Countrywide plc

Annual Report 2017

Resetting

Refocusing

Responding

Countrywide plc is the leading integrated property services provider bringing people and property together across the residential, commercial and financial services sectors.

With a network of over 850 branches, the Group has the largest estate agency and lettings network is the largest independent mortgage broker, and is the leading provider of surveying and conveyancing services in the UK.

54,205
properties exchanged*

125,000+
residential and corporate properties under management*

£17.7bn
of mortgages completed*

* for the year ended 31 December 2017

Operational and financial highlights

Subdued residential property market

- 1.2 million (2016: 1.2 million) second-hand home sales
- Stamp duty changes for first-time buyers
- Brexit uncertainty dominates sentiment

UK Sales and Lettings

- 41,722 homes sold (2016: 50,362)
- Properties under management: 62,646 (2016: 65,352)

London Sales and Lettings

- 8,778 homes sold (2016: 10,951)
- Properties under management: 26,644 (2016: 25,792)

B2B

- Market leader in surveying; 365,223 surveys completed (2016: 364,957)
- Corporate properties under management 36,624 (2016: 36,635)
- 3,705 new homes sold (2016: 4,896)

Financial Services

- £17.7 billion of mortgages completed (2016: £15.7 billion); +13% despite challenging market conditions

Cost focus

- Cost initiatives continue to deliver and strong focus on cash delivers significant growth in operating cash flow; +108% year on year

* For 12 months to 30 June 2017 and 30 June 2016

Total income (£m)

671.9 -9%

(2016: 737.0)

Adjusted EBITDA[1] (£m)

64.7 -23%

(2016: 83.5)

Loss for the year (£m)

(208.1) -1,286%

(2016: 17.5 profit)

Operating cash flow (£m)

58.1 +108%

(2016: 27.9)

Basic LPS (p)

(89.6) -1,215%

(2016: 8.0 EPS)

Adjusted EPS[2] (p)

8.4 -57%

(2016: 19.3)

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 'adjusted EBITDA'. Please see note 4 for reconciliation and note 2(w) for justification of this alternative performance measure.

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).

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For more information, view our website:

www.countrywide.co.uk

At a glance

We operate across the UK residential and commercial property market and financial services sector to bring people and property together.

We focus on having the right brands in the right location that serve customers across all property-related services. We have a portfolio of 65 brands ranging from local or national presence to internationally recognised brands.

Breadth of our offering

FOR SALE
Sales

TO LET
Lettings

Mortgages and insurance

Surveying

Conveyancing

Land and new homes

Asset management

Commercial

850+ branches

• Location of our brands

Our brands

Our segments

UK Sales and Lettings

Our UK business consists of approximately 649 physical locations across 52 brands. We have unparalleled coverage of the UK property market and are uniquely placed to support our customers across the residential sales and lettings market.

Total income (£m)

205.2 -17%

(2016: 247.8)

Adjusted EBITDA (£m)

14.9 -47%

(2016: 27.8)

Read more on our segmental review **pages 18 to 19**

London Sales and Lettings

Our London business consists of approximately 231 physical locations across 13 brands recognising the distinct characteristics of the London market and serving our customers' residential sales and lettings needs across a variety of price bands.

Total income (£m)

155.3 -10%

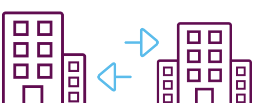
(2016: 172.6)

Adjusted EBITDA (£m)

11.5 -44%

(2016: 20.6)

Read more on our segmental review **pages 18 to 19**



B2B

As one of the largest property businesses serving corporate clients in the UK, we provide services to most major lenders, investors, house builders, commercial businesses, corporations, local authorities and housing associations.

Total income (£m)

220.7 -2%

(2016: 224.8)

Adjusted EBITDA (£m)

35.6 +13%

(2016: 31.5)

Read more on our segmental review **pages 20 to 21**

Financial Services

We have a dedicated network of over 650 mortgage and protection consultants operating under the Countrywide brand, and in Mortgage Intelligence, we own one of the most successful networks of advisors in the UK.
The Buy to Let Business and Mortgage Bureau provide specialist lending to those market segments.

Total income (£m)

87.3 -1%

(2016: 88.2)

Adjusted EBITDA (£m)

19.7 -13%

(2016: 22.7)

Read more on our segmental review **pages 22 to 23**

Executive chairman's statement

Getting back to what we do best

"After another disappointing year, we have started 2018 with a management change and a recovery plan is underway."

The under-performance of our business over the last three years has resulted in us making significant management change in the Group.

Industry expertise in all areas of our business is key. Within Sales and Lettings, the previous strategy resulted in us losing a lot of that expertise. In the Group, we are fortunate in that we have an industry veteran, Paul Creffield, who has been promoted to the role of Group operations director. His deep understanding of the market and operations means that we have quickly been able to identify what we need to do to begin addressing our under-performance. I am greatly encouraged by the number of high calibre industry business leaders that we already have within our Sales and Lettings business and a number of similarly experienced and high calibre industry people who previously left us and want to rejoin now that Paul is in this role.

Fundamentally, Countrywide has a unique market position given its breadth within the property services industry. We have established and trusted brands that resonate with customers, together with dedicated and committed colleagues who are the cornerstone of our business. The strong areas in the Group, Financial Services and B2B, have unfortunately been overshadowed by the poor performance in our core Sales and Lettings business units. We believe that these business units are fixable, know what we have to do to restore them and the steps to take that should result in a return to profitable growth. This will take time but ultimately there will be much upside for our Group and our shareholders, whose patience has been sorely tested recently.

2018 – The foundations for recovery

In the fourth quarter of 2017 an analysis was undertaken of the Sales and Lettings businesses to understand why the strategy, which had been pursued from 2015, was not delivering growth and had in fact resulted in Sales and Lettings losing substantial market share and profitability.

On 24 January 2018 the Group's chief executive left the business and I agreed to take over as executive chairman. The promotion of Paul Creffield, an industry veteran with over 35 years' experience, who has been with the Group since 2006, to the position of Group operations director, means that operationally the business is being led by someone with a deep understanding of our business and the market.

Sales and Lettings – back to basics

Our analysis of the events of the last three years is that there is a clear strategic direction required for Sales and Lettings. We have the largest sales and lettings footprint in the UK, comprising strong regional brands that have resonance in their market place. The heart of our strategy will be about going 'back to basics' as this offers the greatest opportunity for value creation for shareholders, colleagues and customers. Our aim is to restore our Sales and Lettings business back to profitable growth. Key to this will be the drive to increase our pipeline which has decreased significantly.

The restructuring of the Group in 2015 assumed that Sales and Lettings was a single retail business and a retailer was recruited to lead this area. There was a failure to appreciate that in fact these are trading businesses each with very different characteristics and customer bases requiring different operational expertise. Sales customers will generally transact every 10 to 15 years and are either selling or purchasing what is their most valuable asset, while Lettings customers are on average committing annually.

A consequence of integrating these areas into one business was the loss of experienced industry Sales and Lettings professionals at every level who were not replaced, and significant dilution of operational expertise, which affected our ability to both win and complete mandates.

At the same time as pursuing a retail model, the Group moved to a centralised model and applied a 'one size fits all' to what was, and should be, an entrepreneurial culture and business. Within the branch network, managers lost the autonomy to recruit, develop and promote colleagues and were no longer able to market locally and to price to win instructions. Centralisation also led to us adding substantial overheads to the Group.

Critically, we lost focus on offering a fully integrated service to our clients, resulting in loss of ancillary income and profitability. In 2012, every £1 of income earned by the estate agency business was matched by a further 50 pence of income generated from estate agency referrals. By 2017, this had reduced to 38 pence for every £1. All of the above changes were felt more acutely in the UK business than in London.

We operate in a highly fragmented and dynamic market that has seen online businesses also enter the market. Previous management believed that it too should offer a digital fixed fee proposition in order to compete with the online players. The resulting hybrid digital fee proposition, however, led to confusion for our customers who expected to receive a full service at a reduced fee.

We have already begun to take a range of actions that we believe can deliver profitable growth in our Sales and Lettings business:

- ensure the right level of staffing and industry capability at area, regional and branch level
- restore Lettings capability and expertise
- deliver complementary financial and conveyancing services to customers as an integral part of their property transaction
- decentralise decision making and empower area, regional and branch managers
- define our digital proposition for Sales and Lettings
- deliver the performance metrics and measures to enable each business to measure progress internally and against the market

An immediate focus is on ensuring we have the right level of headcount and industry capability at area and regional level. It is testament to the respect Paul holds in the market that since his appointment a number of the good people who left us under the previous management, want to come back to work with him. Building back this right level of resource will drive the growth in our Sales and Lettings pipelines.

We are focused on restoring Lettings capability back at regional, area and branch level and in our customer service centres. We believe that continued growth in the rentals market provides huge opportunity for operators who deliver the highest levels of compliance and service to landlords and tenants.

Given that, for most of our customers, buying a home is the most expensive transaction they will undertake in their lifetime, the relationship we build with them over the course of their property lifetime is important not only for them but also for us. Our branch network provides a valuable distribution channel for the introduction of complementary services provided by the Group's other divisions to grow its revenue and profit. There has not been enough focus on this important area and we aim to restore ancillary income to the sort of levels achieved in 2012 and beyond.

In terms of decentralisation, we are determined to restore the local entrepreneurship in our branch network, including the freedom at a local level to drive marketing, pricing, hiring and development. This underpins our philosophy, to make our regional, area and branch managers accountable for driving branch-based profitability and giving them the freedom and tools to win back share in their markets. There will still be processes and accountability but we do not want our agents constrained as they have been by bureaucracy and centralisation.

Our foray into digital in the form of a hybrid fixed fee offering served only to dilute our full service proposition. We have withdrawn the hybrid digital, fixed fee offering. We need to define what digital means for us as an organisation and this will be determined as we build the detailed recovery plan.

Finally, as a result of all the changes, we have begun to take steps to restore the management information and key performance indicators that allow our regional, area and branch managers to manage performance on instructions, listings market share, on pipeline and on exchange income.

Cost efficiency

The Group's cost base has grown considerably over the last three years as the Group pursued a more centralised operating model. This, coupled with inefficiencies in our end-to-end processes, as a result of previous acquisitions that have yet to be fully integrated, presents opportunities to enhance the customer experience and reduce cost at the same time. Our aim is to get things right first time for the customer, to enhance and digitally enable the customer experience and to strive for cost leadership in our sector.

Our strategic priorities are:

- reduce overheads and drive cost efficiency in our central support functions
- invest to address our legacy IT infrastructure and line of business applications
- contact centre optimisation to improve customer experience through localisation and improved productivity

Financial discipline and cash flow

The Group's historic cash conversion has been poor and steps were taken towards the end of 2017 to bring greater financial discipline to the Group's budgeting and forecasting processes and a more rigorous focus on working capital management and capital allocation. Our aim is to reduce net debt to adjusted EBITDA to 1.5-2.0x over the medium term, from the year end level of 2.97x, and strive to lower this further over the longer term.

Our strategic priorities are:

- drive better working capital management
- improve capital discipline and capital allocation
- leverage the Group's purchasing power through better procurement
- strengthen the balance sheet

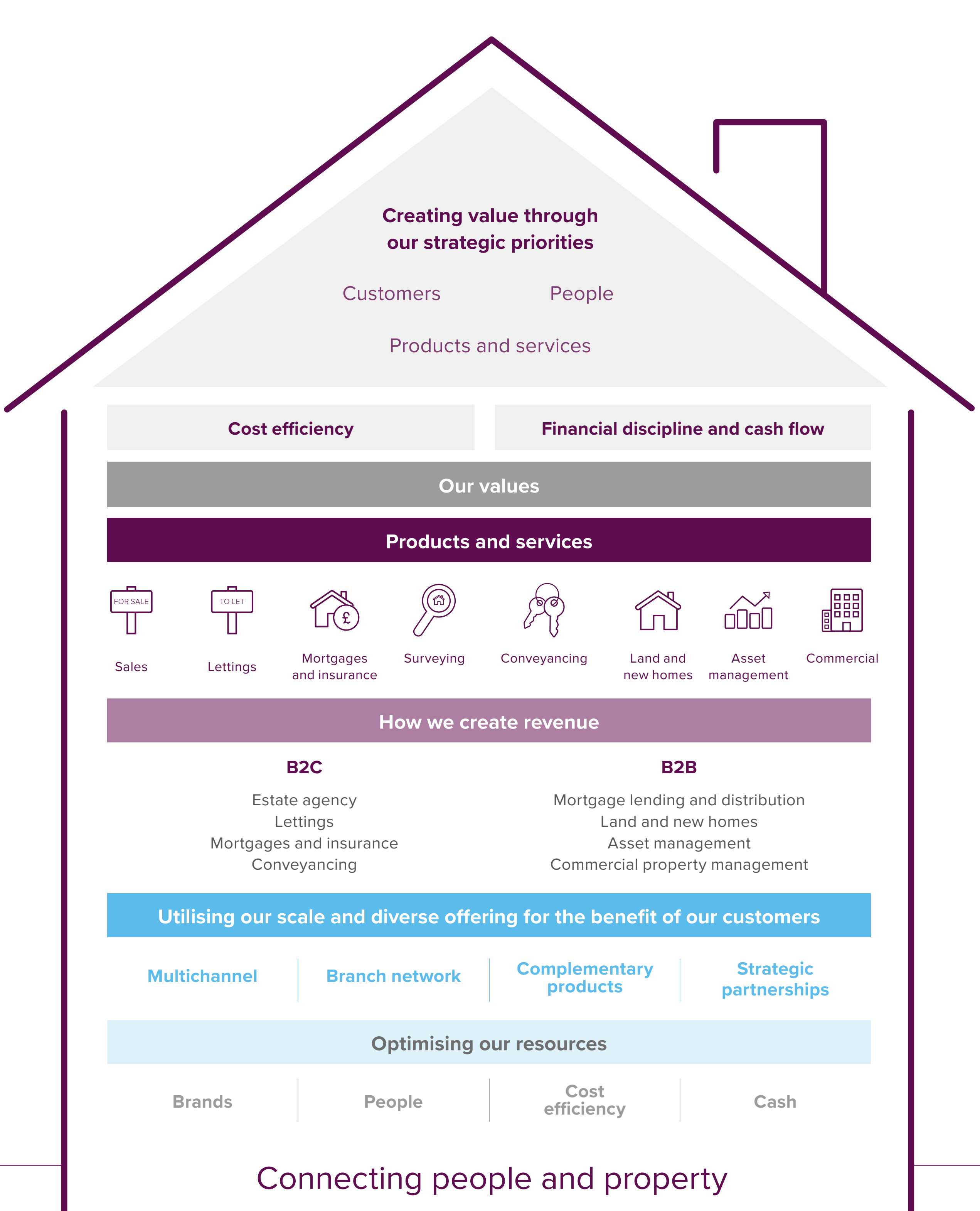
Outlook

2018 will not be an easy year for the Group as we strategically reset the business. As the UK's largest property services business, with well-known and trusted brands, the Group is supported by able, experienced and dedicated colleagues and we are determined to build on this foundation to ultimately restore profitable growth and benefit our customers, shareholders and colleagues.

Peter Long
Executive chairman
8 March 2018

Our business model

Our purpose is to bring people and property together. We are uniquely placed to support our customers at every stage of their property journey through a combination of national reach and local expertise.



Creating value through our strategic priorities

Our vision is to create sustainable shareholder value through being the provider of choice for all residential and commercial property services in the UK.

Customers

People

Products and services

Read more on our strategic priorities on **pages 10 to 11**

Utilising our scale and diverse offering for the benefit of our customers

Multichannel

We utilise all our channels to market our products and services effectively: in branch, telephony or online, to suit our customers' needs and enhance their experience with us.

Branch network

Our national network of 850+ branches is the foundation of our operating model. We are investing in our existing branch network to provide industry expertise and local knowledge.

Complementary products

We offer a suite of services to meet all property-related needs of our B2C customers including vendors, buyers, landlords and tenants. We optimise revenue streams through appropriate cross-divisional referral of services.

Strategic partnerships

Our B2B customers, including financial institutions and national developers, benefit from our scale and view our extensive network as an attractive route to market for their products.

Read more on our segmental reviews on **pages 18 to 23**

Optimising our resources

Brands

Through our multiple brand strategy we can focus on specific sectors of both regional and national housing markets and tailor products appropriately.

People

We invest in industry experts who understand their local markets and the needs of our customers to ensure the delivery of high levels of customer service.

Cost efficiency

Ensuring that we have a lean and efficient organisation in our support functions, whilst supporting our colleagues in the branch and fee earners in B2B, is critical to success.

Cash

We are focused on strengthening our balance sheet. We are rigorous in our capital allocation and cash is a key performance metric for all business units.

Our markets

A look back over the year

...and a look forward to what 2018 has in store

Summary

In 2017, the housing market remained stable. House prices rose by 5.2% (source: Office of National Statistics) over the year and 1.2 million homes were bought and sold, down 1.4% from 2016's total. In the lettings market, rental growth picked up, with the average rent rising 2.4% over the year (Countrywide lettings index). The structural drivers of the market remain the same.

Sales

House price growth steadily slowed over the course of 2017, ending the year at 5.2%. Most of this growth was generated by regions in the North and the Midlands, whereas prices in the capital rose 2.3%, more slowly than in each of the other ten regions. This North–South divide was also reflected in the number of homes sold. Between 2016 and 2017 1.4% fewer homes were sold, but an increase across the North offset a larger fall in London and parts of Southern England.

While general elections tend to bring with them a degree of uncertainty, the impact of the 2017 election on the housing market was limited. Instead the year was characterised by the lingering impact of the extra 3% stamp duty surcharge from 2016 on second-home owners and the tapering of interest tax relief on landlords. Taken together they have proved to be a disincentive for would-be landlords to purchase, with first-time buyers increasingly taking their place.

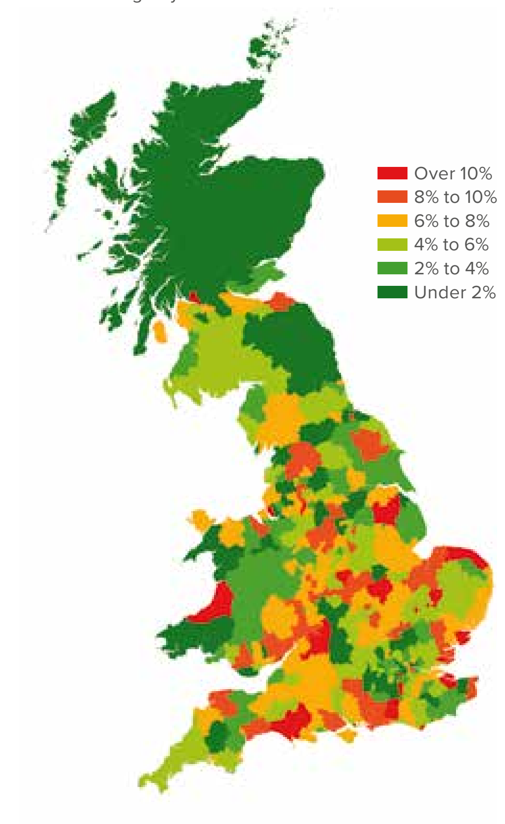
Lettings

The lettings market has been buffeted by politics and policy over the last two years, but is returning to a new normal (please see graph on the opposite page). In 2016 the number of rental homes on the market rose 14% as investors brought forward purchases to beat the introduction of the 3% stamp duty with 7% growth in London and 15% across the rest of Great Britain, but stock levels fell back in 2017 with 20% fewer rental homes on the market in London and a 3% drop across Great Britain as a whole. Overall, however, the total number of rented homes in England grew 3.4% (source: English Housing Survey).

