assets** | | | |
| Trade and other receivables | 6 | 254,476 | 260,810 |
| Cash at bank and in hand | | 40,063 | 3,369 |
| | | 294,539 | 264,179 |
| **Creditors: amounts falling due within one year** | 7 | (338) | (2,052) |
| **Net current assets** | | 294,201 | 262,127 |
| **Total assets less current liabilities** | | 680,573 | 648,499 |
| **Creditors: amounts falling due after more than one year** | 8 | (289,380) | (198,128) |
| **Net assets** | | 391,193 | 450,371 |
| **Capital and reserves** | | | |
| Share capital | 10 | 2,197 | 2,196 |
| Share premium | | 211,838 | 211,839 |
| Hedging reserve | | (1,894) | — |
| Treasury share reserve | | (16,095) | (2,241) |
| Profit and loss account | | 195,147 | 238,577 |
| **Total shareholders' funds** | | 391,193 | 450,371 |

* See notes 7 and 8.

The notes on pages 125 to 128 form an integral part of the company (registration number: 08340090) financial statements.

These financial statements on pages 123 to 128 were approved by the Board of directors and signed on its behalf by:

**Jim Clarke**
**Chief financial officer**
9 March 2017

# Company statement of changes in equity

## for the year ended 31 December 2016

| | Note | Share capital £'000 | Share premium £'000 | Hedging reserve £'000 | Treasury share reserve £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | | 2,194 | 211,841 | — | (14,516) | 96,490 | 296,009 |
| Profit for the year | | — | — | — | — | 191,840 | 191,840 |
| **Total comprehensive income** | | — | — | — | — | 191,840 | 191,840 |
| Issue of shares for IPO options | | 2 | (2) | — | — | — | — |
| Share-based payment transactions | | — | — | — | — | 3,226 | 3,226 |
| Purchase of treasury shares | | — | — | — | (7,760) | — | (7,760) |
| Utilisation of treasury shares for IPO options | | — | — | — | 20,035 | (20,035) | — |
| Dividends paid | 4 | — | — | — | — | (32,944) | (32,944) |
| **Balance at 31 December 2015** | | 2,196 | 211,839 | — | (2,241) | 238,577 | 450,371 |
| Loss for the year | | — | — | — | — | (8,646) | (8,646) |
| **Other comprehensive (expense)/income** | | | | | | | |
| Cash flow hedge: fair value losses | | — | — | (2,367) | — | — | (2,367) |
| Cash flow hedge: deferred tax on losses | 9 | — | — | 473 | — | — | 473 |
| Total other comprehensive expense | | — | — | (1,894) | — | — | (1,894) |
| **Total comprehensive expense** | | — | — | (1,894) | — | (8,646) | (10,540) |
| Issue of shares for IPO options | 10 | 1 | (1) | — | — | — | — |
| Share-based payment transactions | | — | — | — | — | 2,242 | 2,242 |
| Purchase of treasury shares | | — | — | — | (18,100) | — | (18,100) |
| Utilisation of treasury shares for IPO options | | — | — | — | 4,246 | (4,246) | — |
| Dividends paid | 4 | — | — | — | — | (32,780) | (32,780) |
| **Balance at 31 December 2016** | | **2,197** | **211,838** | **(1,894)** | **(16,095)** | **195,147** | **391,193** |

# Notes to the Company financial statements

## 1. General information and accounting policies

### (a) Basis of preparation

The separate financial statements of Countrywide plc ('the Company') have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial assets and liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006 (the Act).

The preparation of the financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2. The principal accounting policies are set out below and have been applied consistently throughout the year.

As permitted under section 408 of the Act, the Company has elected not to present its own income statement for the year. The loss for the financial year was £8,646,000 (2015: profit of £191,840,000).

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods and services received was determined);
- IFRS 7 'Financial instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- The following paragraphs of IAS 1 'Presentation of financial statements':
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B-D (additional comparative information);
  - 111 (cash flow statement information); and
  - 134-136 (capital management disclosures);
- IAS 7 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 of IAS 24 'Related party disclosures' (key management compensation); and
- The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

### (b) Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence. For this reason, they continue to adopt the going concern basis in the financial statements.

### (c) Investments

Investments in subsidiaries are held at historical cost less provision for impairment. The carrying values of investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

### (d) Income tax

Income tax on the profit or loss for the year presented comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (e) Share-based payments

The cost of granting share options and other share-based remuneration to employees and directors is recognised through the income statement. These are equity settled and therefore the fair value is measured at the grant date. Where the share awards have non-market-related performance criteria the Company has used the Binomial Lattice and Black Scholes option valuation models to establish the relevant fair values. Where the share awards have TSR market-related performance criteria the Company has used the Monte Carlo simulation valuation model to establish the relevant fair values. The resulting values are amortised through the income statement over the vesting period of the options and other grants. For awards with non-market-related criteria, the charge is reversed if it appears probable that the performance criteria will not be met.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

# Notes to the Company financial statements continued

## 1. General information and accounting policies continued

### (f) Dividend income

Dividend income from subsidiary undertakings is recognised at the point the dividend has been declared.

### (g) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet.

### (h) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The Company has designated certain derivatives as a cash flow hedge and documented at inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 21 to the consolidated financial statements. The fair value of derivatives has been calculated by discounting all future cash flows by the market yield curve at the balance sheet date. Movements in the hedging reserve in other comprehensive income are shown within the statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current liability when the remaining hedged item is more than twelve months from maturity. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'Finance costs'.