Between 2016 and 2017 the rate of rental growth picked up by a third, rising from 1.8% to 2.4%. Much of this pickup has been driven by a return to growth in the capital, where rents resumed their upward trend after falling back in 2016. London went from having the slowest rate of rental growth in England to the fastest, driven by fewer landlord purchases leading to fewer homes on the market.

Annual house price growth

Source: Land Registry



The mortgage market

Total mortgage approvals ended 2017 up 1.9%* on the previous year. This growth has been driven by a 7.0%* increase in the number of homeowners remortgaging in the face of the first interest rate rise by the Bank of England for ten years. The number of mortgages taken out to fund a house purchase fell 1.5%*; a large part of this was driven by a 28%* fall in the number of buy to let mortgages taken out.

Squeezed household finances may result in credit conditions tightening slightly over the course of 2018, which has the potential to hamper growth in the number of approvals, but while the Bank of England chose to increase the base rate by 0.25% in November, the level of competition between lenders means that mortgage rates are low by historical standards.

* Source: Bank of England statistics

Commercial

2017 ended with a flourish for the investment market. Q4 volume of £16.5 billion was the strongest quarter since Q2 2015 and pushed the annual total for 2017 to £58.8 billion, up 25% on 2016 and 38% above the ten-year annual average. This was characterised by a small number of very large transactions in London; after adjusting for that, the market grew moderately.

2017 saw record investment into the specialist sectors, surpassing volume for both retail and industrial for the first year ever, accounting for a record 17% of UK volume.

2017 also delivered an all-property return in excess of 10%, a level almost unthinkable twelve months ago. With the exception of retail sectors, capital values have been restored to their pre-referendum levels and, in the case of industrial, charged ahead. However, reflecting greater aversion to risk, values between prime and poorer quality secondary assets have diverged post referendum, a theme which is expected to continue into 2018.

In commercial sectors the investment rationale for UK commercial real estate remains sound relative to other asset classes. The spread between the all-property transaction yield and ten-year gilt yields currently stands well in excess of 400 basis points, comfortably ahead of the long term average. Even if anticipated interest rate rises in the US and UK prompt a softening of gilt yields, there is sufficient margin to ensure UK property retains its fair value status.

Outlook for 2018

There are risks to the economy and property markets in the coming years, but overall we expect markets to remain subdued. Brexit uncertainty will affect confidence and add caution to much needed investment decisions, but a healthy labour market will continue to support property moves. Wage growth should also pick up a little from mid-2018 as higher inflation feeds into wage demands, but, despite rising inflation, the interest rate environment will be supportive. Although rates will rise, it is likely they will remain below 1% throughout 2018 and 2019.

House prices will grow in most areas of the country, with the structural undersupply of homes supporting prices. The Government's target to build 300,000 new homes per year will be difficult to achieve in the short term with rising construction costs and skill shortages. Across Great Britain we expect house price growth of 1% in 2018. Stamp duty relief for first-time buyers will make little difference to activity levels, but will support prices in the first-time buyer sector of the market.

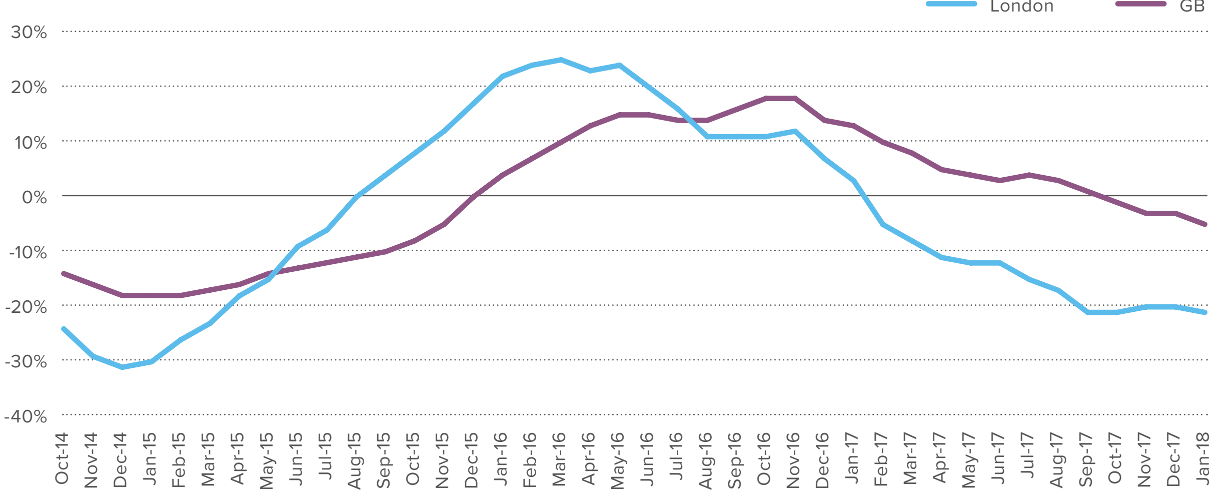
Transaction volumes and market turnover are still low by historical standards as movers stay put for longer. Current and forecast activity is now only a little above a baseline level which reflects moves on a need, rather than a desire, basis.

The prospects for the rental market look stronger. Conditions are still largely favourable on the demand side given poor house purchase affordability, but the new stamp duty arrangements are dissuading landlord purchases, especially in London. New taxation will bite harder over the next three years, making profit more susceptible to landlords' levels of borrowing. That could lead to an increase in sales by the most highly geared landlords, reducing supply and boosting yields. In combination with fewer new landlords, this will support rents.

Low mortgage rates and competition among lenders will support the housing market. Despite the likelihood of small rises to the base rate in 2018 and pressure on lenders' margins, mortgage rates will remain low by historical standards.

At the all-property level, the recovery in capital values in 2017 arguably counts against a repeat of the same in 2018. Our total return forecast is circa 6% for 2018, with income providing the main component of return alongside a small degree of capital value growth. However, value movements will be wide ranging at the sector level, with further falls reflecting risks around the occupier markets.

Rental homes on the market



Our strategy

Our strategic priorities

Countrywide is the UK's leading integrated property services group. Our strategy is to be the provider of choice for residential and commercial property services in the UK. Our aim is to deliver sustainable shareholder value through the investment in our people and in delivering market-leading products and services across all our channels for our customers in Sales and Lettings, Financial Services and commercial sectors.

Business units	Customers	People
UK Sales and Lettings and London Sales and Lettings Read more on **pages 18 to 19**	• Focus on the highest level of service delivery that our home buying, selling and letting customers expect through our branch network • Invest to restore Lettings expertise and focus • Provide customers with digital tools to manage their sales and lettings journey with Countrywide	• Invest to restore the right leadership, capabilities and skills at branch, area and regional level • Restore the local entrepreneurship in our branch network, including the freedom at a local level to drive marketing, pricing, hiring and development – our 'Freedom within a Framework' • Deliver the performance metrics and measures to enable each business to measure progress internally and against the market
Financial Services Read more on **pages 22 to 23**	• Focus on highest levels of client service • Ensure our mortgage customers have the best level of protection through life and general insurance products and drive Group value by greater conveyancing attachment • Improve retention and renewal	• Invest and grow the number of mortgage and protection consultants in our branch network • Improve productivity through investment in sales skills • Continue to support our people to achieve industry recognised qualifications in financial services • Improve remortgage conversion through focus on the highest levels of client service
B2B Read more on **pages 20 to 21**	• Focus on highest levels of client service and delivery for our existing lender client contracts as well as targeting new business opportunities • Continue to build on our combined offering to developers and property investors providing 'joined up' services for acquisition, development, management and sales/lettings	• Invest in recruiting, developing and retaining the best surveyors, people and leadership in the industry • Continue to invest and build upon our successful graduate programme, the surveying and conveyancing academy, that attracts, retains and develops the best people in the industry

COST EFFICIENCY

- Reduce overheads and drive cost efficiency in our central support functions
- Invest to address our legacy IT infrastructure and line of business applications
- Contact centre optimisation to improve customer experience through localisation and improved productivity

FINANCIAL DISCIPLINE AND CASH FLOW

- Drive better working capital management
- Improved capital discipline and capital allocation
- Leverage the Group's purchasing power through better procurement
- Strengthen the balance sheet

Products and services	Relevant KPIs	Relevant risk factors
• Promote products and ancillary services which suit our customers' needs • Optimise promotional and marketing spend to increase pipeline • Deliver capital and resource allocation against service line profitability • Increased focus on servicing the high value home sales market particularly in London and other major conurbations	In Sales • Number of exchanges • Average fee In Lettings • Properties under management Overall • Income growth • Adjusted EBITDA growth	• Financing and capital risk • Exposure to UK housing market trends • Resilience of IT infrastructure and cyber security • Changing regulatory environment • Increasing competition in the evolving markets we operate in • Securing and retaining excellent people
• Continue to grow the channels building on the strength of our specialist mortgage distribution networks: Mortgage Intelligence, The Buy to Let Business and Mortgage Bureau • Continue to offer multiple channels – high street, telephony and digital – with an integrated customer journey across those channels	• Market share of total amount and number of mortgages written • Number of mortgage protection policies sold • Income growth • Adjusted EBITDA growth	• Financing and capital risk • Exposure to UK housing market trends • Potential loss of a major business partner or contract • Resilience of IT infrastructure and cyber security • Changing regulatory environment • Increasing competition in the evolving markets we operate in
• Invest in new techniques and technologies to drive innovation in our Surveying and Valuation businesses to increase productivity and enhance customer service	• Surveying market share and average fee • Increased referral rates of conveyancing from Sales and Lettings • Corporate properties under management • Number of new home exchanges • Income growth • Adjusted EBITDA growth	• Financing and capital risk • Exposure to UK housing market trends • Professional indemnity exposure • Potential loss of a major business partner or contract • Increasing competition in the evolving markets we operate in • Securing and retaining excellent people

OUR PEOPLE AND 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.

Risk management and principal risks

Identifying and managing the risks to our business

The Group recognises that the successful management of risk as part of our everyday activities is essential to support the achievement of its strategic objectives. The Board is responsible for the overall stewardship of our systems of risk management and internal control. The Board in conjunction with the Audit and Risk Committee regularly undertakes a robust assessment of the principal risks facing the Company. A summary of the principal risks and uncertainties facing the Group is provided on pages 14 to 16.

The Group's Risk Management Framework

The Group operates a Risk Management Framework (RMF) which seeks to establish an interactive set of arrangements and processes to support the effective and consistent management of risk. The outputs of the RMF provide assurance that risks are being appropriately identified and managed and that an independent assessment of management's approach to risk management is being performed.

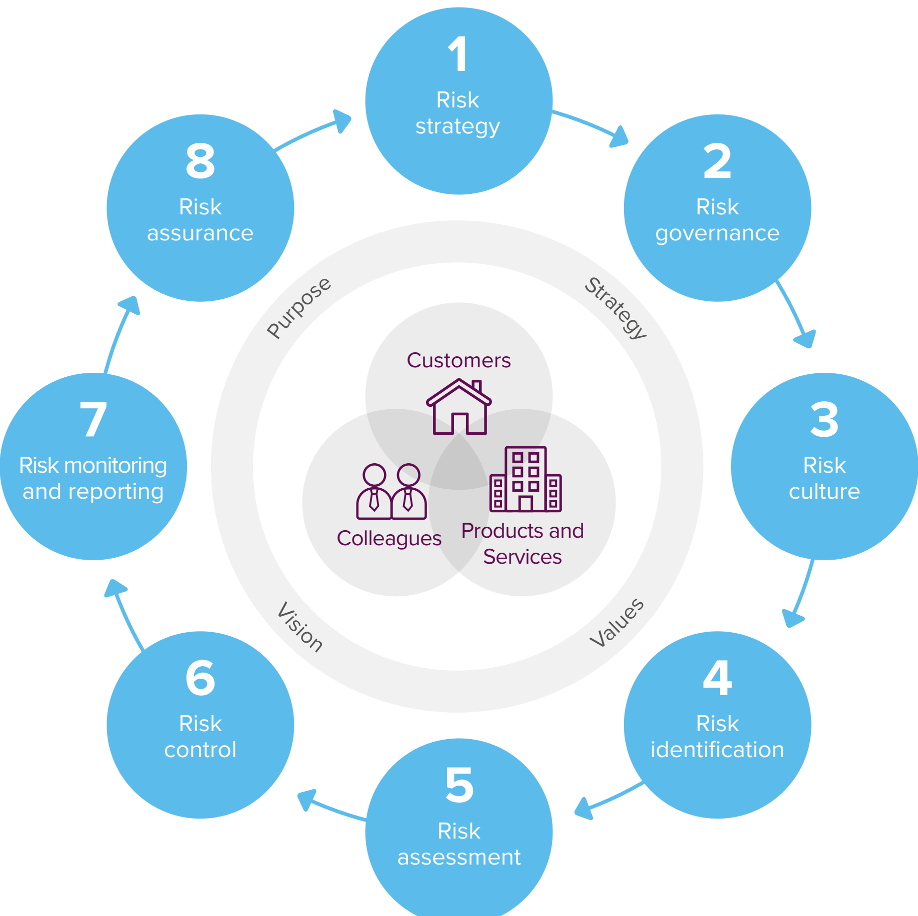
The Group has continued to embed the components of the RMF to ensure that they are aligned with evolving regulatory requirements within our businesses. The eight components of the RMF are shown in the diagram below:

Risk strategy

A comprehensive view of how risk management is incorporated across all levels of the business. During the year we reviewed the Group's risk strategy and the associated risk appetite framework. The outputs of this review are a series of macro-level risk appetite statements proportionate to the nature, scale and complexity of risks faced by our business.

Risk governance

The Group operates a three lines of defence model. Responsibility for approving, establishing and maintaining the RMF rests with the Board. There is a clear organisational structure in place with documented, delegated authorities and responsibilities from the Board to the chief executive and the Executive Committee. Individual business units are responsible for executing their activities in accordance with these delegated authorities.



Three lines of defence:

First line of defence

Senior management is responsible for ensuring risks associated with our business activities are identified, assessed, controlled, monitored and reported, and establishing an appropriate culture and tone at the top.

Second line of defence

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

Third line of defence

Internal Audit supports the 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

Countrywide plc Board

Audit and Risk Committee

Executive Committee

Executive Risk Committee (ERC)

Group Risk and Compliance Committee

Group Health and Safety Committee

Group Information Security Committee

UK Sales and lettings and London business units

Financial Services business unit

B2B business unit

Group function leadership teams

Risk culture

Operating principles and expectations for risk management are driven by a clear tone at the top. During the year we continued to reinforce expectations regarding keeping our business and our customers safe and legal. Our Code of Conduct provides the basis for establishing our expectations of our employees and this is reinforced via an annual programme of compliance and ethics training.

Risk identification

Effective risk management requires that the Group has a complete understanding of the risks it faces, which are defined in our risk universe.

Risk assessment

A standardised assessment framework is used to evaluate our risk exposure at both business unit and overall Group level, enabling consistent measurement. Risk assessment follows both a bottom-up approach through individual business unit/functional teams and a top-down quarterly review by the Executive Risk Committee, the Audit and Risk Committee (ARC) and the Board.

Risk control

Controls operate across the business at entity level, through policies and associated control standards, and locally through individual business unit operating procedures. A self assessment of controls against the Group policy minimum control standards was completed during the year.

Risk monitoring and reporting

Monitoring and reporting of the Group's risk exposures are undertaken through management committees. The ARC receives a consolidated risk report on a quarterly basis, detailing the risks facing the Group and the expected six-month position against a series of planned mitigating actions. The ARC is also provided with regular reports on the activities of the Group risk and compliance function.

Risk assurance

Assurance on the management of risk is provided across the three lines of defence model. Management committees consider outputs from reviews performed by the first line (e.g. quality assurance results and management reviews), the second line (e.g. risk reviews conducted in relation to specific themed areas) and the third line via reporting provided by Internal Audit on the results of findings from individual audits and progress in implementing agreed management actions. The results of this assurance activity are reported to the relevant level within the Group.

Risk management and principal risks continued

Principal risks and uncertainties facing the Group

The Board has undertaken a robust assessment of the Group's principal risks. 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 maintain appropriate levels of capital or achieve stated targets and 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 also have the potential to have a material adverse effect on the Group's future results of 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
Financing and capital structure			
The effective management of its debt and access to finance is central to the Group's ability to achieve its strategic objectives and profitability. The Group has been supported by a syndicate of six banks since its IPO in 2013 through the provision of a revolving credit facility (RCF). The RCF expires in March 2020. The facility also contains covenant thresholds in relation to net debt/adjusted EBITDA and to the level of interest cover. The Group also needs to ensure that it has the funding required to deliver on its strategy and future growth plans and that it manages its debt and cash balances effectively. Failure of the Group to comply with its existing debt covenants may lead to a default on the Group's borrowings and a requirement for the Group to repay any amounts outstanding or to renegotiate the terms of its facility.	The Group undertakes open and regular communication with its lending institutions, and expects to engage with its banking group to amend and extend its facilities during the second half of 2018/early 2019. The consideration of debt covenants and available headroom is built into the Group's planning, budgeting and forecasting processes, with regular monitoring undertaken against covenant compliance. The Group has developed a detailed annual operating plan and budgets that seek to restore the Group back to profitable growth, and to improve its management of corporate and working capital.	New	2017 has seen a deterioration of business performance and consequently a worsening of the Group's leverage ratio. With the support of the lender group, in February 2018, the Company agreed an amendment to its covenant thresholds to provide the Company with the financial flexibility to invest in the business. The Board has acknowledged the need to bring the leverage ratio back in to the Group's medium term target of 1.5–2.0x and has launched a number of initiatives to address this through 2018.
Exposure to UK housing market trends			
The UK housing market continues to follow cyclical trends and continues to be impacted by the changes to stamp duty in 2016/17 and continuing uncertainty around the implications of the UK's exit from the European Union. 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 regular high level reviews of UK housing market results and trends including analysis of a number of key forward-looking indicators. We have also sought to diversify 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, revenue from our B2B and Financial Services businesses has increased. Our Lettings business also tends to be more stable and counter-cyclical to the UK housing market. Additionally, we took positive action on costs and cash flow during 2017 and continue to see this as an area of focus in 2018.	Increase	Our performance during 2017 was disappointing, primarily due to the changes we made over the last 24 months in our Sales and Lettings business. The outlook for 2018 continues to be challenging. We expect economic growth to be subdued, holding back the pace of income growth and inhibiting housing market transactions and house price growth. Added uncertainty from Brexit negotiations will weigh on confidence in the near term. We have begun to take a range of actions to restore the Sales and Lettings business back to profitable growth.

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 indemnity (PI) claims within the Surveying division.	We consciously changed our risk profile, by avoiding higher risk lenders/client types. Monitoring arrangements include operational controls implemented for review and audit of surveyor outputs and targeted use of automated valuation models to aid checks in perceived higher risk cases. We have continued to invest in providing our workforce with technology that aids compliance. In respect of legacy claims, we continue to review the claim trends and inputs underpinning the existing professional indemnity provision. 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 generally continued to see improvements in PI through maintained focus during 2017, ringfencing the £1.8 million exceptional charge arising in the year on one claim (note 10), 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. We seek to embed risk management in our day to day operations as this delivers recognisable benefits for our clients as well as for Countrywide.
Potential loss of a major business partner or contract			
We have a number of material commercial relationships with banks, insurers and other firms. The loss of one of these contracts, or a significant reduction in volumes or fees, could have a significant impact in revenues in more than one area of our business and on the Group's profitability.	We have an agreed approach to corporate client relationship management with key relationship responsibilities defined at senior management level, and supported by key Executive Committee members. Regular reviews are undertaken with key clients to ensure continued focus on investment to maintain service levels and compliance with contractual requirements. We operate a centralised team with responsibility for liaising with key customers and developing new contract opportunities.	No change	We continue to benefit from strong relationships with our corporate partners and we have retained existing, as well as won new, contracts during 2017. We recognise the importance of the continuing success of our key partner alliances as part of our ongoing B2B strategy.
Resilience of IT infrastructure and cyber risk			
The business relies upon a series of interdependent systems for operational performance and financial information and a failure of one of these or a security breach could impact the Group's operations, reputation and future profitability. The Group's systems could also be subject to the increasing risk of cyber attacks.	The Group has continued to implement a series of progressive service improvement plans to support operational performance. In-house information security team monitors information security risks and potential data breaches. Group-wide training has been implemented to advise colleagues of good information security practices and data protection requirements. We are progressing activity under the Group General Data Protection Regulations (GDPR) project to support the businesses in delivering additional data-related safeguards required as a result of the introduction of the GDPR in May 2018.	No change	During 2017 we have continued to enhance our IT capabilities through the implementation of new front end security enhancements (e.g. patching) to current systems. We have further centralised our IT teams, by aligning our support service across the IT estate, in line with our development roadmap. This has included strengthening our core IT team and technical capabilities. As part of the ISO 27001 certification which we maintain for a number of our key business areas, there are business continuity plans in place for key business processes.

Risk management and principal risks continued

Principal risks and uncertainties facing the Group continued

Risk and impact	Mitigation	Change	Commentary
Changing regulatory environment			
Our businesses operate across multiple regulated sectors. Failure to meet current legal or regulatory requirements could lead to financial penalties and/or reputational damage, including withdrawal of authorisation or licences required for the Group to do business.	We have established an appropriate tone at the top, which is cascaded through the Group via our Code of Conduct, Group policies and associated compliance and ethics training. Expertise within the main business areas is supported by centralised legal and compliance teams which closely monitor existing business practices and any changes. Specific projects are mobilised to address material regulatory changes (e.g. the GDPR). Robust complaints management systems are in place across all operating divisions, with thematic analysis in place.	Increase	We operate across a range of regulated sectors and seek to maintain close links and open dialogue with our regulatory bodies and have continued to monitor regulatory developments and their impacts on our businesses. Where appropriate, we have developed implementation plans to deliver required changes and enhancements. The overall cost of regulation continues to grow (for example, via the funding of the Financial Services Compensation Scheme and costs associated with changes to align with the GDPR).
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 due to technological advancements. Increasing competition, from existing competitors or new entrants, could lead to a reduction in market share and/or a decline in revenues.	Our business strategy is to concentrate on our strengths of being an integrated property services provider to bring people and property together. We have continued to provide increased customer choice developing our propositions to align with consumer trends, for example, providing digital tools to complement our core service offering. We have developed colleague incentive schemes that seek to drive the link between Group value-related services which benefit our customers as well as the Group's businesses. We monitor our service offering continually in order to meet and exceed our customers' expectations.	Increase	Our strengths lie in the expertise and advice we are able to offer our customers across our range of services. We are reinvesting in Sales and Lettings to strengthen our industry experience so that locally we can support our customers and their changing needs to ensure their overall experience with Countrywide is a positive one.
Securing and retaining excellent people			
Our ability to deliver our strategy is dependent on us attracting, developing, motivating and retaining people of the highest quality. An inability to recruit or retain talent could impact our ability to deliver our financial performance and growth targets. During 2017, we saw an increased level of churn as a result of the changes made in our Sales and Lettings business.	We continue to invest in the development of our people and our training and development programmes across our businesses. We operate a range of employee benefits that seek to incentivise and motivate performance across all levels of management. These are overseen by the Remuneration Committee. We have developed a structured approach to talent recruitment by investing in internal capability and support our employer of choice strategy.	Increase	People are the heart of our business and essential to deliver our strategy. The loss of front line industry expertise we saw in our Sales and Lettings businesses impacted our performance. Replacing this expertise is a key area of focus and we are seeing early signs of this as some of the people who had previously left are coming back. Following the increased level of churn in 2017, we began to take steps in the second half of 2017 to invest at the branch area and regional level in our Sales and Lettings business. We monitor our overall levels of employee engagement to drive activity that focuses on attrition, morale and other potential pressure points to improve operational efficiency.

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 the three-year plan with business unit functional leaders. The Board participates by means of an annual strategic away day and approval of the three-year plan, which is followed by the development of a detailed annual operating plan and budget, also signed off by the Board. 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, market share growth forecasts and cost reductions, including benefits from existing major rationalisation benefits. The Group is financed through a revolving credit facility (RCF) of £275 million provided by a syndicate of six lender banks which have supported the Group since its IPO in 2013. Whilst the existing facility expires in March 2020, the Board has a reasonable expectation that the Group will be able to amend and extend its facility upon expiry with its existing banks or to bring new lenders into the syndicate.

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 2020 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, the changing regulatory environment and the impact of change in legislation in respect of tenancy fees).

These scenarios were tested against: a 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 estate agency operations to other related areas of the Group. The results take into account the availability and effectiveness of mitigating actions, including the flexing of capital expenditure and changes to our cost base. Each of these actions would be potentially available to avoid or reduce the impact of the identified risks.

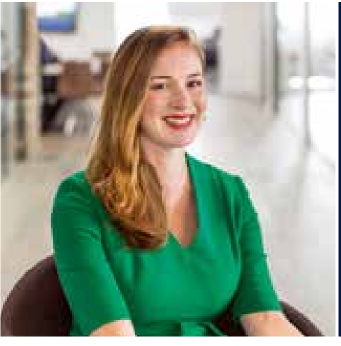
The directors considered the financial and operational impact of these severe, but plausible, scenarios to determine their overall effect on the Group's financial position. This assessment considered the Group's expected financial position, existing banking facilities and potential management actions. 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 2020. 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.

Segmental review

Sales and Lettings



Key performance indicators – UK*

Number of exchanges

41,722 -17%

Year	Value
17	41,722
16	50,362

Average fee per exchange (£)

2,381 -5%

Year	Value
17	2,381
16	2,511

Average number of branches

666 -15%

Year	Value
17	666
16	783

Rental properties under management (average)

62,646 -4%

Year	Value
17	62,646
16	65,352

Key performance indicators – London*

Number of exchanges

8,778 -20%

Year	Value
17	8,778
16	10,951

Average fee per exchange (£)

8,267 +3%

Year	Value
17	8,267
16	8,054

Average number of branches

246 -12%

Year	Value
17	246
16	278

Rental properties under management (average)

26,644 +3%

Year	Value
17	26,644
16	25,792

* 2016 restated from prior year following internal restructuring of operations between UK, London and B2B.

UK Sales and Lettings

Summary

- Total income down 17%; adjusted EBITDA* £14.9 million, down 47%
- Properties under management 62,646, down 4%; Lettings income down 8%
- 41,722 homes exchanged, down 17%
- Average FTE down 1,000 or 21% to 3,710

Operating review

2017 has been another disappointing year for UK Sales and Lettings. As a result of the new strategy launched in 2015 we made a series of structural changes to the business, closing 200 branches, and bringing together our Sales and Lettings business as well as changing the way we measured performance in the business. It is clear that these changes in strategy were flawed. The impact of these structural changes continued well into the first half of 2017 as we saw a high level of attrition of some of our most experienced Sales and Lettings people, which impacted performance for the whole year. We are taking steps to arrest the decline and believe that we can recover this division to profitable growth and improve market share. The internal issues were further exacerbated by the tough 2016 comparatives owing to changes in the stamp duty regime and the uncertainty in consumer confidence as a result of UK's decision to exit the European Union.

Sales

The volume of houses exchanged nationally was broadly flat year on year at around 1.2 million, but the number of houses exchanged by Countrywide outside of London fell by 17%. Adjusting for branches closed in Q4 2016; the number of exchanges still fell by 10%. Consequently Sales income has fallen 24% and the impact has been widespread across all our regions. Average house prices increased by 3% but, owing to competitive pricing pressure, our average fee fell by 5%.

Our digital proposition was rolled out to over 50% of the network. We have since determined that selling a low cost partial estate agency sales service alongside the traditional full service offering does not work and have withdrawn that product offering. We need to define what digital means for us as an organisation and this will be determined as we build the detailed recovery plan.

Lettings

Our Lettings services fared better than Sales owing to the recurring nature of the fee income. Nevertheless, a 4% reduction in properties under management to 62,646, coupled with an 11% fall in the number of lets agreed, resulted in an 8% decline in Lettings income.

* See note 4 of the financial statements for reconciliation to statutory measures.

London Sales and Lettings

Summary

- Total income down 10%; adjusted EBITDA* £11.5 million, down 44%
- Strong Lettings performance in premium brands, Hamptons International and John D Wood
- Properties under management 26,644, up 3%; Lettings income flat year on year
- 8,778 homes exchanged down 20%
- Average FTE down by 299 or 14% to 1,848

Operating review

The London housing market has been slower than the rest of the UK to recover from the double impact in 2016 of material increases in stamp duty on high value properties and second homes plus the UK's decision to leave the European Union. Housing transactions in London declined by 22% during 2017 and similarly properties available for rent fell by 20%.

The structural changes implemented in UK Sales and Lettings in Q4 2016 did not extend to our premium brands where stability was maintained with respected and experienced managers continuing to lead our teams in Hamptons International and John D Wood. We also retained separate specialist management structures for Sales and Lettings.

Sales

Exchanged units fell by 20% – both Hamptons International and John D Wood performed well in a challenging London market, with a strong performance in Lettings. This resilience in the premium brands was offset by our mid-market London business where changes in management resulted in headcount falling year on year by 14%, and this has clearly had an impact on our results. Since August, one of our most experienced managers has been leading the team to address the issues and to turn around that business.

The average price of houses sold was up 3% and our average fee achieved grew by 3%. Additionally web chat has been rolled out across Hamptons International, making it easier for our customers to engage with us.

Lettings

Lettings revenue accounted for 51% of total income in London compared to 46% in 2016. Overall Lettings income was flat year on year.

Segmental review continued

B2B

Lambert Smith Hampton

Summary

- Income down 2%; adjusted EBITDA* up 13% to £35.6 million
- Strong year for contract retention and new lender relationships in Surveying
- New technology roll out for lenders and customers in Surveying and Conveyancing
- Excellent contract retention in Lambert Smith Hampton in a challenging commercial market

* See note 4 of the financial statements for reconciliation to statutory measures.

Key performance indicators

Number of surveys/ valuations completed

365,223

Surveying average fee (£)

197 +4%

Corporate properties under management (average)

36,624

17 36,624
16 36,635

Exchanges – new homes

3,705 -24%

Operating review

Through its diverse portfolio of businesses, our B2B business unit delivered adjusted EBITDA growth of 13% through improved levels of productivity, enabled by the deployment of digital platforms in Surveying and Conveyancing.

Surveying

Our Surveying business delivered another year of growth in both revenue and adjusted EBITDA and maintained the highest levels of service demanded by our lender clients. This growth has been delivered in a market that was broadly flat for house purchase mortgage approvals with some growth in the remortgage market. The business benefits from a blue chip lender client base and this continues to be a strong platform to deliver its services to home movers and remortgage applicants across the UK. This position was further strengthened in 2017 with key contract retentions including Nationwide Building Society and Barclays Bank, alongside key contract wins including Leeds Building Society and Coventry Building Society.

The Surveying business continues to help lead the industry with the introduction of new techniques and technologies to better assess property risk for its lender clients. At the beginning of 2017, we embarked on the roll out of a substantial technology investment programme. The business has rolled out the latest tablet-based mobile valuation software with integrated, highly accurate lender form mapping. Throughout the year a booking and allocation module has being developed for launch in early 2018, optimising surveyor workload to deliver daily operational efficiencies. Further technological developments in the programme included a new customer and product portal, plus the Valuation Risk Hub, which transforms the way property risk is assessed for all mortgage applications. Linked to assessing property risk, professional indemnity claims have been a significant focus for the business over the past eight years and we continued to make progress in this area.

Investing in a sustainable professional surveying resource is a priority for the business to underpin the growth in capacity required to ensure service delivery. We have introduced over 140 new surveying professionals into the industry over the last three years through this scheme and plans are set for this to continue.

Conveyancing

Our Conveyancing business revenue declined in line with Group property sales volumes but it took steps to reduce costs and therefore delivered an adjusted EBITDA consistent with 2016 with a margin improvement achieved through an improvement in the use of in house lawyers and through cost savings.

Development of our customer portal technology was completed in 2017, with full roll out across the agency network expected to complete in 2018. The portal provides an improved digital instruction platform for our customers and colleagues, whilst allowing for electronic and secure communication between customers and our property lawyers during the conveyancing process.

The business has continued to build on the success in 2016 in improving customer service, and in 2017 saw a record year as measured by the customer through our net promoter scores (NPS) of 38+ and FEEFO rating of 4.3/5. In this regard the business celebrated its success by winning a number of awards including the ESTAS 2017 National Conveyancing Provider and the Mortgage Finance Gazette Awards 2018 - Best Conveyancing Firm.

Land & New Homes and Asset Management

Our Land and New Homes business won key schemes throughout the year. Key to the success was the combined approach between Sales and our consultancy business, ikon, and the performance of Lanes New Homes. Our Asset Management portfolio of businesses works closely with corporate clients by delivering services relating to sales, lettings, property management and emergency relocations. In 2017 the business continued to execute its growth strategy and delivered growth in adjusted EBITDA.

Lambert Smith Hampton (LSH)

Despite the challenging uncertain economic and political environment during 2017, Lambert Smith Hampton, our commercial business, delivered a strong performance. LSH retained every major customer that came up for renewal in 2017. Revenue saw a marginal 0.2% increase year on year, with adjusted EBITDA increasing by 9.6%.

Segmental review continued

Mortgage Intelligence

Financial Services

Summary

- Income down 1% and adjusted EBITDA* of £19.7 million, down 13%
- Overall growth in the UK mortgage market of 4%
- Total value of mortgages completed in the year was up 13% to £17.7 billion (2016: £15.7 billion)

* See note 4 of the financial statements for reconciliation to statutory measures.

Key performance indicators

Number of mortgages arranged

96,031 +6%

Total mortgages written (£bn)

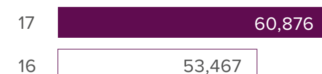
17.7 +13%

Average number of mortgage and protection consultants

666 +5%

Number of mortgage protection policies sold

60,876 +14%



Operating review

In 2017 the UK mortgage market grew by approximately 4% year on year, with overall gross lending finishing at £257 billion (2016: £245 billion). The Q1 year on year comparatives were skewed by the strong trading in Q1 2016 driven by changes in stamp duty surcharge on second homes and buy to let properties, whilst all subsequent quarters saw consistent growth in the market year on year.

Overall mortgages completed grew from £15.7 billion in 2016 to £17.7 billion in 2017. This was as a result of strong performance from our network, Mortgage Intelligence (MI), (up 15%), together with our recently acquired telephony business, The Buy to Let Business (TBTLB) (up 30%), and Mortgage Bureau (up 21%). This offset a weaker performance from the core field sales team, which was heavily impacted by the reduction in activity in Sales and Lettings, resulting in year on year lending volumes being down 10%.

MI operates a network and club for third party appointed representatives (AR) and directly appointed (DA) mortgage brokers respectively. MI provides regulatory oversight for sales made by the network and assists both the network and the club through arranging mortgage and insurance deals with our panels of lenders and insurance providers. The network firms employ over 400 regulated individuals, all of whom are contracted to sell only the financial products arranged by MI. The DA firms are not exclusively contracted by MI and therefore are free to choose how they do business. In 2017, MI generated £10.2 billion (2016: £8.8 billion) of gross mortgage distribution from the club and the network.

TBTLB conducts our specialist business in the buy to let sector, and now also handles all customers who wish to transact by phone. The business relocated to larger premises during the year and has focused on growing its advisor numbers to meet increased demand. The business has experienced growth from both its strong existing customer relationships and reputation in the buy to let market, as well as from new telephony referrals from our Sales and Lettings branch network.

As a result of the expansion and new streams of revenue, the business has increased its gross distribution to £1.5 billion (2016: £1.1 billion), an increase of 30% year on year.

Mortgage Bureau is our specialist new build mortgage brokerage. In 2017 Mortgage Bureau has focused on building its relationship with other Group new build businesses, as well as on independent growth from its direct relationships with new build developers. As a result, the business has increased its gross distribution to £0.8 billion (2016: £0.7 billion), an increase of 21% year on year.

The remortgage sector, representing approximately 39% of the overall market, experienced 9% growth, whilst the first-time-buyer sector, representing approximately 23% of the market, grew by 11%. The buy to let sector continued the decline which started in Q2 2016.

Further to the changes in the underlying sectors, in November 2017, the Bank of England approved an increase in the base interest rate from 0.25% to 0.5%, the first increase since July 2007. Most lenders were swift to pass the change in rate on to their customers and this is starting to raise the consciousness of the public to the possibility of further rate increases in the future. As such, the remortgage sector is expected to continue growing in 2018.

As previously announced in our 2017 interim report, we renewed our long standing relationship with our significant partner, Aviva, in order to supply our customers with market-leading mortgage protection products. The launch of a new platform in early H2 has had a positive impact on our sales conversion, with competitive pricing ensuring that more customers can afford to benefit from important life cover and a wide range of associated protection products.

Chief financial officer's review

> "Overall Group income fell by 9% to £672 million and saw a 23% reduction in adjusted EBITDA to £65 million principally as a result of the disappointing performance in our Sales and Lettings businesses. Our statutory results were further impacted by restructuring and significant impairment charges relating to historical acquisitions, resulting in a loss for the year of £208 million."

The Group has reset the strategy in its Sales and Lettings businesses to go 'back to basics' and to focus on restoring industry expertise at branch, area and regional level, and to recognise that the skills and experience we need in Sales is different from Lettings. As set out in the chairman's statement, over the past three years we also took on significant central costs, and did not see the cash conversion coming through. We seek to fundamentally reshape the business as part of a turnaround strategy, which is likely to take three years and will result in further restructuring and cost efficiency plans in 2018 and beyond.

The Group incurred exceptional charges of £225.9 million comprising; restructuring costs of £7.9 million in respect of redundancy costs and cost optimisation; exceptional impairment charges against goodwill (£192.3 million) and brand names (£12.9 million), with associated impairment charges of £9.4 million against other associated intangible and tangible assets and £1.6 million impairment charges against current assets; and a £1.8 million charge in respect of an historic professional indemnity claim.

Finance costs have increased by £2.9 million during the year as a result of increased margins applicable under the revolving credit facility and the full year impact of the interest rate swap taken out in July 2016. Net debt has reduced during the year by £55.9 million to £192.0 million.

Results

Our business units all reported a reduction in income as a result of continuing challenges in the trading environment exacerbated by the full-year impact of branch closures and staffing changes made in the Sales and Lettings businesses. These changes most significantly affected the UK and London Sales and Lettings business units' income and profitability, with income reducing by 17% and adjusted EBITDA declining by 47% to £14.9 million. The Sales and Lettings business also refers business into Financial Services and B2B and their adverse performance has also impacted on Financial Services and B2B's Conveyancing operations through the reduced level of referrals and ability to drive a wider Group value from the network. Our Financial Services business revenue declined by 1% due to strong performance from The Buy to Let Business, Mortgage Bureau and Mortgage Intelligence but profitability suffered due to lower referrals from Sales and Lettings resulting in adjusted EBITDA of £19.7 million, down 13%. B2B has delivered adjusted EBITDA growth of 13% driven by the performance of our Surveying and Lambert Smith Hampton businesses.