### (i) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

### (j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in share premium as a deduction from the proceeds. Where the Employee Benefit Trust purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

## 2. Critical accounting judgements and estimates

The preparation of the financial statements requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates, given the uncertainty surrounding the assumptions and conditions upon which the estimates are based.

The directors consider that the following estimates and judgements are likely to have the most significant effect on the amounts recognised in the Company's financial statements.

### Investments in subsidiaries

The directors periodically review investments in subsidiaries for possible impairment when events or changes in circumstances indicate, in management's judgement, that the carrying value of an asset may not be recoverable. Such indicating events would include a significant change in market conditions or future operating cash flows. The Company did not record any impairment charges during the year ended 31 December 2016.

### Fair value of derivative financial instruments

The fair values of the Company's derivative financial instruments are determined by discounting future cash flows by the market yield curve at the balance sheet date. Valuations at the balance sheet date are received from each of the counterparties to the Company's interest rate swap and are determined using the individual valuation models of each counterparty.

## 3. Employee costs

The only employees of Countrywide plc are the executive and non-executive directors. Details of the employee costs associated with the directors are included in the directors' remuneration report on page 61 and are summarised below.

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Wages and salaries | **1,489** | 1,863 |
| Share-based payments | **763** | 2,086 |
| Social security costs | **219** | 270 |
| Post-employment benefits – salary supplement | **137** | 140 |
| | **2,608** | 4,359 |

The information disclosed in the Group's consolidated financial statements under IFRS 2 'Share-based payment' is within note 27, providing further information regarding the Company's equity-settled share-based payment arrangements.

Details of the highest paid director's aggregate emoluments, amounts receivable under long-term incentive schemes and payments in lieu of pension entitlements are disclosed within the directors' remuneration report.

## 4. Dividends

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the year: | | |
| – final dividend for the year ended 31 December 2015 of 10.0 pence (net) per share (2014: 10.0 pence (net) per share) | 21,963 | 21,963 |
| – interim dividend for the year ended 31 December 2016 of 5.0 pence (net) per share (2015: 5.0 pence (net) per share) | 10,817 | 10,981 |
| Total | 32,780 | 32,944 |

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2016.

## 5. Investments in subsidiaries

| | 2016 £'000 |
|---|---|
| Cost | |
| At 1 January 2016 and 31 December 2016 | 386,372 |
| Accumulated impairment | |
| At 1 January 2016 and at 31 December 2016 | — |
| Net book amount | 386,372 |

At 31 December 2016, the Company owned directly the whole of the issued and fully paid ordinary share capital of its subsidiary undertaking, Countrywide Group plc, a company registered in the UK whose principal activity was that of investment holding company.

Interests in Group undertakings, held indirectly by the Company, are detailed within the appendix of the consolidated financial statements, which form part of these financial statements.

## 6. Trade and other receivables

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Amounts falling due within one year | | |
| Amounts owed by Group undertakings | 250,308 | 257,202 |
| Group relief receivable | 3,372 | 2,432 |
| Deferred tax asset (note 9) | 698 | 1,138 |
| Prepayments and accrued income | 84 | 36 |
| Other debtors | 14 | 2 |
| | 254,476 | 260,810 |

Amounts owed by subsidiary undertakings are unsecured and payable on demand. Interest is received at base rate per annum.

## 7. Creditors: amounts falling due within one year

| | 2016 £'000 | Reclassified* 2015 £'000 |
|---|---|---|
| Trade creditors | 55 | 14 |
| Other creditors | 283 | 2,038 |
| | 338 | 2,052 |

* The revolving credit facility (RCF) of £200 million and capitalised banking fees were classified as current creditors at 31 December 2015 based on the rolling utilisation request, but have been reclassified to non-current creditors on the basis that no repayments are mandated before 20 March 2020 (2015: 20 March 2018).

## 8. Creditors: amounts falling due after more than one year

| | 2016 £'000 | Reclassified 2015 £'000 |
|---|---|---|
| Bank borrowings | 290,000 | 200,000 |
| Derivative financial instruments | 2,367 | — |
| Capitalised banking fees | (3,223) | (1,872) |
| Other creditors | 236 | — |
| | 289,380 | 198,128 |

On 18 February 2016, the Company entered into an Amendment and Restatement Agreement relating to the term and revolving credit facility agreement, originally dated 20 March 2013, which is due to expire in March 2020. The facility is now a £340 million revolving credit facility (RCF), with no term loan elements, and an additional £60 million accordion facility, with any outstanding balance repayable in full on 20 March 2020. Interest is currently payable based on LIBOR plus a margin of 2.75%. The margin is linked to the leverage ratio of the Group and the margin rate is reviewed twice a year (and can vary between 1.75% and 3.0%). The RCF is available for utilisation subject to satisfying fixed charge and leverage covenants and £90 million was drawn down during the period (see note 20 of the consolidated financial statements).

On 1 June 2016 the Group entered into an interest rate swap to hedge the interest cash flows on the first proportion of the RCF in alignment with forecast drawdowns. Details of the derivative financial instrument are disclosed in note 21 to the consolidated financial statements.