Our central costs were down 11% on the prior year and benefited from improved financial disciplines - notably from the recovery of circa £1 million non-recurring benefit arising from collection of deferred consideration receivable in respect of a prior investment disposal which had been fully provided (within adjusted EBITDA) during 2016, and from circa £2.5 million in respect of retrospective rebates secured across a number of suppliers following the conclusion of external benchmarking exercises.

Segment results

	Total income			Adjusted EBITDA[1]		
	2017 £'000	2016 £'000	Variance %	2017 £'000	2016 £'000	Variance %
UK Sales and Lettings	**205,186**	247,820[2]	(17)	**14,888**	27,846[2]	(47)
London Sales and Lettings	**155,304**	172,553[2]	(10)	**11,547**	20,551[2]	(44)
Financial Services	**87,324**	88,174	(1)	**19,660**	22,682	(13)
B2B	**220,745**	224,785[2]	(2)	**35,576**	31,498[2]	13
Central Services	**3,319**	3,623	(8)	**(16,984)**	(19,029)	(11)
Total Group	**671,878**	736,955	(9)	**64,687**	83,548	(23)

1 Earnings before interest, tax, depreciation, amortisation, exceptional items, employment-linked contingent consideration, share-based payments and share of profits from joint venture, referred to hereafter as 'adjusted EBITDA' (see note 4 for reconciliation and note 2(w) for justification of this alternative performance measure).

2 Restated from prior year following internal restructuring of operations between UK, London and B2B.

Income statement

Reconciliation of statutory operating profit and adjusted EBITDA (see note 2(w) and 4)

	UK £'000	London £'000	Financial Services £'000	B2B £'000	All other segments £'000	2017 Total £'000	2016 Total £'000
Adjusted EBITDA	14,888	11,547	19,660	35,576	(16,984)	64,687	83,548
Contingent consideration	—	(397)	(969)	(62)	(2,501)	(3,929)	(6,834)
Share-based payments	(336)	(316)	(271)	(457)	(243)	(1,623)	(2,477)
Depreciation and amortisation	(14,881)	(5,249)	(2,770)	(7,583)	(3,007)	(33,490)	(32,872)
Share of profit from joint venture	—	—	—	—	690	690	(13)
Exceptional income	—	—	—	—	—	—	35,714
Exceptional costs	(168,477)	(48,586)	(1,304)	(3,844)	(3,658)	(225,869)	(48,203)
Operating (loss)/profit	(168,806)	(43,001)	14,346	23,630	(25,703)	(199,534)	28,863

Contingent consideration

Contingent consideration of £3.9 million (2016: £6.8 million) relates to previous acquisitions where the consideration arrangements require the vendors to remain in employment and as such have been treated as a post-combination employment expense; they are being accrued over the relevant periods specific to each of the agreements, with commitments extending out to 2021.

Certain of this contingent consideration is also subject to performance conditions being satisfied, with target adjusted 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 are therefore reviewed at each period as future earn out assumptions are revisited and any credits to the income statement in respect of downward revisions to estimates are reported in the same way.

Share-based payments

The share-based payment charge to the income statement of £1.8 million (2016: £2.5 million) comprises: a decreased charge in respect of annual nil-cost option grants under the three-year long term incentive plan (LTIP) to senior managers amounting to £0.8 million (2016: £1.3 million) as a result of aligning non-market conditions to underlying performance across grants; increased share incentive plan (SIP) charges of £0.9 million (2016: £0.8 million) arising from employee participation; deferred bonus share plan charges of £0.1 million (2016: £0.1 million); and elimination of any IPO plan charge after this fully unwound during 2016 (£0.3 million).

The Group has seen a significant decline in profitability since 2014 and therefore the impact of truing up for non-market conditions, matching reward to performance, has seen the share-based payment charge reduce accordingly since 2014, becoming a less material feature of the income statement after the vesting of all elements of the IPO scheme in March 2016. However, as the Group is now in a turnaround situation, it is anticipated that the incentivisation of performance will result in future LTIP awards which, provided Group performance meets these targets, will see the share-based payment charge continue to increase and re-introduce material volatility into the income statement.

Depreciation and amortisation

Our depreciation and amortisation charge continues to be separated 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 £6.2 million to £27.7 million, the principal drivers of which were: a £3.0 million increase in amortisation of computer software as a result of increased levels of investments, accompanied by a £3.2 million increase in depreciation of tangible fixed assets.

Amortisation of intangible assets recognised through business combinations has decreased by £5.6 million, to £5.8 million, as expected as we previously noted that £6.6 million of the annual charge relates to intangible assets recognised in 2007, when the Group was taken private, which would end in 2017.

Exceptional costs

During 2017 the Group commenced a strategic transformation agenda for the fundamental turnaround of the business. We have reported exceptional costs of £225.9 million (2016: net costs of £12.5 million), which have been disclosed in further detail in note 10, comprising:

Strategic and restructuring costs

During 2017 the Group implemented a number of material cost optimisation projects, resulting in a number of exceptional costs in relation to the project and related restructuring costs. The principal elements have been: £4.4 million in respect of redundancy and associated people-related restructuring costs; £1.7 million in respect of consultancy costs, all associated with specific projects scoped to tackle cost optimisation; and £1.9 million of property closure costs.

Impairment charges

The Group also incurred the following impairment charges arising from the annual impairment review of goodwill and indefinite life intangible assets. Following the assessment of recoverable value against carrying value, the following impairments were charged:

- £192.3 million in respect of goodwill associated with the UK (£151.3 million) and London (£41.0 million) cash generating units (see note 14);
- £12.9 million in respect of brand names associated with the UK (£8.4 million) and London (£4.5 million) cash generating units (see note 14);
- £5.3 million in respect of customer contracts associated with the UK (£4.1 million) and London (£1.1 million) cash generating units and the Professional Services (B2B) cash generating unit (£0.1 million) (see note 14); and
- £4.1 million in respect of non-current assets: £2.7 million in respect of intangible fixed assets (computer software) and £0.1 million tangible fixed assets associated with the UK cash generating unit; £0.7 million tangible fixed assets associated with the London cash generating unit; and £0.6 million write-off of an available-for-sale investment (see note 14, 15 and 16c).

In addition, impairment charges of £1.6 million have been made against the carrying value of trade receivables which relate to assets arising in prior periods where circumstances in relation to collectability have changed during the year.

In light of the impairment charges triggered against brand names in the previous two years, as part of the wider turnaround plan, we will undertake an assessment in 2018 to reassess our brand strategy and the related impact on the useful economic life of our brands currently held as indefinite.

Chief financial officer's review continued

Exceptional costs continued

Professional indemnity provisions

During 2017 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 is highly judgemental and we updated our financial models to reflect the latest inputs and trends and took advice from our panel of lawyers in respect of open claims. The judgemental nature of the provision, and progress made during the year on some individually significant claims aligned with the low level of claims made, would have provided progress on unwinding the provision. However, an individually significant claim has resulted in the need to increase the provision by £1.8 million.

Interest

Whilst our drawdown on bank borrowing facilities decreased from £290 million at the prior year end to £210 million at 31 December 2017, the margin increased from 2.75% to 3.0% 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 on specified levels of revolving credit facility drawdown from 20 June 2016. The interest cash flows on the first proportion of the revolving credit facility were hedged, and therefore this value moves over the period to March 2020 in line with the original forecast drawdowns. Consequently our finance costs increased and were incurred at fixed margin higher than LIBOR (see note 21).

In addition, future interest charges will also increase as the interest rate swap became ineffective at the end of 2017, as forecast drawdowns will no longer be met as we seek to deleverage the business. As a result of this prospective ineffectiveness, future revaluations of the interest rate swap forming the cash flow hedge will be charged to the income statement and not through reserves.

Taxation

A tax charge of £5.7 million (2016: £10.7 million) was recognised on underlying profits of £25.2 million (2016: £52.7 million) which represents an effective tax rate of 22.6% (2016: 20.3%). The Group also recognised an exceptional tax credit of £9.7 million (2016: £8.7 million) on losses before tax of £237.2 million (2016: £33.2 million) which results in an overall tax credit for the year of £4.0 million (2016: £2.0 million charge). This represents an effective tax rate of -1.9% (2016: 10.0%). The principal reason for the tax credit is the £210.4 million impairment of goodwill, brands and customer contracts which resulted in unwind of the related deferred tax liability.

Countrywide's business activities operate predominantly in the UK. All businesses are UK tax registered apart from a small operation in 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 2017, we will pay corporation tax of £1.4 million (2016: £5.2 million) on profits for the year, we collected employment taxes of £128.7 million (2016: £158.0 million) and VAT of £87.7 million (2016: £94.2 million), of which the Group has incurred £36.4 million and £3.0 million (2016: £44.3 million and £3.3 million) respectively. Additionally we have paid £11.8 million (2016: £12.8 million) in business rates and collected £38.7 million (2016: £41.7 million) of stamp duty land tax though our Conveyancing business.

Profit for the year – underlying and statutory

The Group reported underlying profit attributable to equity holders ('underlying earnings') of £19.5 million (2016: £42.0 million), a decrease of 54% for the year ended 31 December 2017. The Group's statutory loss after tax of £208.1 million (2016: profit of £17.5 million) is after exceptional costs of £225.9 million (2016: net costs of £12.5 million), contingent consideration charges of £3.9 million (2016: £6.8 million), share-based payment charges of £1.8 million (2016: £2.5 million) and non-cash charges of £5.8 million for amortisation of acquisition-related intangible assets (2016: £11.4 million) related to historical acquisitions, together with the corresponding tax effect.

Earnings per share

Adjusted earnings per share declined to 8.4 pence (2016: 19.3 pence). Statutory basic earnings per share declined to a loss of 89.6 pence (2016: 8.0 pence). These are based on the weighted average number of shares in issue of 232.3 million (2016: 216.7 million). A reconciliation of the basic and underlying earnings per share is provided in note 13.

Cash flow

Cash generated from operations increased by £30.2 million to £58.1 million for the period (2016: £27.9 million), aided by effective management of working capital accompanied by a reduction in payments on unwind of legacy professional indemnity claims

Capital expenditure on tangible assets of £6.9 million (2016: £17.9 million) has been focused on planned branch refurbishments, and in respect of intangible asset expenditure of £7.6 million (2016: £11.1 million) on the development of software, specifically new technology platforms to deliver online offerings to our customers.

Net debt

The net debt position as at 31 December 2017 was £192.0 million (2016: £247.9 million). The Group's net debt to adjusted EBITDA ratio is 2.97x (2016: 2.97x). Net debt reflects a decrease of £36.8 million due to the net proceeds received in respect of the share placing undertaken on 9 March 2017.

The Board has previously acknowledged the need to bring the leverage ratio down to the Group's medium term target of 1.5-2.0x. The net debt reconciliation is provided in note 20.

Net debt maturity and changes to committed bank facilities

The Group's available bank facilities (excluding overdraft arrangements available) at 31 December 2017 comprised a £340 million revolving credit facility and accompanying £60 million accordion facility repayable in March 2020.

In February 2018 the Company agreed an amendment letter relating to its term and revolving credit facility with its lender partners which provides the Company with the financial flexibility to invest in the business as it takes action to restore the Sales and Lettings business back to profitable growth. The Group reduced its borrowing capacity to a £275 million revolving credit facility (RCF) (retaining the £60 million accordion facility) which remains repayable in March 2020 and also took the opportunity to refresh the related financial covenants.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in our segmental reviews on pages 18 to 23. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out above in our financial review, with further details of the borrowing facilities set out in note 20. In addition, note 33 of the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit and liquidity risk.

A description of the Group's principal risks and uncertainties and arrangements to manage these risks are detailed in the strategic report on pages 14 to 16.

As at 31 December 2017, a total of £210 million was drawn down from the £340 million RCF (amended to £275 million in February 2018). During the year, the Group has complied with the financial covenant requirements, being the leverage ratio (the ratio of net debt to adjusted EBITDA) and interest cover (the ratio of adjusted EBITDA to net interest payable), which are subject to testing dates at 30 June 2018, 30 September 2018 and 31 December 2018. However, 2017 has seen a deterioration in business performance and consequently a worsening of the headroom on covenants, in particular the leverage ratio. The Group benefits from a supportive lender group of six banks who have provided borrowing facilities since March 2013. The lender group agreed an amendment to its leverage covenant thresholds in February 2018.

In assessing the Group's ability to continue as a going concern, the Board has reviewed the Group's cash flow and profit forecasts against these covenants. The impact of potential risks and related sensitivities to the forecasts were considered in assessing the likelihood of a breach of the covenants, whilst identifying what mitigating actions are available to the Group to avoid a potential breach.

The Group's performance is dependent on a number of market and macroeconomic factors including the impact on customer confidence and transactional volumes in the UK housing market from interest rate changes and government policies which are inherently difficult to predict. Specifically, a range of assumptions underpin the profit and cashflow forecasts for the period to 31 December 2019, including:

- Recovery of the pipeline to 2017 levels;
- Achieving the volume of forecast exchanges per branch and associated productivity measures in other areas of the Group;
- Mitigation of the potential impact of new government legislation banning lettings tenancy fees; and
- Successful realisation of internal corporate cost saving initiatives currently underway.

Failure to achieve one or more of the above would result in lower adjusted EBITDA with a consequent negative impact on headroom of the leverage and interest cover covenant ratios and higher projected net debt. If the Group's forecast is not achieved, there is a risk that the Group will not meet the net debt to EBITDA leverage covenant and should such a situation materialise, the banks reserve the right to withdraw the existing facilities. Without the support of the lender group, the Group and Parent Company would be unable to meet their liabilities as they fall due. Given the timing and execution risks associated with achieving the forecast and therefore remaining within the leverage ratio as stipulated by the banking covenants, the directors have concluded that it is necessary to draw attention to this as a material uncertainty which may cast significant doubt about the Group's and the Parent Company's ability to continue as a going concern in the basis of preparation to the financial statements.

The directors have confirmed that, after due consideration, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Dividend

The key judgements exercised by the Board in relation to the current year dividend proposal have been:

- the recent performance of the business; and
- net debt to EBITDA leverage levels.

The Board is not recommending the payment of a final dividend (2016: nil pence), giving a total 2017 dividend of nil pence (net) per share (2016: 5.0 pence).

Within the chief financial officer's review of the 2016 annual report, my predecessor noted that in light of the uncertainty surrounding the outlook for the residential property market and a desire to invest in key organic strategic initiatives, our dividend policy was to be revised to 30-35% (previously 35-45%) of underlying profit after tax (underlying profits being measured as profit after tax but before exceptional items, amortisation of acquired intangibles, contingent consideration and share-based payments). Within the 2017 interim report, he further noted that the market for housing transactions remained challenging and was expected to remain uncertain for some time, noting that it was prudent to refrain from paying an interim dividend and committing to review the situation at the full year.

Given the scale of challenge required to turn around the Sales and Lettings business and the desire to invest in cost and growth initiatives to build a sustainable and profitable business for the long term, whilst remaining committed to reducing our leverage, the Board has decided that there will be a nil dividend recommendation for 2017.

In assessing future dividends, the Board will consider:

- the future investment in the business;
- net debt to EBITDA leverage levels; and
- reward to shareholders.

Other information

Tenant fees

The draft Tenant Fees Bill in November 2017 sets out the government's approach to banning lettings fees paid by tenants. We expect that this will be introduced in 2019, and we are continuing to evaluate the potential impact and are putting in place mitigating actions.

Pensions

As at 31 December 2017 the net defined benefit scheme liabilities were £5.6 million (2016: £3.7 million). The movement in the scheme liability was as a result of the £6.3 million reduction in the value of the scheme assets (including a £4.7 million actuarial loss) exceeding the reduction in the value of the obligations.

Pension payments of £2.0 million (2016: £1.9 million) were made in the year, in line with the payment profile agreed with the trustees in 2016 and remains in place for another three years. The next triennial revaluation is due in 2018.

A pensioner buy-in of all remaining non-insured pensioners was concluded during December 2017 which allowed transformation of the scheme's risk profile, without requiring any additional funding from the Company, thus maintaining the current payment profile for Company contributions.

Tax strategy

The Group's Board approved strategy in relation to tax is published on our investor relations website in line with HMRC guidelines.

Corporate governance

The Group's policies regarding risk management and corporate governance are set out in the risk management section on pages 12 to 17 and in the corporate governance report on pages 33 to 43.

Himanshu Raja
Chief financial officer
8 March 2018

Our people

Our employees are our greatest asset and key to profitable growth

Our people

We have strength and depth across our UK and London Sales and Lettings branch networks, and in our Financial Services and B2B businesses.

Whilst we have lost some experienced Sales and Lettings professionals, we have managed to win:

- 38 Best Estate Agent Guide (Rightmove EA Masters) Awards; and
- 32 ESTAS including:
  - Seven Gold Awards and 18 Best In Country Awards
  - Best Large Estate Agency Group
  - Best Large Lettings Group

B2B collected a string of awards in 2017 including:

- Best Survey Provider
- Best Conveyancing Firm
- Most Outstanding Law Firm
- Best Residential Conveyancing Services
- Winner of the National Provider ESTAS

Financial Services won multiple awards including:

- Countrywide Mortgage Services - Best Customer Service Broker
- Mortgage Bureau – Best New Build Mortgage Broker
- Mortgage Intelligence – Mortgage Network of the Year
- The Buy to Let Business – Best Buy to Let Broker

Award winning reward

Winner of the 'Best Voluntary Benefit' (Employee Benefit Awards) for our exclusive Under One Roof employee benefit programme.

Under One Roof has been a huge success since it was introduced in February 2016. This benefit goes to the heart of doing the right thing by our people. Colleagues, and their close family, receive discounts on Countrywide products and services from day one of employment. More than 2,000 colleagues have collectively saved over £3 million by making the most of the award winning scheme.

Recruitment

In 2017 Countrywide launched a new careers website which showcases all of our businesses and is easy to use whilst portraying our purpose and values. This was tied in with the creation of an in-house recruitment team to support the entire business. The team introduced a consistent process which ensures a positive experience for candidates, suppliers and our hiring community. Countrywide is now able to utilise more advanced data to inform decisions around attracting candidates and resource planning by business unit.

The introduction of the Apprenticeship Levy has opened the door for employee development at all levels – 90% of new apprentices in 2017 were existing colleagues.

In 2017 we launched the Countrywide apprenticeship programme with 40 new apprentices. This encouraged talent into the business and also provides the opportunity for our people to achieve a recognised qualification within Countrywide. As we enter 2018, we now have 18 different qualifications ranging from twelve months to five years and we have plans to grow this further in 2018. This will form a key part of helping our people develop their careers within the property business.

In October Countrywide signed the Armed Forces Covenant. This means that service leavers and the military spouses community have the opportunity to join Countrywide. We grant current and future reservist employees leave to train and fulfil their military duties as well as support reservists within the workforce who wish to join us. We also promote career opportunities within the property sector for members of the Cadet Forces by holding insight days in collaboration with the Career Transition Partnership.

Training and development

Countrywide has a flexible approach to on the job learning in the form of iLearn. It gives colleagues the opportunity to take learning courses online either via a desktop or mobile device. This provides colleagues with relevant and personalised courses that will help them in the roles that they perform. In comparison to traditional, classroom-based learning, colleagues can take courses at times that suit them and in a timeframe that fits around their work.

Our Surveying business continues to attract 20+ trainee surveyors each year who will become RICS qualified and begin their career within an award winning surveying team.

To support our colleagues in Sales and Lettings we have launched a new Career Development Framework. This clearly maps opportunities within the business and is supported by online and classroom-based training programmes.