# Notes to the Company financial statements continued

## 9. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17%-20% (2015: 18%-20%). The movement on the deferred tax account is shown below:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Deferred tax asset at 1 January | 1,138 | 1,350 |
| Charged to income statement | (913) | (212) |
| Credited to other comprehensive income | 473 | — |
| Deferred tax asset at 31 December | 698 | 1,138 |
| Deferred tax asset expected to unwind within one year | 84 | 933 |
| Deferred tax asset expected to unwind after one year | 614 | 205 |
| | 698 | 1,138 |

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets to the extent that it is probable that these assets will be recovered through future taxable profits.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

| 2016 | Asset £'000 | Charged to income £'000 | Credited to other comprehensive income/equity £'000 |
|---|---|---|---|
| **Origination and reversal of temporary differences** | | | |
| Share-based payments | 225 | (913) | — |
| Cash flow hedge | 473 | — | 473 |
| | 698 | (913) | 473 |

| 2015 | Asset £'000 | Charged to income £'000 | Credited to other comprehensive income/equity £'000 |
|---|---|---|---|
| **Origination and reversal of temporary differences** | | | |
| Share-based payments | 1,138 | (212) | — |
| | 1,138 | (212) | — |

There are no unused tax losses.

## 10. Called up share capital

### Called up issued and fully paid ordinary shares of 1 pence each

| | Number | £'000 |
|---|---|---|
| At 1 January 2016 | 219,641,834 | 2,196 |
| Share capital issued | 51,138 | 1 |
| **At 31 December 2016** | **219,692,972** | **2,197** |

At 31 December 2016, 3,371,972 of the shares disclosed above have been subject to share buy-back and were held in treasury.

The Company acquired 4,534,655 of its own shares through purchases on the London Stock Exchange throughout February to June 2016. The total amount paid to acquire the shares was £16,524,000. The shares were held as treasury shares. The Company then reissued 1,162,683 of these shares in March 2016 and May 2016 in respect of the IPO option vesting. All shares issued by the Company were fully paid. An additional 51,138 shares were issued at nominal value to complete the satisfaction of the IPO options crystallising in March 2016 as insufficient treasury shares were held at that point in time.

Where the Employee Benefit Trust purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. At the year end, 908,886 shares (2015: 449,172 shares), costing £3,723,609 (2015: £2,241,000), were held in relation to matching shares of the SIP scheme.

## 11. Auditors' remuneration

The auditor's remuneration for the audit of the Company is disclosed in note 7 to the consolidated financial statements. Fees paid to the auditor for non-audit services to the Company are not required to be disclosed in the Company's financial statements because consolidated financial statements are prepared which disclose such fees.

## 12. Events after the balance sheet date

Despite the uncertain market environment, we remain committed to reducing our leverage and at the same time facilitate the acceleration of our ability to future proof the business and exploit growth opportunities. To that end, and following consultations with our major shareholders, the Board has decided to make a small placing of up to 9.99% of our share capital available via a cash box structure today.

# Appendix

## Related undertakings of the Group as at 31 December 2016

| Company name | Registered address (refer to note) | Country of incorporation | % owned | Direct/ indirect (Group interest) |
|---|---|---|---|---|
| Countrywide Group plc | 1 | UK | 100% | Direct |
| A3 Countrywide Limited | 2 | UK | 100% | Indirect |
| Abbotts Estate Agents Limited | 2 | UK | 100% | Indirect |
| Accord Properties Limited | 2 | UK | 100% | Indirect |
| Acornsrl Limited | 2 | UK | 100% | Indirect |
| Advanced Lettings (Ashford) Limited | 2 | UK | 100% | Indirect |
| Aeromind Limited | 3 | UK | 100% | Indirect |
| AgencyPro Limited | 4 | UK | 100% | Indirect |
| Alan de Maid Limited | 2 | UK | 100% | Indirect |
| Alan Harvey Property Services Limited | 2 | UK | 100% | Indirect |
| Anderson Estate Agents Limited | 2 | UK | 100% | Indirect |
| APW Holdings Limited | 2 | UK | 100% | Indirect |
| APW Management (Cobham) Limited | 2 | UK | 100% | Indirect |
| APW Management (Esher) Limited | 2 | UK | 100% | Indirect |
| APW Management (Sunninghill) Limited | 2 | UK | 100% | Indirect |
| APW Management (Weybridge) Limited | 2 | UK | 100% | Indirect |
| APW Management Services Limited | 2 | UK | 100% | Indirect |
| Ashton Burkinshaw (Franchising) Limited | 2 | UK | 100% | Indirect |
| Ashton Burkinshaw Limited | 2 | UK | 100% | Indirect |
| Associated Employers Limited | 3 | UK | 100% | Indirect |
| Austin & Wyatt Limited | 2 | UK | 100% | Indirect |
| Avon Property (Wilts) Limited | 2 | UK | 100% | Indirect |
| Bairstow Eves Countrywide Limited | 2 | UK | 100% | Indirect |
| Bairstow Eves Limited | 2 | UK | 100% | Indirect |
| Baker Harris Saunders Group Limited | 2 | UK | 100% | Indirect |
| Balanus Limited | 1 | UK | 100% | Indirect |
| Barrys (Surrey) Limited | 2 | UK | 100% | Indirect |
| Beresford Adams Limited | 2 | UK | 100% | Indirect |
| Berkeley Private Capital Limited | 5 | UK | 100% | Indirect |
| Berry Bros & Legge Limited | 2 | UK | 100% | Indirect |
| Blundells Property Services Limited | 2 | UK | 100% | Indirect |
| Bridgfords Countrywide Limited | 2 | UK | 100% | Indirect |
| Bridgfords Limited | 2 | UK | 100% | Indirect |
| Buckell & Ballard Limited | 2 | UK | 100% | Indirect |
| Bullock and Lees (Christchurch) Limited | 2 | UK | 100% | Indirect |
| Bureau Properties Limited | 2 | UK | 100% | Indirect |
| Buy to Let Club Limited | 5 | UK | 100% | Indirect |
| CAG Overseas Investments Limited | 2 | UK | 100% | Indirect |
| Capital Fine Homes Limited | 2 | UK | 100% | Indirect |
| Capital Private Finance Limited | 5 | UK | 100% | Indirect |
| Cardinal Mortgage Service Limited (The) | 2 | UK | 100% | Indirect |
| Carol Whyte Property Management Limited | 6 | UK | 100% | Indirect |
| Carson & Company Estate Agents Limited | 2 | UK | 100% | Indirect |
| Castle Moat at Taunton Limited | 2 | UK | 100% | Indirect |
| Cathedral Lettings and Management Limited | 2 | UK | 100% | Indirect |
| CEA Holdings Limited | 2 | UK | 100% | Indirect |
| Chamberlains Lettings Limited | 2 | UK | 100% | Indirect |
| Chamberlains SGS Holdings Limited | 2 | UK | 100% | Indirect |
| Chappell & Matthews Limited | 2 | UK | 100% | Indirect |
| Chattings Limited | 2 | UK | 100% | Indirect |
| CHK (Cobham) Limited | 2 | UK | 100% | Indirect |