In 2017 our voluntary turnover reduced to 27% (2016: 29%) and employee relations cases across Countrywide reduced by 28% in 2017 compared to 2016.

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.

Communication and engagement

Countrywide's internal communication aims to be timely, open and honest, providing colleagues with the information they need that links directly to the Company's purpose and values.

A key channel for communication and engagement activities is our intranet. We now have over 60% of colleagues regularly using Our Place for their news and business-related information and tools.

The introduction of a Group-wide recognition programme exclusively on Our Place in April 2017 saw over 30,000 thank yous being issued in the first nine months. High Fives encourage colleagues, managers and executives to recognise performance and behaviours of colleagues who reflect the values of Countrywide and go the extra mile.

Charitable giving

Countrywide supports a workplace charitable giving scheme so that employees can donate to their charities of choice tax efficiently through payroll deduction.

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

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, civil partnership or marital status, pregnancy or maternity leave, disability, race, religion or belief, sex or sexual orientation, and to ensure that all opportunities are available to everyone and that no one suffers discrimination, harassment or intimidation.

Human rights

While the Group is accountable to investors, we take into account the interests of all our stakeholders, including our employees, our customers and our suppliers, as well as the local community and the environment in which we operate.

Countrywide's reputation is one of its key assets and, as a major player in the UK property services sector, adhering to the highest standards of integrity, personal conduct, ethics and fairness is deemed to be of vital importance.

Due to the 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 a foundation called WNS Cares Foundation. It takes care of providing education and a lot of other facilities and benefits to the children in the society. 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 and in our supply chains.

This strategic report was approved by the Board of directors on 8 March 2018 and signed on its behalf by:

Peter Long
Executive chairman

Board of directors

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

Peter Long
Executive chairman

Peter was appointed non-executive director of the Company in February 2016 and took over as non-executive chairman at the Company's Annual General Meeting (AGM) on 27 April 2016. On 24 January 2018 he became executive chairman of the Company. He is also chairman of Royal Mail plc and Parques Reunidos Servicios Centrales S.A.U. A respected business leader, Peter had a long and successful executive career in the travel industry. This included transforming a small UK tour operator, First Choice, into Europe's largest leisure travel group, TUI Group. In February 2016 after a planned succession transition period Peter stepped down as chief executive of TUI AG joining its Supervisory Board and where on 13 February 2018 he was appointed vice chairman. 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).

David Watson
Deputy chairman and senior independent non-executive director

David joined the Group in September 2013 as non-executive director of the Company and is the senior independent director. David is currently a non-executive director of Hermes Fund Managers Limited and T R Property Investment Trust plc, where he chairs the audit committees. 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.

Himanshu Raja
Chief financial officer

Himanshu joined the Board in June 2017 and assumed the chief financial officer role effective 1 August 2017. Himanshu brings 25 years' experience in large multinational organisations in the business and IT services, software and telecommunications sectors. He was previously chief financial officer of G4S plc where he was responsible for finance, treasury, tax, IR and M&A and IT and procurement. At G4S, Himanshu strengthened the controls and governance across the group, delivered significant cost transformation and oversaw a significant improvement in profitability and cash flow. Himanshu was previously chief financial officer of Misys plc, under private equity ownership, and, prior to that, was chief financial officer of Logica plc, where he was responsible for the sale of the Group to CGI in a £2.1 billion transaction. Himanshu graduated in law from the University of Wales, and qualified as a chartered accountant in 1989.

Cathy Turner
Independent non-executive director

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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.

Richard Adam*
Independent non-executive director

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 and will step down from both positions at the Company's AGM on 25 April 2018. 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. From 2015 to 2017 he served as senior independent non-executive director of Countryside Properties plc and chaired its audit committee. From 2007 to 2016 Richard was group finance director of Carillion plc and for the seven years before that of Associated British Ports Holdings plc. He was also previously non-executive director and chairman of the audit committee of FirstGroup plc and SSL International plc. Richard is a graduate of the University of Reading.

Jane Lighting

Independent non-executive director

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, chief executive officer of Flextech plc and founder and chief executive officer 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

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.

Natalie Ceeney

Independent non-executive director

Natalie was appointed non-executive director of the Company on 28 April 2017. Natalie chairs the board of Innovate Finance, and leads an independent strategy consultancy practice. After training as a strategy consultant at McKinsey & Company, Natalie's executive career has included chief executive officer roles at HM Courts and Tribunals Service, The Financial Ombudsman Service, and The National Archives, and as a member of HSBC's UK executive team, leading digitally enabled, customer focused change. Natalie is a graduate of the University of Cambridge.

Caleb Kramer

Non-executive director

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 in economics from the University of Virginia.

Key to Committee membership:

Audit and Risk Committee

Nomination Committee

Remuneration Committee

Chair of Committee

* Richard Adam to step down as independent non-executive director and chair of the Company's Audit and Risk Committee at the conclusion of the Company's 2018 AGM.

Chairman's introduction to corporate governance

Dear shareholder

On behalf of the Board, I am pleased to present Countrywide's corporate governance statement.

Although it has been a year of considerable change and challenge the Board remains committed to maintaining high standards of corporate governance and recognises the value and importance of meeting the principles of good corporate governance as set out in the Code. The Board recognises that achieving high standards of corporate governance is a continual process and changes to the structure and operation of our governance processes continued to be embedded during the course of 2017 in order to ensure full alignment with our risk and internal audit capabilities. As a Group, we are committed to building a progressive framework of strong risk management in order to support the reshaping of the business for the future."

Key priorities include re-building a strong and resilient Sales and Lettings network across the UK, regaining market share and getting the business back to growth. As we reshape the business for the future our success is very much dependent on developing a culture across the Group that supports the implementation of plans and strategy. I recognise that the Board plays a vital role in embedding culture throughout the business and I am pleased to report that our boardroom has a healthy culture that is based on openness and accountability, underpinned by a mutual respect between all directors. Our boardroom culture both encourages and supports constructive challenge from our non-executive directors. This has been borne out of our 2017 Board and Committee evaluation, which has provided valuable insights. Further information is provided in my Nomination Committee Report on pages 35 to 37.

There have been a number of changes to the Board over the past year. The Board was strengthened by the appointments of Natalie Ceeney as independent non-executive director and Himanshu Raja as executive director who, following the resignation of Jim Clarke, took up the chief financial officer post on 1 August 2017. I would like to thank Jim for his contribution during his ten-year service with the Countrywide Group. Richard Adam notified me of his intention to step down as independent non-executive director at the conclusion of the Company's 2018 AGM. Further details of changes to the Board are contained in my Nomination Committee Report on pages 35 to 37.

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 which are incorporated within Countrywide's normal management and governance processes.

As chairman of the Board I am responsible for leading the Board and ensuring that we play a full and constructive part in the development and delivery of the Group's strategy and overall commercial objectives. During the year and in January 2018 we saw two significant Board changes: the change of chief financial officer referred to above; and the resignation of the chief executive officer. Not withstanding these changes, and following the recent completion of the above-mentioned Board and Committee evaluation, no significant issues were raised. The review process is described in more detail in the Nomination Committee Report on page 36.

Peter Long
Executive chairman
8 March 2018

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 April 2016. The Code can be viewed at www.frc.org.uk.

Compliance with the 2016 Code

The directors have considered the contents and requirements of the Code and I am delighted to confirm that the Company has complied in all respects with the provisions of the Code during this financial year. Following Alison Platt's departure on 24 January 2018, Peter Long was appointed to the role of executive chairman on a temporary basis due to the exceptional need to fill the vacancy left by Alison. As a result, the Company is not, at the date of this report, in compliance with the Code to that extent.

The corporate governance report comprises pages 33 to 43. 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:

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 internal 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.	Membership of the Board and Committee structure.	Review of governance arrangements.

The roles of chairman and chief executive are designed to be separated, clearly defined and approved by the Board. A copy of the intended 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. Once a new chief executive officer is appointed, the roles of chairman and chief executive will once again be separated.

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 2017, the Board comprised two executive and eight 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 35 to 37.

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 34. Attendance is expressed as the number of meetings that each director attended out of the number they were eligible to attend as chairs or Committee members (i.e. excluding attendance where this was by invitation only).

Corporate governance statement continued

Board attendance

Director	Date of appointment	Board meetings	Audit and Risk Committee meetings	Nomination Committee meetings	Remuneration Committee meetings
Peter Long	11 February 2016	8/8	—	3/3	—
Alison Platt[1]	1 September 2014	8/8	—	—	—
Himanshu Raja	12 June 2017	4/4	—	—	—
Jim Clarke[2]	28 December 2012	6/6	—	—	—
Caleb Kramer[3]	19 February 2013	7/8	—	—	—
David Watson	2 September 2013	8/8	4/4	3/3	4/4
Cathy Turner	31 July 2013	8/8	4/4	3/3	4/4
Richard Adam[4]	9 June 2014	8/8	4/4	3/3	4/4
Jane Lighting	9 June 2014	8/8	4/4	3/3	4/4
Rupert Gavin[3]	25 June 2014	7/8	—	2/3	4/4
Natalie Ceeney	28 April 2017	4/4	—	—	3/3

1 Alison Platt resigned from the Board with effect from 24 January 2018.

2 Jim Clarke resigned from the Board with effect from 31 July 2017.

3 Caleb Kramer was engaged in overseas activities which meant he was unable to attend one Board meeting. Rupert Gavin was also absent from each of the specific meetings above due to unexpected, unavoidable personal commitments.

4 Richard Adam is to step down as independent non-executive director at the conclusion of the Company's 2018 AGM.

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. 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.

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 and including the appointment of Natalie Ceeney on 28 April 2017, there are six (of a possible seven) non-executive directors determined to be independent and an executive director, 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 14 to 16 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 auditors, PricewaterhouseCoopers LLP. The report of the Audit and Risk Committee is set out on pages 38 to 43.

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 44 to 57.

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 2017 the Company undertook a wide variety of investor relations activities, including roadshows 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 hosted or attended the majority of the events held, whilst key senior executives also participated 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 chairs 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
Executive chairman
8 March 2018

Report of the Nomination Committee

In 2017, one new executive director (the chief financial officer) and one non-executive director were appointed to the Board during the year. The process was led by the Nomination Committee."

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

Dear shareholder

On behalf of the Board, I am pleased to present Countrywide's report of the Nomination Committee.

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 2017, together with appointment date, is set out below:

Member	Nomination Committee member since
Peter Long	27 April 2016
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

The composition of the Committee did not change during the period and we 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 34.

The Committee's work

The Committee held three formal meetings during 2017.

In 2017, one new executive director (the chief financial officer) and one non-executive director were appointed to the Board during the year. The process was led by the Nomination Committee who were assisted by the external search firm, Ridgeway Partners. Ridgeway has no connection with the Company.

Natalie Ceeney was appointed to the Board on 28 April 2017, and brings significant experience in financial services, IT and digital transformation. Natalie was appointed taking account of the balance of skills, experience and diversity of the Board.

On 22 February 2017, the Board initiated a succession planning process to search for a new chief financial officer. The chair of the Nomination Committee led the process, assisted by Ridgeway Partners, and the list of potential candidates was considered having regard to the balance, skills and diversity of the Board. Himanshu Raja was appointed to the Board on 12 June 2017, and to the chief financial officer role effective 1 August 2017, following interview by the chair of the Audit and Risk Committee, chair of the Nomination Committee and the senior independent non-executive director. A full transition plan was put in place for Himanshu, along with a substantial period for a smooth handover.

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 a new non-executive director and a new chief financial officer.

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 currently 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 gender diversity are set out on page 29.

Induction and training

Following Himanshu's and Natalie's appointments to the Board, as with all directors of the Company, they received a tailored induction programme which provided them with the opportunity to gain a good understanding of the Group business and organisation, operations and governance environment, in order to maximise their contribution to the Board as quickly as possible. Key stages of the induction programme were: 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

Countrywide Board Review 2017

Countrywide retained the services of Lintstock Limited in 2017 to undertake an evaluation of the Board's performance with director interviews.

The first stage of the review involved Lintstock engaging with the chairman and the company secretary to set the context for the evaluation, and to tailor survey content to the Company's specific circumstances. All Board members were then requested to complete an online questionnaire addressing the performance of the Board, its Committees and the chairman, as well as their own individual contribution to the Board.

Lintstock subsequently conducted interviews with each of the Board members, enabling them to expand on their responses to the questionnaires. The anonymity of all respondents was ensured throughout the process in order to promote open and frank exchange of views.

Lintstock then produced a report addressing the following areas:

- The current composition of the Board was addressed, and the attributes to prioritise in new director appointments were considered.
- The Board's understanding of key stakeholders, the culture and behaviours within the organisation and the market in which the Company operates were addressed.
- The dynamics between the Board members and the atmosphere at Board meetings was reviewed.
- The management and focus of the Board meetings was considered, and the quality of the information and support provided to the Board members were addressed.
- The Board's oversight of strategy, risk and human resources was reviewed, and the Board members identified the top strategic issues facing the Company over the next three to five years.
- The performance of each of the Committees of the Board was considered, as was the performance of the chairman and individual directors.

The table below summarises the key 2017 Board evaluation results and actions.

Key 2017 Board Evaluation Results
Continue to focus on shorter-term succession planning and recruitment processes for the chief executive officer and chairman of the Audit & Risk Committee roles.
Review succession plan for non-executive directors.
Nomination Committee to meet regularly.
Arrange branch visits for non-executive directors, including on an individual basis.
Encourage more interaction between non-executive directors and top management in order to enhance understanding of the business and culture.
KPIs to be redesigned.

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, with the exception of Richard Adam, all directors will stand for re-election.

Peter Long
Chair of the Nomination Committee
8 March 2018

Report of the Audit and Risk Committee

In 2017, the Audit and Risk Committee focused on the impact of the deterioration in the Group's trading position with respect to goodwill and other impairments and going concern and viability. The Audit and Risk Committee also oversaw the conclusion of the competitive external audit tender and reappointment of PricewaterhouseCoopers LLP. Their appointment was confirmed by shareholders at the AGM in April 2017."

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 2017, the Committee has:

- concluded the external audit tender process and subsequent reappointment of PricewaterhouseCoopers LLP (PwC), whose appointment was confirmed by the AGM in April 2017;
- continued to scrutinise the activities, performance, independence and effectiveness of the external auditors;
- 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;
- continued to monitor the integrity of the Group's financial statements and satisfy itself that any significant financial judgements made by management are sound. Our report details the significant financial judgements; and
- reviewed management's assessments of going concern and our viability statement. The Committee also reviewed and noted the amendment to the Group's revolving credit facility, signed on 2 February 2018, and noted the additional covenant headroom which this provided.

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 notified the Company of my intention to step down as independent non-executive director of the Company at the Company's AGM for the year ending 2017, as stated in the Company's announcement on 5 October 2017. The Board has commenced a formal search for my replacement and I will remain as chairman of the Audit and Risk Committee and member of both the Remuneration and Nomination Committees until the Company's AGM.

I will be available at the AGM to answer any questions about the work of the Committee.

Richard Adam
Chair of the Audit and Risk Committee
8 March 2018

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 2017 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 were selected for their range of financial and commercial expertise, necessary to fulfil the Committee's duties. The Board considers that as chartered accountants both the Committee chair, Richard Adam, and the Group's deputy chair, David Watson, have recent and relevant financial experience. The biography of each member of the Committee is set out on pages 30 to 31.

Attendance by members at the Committee meetings is shown on page 34. 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 and the chairman of the Board also attends meetings in agreement with the chair of the Committee. At the end of each meeting, a private session is held by the Committee with representatives of 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 2017 organised to coincide with key events in the annual reporting cycle.

The chair of the Committee reports, 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 and approved the publication of the Group's tax strategy on our investor relations website during the year.

The Committee also considered whether the 2017 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 auditors, 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 2017 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 viability statement, together with further details of the Group's approach, appears within our risk section of our strategic report on page 17.

During February 2018, the Financial Reporting Council's (FRC's) Corporate Reporting Review Team concluded its review, which opened in October 2017, of the Group's 2015 and 2016 annual reports. 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. Pursuant to the review, the Company enhanced certain disclosures in its 2017 Annual Report and Accounts.

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 and description	Action the Committee has taken and conclusion
Going concern The Group has net debt of £192 million. As explained in note 33 to the financial statements, the Group meets its day to day working capital requirements through a revolving credit facility, which was amended in February 2018. The Group currently has a £275 million facility which is committed for a period through to March 2020. Management forecasts show that this facility provides adequate liquidity for the Group. As at 31 December 2017, a total of £210 million was drawn down from these facilities. During the year, the Group has complied with the financial covenant requirements, being the leverage ratio (the ratio of net debt to adjusted EBITDA) and interest cover (the ratio of adjusted EBITDA to net interest payable). Consideration of the going concern risk is a fundamental responsibility of the Board and the Committee has given this matter its full attention. The going concern assertion has a significant impact on the financial statements in terms of both the valuation of assets and liabilities held and the presentation of assets and liabilities as non-current.	In assessing the Company's ability to continue as a going concern, the Board regularly reviews forecasts of the Group's profit and cash flows forecasts. In assessing the forecasts, the Board also considers sensitivity analysis to these forecasts to assess the impact of potential risks and opportunities. 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, in particular the leverage ratio. The Committee reviewed a management paper detailing future profitability of the Group, forecast future cash flows, associated headroom under financing facilities and banking covenants. The Group's performance is dependent on a number of market and macroeconomic factors including the impact on customer confidence and transactional volumes in the UK housing market from interest rate changes and government policies which are inherently difficult to predict. Specifically, a range of assumptions underpin the profit and cashflow forecasts, including: • Recovery of the pipeline to 2017 levels; • Achieving the volume of forecast exchanges per branch and associated productivity measures in other areas of the Group; • Mitigation of the potential impact of new government legislation banning lettings tenancy fees; and • Successful realisation of internal corporate cost saving initiatives currently underway. Failure to achieve one or more of the above would result in lower adjusted EBITDA with a consequent negative impact on headroom of the leverage and interest cover covenant ratios and higher projected net debt. 2017 has seen a deterioration of business performance and consequently a worsening of the Group's leverage ratio. The Group benefits from a supportive lender group of six banks who have provided borrowing facilities since March 2013. With the support of the lender group, in February 2018, the Company agreed an amendment to its leverage covenant thresholds. The Committee reviewed and noted the amendment to the Group's revolving credit facility and noted the additional leverage covenant headroom which this provided. The key judgements, assumptions and estimates underpinning this review, and the associated sensitivities, were discussed and considered. If the Group's forecast is not achieved, there is a risk that the Group will not meet the net debt to EBITDA leverage covenant and should such a situation materialise, the banks reserve the right to withdraw the existing facilities. Without the support of the lender group, the Group and Parent Company would be unable to meet their liabilities as they fall due. Given the timing and execution risks associated with achieving the forecast and therefore remaining within the leverage ratio as stipulated by the banking covenants, the directors have concluded that it is necessary to draw attention to this as a material uncertainty which may cast significant doubt about the Group's and the Parent Company's ability to continue as a going concern in the basis of preparation to the financial statements. The Board has acknowledged the need to bring the leverage ratio back in to the Group's medium term target of 1.5x-2.0x and has launched a number of initiatives to address this through 2018. **Conclusion:** The Committee was satisfied that it was appropriate for the Group to adopt the going concern basis of accounting in the financial statements, with enhanced disclosures as set out in note 2 to the financial statements on page 74, and recommended the same to the Board.
Viability statement Consideration of the prospects and viability of the Group is a fundamental responsibility of the Board and the Committee has given this matter its full attention.	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. **Conclusion:** The Committee approved the viability statement and recommended its adoption by the Board.

Matter and description	Action the Committee has taken and conclusion
Impairment of goodwill and intangibles with an indefinite life The total values of the Group's goodwill and brand names were £472 million and £191 million respectively as at 31 December 2017 and relate to a significant number of historical acquisitions. The estimation of the recoverable amount of goodwill and intangibles with an indefinite life supported by the Group's cash generating units requires significant judgement, primarily in relation to: the achievability of the long term business plans and future cash flows which is dependent on circumstances both within and outside of management's control; the discount rates applied; and the macroeconomic assumptions underlying the valuation process. As a result of the annual review of the carrying value of goodwill and intangibles with an indefinite life, the following impairments were recorded: £151 million of goodwill and £8 million of brand names in relation to the UK Sales and Lettings cash generating unit and £41 million of goodwill and £4 million of brand names in relation to the London Sales and Lettings cash generating unit. The balances remaining at the 2017 financial year end were £279 million and £178 million respectively in respect of goodwill and brand names (see note 14 to the consolidated financial statements). Details of the Group's impairment, impairment tests and related disclosures are provided in notes 10 and 14a.	The Committee reviewed the methodology and challenged the results of the impairment test prepared by management. The Committee reviewed the assumptions used in relation to long term growth, resulting headroom and sensitivities applied by management. The Committee also considered the adequacy of the disclosures provided, particularly for the case of cash generating units where changes in key assumptions could give rise to an impairment. **Conclusion:** The Committee was satisfied with the carrying value of goodwill and intangibles with an indefinite life and the related disclosures as at 31 December 2017.
Presentation and disclosure of exceptional items The Committee reviewed the treatment of items considered as exceptional items that are separately disclosed by virtue of their size, nature or incidence. Management prepared documentation to support these items and the disclosure proposed in the financial statements. For more detail in respect of exceptional items see note 10.	The Committee reviewed and challenged the disclosures prepared by management in relation to exceptional items, considered that the nature of these items was within the Group's accounting policies and with the guidance issued by the FRC, that they were being applied consistently from year to year and that these items included both debits and credits in a balanced manner. **Conclusion:** The Committee was satisfied that the Group's accounting policies have been applied consistently and that the designation of exceptional items was subject to objective and balanced criteria and was appropriate to give an improved understanding of the continuing operations of the Group.
Professional indemnity provisions The total value of the Group's professional indemnity provisions as at 31 December 2017 was £15.5 million. 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.	The Committee 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. The Committee concluded that the methodology and assumptions adopted were reasonable. The Committee notes 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, sensitivity disclosures have been provided in note 3. **Conclusion:** The Committee was satisfied with the level of professional indemnity provisions and the related disclosures as at 31 December 2017.
Impairment risk of investment in subsidiaries and intercompany receivables The total value of investments in subsidiaries and intercompany receivables in the parent company balance sheet are of £386m and £239m respectively. As a result of the impairment charges recorded in the UK and London CGUs noted above, the Committee have focused on this area due to the size of the investment and intercompany receivable balances and the risk of impairment arising due to the deterioration of business performance. Management performed an assessment of the carrying value of the investments and intercompany receivables and compared this to the recoverable value, using the same discounted cash flow forecast used in the impairment test of indefinite life intangible assets described above. The results showed there was sufficient headroom between the carrying value and the recoverable value, and therefore no impairment has been recognised in the Parent Company.	Linked to the impairment testing of indefinite life intangible assets noted above, the Committee had reviewed the discounted cash flow forecast also in the assessment to impairment assessment of the value in use of subsidiaries and the ability of the subsidiaries to repay intercompany receivables and deliver value in excess of investments held on the Company balance sheet. **Conclusion:** The Committee was satisfied with the carrying value of the investments in subsidiaries and intercompany receivables held by the Company.

For further information on the critical accounting estimates and assumptions refer to the notes to the consolidated financial statements on pages 83 to 85. For a discussion of the auditors' key audit matters, refer to pages 64 to 65 of the independent auditors' report.

Report of the Audit and Risk Committee continued

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 12 and 13, 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 these risks together with the design, operation and monitoring of associated controls to manage risks in line with the Group's risk appetite.

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, and recommended to the Board for approval, changes to the Committee's terms of reference and calendar of duties;
- reviewed the quarterly Group Risk Report on the 'top risks' facing the Group, the relative assessment of impact and likelihood and actions underway or taken to deliver target risk ratings over a six-month horizon;
- reviewed the results of the annual Control Self Assessment, detailing results of an assessment of compliance with the Group's policies' minimum control standards within each business unit;
- approved the Internal Audit charter, detailing the standards the function operate against in line with the Institute of Internal Auditors' Professional Practices;
- approved the annual internal audit plan, outlining those areas to be covered by the work of Internal Audit during 2018 and monitored the progress against the plan at each meeting. This included updates on progress to deliver management actions relating to internal audit recommendations. The Committee also received and approved changes to the plan during the year;
- completed an annual review of the effectiveness of the Group's internal audit function, and the effectiveness of the Group's risk management and internal control systems, 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 Financial Conduct Authority regulated operations, including regulatory relationship matters and outputs from the Financial Services business unit's risk, audit and governance committee;
- approved the 2018 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 their 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.

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 their independence in accordance with ethical standards and that they had maintained appropriate internal safeguards to ensure their 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 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	2017 £'000	2016 £'000
Audit-related assurance services	50	50
Tax advisory services	2	40
Other non-audit services	49	16
Non-audit fees	**101**	106
Audit fees (excluding audit-related assurance services)	**542**	579

Amounts paid to PwC were reported to and considered by the Committee. Non-audit fees incurred in 2017 represent 19% 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.

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. Following robust debate and challenge, action plans were developed in relation to better communication during the audit cycle between PwC and the Group's 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.

External audit tender

As noted in last year's report of the Audit and Risk Committee, 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 requires 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 was ratified by 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 36.

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 2017.

It has been a year of great challenge and change at Countrywide, with disappointing financial performance highlighting the need for a review of long term strategy. A number of external headwinds have also continued to impact on business performance, with lower transactional volumes continuing to be experienced during 2017. As you would expect of the Committee in such circumstances the remuneration decisions for 2017 are appropriately severe. Whilst this clearly demonstrates the application of pay for performance, it is disappointing to be in this situation for a second year running.

During the year Jim Clarke confirmed his desire to retire as chief financial officer having been with Countrywide for over ten years. Following a search and selection process Jim Clarke was succeeded by Himanshu Raja who joined the Board on 12 June 2017 and took up the chief financial officer post on 1 August 2017. From 24 January 2018, Alison Platt also stepped down as chief executive officer, with Peter Long taking on additional responsibilities in the role of executive chairman. The new executive team are fully focused on ensuring the Company is appropriately structured to deliver the revised long term strategy essential to the success of the business.

The remuneration policy is subject to a binding vote every three years (sooner if changes are made to the policy). The Committee considers that the policy, approved by shareholders at the 2017 AGM, continues to be appropriate and therefore no changes have been made since shareholder approval. The annual report on remuneration is subject to an annual shareholder advisory vote and will be presented to shareholders at the AGM on 25 April 2018.

2017 performance and reward

During 2017, against challenging market conditions, Group adjusted EBITDA of £64.7 million for the year ended 31 December 2017 was £18.8 million below the £83.5 million achieved in 2016.

The Committee acknowledged and supported the business turnaround strategy 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 negative remuneration outcomes for the 2017 financial performance for a second year as follows:

- annual bonus: no bonuses were payable to the executive directors for 2017; and
- LTIP: there will be no vesting of 2015 LTIP awards, due to the non-achievement of the challenging adjusted EPS and relative TSR-based performance conditions attached to these awards.

All other outstanding LTIP awards for Alison Platt will lapse on the date of leaving the Company.

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

Remuneration policy for 2018

The Committee regularly reviews the remuneration policy for the executive directors and senior managers to ensure it is transparent and aligned to the interests of shareholders, it is weighted to incentivise sustainable performance, it is structured to ensure higher awards are only achieved for exceptional performance against challenging targets, and it encourages an appropriate level of risk taking commensurate with the risk profile of the business. The Committee's most recent conclusions are that the existing remuneration policy remains appropriate and should continue to operate for 2018. However, there are some important changes to how this policy will be applied, as outlined below.

The key points to note are as follows:

- there will be no increase to the chief financial officer's salary in 2018;
- benefits and pension provision are considered to be at appropriate levels;
- the structure and quantum of the annual bonus, with one-third of any award deferred into shares, continues to be appropriate. As such, the 2018 annual bonus framework will be largely consistent with the 2017 annual bonus, with 70% of the award incorporating financial measures, with the remaining 30% now incorporating strategic/personal targets. The strategic/personal targets will align with the strategic objectives of the Group and represent both personal and customer outcomes;
- the performance conditions that apply to the long term incentive grant policy, whereby nil-cost awards are granted annually, will be amended to align with the need to turn around the business; growth in adjusted earnings per share (37.5%) and total shareholder return (37.5%) remain unchanged from last year. However, the customer and strategic measures that applied in 2017 will be replaced by operating cash flow conversion (25%). Reflecting the Committee's desire to incentivise delivery of the turnaround strategy, and the increased responsibilities that naturally fall on a chief financial officer where there is no chief executive officer in position, an LTIP award of 200% of salary, on an exceptional basis, will be granted to Himanshu Raja. This award is within the limits approved by shareholders; and
- should the executive chairman be in this role for a significant portion of 2018, the Committee will consider, during its usual year end processes, whether any additional remuneration is warranted.

The Committee believes that the current remuneration policy continues to incentivise the delivery of strong yet sustainable financial results and the creation of shareholder value. In line with good practice, the full policy has been included in this report.

Further details of how the current policy will be applied in practice for the 2018 financial year are set out in the annual report on remuneration on pages 50 to 51.

Shareholder support

The Committee was delighted to receive positive support from 99% of the shareholders who voted on our 2017 remuneration report (the annual statement and annual report on remuneration) and remuneration policy at the AGM on 27 April 2017. We remain committed to ongoing engagement with our shareholders and take an active interest in their views and voting on this remuneration report.

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 report in the year;
- the remuneration policy report: setting out the basis of the remuneration that has applied since approval at the 2017 AGM; and
- the annual report on remuneration: explaining the remuneration earned by the directors in the year ended 31 December 2017 and a statement as to how the remuneration policy will be implemented in 2018. This will be subject to an advisory vote at the 2018 AGM.

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

Cathy Turner
Chair of the Remuneration Committee
8 March 2018

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 auditors have reported on certain sections of Part B and stated whether, in their 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

With effect from its approval at the Company AGM on 27 April 2017, this policy report sets out the framework that shapes the Company's remuneration strategy for an anticipated period of three years, ensuring that the structure and levels of executive remuneration remain appropriate to support the long-term success of the Company while ensuring that it does not promote inappropriate risk taking. We have chosen to repeat the remuneration policy report in line with good practice and to ensure transparency even though continued presentation is not required.

The following section explains:

- our remuneration strategy and policy;
- how this strategy is reinforced by alignment of key components of our remuneration packages;
- why we have selected the performance criteria for variable pay; and
- other information required to provide the wider Group context for the directors' service agreements.

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 benefits offerings; and any other relevant factors as determined by the Committee.

Directors' remuneration report continued

PART A: directors' remuneration policy continued

Statement of employment conditions elsewhere in the Company continued

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 chief executive officer to employee pay. The Remuneration Committee ensures that employee remuneration within the company is considered. We will disclose the ratio of the chief executive's pay compared with average pay when we are required to do so and once the methodology has been confirmed. Further information about our engagement with employees across the Group is provided on page 29 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.

Summary remuneration policy

The Committee remains of the view that the remuneration policy, approved by shareholders at the 2017 AGM, continues to be appropriate and therefore there has been no change to the policy from the prior year. The key components of the remuneration packages offered to our directors are as follows:

Future policy table

Purpose/link to strategy	Operation	Opportunity	Applicable performance measure
Salary and fees			
To aid the recruitment, retention and motivation of high performing people To reflect their experience and importance to the business	Fixed annual sum normally payable monthly and reviewed annually Review reflects changes in scope of role and responsibility, personal and Group performance and increases throughout the rest of business 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) 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

Purpose/link to strategy	Operation	Opportunity	Applicable performance measure
Annual bonuses			
To incentivise the delivery of stretching short term business targets and strategic and/or personal objectives 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 One-third of any bonus payable will normally be deferred into options/awards over ordinary shares with a three-year vesting period Dividend equivalent payments (cash and/or shares) may be payable on awards to the extent they vest 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 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 Malus and clawback provisions operate for deferred bonuses
Long Term Share Incentive Plans			
To incentivise value creation over the long term and reward execution of our strategy To align the long term interest of directors and shareholders To promote retention	Annual grant of awards Structured as nil-cost options/conditional awards Non-pensionable Dividend equivalent payments (cash and/or shares) may be payable on awards to the extent they vest Awards made to executive directors from 2016 are subject to a two-year post-vesting holding period	**Normal grant limit** Up to 150% of salary per annum **Maximum limit** 200% of salary per annum **Exceptional limit** 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 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 No more than 25% of awards vest for attaining the threshold level of performance conditions Malus and clawback provisions operate
Pensions			
To help recruit and retain high performing executives 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 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

Directors' remuneration report continued

PART A: directors' remuneration policy continued

Future policy table continued

Purpose/link to strategy	Operation	Opportunity	Applicable performance measure
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
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 Fees are reviewed annually Non-executive directors do not participate in any cash or share incentive arrangements 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) The Committee is guided by market rates, time commitments and responsibility levels 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 2018 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 2018 under the annual bonus and LTIP can be found on page 51. 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.

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*.

* Peter Long will receive a fee of £180,000 from 24th January 2018 in recognition of his role as executive chairman, while the chief executive officer position remains vacant. This is in addition to his existing fee of £180,000 as non-executive chairman. Should the executive chairman be in this role for a significant portion of 2018, the Committee will consider, during its usual year end processes, whether any additional remuneration is warranted.

These scenarios adopt the following assumptions:

- fixed pay consists of base salary as at 1 January 2018, benefits and pension allowances. The value of benefits and pension is as set out in the single figure table for 2017;
- 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, on an exceptional basis for 2018, an enhanced 200% 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 46 to 48. 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 ran 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.

Directors' remuneration report continued

PART A: directors' remuneration policy continued

Service agreements and letters of appointment continued

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 25 April 2018 AGM
Peter Long	11 February 2016	2 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
Natalie Ceeney	28 April 2017	12 months

All individuals (save for Richard Adam, who steps down from the Board on 25 April 2018) will be subject to re-election at the 2018 AGM. From 24 January 2018 Peter Long stepped into the role of executive chairman.

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 2017 are disclosed on page 52.

PART B: annual report on remuneration

Implementation of the remuneration policy for the year ending 31 December 2018

Details of how the Committee intends to operate the remuneration policy for directors for the year ending 31 December 2018 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, Himanshu Raja's base salary will not be increased in 2018:*

	1 January 2017 £'000	**1 January 2018 £'000**
Himanshu Raja	410	**410**

* Alison Platt stepped down from the Board with Peter Long taking up the role of executive chairman from 24 January 2018 while the chief executive officer position remains vacant. Peter Long will receive an additional £180,000 fee in recognition of his role as executive chairman.

Benefits in kind and pension

Himanshu Raja will continue to receive benefits including a company car allowance, life assurance, private medical insurance, permanent health insurance and a salary supplement in lieu of pension entitlement of up to 15% of base salary.

Annual bonus

For 2018, maximum bonus potential will continue to be 120% of salary for Himanshu Raja, with one-third of any bonus payable to be deferred into Company shares for a period of three years.

The metrics used in 2018 will be as follows:

- 70% – Financial through:
  - 25% – Group adjusted EBITDA targets
  - 25% – Group income growth
  - 20% – Group cash flow targets
- 30% – Personal/strategic metrics

In addition, bonuses will only be payable under the non-adjusted 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 performance targets in advance for 2018 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 2018 annual report on remuneration.

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

Long term incentives

The Remuneration Committee has, again working within the approved Directors' remuneration policy, made some changes to the performance measures of the long term incentive plan in respect of the 2018 LTIP awards. We have retained earnings per share (EPS) growth and relative total shareholder return (TSR) and with the same weightings of 37.5% each. We have replaced the customer and strategic measures with operating cash flow conversion which is the product of adjusted operating cashflow divided by adjusted EBITDA. Adjusted operating cash flow is defined as the summation of adjusted EBITDA, change in working capital and net capital spend.

The Committee believes these measures will focus participants on the key success factors for the Group – namely our financial performance and our ability to grow shareholder value. The targets have been set in light of the three-year plan and we are satisfied that they are demanding.

The annual award of LTIPs to be granted in 2018 will be assessed over the three-year performance period from 1 January 2018 to 31 December 2020 and will be subject to the following targets*:

- adjusted EPS (37.5% of awards) – 25% of this part of an award will vest for adjusted EPS compound growth of 5% per annum increasing pro-rata to 100% vesting for adjusted 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
- operating cash flow conversion (25% of awards) – 25% of this part of an award will vest at a conversion rate of 80% increasing pro-rata to 100% vesting at a conversion rate of 100%. 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 Remuneration Committee thought carefully about increasing the face value of Himanshu Raja's share award under the long term incentive plan in 2018 from 130% of salary to 200% of salary, particularly in light of Countrywide's share price performance over the last year. In making the decision to do so, the Committee considered that Mr Himanshu Raja has a critical role to play in the turnaround of the business both in the short-term and in the longer-term and it is in shareholders' interests for him to be highly motivated and for the Committee to reward him well for executing the new three-year business plan. An increased award also takes into account the automatic increase in responsibilities for Mr Raja as a result of the chief executive officer position being vacant. Shareholders last year approved our policy which allows us to make awards at this level and the award will be subject to demanding performance targets and, after vesting, to a two-year holding period. Mr Raja also bought shares in Countrywide and currently holds 222,841 shares. Mr Raja will only benefit from the enhanced award if he and Countrywide perform.

Our malus and clawback provisions give the Committee wide powers, should they need them, to make unvested awards forfeit and to reclaim already vested and paid amounts in exceptional circumstances including but not limited to a material misstatement of the accounts, an error in assessing performance, misconduct, reckless, negligent or wilful actions or appropriate values or behaviours.

In addition, awards made to executive directors from 2016 onwards are subject to a two-year post-vesting holding period.

Shareholding guidelines will continue to operate. 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 2018 are as follows:

Director	Committee chairman role	2018 £'000	2017 £'000
Peter Long[1]	Chairman, Nomination	360	180
David Watson	Deputy chairman and senior independent director	95	95
Cathy Turner	Remuneration	55	55
Richard Adam[2]	Audit and risk	55	55
Rupert Gavin	—	45	45
Jane Lighting	—	45	45
Caleb Kramer	—	40	40
Natalie Ceeney[3]	—	55	55

1 Peter Long will receive an increased fee of £360,000 from 24 January 2018 in recognition of his role as executive chairman of Countrywide.

2 Richard Adam steps down from the Board on 25 April 2018.

3 Natalie Ceeney receives a non-executive director fee of £45,000 and an additional £10,000 in recognition of her role on the Countrywide Principal Services Board within the Financial Services division.