# **Appendix** continued

| Company name | Registered address (refer to note) | Country of incorporation | % owned | Direct/ indirect (Group interest) |
|---|---|---|---|---|
| CHK (Esher) Limited | 2 | UK | 100% | Indirect |
| Cliftons International Limited | 2 | UK | 100% | Indirect |
| Connell Wilson Limited | 2 | UK | 100% | Indirect |
| Copleys of York Limited | 2 | UK | 100% | Indirect |
| Cosec Management Services Limited | 7 | UK | 100% | Indirect |
| Countrywide Conveyancing Limited | 2 | UK | 100% | Indirect |
| Countrywide Corporate Property Services Limited | 8 | UK | 100% | Indirect |
| Countrywide Estate Agents | 5 | UK | 100% | Indirect |
| Countrywide Estate Agents (South) Limited | 1 | UK | 100% | Indirect |
| Countrywide Estate Agents FS Limited | 2 | UK | 100% | Indirect |
| Countrywide Estate Agents Nominees Limited | 2 | UK | 100% | Indirect |
| Countrywide Financial Services (South) Limited | 2 | UK | 100% | Indirect |
| Countrywide Home Movers Services Limited | 2 | UK | 100% | Indirect |
| Countrywide Mortgage Services Limited | 2 | UK | 100% | Indirect |
| Countrywide North Limited | 2 | UK | 100% | Indirect |
| Countrywide Part Exchange Solutions Limited | 2 | UK | 100% | Indirect |
| Countrywide Principal Services Limited | 5 | UK | 100% | Indirect |
| Countrywide Property Auctions Limited | 1 | UK | 100% | Indirect |
| Countrywide Property Care Solutions Limited | 2 | UK | 100% | Indirect |
| Countrywide Property Lawyers Limited | 9 | UK | 100% | Indirect |
| Countrywide Relocation Solutions Limited | 2 | UK | 100% | Indirect |
| Countrywide Repossession Solutions Limited | 2 | UK | 100% | Indirect |
| Countrywide Residential Investments Limited | 2 | UK | 100% | Indirect |
| Countrywide Residential Lettings Limited | 1 | UK | 100% | Indirect |
| Countrywide Surveyors Limited | 5 | UK | 100% | Indirect |
| Countrywide UK Limited | 2 | UK | 100% | Indirect |
| CRL Company Directors Limited | 7 | UK | 100% | Indirect |
| CRL Company Secretaries Limited | 7 | UK | 100% | Indirect |
| Curtis and Bains Limited | 2 | UK | 100% | Indirect |
| Dickinson Harrison Limited | 2 | UK | 100% | Indirect |
| Duck & Hedges Group Limited | 2 | UK | 100% | Indirect |
| Duck & Hedges Limited | 2 | UK | 100% | Indirect |
| Edinburgh Property Letting Limited | 6 | UK | 100% | Indirect |
| Elite Property (Berks) Limited | 2 | UK | 100% | Indirect |
| Entwistle Green Limited | 2 | UK | 100% | Indirect |
| Executive Property Services Residential Limited | 2 | UK | 100% | Indirect |
| Faron Sutaria & Company Limited | 3 | UK | 100% | Indirect |
| Finders Keepers Limited | 2 | UK | 100% | Indirect |
| Fitz-Gibbon Limited | 2 | UK | 100% | Indirect |
| Ford Property Services Limited | 2 | UK | 100% | Indirect |
| Frank Innes Countrywide Limited | 2 | UK | 100% | Indirect |
| Freeman Forman Letting Limited | 2 | UK | 100% | Indirect |
| Freeman Forman Limited | 2 | UK | 100% | Indirect |
| Fulfords Estate Agents Limited | 2 | UK | 100% | Indirect |
| Gascoigne-Pees Estate Agents Limited | 2 | UK | 100% | Indirect |
| Gatlink Limited | 2 | UK | 100% | Indirect |
| Geering & Colyer (Kent) Limited | 2 | UK | 100% | Indirect |
| Gertingpet Limited | 2 | UK | 100% | Indirect |
| Gilpro Management Limited | 6 | UK | 100% | Indirect |
| GR2 Limited | 2 | UK | 100% | Indirect |
| Greene & Co Maintenance Limited | 2 | UK | 100% | Indirect |
| Griffiths & Charles Limited | 2 | UK | 100% | Indirect |