Directors' remuneration report continued

PART B: annual report on remuneration continued

Directors' remuneration for the year ended 31 December 2017 (audited)

The remuneration of the directors for the years 2017 and 2016 was as follows:

	Salary and fees		Taxable benefits[5]		Annual bonuses		Long term incentives		Pension[6]		Total[7]	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Executive directors												
Alison Platt[1]	575	575	15	15	—	—	—	—	86	86	676	676
Himanshu Raja[2]	229	—	8	—	—	—	—	—	34	—	271	—
Jim Clarke[2]	198	340	9	15	—	—	—	—	30	51	237	406
Non-executive directors												
Grenville Turner[3]	—	48	—	1	—	—	—	—	—	—	—	49
Peter Long[3]	180	159	—	—	—	—	—	—	—	—	180	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
Natalie Ceeney[4]	36	—	—	—	—	—	—	—	—	—	36	—
	1,553	1,457	32	31	—	—	—	—	150	137	1,735	1,625

1 Alison Platt acted as a non-executive director for Tesco plc and retained a fee of £84,500.

2 Jim Clarke stepped down from his role as chief financial officer on 1 August 2017, leaving the Company on 31 December 2017. The table above reflects remuneration for his period as a director only. Further details of remuneration after 1 August 2017 are noted in payments to past directors. Mr Clarke was succeeded by Himanshu Raja, who joined the Board on 12 June 2017 and took up the chief financial officer post on 1 August 2017. Mr Raja joined on a package consistent with the approved remuneration policy, comprising a base salary of £410,000, a 15% salary supplement in respect of pension, annual bonus potential of up to 120% of base salary (with a third deferment into shares) and a 130% of salary LTIP award.

3 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).

4 Natalie Ceeney received pro-rata fees during 2017 reflecting her start date of 28 April 2017.

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

6 Alison Platt, Jim Clarke and Himanshu Raja received a 15% of salary supplement in lieu of pension entitlements.

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.

2017 annual bonus award (audited)

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

Group adjusted EBITDA, revenue and cost income targets (up to 70% of bonus)

The primary driver of the award was based on Group adjusted EBITDA, Group revenue and Group cost income 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, revenue and cost income targets, performance against these targets and the resultant bonus outturn:

		Performance required				
Measure	Weighting	Threshold	On-target	Maximum	Actual	Payout
Group adjusted EBITDA	40% (i.e. up to 48% of salary)	£75m	£90m	£98m	£64.7m	0% of salary
Total revenue	15% (i.e. up to 18% of salary)	£705m	£783m	£861m	£671.9m	0% of salary
Cost income ratio	15% (i.e. up to 18% of salary)	89%	87%	85%	90.4%	0% of salary

2017 annual bonus award (audited) continued

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.

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 2017.

Vesting of scheme interests in respect of the year ended 31 December 2017 (audited)

Awards granted under the LTIP to Alison Platt and Jim Clarke on 16 March 2015 are due to vest on their third anniversaries of grant in 2018 based upon adjusted EPS and relative TSR performance as follows:

	Threshold target 0% vesting at or below	Maximum target 100% vesting at or above	Actual performance	Vesting %
Adjusted EPS for the three years ended 31 December 2017	49p	72p	8p	0%
Relative TSR (vs FTSE 250 ex financial services) for the three years ended 31 December 2017	Median	Upper quartile	Below median	0%

Based on the above, none of the outstanding 2015 LTIP awards held by Alison Platt 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 2017:

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	02/05/2017	150% of salary	169	508,100	862,500	25%	Three-year period ending 31 December 2019	2 May 2020 (2 May 2027)
Himanshu Raja	14/06/2017	130% of salary	154	344,984	533,000	25%	Three-year period ending 31 December 2019	14 June 2020 (14 June 2027)
Jim Clarke	02/05/2017	130% of salary	169	260,383	442,000	25%	Three-year period ending 31 December 2019	2 May 2020 (2 May 2027)

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

Performance targets for these awards are as follows:

- Adjusted EPS growth (37.5% of award) – 25% of this part of an award will vest for achieving a minimum of 5% compound growth per annum in adjusted EPS increasing pro-rata to 100% vesting for achieving 15% compound growth per annum in adjusted EPS for the three-year period ending 31 December 2019;
- relative TSR (37.5% of award) – 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; and
- strategic objectives (25% of award) – relating to three performance measures subject to an underlying performance underpin: people engagement (10%) - 25% of this part of an award will vest for achieving a minimum of a 5% point increase in Group engagement levels increasing pro-rata to 100% vesting for achieving a 10% point increase for the three-year period ending 31 December 2019; customer experience (10%) - 25% of this part of an award will vest for achieving a minimum 10 point increase in Group NPS increasing pro-rata to 100% vesting for achieving a 20 point increase for the three-year period ending 31 December 2019; market share (5%) - 25% of this part of an award will vest for achieving a minimum of a 5% point increase in combined market share for sales and financial services increasing pro-rata to 100% vesting for achieving a 10% point increase for the three-year period ending 31 December 2019.

Directors' remuneration report continued

PART B: annual report on remuneration continued

Outstanding share awards

	Date of grant	Interest at 1 January 2017	Options/awards granted during the year	Options/awards lapsed during the year	Options/awards exercised during the year	Interest at 31 December 2017	Exercise price pence	Expected exercise/vested to expiry date (if appropriate)
Alison Platt*								
LTIP	08/09/14	246,305	—	(246,305)	—	—	—	n/a
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
LTIP	02/05/17	—	508,100	—	—	508,100	—	02/05/20 (02/05/27)
Grenville Turner								
Deferred bonus	22/05/15	14,660	—	—	—	14,660	—	22/05/18
Jim Clarke								
LTIP	21/03/14	58,735	—	(58,735)	—	—	—	n/a
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
LTIP	02/05/17	—	260,383	—	—	260,383	—	02/05/20 (02/05/27)
Himanshu Raja								
LTIP	14/06/17	—	344,984	—	—	344,984	—	14/06/20 (14/06/27)

* Following her resignation all outstanding LTIP awards for Alison Platt will lapse in line with the plan rules.

* Alison Platt's 2016 deferred bonus award will vest in full on the date of her ceasing employment.

The executive directors' interests in ordinary shares of the Company under the SIP as at 31 December 2017 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 2017	Partnership shares purchased	Matching shares awarded	Dividend shares purchased	Total SIP shares at 31 December 2017
Alison Platt*	845	1,201	800	—	2,846

* Ms Platt will be treated in line with the rules of the scheme following her resignation.

Mr Raja will become eligible to join the SIP in 2018 once he has completed twelve months' service.

Matching shares are 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 2017 have been subject to audit and are set out in the table below:

	Legally owned		LTIP awards					
	31 December 2017	31 December 2016	Unvested	Vested	SIP matching share awards (unvested)	DSBP options (unvested)	Total 31 December 2017	Shareholding guideline (200% of salary)[2]
Alison Platt	43,412	42,211	951,567	—	1,134	27,010	1,023,123	9%
Himanshu Raja	222,841[1]	—	344,984	—	—	—	567,825	65%
Jim Clarke	1,545,996[1]	1,545,285[1]	477,786	—	887	29,078	2,053,747	n/a
Peter Long	371,429	200,000	—	—	—	—	371,429	n/a
David Watson	22,070[1]	16,370[1]	—	—	—	—	22,070	n/a
Cathy Turner	10,722	9,747	—	—	—	—	10,722	n/a
Richard Adam	12,843	10,000	—	—	—	—	12,843	n/a
Rupert Gavin	9,500	9,500	—	—	—	—	9,500	n/a
Jane Lighting	10,629	9,500	—	—	—	—	10,629	n/a
Caleb Kramer	—	—	—	—	—	—	—	n/a
Natalie Ceeney	23,067	—	—	—	—	—	23,067	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 120 pence on 31 December 2017. 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.

There have been the following changes in the interests of any director between 1 January 2018 and the date of this report:

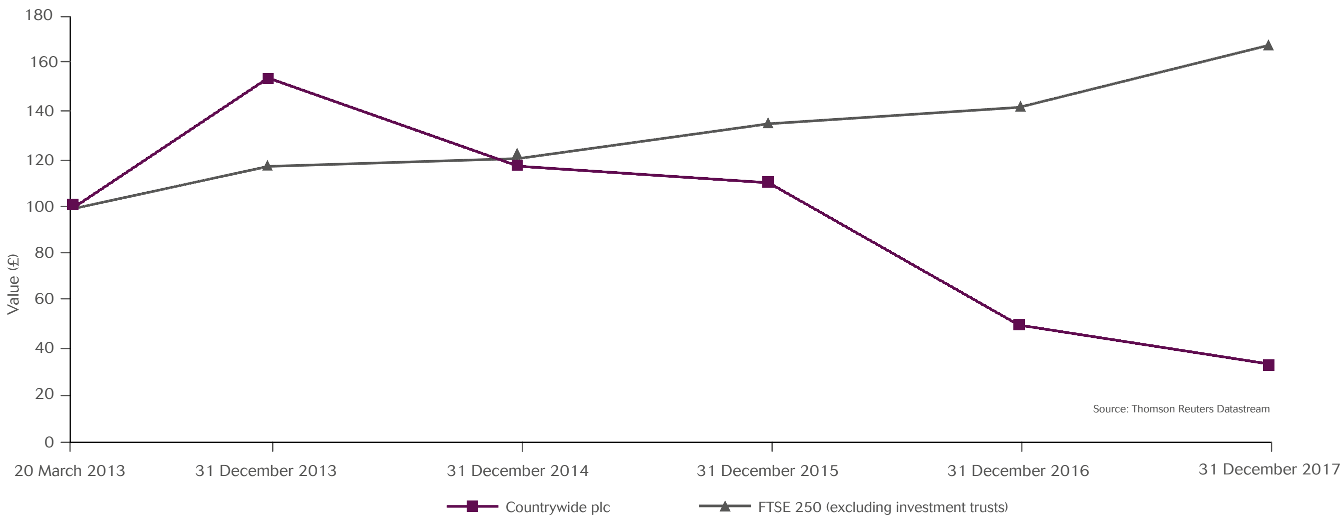
- purchase of SIP partnership shares by Alison Platt (112 shares);
- issue of SIP matching share awards to Alison Platt (74 shares); and
- purchase of ordinary shares by Peter Long (200,000 shares).

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

Jim Clarke announced on 6 June 2017 that he was retiring and would leave the Company on 31 December 2017. The main provisions relating to his departure (which comply with the Company's remuneration policy) are as follows:

- Base salary, benefits and pension will be paid up to the date of his departure on 31 December 2017.
- No bonus payment will be received for 2017 (for the reasons given on pages 52 to 53).
- SIP awards will be treated in accordance with the plan rules.
- Outstanding 2015 and 2016 DSBP awards vested in full on cessation of employment and will remain exercisable until 31 December 2018.
- Outstanding LTIP awards will be retained which will vest in accordance on the normal vesting date (subject to application of performance conditions and pro-rating). Any shares acquired on exercise of Mr Clarke's LTIP awards will be subject to a two-year holding period.

Performance graph and table



Total shareholder return

The graph shows the value, by 31 December 2017, 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 %
2017	Alison Platt	676	0	0
2016	Alison Platt	676	0	0
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.

Directors' remuneration report continued

PART B: annual report on remuneration continued

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 2016 and 2017:

	Percentage increase in remuneration in 2017 compared with remuneration in 2016	
	Chief executive officer	Average pay based on all Countrywide employees
Salary and fees	0	6
All taxable benefits	0	20
Annual bonuses/variable pay	0	5

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:

	2017 £'000	2016 £'000	Change %
Employee costs	**389,694**	425,156	(8)
Dividends	**0**	32,780	n/a
Tax (credit)/charge	**(3,987)**	1,955	(304)
Retained losses	**208,072**	15,376	(1,253)

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
Natalie Ceeney	28 April 2017

The composition of the Committee changed during the period with the appointment of Natalie Ceeney in April 2017. Attendance by members at the meetings is shown on page 34. 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.

During the year the Committee received advice on remuneration from FIT Remuneration Consultants LLP (FIT). 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 is therefore considered to be objective and independent. In 2017 FIT received fees of £50,672 (2016: £50,136) in connection with its work for the Committee, which it provided pursuant to its standard terms of business.

Shareholder voting and engagement

At the Company's Annual General Meeting held on 27 April 2017, voting in respect of the resolution relating to the remuneration report was as follows:

	Votes					
Resolution	For		Against		Withheld	Total
2 Directors' remuneration report	202,605,393	99.71%	580,400	0.29%	0	203,185,793
3 Directors' remuneration policy	202,605,093	99.71%	580,400	0.29%	300	203,185,793

The Committee was pleased with the level of support at the 2017 AGM which followed extensive consultation with our largest shareholders and voting guidance services. The Committee will continue to listen to and engage with shareholders with regards to all aspects of the Company's remuneration report and related policy.

Approval

This report was approved by the Board of directors on 8 March 2018 and signed on its behalf by:

Cathy Turner
Chair of the Remuneration Committee

Directors' report

Group directors' report for the year ended 31 December 2017

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2017. 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 32 and 33 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 53 to 54 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 49 of the directors' remuneration report
LR 9.8.4(14)	Details of transactions with controlling shareholders	Page 117 (note 34 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.

Directors

The names of the directors who held office during the year are set out on pages 30 and 31, with the exception of Jim Clarke and Alison Platt, who retired from the Board on 31 July 2017 and 24 January 2018 respectively.

Dividends

The directors do not recommend the payment of a final dividend and no interim dividend was paid (2016: 5.0 pence (net) per share).

Capital structure

Details of the issued share capital are shown in note 26 to the Group financial statements on page 108 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.

Placing of share capital

On 9 March 2017 the Company announced a non-pre-emptive placing of 21,610,467 new ordinary shares of 1 pence each in the Company (the 'Placing Shares') representing approximately 9.99% of the Company's existing issued ordinary share capital (excluding treasury shares) were placed at a price of 175 pence per Placing Share raising net proceeds of £36.85 million. The proceeds were used to unlock the Group's further cost savings initiatives and to strengthen the Company's balance sheet.

Authority for the Company to purchase its own shares

At the end of the year, the directors had authority, under a shareholder resolution approved at the AGM on 27 April 2017, to make one or more market purchases of its ordinary shares, limited to: a maximum number of 23,793,146 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 forthcoming AGM.

As a routine matter, the Company will be seeking to have this authority renewed at the 2018 AGM.

Substantial shareholdings

At 7 March 2018, 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	71,696,855	30.13
Brandes Investment Partners, LP	46,498,442	19.54
Harris Associates LP	18,207,800	7.65
Jupiter Asset Management	15,923,401	6.69
Investec Asset Management	14,289,825	6.01
Fidelity Management & Research Company	9,301,454	3.91
J O Hambro Capital Management	7,284,681	3.06

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.

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 30.13% 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 7 March 2018, 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 30 to 31 and their interests in the shares of the Company are disclosed on page 54.

Directors' conflicts of interest

All directors have a duty under the Companies Act 2006 to avoid a situation in which they have, or could have, a direct or indirect conflict of interest or possible conflict with the Company. The Articles provide a general power for the Board to authorise such conflicts. Directors are not counted in the quorum for the authorisation of their own actual or potential conflicts.

On an ongoing basis, the directors are responsible for informing the company secretary of any new, actual or potential conflicts that may arise or if there are any changes in circumstances that may affect an authorisation previously given. Even when provided with authorisation, a director is not absolved from his or her statutory duty to promote the success of the Company. If an actual conflict arises post-authorisation, the Board may choose to exclude the director from receipt of the relevant information and participation in the debate, or suspend the director.

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.

Directors' report continued

Change of control

We do not have contracts or other arrangements which individually are fundamental to the ability of the business to operate effectively, nor is the Company party to any material agreements that would take effect, be altered, or terminate upon a change of control following a takeover bid. We do not have agreements with any director that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover.

Auditors 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 all reasonable 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 are aware of any such information.

The auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office as auditors 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 33 to 34 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 2017

	Tonnes of CO_2e*	
	2017	2016
Scope 1		
Controlled vehicle fleet	**3,767**	5,194
Scope 2		
Electricity and heat purchased for own use	**10,427**	11,541
Tonnes of CO_2e*/£m revenue	**21.1**	22.7

* 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

On 2 February 2018 the Company agreed an amendment letter relating to its terms and revolving credit facility with its lender partners.

Particulars of important post-balance sheet events of the Company are set out in note 35 to the Group financial statements on page 117 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 69 to 130 were approved by the Board of directors on 8 March 2018 and signed on its behalf.

By order of the Board

Gareth Williams
Company secretary
8 March 2018

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

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 Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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 Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company 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.

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the corporate governance statement confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors' report is approved:

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

Independent auditors' report

To the members of Countrywide plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Countrywide plc's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's loss and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Company balance sheets as at 31 December 2017; the Consolidated income statement and Consolidated statement of comprehensive income, the Consolidated cash flow statement, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Group or the Parent Company in the period from 1 January 2017 to 31 December 2017.

Material uncertainty relating to going concern – Group and Parent Company

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the Group financial statements concerning the Group's and Parent Company's ability to continue as a going concern. The Group's forecast for the 12 months from approval of these financial statements contains assumptions over the productivity and growth of existing businesses, and the achievement of cost saving measures. Each of these items is subject to a level of uncertainty. As noted on page 74, management maintain that the Group benefits from a supportive lender group of six banks who have provided borrowing facilities since March 2013. These facilities, which are held by the Parent Company, are subject to covenants in respect of interest cover and net debt to EBITDA leverage. These covenants are subject to testing at 30 June 2018, 30 September 2018 and 31 December 2018 within the 12 months from the approval of these financial statements. If the Group's forecast is not achieved, there is a risk that the Group will not meet the net debt to EBITDA leverage covenant and should such a situation materialise, the banks reserve the right to withdraw the existing facilities. Without these facilities, and without alternative finance being obtained, the Group and Parent Company will be unable to meet their liabilities as they fall due. These conditions, along with the other matters explained in note 2 to the Group financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Parent Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Parent Company were unable to continue as a going concern.

Explanation of material uncertainty

Note 2 to the Group financial statements details the Directors' disclosures of the material uncertainties relating to going concern in respect of compliance with the covenant of net debt to EBITDA leverage attached to bank borrowings. In forming their conclusions regarding going concern of the Group and Parent Company, and as described in Note 2, the Directors have considered various matters including, but not limited to, a range of scenarios modelling the key assumptions within the forecast including:

- recovery of the sales pipeline to 2017 levels;
- volume of exchanges per branch and associated productivity measures in other areas of the Group;
- corporate cost saving initiatives; and
- mitigation of the potential impact of the tenancy fee ban.

Given the timing and execution risks associated with achieving the forecast and therefore remaining within the leverage ratio as stipulated by the banking covenants, the Directors have drawn attention to this as a material uncertainty relating to going concern in the basis of preparation to the Annual Report.

Report on the audit of the financial statements continued

Material uncertainty relating to going concern – Group and Parent Company continued

What audit procedures we performed

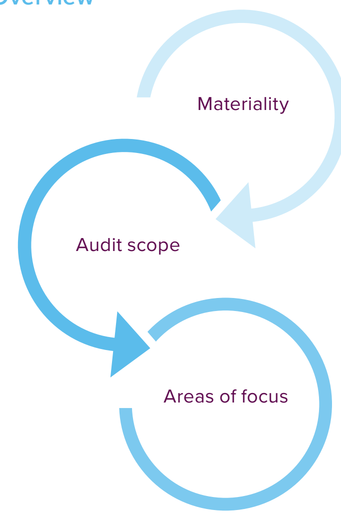
In concluding there is a material uncertainty, our audit procedures included:

- obtaining the Directors' financial forecast for the next 12 months and future periods, challenging the assumptions used in building the forecasts by considering the latest information available and latest market trends;
- verifying the relationship between management's cash flow model and the financial forecasts through analytical procedures and agreeing forecast cash flows back to supporting information, where possible;
- re-calculating the Directors' calculations of forecast compliance with banking covenants; and
- in the event of under-performance against the forecast, considering the potential mitigating actions available to manage covenant compliance.