| Company name | Registered address (refer to note) | Country of incorporation | % owned | Direct/ indirect (Group interest) |
|---|---|---|---|---|
| Grosvenor Private Clients Limited | 2 | UK | 100% | Indirect |
| Hamptons Estates Limited | 3 | UK | 100% | Indirect |
| Hamptons Franchising Limited | 2 | UK | 100% | Indirect |
| Hamptons Group Limited | 3 | UK | 100% | Indirect |
| Hamptons International (Hong Kong) Limited | 10 | Hong Kong | 100% | Indirect |
| Hamptons International (India) Private Limited | 11 | India | 100% | Indirect |
| Hamptons International Mortgages Limited | 3 | UK | 100% | Indirect |
| Hamptons Professional Limited | 2 | UK | 100% | Indirect |
| Harecastle Limited | 2 | UK | 100% | Indirect |
| Harrisons Estate Agents Limited | 2 | UK | 100% | Indirect |
| Harvey Donaldson & Gibson Limited | 12 | UK | 100% | Indirect |
| HCW Estate Agents Limited | 2 | UK | 100% | Indirect |
| HCW Group Limited | 2 | UK | 100% | Indirect |
| HCW Insurance Services Limited | 2 | UK | 100% | Indirect |
| Herring Baker Harris East Anglia Limited | 2 | UK | 100% | Indirect |
| Herring Baker Harris Europe Limited | 2 | UK | 100% | Indirect |
| Herring Baker Harris Nominees Limited | 2 | UK | 100% | Indirect |
| Hetheringtons | 2 | UK | 100% | Indirect |
| Hetheringtons Countrywide | 2 | UK | 100% | Indirect |
| Hetheringtons Estate Agents Limited | 1 | UK | 100% | Indirect |
| Holland Mitchell Limited | 2 | UK | 100% | Indirect |
| Holmes Pearman Limited | 2 | UK | 100% | Indirect |
| Home From Home Limited | 2 | UK | 100% | Indirect |
| Housemans Management Company Limited | 7 | UK | 100% | Indirect |
| Housemans Management Secretarial Limited | 7 | UK | 100% | Indirect |
| Howunalis Limited | 2 | UK | 100% | Indirect |
| Howuncea | 2 | UK | 100% | Indirect |
| Howunsay | 2 | UK | 100% | Indirect |
| Hurst Independent Financial Services Limited | 2 | UK | 100% | Indirect |
| Ian Peat Property Management Limited | 2 | UK | 100% | Indirect |
| Ikon Consultancy Limited | 3 | UK | 100% | Indirect |
| Interlet Property Management Limited | 2 | UK | 100% | Indirect |
| IPCS Group Services Limited | 2 | UK | 100% | Indirect |
| Isite.UK.Com Limited | 2 | UK | 100% | Indirect |
| J M Property Lettings Limited | 2 | UK | 100% | Indirect |
| JP & Brimelow (Lettings and Property Management) Limited | 2 | UK | 100% | Indirect |
| JAM Advisors Limited | 13 | UK | 100% | Indirect |
| JK Lettings Limited | 2 | UK | 100% | Indirect |
| John Curtis Lettings & Management Limited | 2 | UK | 100% | Indirect |
| John Curtis Limited | 2 | UK | 100% | Indirect |
| John D Wood & Co. (Residential & Agricultural) Limited | 3 | UK | 100% | Indirect |
| John D Wood & Co. Plc | 2 | UK | 100% | Indirect |
| John Frances Limited | 2 | UK | 100% | Indirect |
| John Francis (Wales) Limited | 2 | UK | 100% | Indirect |
| Joustroute Limited | 2 | UK | 100% | Indirect |
| Kean Kennedy Limited | 12 | UK | 100% | Indirect |
| Kilroy Estate Agents Limited | 2 | UK | 100% | Indirect |
| King & Chasemore Limited | 2 | UK | 100% | Indirect |
| Knights of Bath Limited | 2 | UK | 100% | Indirect |
| Knightsbridge Estate Agents and Valuers Limited | 2 | UK | 100% | Indirect |
| Labyrinth Management Limited | 7 | UK | 100% | Indirect |
| Lambert Smith Hampton (City) Limited | 2 | UK | 100% | Indirect |

# **Appendix** continued

| Company name | Registered address (refer to note) | Country of incorporation | % owned | Direct/ indirect (Group interest) |
|---|---|---|---|---|
| Lambert Smith Hampton (N Ireland) Limited | 3 | UK | 100% | Indirect |
| Lambert Smith Hampton Group (Overseas) Limited | 2 | UK | 100% | Indirect |
| Lambert Smith Hampton Group Limited | 3 | UK | 100% | Indirect |
| Lambert Smith Hampton Limited | 3 | UK | 100% | Indirect |
| Lambert Smith Hampton Limited (Ireland) | 19 | Ireland | 100% | Indirect |
| Lampons Residential Limited | 2 | UK | 100% | Indirect |
| Land and New Homes Countrywide Limited | 5 | UK | 100% | Indirect |
| Lanes Land Limited | 5 | UK | 100% | Indirect |
| Lanes Property Agents (Cheshunt) Limited | 5 | UK | 100% | Indirect |
| Leasehold Legal Services Limited | 2 | UK | 100% | Indirect |
| Leasemanco Limited | 7 | UK | 100% | Indirect |
| Let Lucas Rental Specialists Limited | 2 | UK | 100% | Indirect |
| Let Verde Limited | 2 | UK | 100% | Indirect |
| Letmore Group Limited | 2 | UK | 100% | Indirect |
| Letmore Lettings Limited | 2 | UK | 100% | Indirect |
| Letmore Management Limited | 2 | UK | 100% | Indirect |
| Lets – Cover Limited | 2 | UK | 100% | Indirect |
| Letters of Distinction Limited | 2 | UK | 100% | Indirect |
| Life and Easy Limited | 14 | UK | 100% | Indirect |
| Lifestyle Management (York) Co. Limited | 2 | UK | 100% | Indirect |
| Lighthouse Property Services Limited | 2 | UK | 100% | Indirect |
| London & Country Property Auctions Limited | 1 | UK | 100% | Indirect |
| Loyalstone Limited | 2 | UK | 100% | Indirect |
| LS1 Limited | 2 | UK | 100% | Indirect |
| Maitland Lettings Limited | 2 | UK | 100% | Indirect |
| Mann & Co. (Kent) Limited | 2 | UK | 100% | Indirect |
| Mann & Co. Limited | 2 | UK | 100% | Indirect |
| Mann Countrywide Limited | 2 | UK | 100% | Indirect |
| Merchant Executive Properties Limited | 6 | UK | 100% | Indirect |
| Merchant Lettings (Ayrshire) Limited | 6 | UK | 100% | Indirect |
| Merchant Lettings (Edinburgh) Limited | 6 | UK | 100% | Indirect |
| Merchant Lettings (Paisley) Limited | 6 | UK | 100% | Indirect |
| Merchant Lettings Limited | 6 | UK | 100% | Indirect |
| Merchant Maintenance Limited | 6 | UK | 100% | Indirect |
| Michael Rhodes Property Management Limited | 2 | UK | 100% | Indirect |
| Mid Cornwall Letting Limited | 2 | UK | 100% | Indirect |
| Miller Estate Agents Limited | 2 | UK | 100% | Indirect |
| Milton Ashbury (Property Agents) Limited | 2 | UK | 100% | Indirect |
| Modernmode Limited | 2 | UK | 100% | Indirect |
| Morris Dibben Limited | 2 | UK | 100% | Indirect |
| Mortgage Intelligence Holdings Limited | 14 | UK | 100% | Indirect |
| Mortgage Intelligence Limited | 14 | UK | 100% | Indirect |
| Mortgage Next Limited | 14 | UK | 100% | Indirect |
| Mortgage Next Network Limited | 14 | UK | 100% | Indirect |
| Mortgage Next Packaging Limited | 14 | UK | 100% | Indirect |
| Mountford Limited | 2 | UK | 100% | Indirect |
| Nest Lettings & Management Limited | 2 | UK | 100% | Indirect |
| New Homes Mortgage Solutions Limited | 5 | UK | 100% | Indirect |
| New Space (Derby) Limited | 2 | UK | 100% | Indirect |
| New Space Margate Limited | 2 | UK | 100% | Indirect |
| Ohmes Limited | 2 | UK | 100% | Indirect |
| Palmer Snell Limited | 2 | UK | 100% | Indirect |

| Company name | Registered address (refer to note) | Country of incorporation | % owned | Direct/ indirect (Group interest) |
|---|---|---|---|---|
| Patterson Bowe Limited | 3 | UK | 100% | Indirect |
| Pebble Property Management and Lettings Limited | 2 | UK | 100% | Indirect |
| Personal Homefinders Limited | 2 | UK | 100% | Indirect |
| Phillips Brown Limited | 2 | UK | 100% | Indirect |
| PKL Group Limited | 2 | UK | 100% | Indirect |
| PKL Limited | 2 | UK | 100% | Indirect |
| PKL Management Limited | 2 | UK | 100% | Indirect |
| Plaza Letting Agents Limited | 2 | UK | 100% | Indirect |
| Poolman Harlow Limited | 2 | UK | 100% | Indirect |
| Portfolio Letting Agents & Consultants Limited. | 6 | UK | 100% | Indirect |
| Potteries Property Services Limited | 2 | UK | 100% | Indirect |
| Preston Bennett Holdings Limited | 2 | UK | 100% | Indirect |
| Preston Bennett Limited | 2 | UK | 100% | Indirect |
| Project Second JG Limited | 2 | UK | 100% | Indirect |
| Property Management (North East) Limited | 2 | UK | 100% | Indirect |
| Propertywide Limited | 1 | UK | 100% | Indirect |
| PSP Lettings Limited | 2 | UK | 100% | Indirect |
| R.A. Bennett & Partners Limited | 2 | UK | 100% | Indirect |
| Realty Property Solutions Limited | 2 | UK | 100% | Indirect |
| Regal Lettings and Property Management Kent Limited | 2 | UK | 100% | Indirect |
| Relocation Solutions Countrywide Limited | 2 | UK | 100% | Indirect |
| Rentons Estate Agents Limited | 1 | UK | 100% | Indirect |
| Resi Capital Investments Limited | 1 | UK | 100% | Indirect |
| Resi Capital Limited | 1 | UK | 100% | Indirect |
| Resi Capital Member Limited | 1 | UK | 100% | Indirect |
| Richard Dolton Limited | 2 | UK | 100% | Indirect |
| Richard Trowbridge Estate & Lettings Limited | 2 | UK | 100% | Indirect |
| RPT Management Services Plc | 2 | UK | 100% | Indirect |
| Russells Lettings Limited | 2 | UK | 100% | Indirect |
| Saville Home Management Limited | 2 | UK | 100% | Indirect |
| Securemove Property Services 2005 Limited | 2 | UK | 100% | Indirect |
| Securemove Property Services Limited | 2 | UK | 100% | Indirect |
| ServPro Limited | 1 | UK | 100% | Indirect |
| Slater Hogg & Howison Limited | 2 | UK | 100% | Indirect |
| Slater Hogg Mortgages Limited | 5 | UK | 100% | Indirect |
| Snape Lettings Limited | 2 | UK | 100% | Indirect |
| Spencers Estate Agents Limited | 2 | UK | 100% | Indirect |
| Spencers Surveyors Limited | 2 | UK | 100% | Indirect |
| Sprint Property Acquisitions Limited | 2 | UK | 100% | Indirect |
| Statehold Limited | 3 | UK | 100% | Indirect |
| Stoberry Lettings Limited | 2 | UK | 100% | Indirect |
| Stratton Creber Limited | 2 | UK | 100% | Indirect |
| Sundale Properties Limited | 2 | UK | 100% | Indirect |
| SurveyingPro.co.uk Limited | 2 | UK | 100% | Indirect |
| Sutton Kersh Auctions & Sales Limited | 2 | UK | 100% | Indirect |
| Sutton Kersh Holdings Limited | 2 | UK | 100% | Indirect |
| Tablesign Limited | 2 | UK | 100% | Indirect |
| Taylors Estate Agents Limited | 2 | UK | 100% | Indirect |
| The Butler Club Limited | 2 | UK | 100% | Indirect |
| The Buy To Let Business Limited | 5 | UK | 100% | Indirect |
| The Buy To Let Group Limited | 5 | UK | 100% | Indirect |
| The Flat Managers Limited | 2 | UK | 100% | Indirect |

# Appendix continued

| Company name | Registered address (refer to note) | Country of incorporation | % owned | Direct/ indirect (Group interest) |
|---|---|---|---|---|
| The Good Mortgage Company Limited | 5 | UK | 100% | Indirect |
| The Greene Corporation Limited | 3 | UK | 100% | Indirect |
| The Letting Store Limited | 2 | UK | 100% | Indirect |
| The London Residential Agency Limited | 2 | UK | 100% | Indirect |
| The Property Sales & Rentals Company Limited | 2 | UK | 100% | Indirect |
| Thomas James Lettings Limited | 2 | UK | 100% | Indirect |
| Thomson & Moulton Limited | 2 | UK | 100% | Indirect |
| Tingleys Lettings Limited | 2 | UK | 100% | Indirect |
| TitleAbsolute Limited | 15 | UK | 100% | Indirect |
| TLS Wilts. Limited | 2 | UK | 100% | Indirect |
| TM Group (UK) Limited | 16 | UK | 33% | Indirect |
| Town & County Residential Limited | 2 | UK | 100% | Indirect |
| Tucker Gardner Residential Limited | 2 | UK | 100% | Indirect |
| Umberman Limited | 2 | UK | 100% | Indirect |
| United Surveyors Limited | 5 | UK | 100% | Indirect |
| Vanet Property Asset Management Limited | 2 | UK | 100% | Indirect |
| Vista UK Residential Investment 1 (GP) LLP | 17 | UK | 50% | Indirect |
| Vista UK Residential Investment 1 Limited Partnership | 17 | UK | 50% | Indirect |
| Vista UK Residential Real Estate (GP) LLP | 18 | UK | 50% | Indirect |
| Vista UK Residential Real Estate Limited Partnership | 18 | UK | 50% | Indirect |
| Waferprime Limited | 2 | UK | 100% | Indirect |
| Wallhead Gray & Coates | 2 | UK | 100% | Indirect |
| Watson Bull & Porter Limited | 2 | UK | 100% | Indirect |
| Watts Regeneration Limited | 2 | UK | 100% | Indirect |
| Westcountry Property Auctions Limited | 1 | UK | 100% | Indirect |
| Wildabout Properties Limited | 2 | UK | 100% | Indirect |
| Wilson Peacock Estate Agents Limited | 2 | UK | 100% | Indirect |
| Woods Block Management Limited | 2 | UK | 100% | Indirect |
| WSB Property Management Limited | 2 | UK | 100% | Indirect |
| Wyse Lettings Limited | 2 | UK | 100% | Indirect |
| Young & Butt Limited | 2 | UK | 100% | Indirect |
| Young Lettings Limited | 2 | UK | 100% | Indirect |

## Registered offices:

1. County House, Ground Floor, 100 New London Road, Chelmsford, Essex, CM2 0RG, United Kingdom
2. 3rd Floor, 1 Ashley Road, Altrincham, Cheshire, WA14 2DT, United Kingdom
3. 7th Floor, United Kingdom House, 180 Oxford Street, London, W1D 1NN, United Kingdom
4. 17 Duke Street, Chelmsford, Essex, CM1 1HP, United Kingdom
5. 88-103 Caldecotte Lake Drive, Caldecotte, Milton Keynes, Buckinghamshire, MK7 8JT, United Kingdom
6. c/o Countrywide Lettings Ltd, 71 Candleriggs, Glasgow, Lanarkshire, G1 1NP, United Kingdom
7. North Point, Stafford Drive, Battlefield Enterprise Park, Shrewsbury, SY1 3BF, United Kingdom
8. Tamar House, Brants Bridge, Bracknell, RG12 9BQ, United Kingdom
9. Lee House, 90 Great Bridgewater Street, Manchester, M1 5RR, United Kingdom
10. Unit 1001B, 10th Floor, Kinwick Center, 32 Hollywood Road, Central, Hong Kong
11. F-509, 5th Floor, Ashish Corporate Tower, Plot No. 18, Karkardooma Community Centre, New Delhi, India
12. Suite 3.7, 3rd Floor, Standard Buildings, 94 Hope Street, Glasgow, G2 6PH, United Kingdom
13. Suite 2A, St Davids Court, Union Street, Wolverhampton, WV1 3JE, United Kingdom
14. Roddis House, 4th Floor, 4-12 Old Christchurch Road, Bournemouth, Dorset, BH1 1LG, United Kingdom
15. Churchgate House, 2nd Floor, 56 Oxford Street, Manchester, M1 6EU, United Kingdom
16. 1200 Delta Business Park, Swindon, Wiltshire, SN5 7XZ
17. Lloyds Chambers, 1 Portsoken Street, London, E1 8HZ, United Kingdom
18. 15 Atholl Crescent, Edinburgh, EH3 8HA, United Kingdom
19. Grafton Buildings, 34 Grafton Street, Dublin, 2, Ireland

# Company information

## Contacts

### Chief executive officer
Alison Platt

### Chief financial officer
Jim Clarke

### Company secretary
Gareth Williams

### Website
www.countrywide.co.uk

## Registered office
County House
Ground Floor
100 New London Road
Chelmsford
Essex CM2 0RG

### Registered in England
08340090

## Corporate headquarters

### Countrywide House
88–103 Caldecotte Lake Drive
Caldecotte
Milton Keynes MK7 8JT

## Registrar

### Capita Asset Services*
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

## Corporate advisors

### Independent auditors
PricewaterhouseCoopers LLP

### Bankers
Royal Bank of Scotland plc
Lloyds Bank plc
HSBC Bank plc
Abbey National Treasury Services plc
Barclays Bank Plc
AIB Group (UK) plc

### Brokers
Jefferies Hoare Govett

Barclays Bank plc, acting through its investment bank

### Solicitors
Slaughter and May

## Financial calendar

| | |
|---|---|
| AGM | 27 April 2017 |
| Interim results | 27 July 2017 |

## *Shareholder enquiries

The Company's registrar is Capita Asset Services. They will be pleased to deal with any questions regarding your shareholding or dividends. Please notify them of your change of address or other personal information. Their address details are above.

Capita Asset Services is a trading name of Capita Asset Services Limited.

Capita shareholder helpline: 0871 664 0300 (calls cost 10 pence per minute plus network extras) (Overseas: +44 02 8639 3399)

Email: ssd@capitaregistrars.com

Share portal: www.capitashareportal.com

Shareholders are able to manage their shareholding online and facilities include electronic communications, account enquiries, amendment of address and dividend mandate instructions.

# Forward-looking statements

This report includes forward-looking statements, which involve risks and uncertainties. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'anticipates', 'expects', 'intends', 'may', 'will' or 'should' or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies, the industry in which we operate and potential acquisitions. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are based upon information available to us on the date of this report.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, the development of the industry in which we operate and the effect of acquisitions on us may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and liquidity and the development of the industry in which we operate are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause those differences include, but are not limited to:

- a decline in the number of transactions, prices or commission levels in the UK residential property market, whether due to the impact of macroeconomic factors or otherwise;
- increased or reduced competition in the industry in which we operate;
- changes in, or our failure or inability to comply with, Government laws or regulations;
- the loss of any of our important commercial relationships; and
- any increase in our professional liabilities or any adverse development in the litigation or other disputes to which we are a party.

We caution you that the foregoing list of important factors may not contain all of the material factors that are important to you. We urge you to read the operating and financial review for a more complete discussion of the factors that could affect our future performance and the industry in which we operate. In light of these risks, uncertainties and assumptions, the forward-looking events described in this report may not occur.

We undertake no obligation, and do not expect, to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this report.

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C001785

Printed by Park Communications on FSC® certified paper.

Park is an EMAS certified company and its Environmental Management System is certified to ISO 14001.

100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average 99% of any waste associated with this production will be recycled.

This document is printed on Core Silk, a paper containing 100% virgin fibre sourced from well managed, responsible, FSC® certified forests. The pulp used in this product is bleached using an elemental chlorine free (ECF) process.

consultancy, design and production by
designportfolio
design-portfolio.co.uk @WeAre_DP

Design Portfolio is committed to planting trees for every corporate communications project, in association with Trees for Cities.

**Countrywide plc**

Countrywide House
88–103 Caldecotte Lake Drive
Caldecotte
Milton Keynes MK7 8JT

+44 (0)1908 961000
investor@countrywide.co.uk
www.countrywide.co.uk