Having performed the above procedures, we concluded there is a reasonably possible scenario where the leverage covenant may be breached within 12 months of this report. On this basis we agree with management's assessment that a material uncertainty exists on the Group's and Parent Company's ability to continue as a going concern.

Our audit approach

Overview



- Overall Group materiality: £1.8 million (2016: £2.7 million), based on 5% of three year average of the Group's profit before tax adjusted for exceptional items ("Adjusted PBT").
- Overall Parent Company materiality: £1.6 million (2016: £869,000), based on 1% of total assets, restricted to a threshold lower than Group materiality.

- The Group has four operating segments alongside a head office function. 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.
- In some of the operating segments we audited complete financial information and in others we focused on the larger legal entities to obtain appropriate audit coverage.

- Impairment of indefinite life intangible assets (Group).
- Presentation and disclosure of exceptional items (Group).
- Accounting estimates and judgements in relation to professional indemnity and related litigation costs (Group).
- Impairment risk of investment in subsidiaries and intercompany receivables (Parent).

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industries in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Parent Company financial statements, including, but not limited to, Companies Act 2006, the Listing Rules, Pensions legislation, UK tax legislation, relevant aspects of the Financial Conduct Authority's Handbook, Royal Institute of Chartered Surveyors and the Association of Residential Lettings Agents. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, review of correspondence with legal advisors, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Independent auditors' report continued

To the members of Countrywide plc

Report on the audit of the financial statements continued

Our audit approach continued

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Impairment of indefinite life intangible assets	
Group	
We focused on this area due to the size of the goodwill balance (£279.5 million) across the Group and the value of the other intangible assets, principally brand names (£177.8 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. Management's annual impairment testing concluded that the adverse trading conditions have triggered an impairment in the UK and London Cash Generating Units (CGUs), where an aggregate impairment charge of £192.3 million against goodwill has been recorded. This impairment was recorded after impairment charges of £12.9 million in respect of brands within the UK and London business units. For the remaining CGU's, management concluded that sufficient headroom between the recoverable value of the Group's CGU's and their carrying value existed and no impairment charge was recognised. The key judgements involved in assessing impairment were forecast volumes, cost reduction arising from cost saving initiatives and the weighted average pre-tax cost of capital (WACC) calculation. 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.	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. 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. We performed sensitivity analysis around the key drivers of the cash flow forecasts. Our tests included applying: • probability based reductions on EBITDA growth forecasts; • sensitivities to forecast cost reductions; and • an increase in the WACC rate. 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 the impairment charge booked against goodwill associated with the UK and London CGUs was reasonable and supported by the available evidence. We concluded that no impairment was required in the other CGUs. We considered the related disclosures in note 14 to the financial statements by checking they were compliant with IFRS. The disclosure appropriately describes the inherent degree of subjectivity in the estimates, including specific disclosures on the key assumptions most sensitive to change. In addition, with respect to brand names, having reviewed the discounted cash flows prepared, we agree with the impairment charge recognised of £12.9 million. On an overall basis, we agree with management's view of the impairment charges arising and that no further impairment is required.
Presentation and disclosure of exceptional items	
Group	
The Group recognised net exceptional expenses of £225.9 million comprising the following: • People-related restructuring costs (£4.4 million); • Property closure costs (£1.9 million); • Transformation project and consultancy costs (£1.7 million); • Professional indemnity provisions (£1.8 million); • Impairment of goodwill and other intangible assets (£210.4 million); • Impairment of software and tangible assets (£4.1 million); and • Impairment of trade receivables (£1.6 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. Through our review we identified some items, which were judgemental as to whether they were exceptional to the underlying trading of the Group. Management have prepared enhanced disclosures to explain the nature of such expenses. We are therefore 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 audit of the financial statements continued

Our audit approach continued

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter

Accounting estimates and judgements in relation to professional indemnity and related litigation costs

Group

Professional indemnity (PI) provisions principally relate to the Surveyors and Lambert Smith Hampton businesses within the Business to Business operating segment.

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.

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.

We focused on this area because the determination of the size of the provisions held and the likely settlements arising are inherently judgemental.

Claims already received

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.

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.

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.

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.

Claims yet to be received

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.

From the evidence obtained, we consider the level of provisioning at the balance sheet date is reasonable.

Impairment risk of investment in subsidiaries and intercompany receivables

Parent Company

The Parent Company holds investments in its subsidiaries of £386 million and intercompany receivables of £239 million.

Following the impairment charges recorded in the UK and London CGUs noted above, we have focused on this area due to the size of the investment and intercompany receivable balances and the risk of impairment arising due to the deterioration of business performance.

Management have performed an assessment of the carrying value of the investments and intercompany receivables and compared this to the recoverable value, using the same cash flow forecast used in the impairment test of indefinite life intangible assets described above. The results showed there was sufficient headroom between the carrying value and the recoverable value, and therefore no impairment has been recognised in the Parent Company.

We obtained management's assessment of the carrying value of the investments and intercompany receivables and agreed the cash flow forecast used in the assessment to the forecast used in the assessment of impairment of indefinite lived intangible assets.

We considered the impact of the impairment of indefinite lived intangible assets on the value in use of subsidiaries and the ability of the subsidiaries to repay intercompany receivables and deliver value in excess of the investment carrying value held on the Parent Company balance sheet.

Following the conclusion of our procedures above, we did not identify any impairment in the carrying value of the investments in subsidiaries or intercompany receivables held by the Parent Company.

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 structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which they operate.

The Group has four operating segments, as set out in the Annual Report (refer to pages 18 to 23). 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.

In some of the operating segments we audited complete financial information and in others we focused on the larger legal entities to obtain appropriate audit coverage.

We performed audit work over the complete financial information of legal entities which accounted for approximately 92% (2016: 88%) of the Group's revenues and 89% (2016: 88%) 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 each of the legal entities within the Group).

Included in the coverage above are central reporting entities and Group functions together with the Parent Company, which were subject to a full scope audit.

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 in aggregate on the financial statements as a whole.

Independent auditors' report continued

To the members of Countrywide plc

Report on the audit of the financial statements continued

Our audit approach continued

Materiality continued

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

	Group financial statements	Parent Company financial statements
Overall materiality	£1.8 million (2016: £2.7 million).	£1.6 million (2016: £869,000).
How we determined it	5% of 3 year average of the Group's profit before tax adjusted for exceptional items ("Adjusted PBT").	1% of total assets, restricted to a threshold lower than Group materiality.
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 consideration expenses on the basis that these items recur annually. Further, a 3-year average adjusted PBT was used in calculating the overall materiality to eliminate the volatility in trading profitability.	We believe total assets to be the key performance benchmark of the Parent Company as it is a holding company for the Group and does not trade.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £30,000 and £1.6 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 £150,000 (Group audit) (2016: £150,000) and £150,000 (Parent Company audit) (2016: £150,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Parent Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to other than the material uncertainty we have described in the 'Material uncertainty relating to going concern' section above. Because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Parent Company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Report on the audit of the financial statements continued

Our audit approach continued

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

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

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 14 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 17 of the Annual Report 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.

Other than the material uncertainty we have described in the going concern section above, we have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and 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 UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit. (Listing Rules).

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 61, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Parent Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 40 to 41 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.
- The Directors' statement relating to the Parent Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

- In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Report set out on page 61, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report continued

To the members of Countrywide plc

Report on the audit of the financial statements continued

Responsibilities for the financial statements and the audit continued

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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 Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the Directors on 25 March 2013 to audit the financial statements for the year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2013 to 31 December 2017.

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

Chartered Accountants and Statutory Auditors
London

8 March 2018

Consolidated income statement

For the year ended 31 December 2017

	Note	2017			2016		
		Pre-exceptional items, amortisation, contingent consideration and share-based payments £'000	Exceptional items, amortisation, contingent consideration and share-based payments £'000	Total £'000	Pre-exceptional items, amortisation, contingent consideration and share-based payments £'000	Exceptional items, amortisation, contingent consideration and share-based payments £'000	Total £'000
Revenue		661,049	—	661,049	723,970	—	723,970
Other income	5	10,829	—	10,829	12,985	—	12,985
	4	671,878	—	671,878	736,955	—	736,955
Employee benefit costs	6	(384,142)	(5,552)	(389,694)	(415,845)	(9,311)	(425,156)
Other operating costs	7	(223,049)	—	(223,049)	(237,562)	—	(237,562)
Adjusted EBITDA[1]	4	64,687			83,548		
Depreciation and amortisation	14, 15	(27,683)	(5,807)	(33,490)	(21,445)	(11,427)	(32,872)
Share of profit/(loss) from joint venture	16(b)	690	—	690	(13)	—	(13)
Group operating profit/(loss) before exceptional items		37,694	(11,359)	26,335	62,090	(20,738)	41,352
Profit on disposal of available for sale assets		—	—	—	—	32,804	32,804
Employee benefit costs		—	(4,405)	(4,405)	—	(8,109)	(8,109)
Other operating costs		—	(6,978)	(6,978)	—	(16,262)	(16,262)
Impairment of non-current assets		—	(214,486)	(214,486)	—	(20,922)	(20,922)
Exceptional Items (net):	10	—	(225,869)	(225,869)	—	(12,489)	(12,489)
Operating profit/(loss)	4	37,694	(237,228)	(199,534)	62,090	(33,227)	28,863
Finance costs	8	(12,607)	—	(12,607)	(9,672)	—	(9,672)
Finance income	9	82	—	82	304	—	304
Net finance costs		(12,525)	—	(12,525)	(9,368)	—	(9,368)
Profit/(loss) before taxation		25,169	(237,228)	(212,059)	52,722	(33,227)	19,495
Taxation (charge)/credit	11	(5,692)	9,679	3,987	(10,686)	8,731	(1,955)
Profit/(loss) for the year		19,477	(227,549)	(208,072)	42,036	(24,496)	17,540
Attributable to:							
Owners of the parent		19,477	(227,549)	(208,072)	41,900	(24,496)	17,404
Non-controlling interests		—	—	—	136	—	136
Profit/(loss) attributable for the year		19,477	(227,549)	(208,072)	42,036	(24,496)	17,540
(Loss)/earnings per share attributable to owners of the parent							
Basic (loss)/earnings per share	13			(89.56)p			8.03p

The notes on pages 74 to 117 form an integral part of these consolidated financial statements.

1 Adjusted EBITDA is a non-GAAP measure of earnings before interest, tax, depreciation, amortisation, exceptional items, contingent consideration, share-based payments and share of profits/(losses) from joint venture.

2 As there is a loss in 2017, the diluted EPS is not presented on the basis that this is equal to the bsasic loss per share. The comparative diluted EPS is presented.

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
(Loss)/profit for the year		(208,072)	17,540
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss			
Actuarial loss arising in the pension scheme	25	(3,633)	(4,783)
Deferred tax arising on the pension scheme	25	690	909
		(2,943)	(3,874)
Items that may be subsequently reclassified to profit or loss			
Foreign exchange rate (loss)/gain		(30)	136
Cash flow hedge gain/(loss)	21	2,030	(2,367)
Deferred tax arising on cash flow hedge		(410)	473
Available-for-sale financial assets:			
– Gains arising during the year	16(c)	1,627	2,132
– Less reclassification adjustments for gains included in the profit and loss		—	(29,943)
		3,217	(29,569)
Other comprehensive income/(expense) for the year		274	(33,443)
Total comprehensive expense for the year		(207,798)	(15,903)
Attributable to:			
Owners of the parent		(207,798)	(16,039)
Non-controlling interests		—	136
Total comprehensive expense for the year		(207,798)	(15,903)

The notes on pages 74 to 117 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2017

	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 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		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 1 January 2017		2,197	211,838	(17,941)	283,454	479,548	—	479,548
Loss for the year		—	—	—	(208,072)	(208,072)	—	(208,072)
Other comprehensive income/(expense)								
Currency translation differences		—	—	(30)	—	(30)	—	(30)
Movement in fair value of available-for-sale financial assets	16(c)	—	—	1,627	—	1,627	—	1,627
Cash flow hedge: fair value gain	21	—	—	2,030	—	2,030	—	2,030
Cash flow hedge: deferred tax on gain		—	—	(410)	—	(410)	—	(410)
Actuarial loss on the pension fund	25	—	—	—	(3,633)	(3,633)	—	(3,633)
Deferred tax movement relating to pension	25	—	—	—	690	690	—	690
Total other comprehensive income/(expense)		—	—	3,217	(2,943)	274	—	274
Total comprehensive income/(expense)		—	—	3,217	(211,015)	(207,798)	—	(207,798)
Transactions with owners								
Issue of share capital	26	216	—	36,634	—	36,850	—	36,850
Transfer of reserves	28	—	—	(36,634)	36,634	—	—	—
Share-based payment transactions	27	—	—	—	1,944	1,944	—	1,944
Deferred tax on share-based payments		—	—	—	(10)	(10)	—	(10)
Purchase of treasury shares	28	—	—	(1,397)	—	(1,397)	—	(1,397)
Transactions with owners		216	—	(1,397)	38,568	37,387	—	37,387
Balance at 31 December 2017		**2,413**	**211,838**	**(16,121)**	**111,007**	**309,137**	**—**	**309,137**

The notes on pages 74 to 117 form an integral part of these consolidated financial statements.

Consolidated balance sheet

As at 31 December 2017

	Note	2017 £'000	2016 £'000
Assets			
Non-current assets			
Goodwill	14(a)	279,496	471,749
Other intangible assets	14(b)	220,658	250,310
Property, plant and equipment	15	41,798	49,445
Investments accounted for using the equity method:			
Investments in joint venture	16(b)	2,982	2,292
Available-for-sale financial assets	16(c)	17,085	16,058
Deferred tax assets	24	9,676	9,250
Total non-current assets		571,695	799,104
Current assets			
Trade and other receivables	17	103,111	120,355
Cash and cash equivalents	18	22,533	45,326
Total current assets		125,644	165,681
Total assets		697,339	964,785
Equity and liabilities			
Equity attributable to the owners of the parent			
Share capital	26	2,413	2,197
Share premium		211,838	211,838
Other reserves	28	(16,121)	(17,941)
Retained earnings		111,007	283,454
Total equity		309,137	479,548
Liabilities			
Non-current liabilities			
Borrowings	20	213,489	292,505
Derivative financial instruments	21	337	2,367
Net defined benefit scheme liabilities	25	5,626	3,663
Provisions	23	11,985	12,503
Deferred income	22	663	2,563
Trade and other payables	19	8,295	13,659
Deferred tax liability	24	33,522	38,694
Total non-current liabilities		273,917	365,954
Current liabilities			
Borrowings	20	1,011	721
Trade and other payables	19	94,779	95,072
Deferred income	22	1,379	3,890
Provisions	23	17,116	19,600
Total current liabilities		114,285	119,283
Total liabilities		388,202	485,237
Total equity and liabilities		697,339	964,785

The notes on pages 74 to 117 form an integral part of these consolidated financial statements.

The financial statements on pages 69 to 117 were approved by the Board of directors and signed on its behalf by:

Himanshu Raja
Chief financial officer
8 March 2018

Consolidated cash flow statement

For the year ended 31 December 2017

	Note	2017 £'000	2016[1] £'000
Cash flows from operating activities			
(Loss)/profit before taxation		(212,059)	19,495
Adjustments for:			
Depreciation	15	17,180	13,893
Amortisation of intangible assets	14	16,310	18,979
Share-based payments	27	1,944	2,261
Impairment of intangible assets	14(a), 14(b)	213,071	20,928
Impairment of tangible assets	15	850	120
Impairment of available-for-sale financial asset	16(c)	565	—
Profit on disposal of available-for-sale financial assets	10	—	(32,804)
(Profit)/loss on disposal of fixed assets		(22)	2,750
(Profit)/loss from joint venture	16(b)	(690)	13
Finance costs	8	12,607	9,672
Finance income	9	(82)	(304)
		49,674	55,003
Changes in working capital (excluding effects of acquisitions and disposals of Group undertakings):			
Decrease in trade and other receivables		19,500	7,595
Decrease in trade and other payables		(8,050)	(27,300)
Decrease in provisions		(3,002)	(7,406)
Net cash generated from operating activities[2]		58,122	27,892
Pension paid		(2,000)	(1,900)
Interest paid		(9,834)	(8,475)
Income tax paid		(2,980)	(8,737)
Net cash inflow from operating activities		43,308	8,780
Cash flows from investing activities			
Acquisitions net of cash acquired		—	(29,402)
Deferred consideration paid in relation to current and prior year acquisitions		(3,354)	(4,212)
Purchase of property, plant and equipment	15	(6,940)	(17,939)
Purchase of intangible assets	14(b)	(7,577)	(11,071)
Proceeds from sale of property, plant and equipment		657	171
Proceeds from disposal of available-for-sale financial assets		—	48,165
Purchase of available-for-sale financial assets	16(c)	—	(1,504)
Interest received		82	304
Net cash outflow from investing activities		(17,132)	(15,488)
Cash flows from financing activities			
Term and revolving facility loan (repaid)/drawn	20	(80,000)	90,000
Financing fees paid	20	(724)	(2,587)
Capital repayment of finance lease liabilities	20	(3,698)	(5,925)
Purchase of non-controlling interest		—	(2,700)
Purchase of own shares	28	(1,397)	(18,100)
Share placing	26	36,850	—
Dividends paid to owners of the parent	12	—	(32,780)
Dividends paid to non-controlling interests		—	(210)
Net cash (outflow)/inflow from financing activities		(48,969)	27,698
Net (decrease)/increase in cash and cash equivalents		(22,793)	20,990
Cash and cash equivalents at 1 January		45,326	24,336
Cash and cash equivalents at 31 December	18	22,533	45,326

1 2016 restated for the reclassification of: purchase of non-controlling interest from investing to financing activities; and contingent consideration paid from investing to operating activities as this relates to contingent consideration arrangements that are deemed remuneration.

2 Included within net cash generated from operating activities is £6,060,000 of cash expended on exceptional strategic and restructuring costs (excluding property closure costs which have been provided but not yet incurred) as discussed in note 10 in relation to 2017 (2016: £12.6 million).

The notes on pages 74 to 117 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 2017. 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.

As at 31 December 2017, a total of £210 million was drawn down from the £340 million RCF (amended to £275 million in February 2018). During the year, the Group has complied with the financial covenant requirements, being the leverage ratio (the ratio of net debt to adjusted EBITDA) and interest cover (the ratio of adjusted EBITDA to net interest payable), which are subject to testing dates at 30 June 2018, 30 September 2018 and 31 December 2018. However, 2017 has seen a deterioration in business performance and consequently a worsening of the headroom on covenants, in particular the leverage ratio. The Group benefits from a supportive lender group of six banks who have provided borrowing facilities since March 2013. The lender group agreed an amendment to its leverage covenant thresholds in February 2018.

In assessing the Group's ability to continue as a going concern, the Board has reviewed the Group's cash flow and profit forecasts against these covenants. The impact of potential risks and related sensitivities to the forecasts were considered in assessing the likelihood of a breach of the covenants, whilst identifying what mitigating actions are available to the Group to avoid a potential breach.

The Group's performance is dependent on a number of market and macroeconomic factors including the impact on customer confidence and transactional volumes in the UK housing market from interest rate changes and government policies which are inherently difficult to predict. Specifically, a range of assumptions underpin the profit and cash flow forecasts for the period to 31 December 2019, including:

- Recovery of the pipeline to 2017 levels;
- Achieving the volume of forecast exchanges per branch and associated productivity measures in other areas of the Group;
- Mitigation of the potential impact of new government legislation banning lettings tenancy fees; and
- Successful realisation of internal Corporate cost saving initiatives currently underway.

Failure to achieve one or more of the above would result in lower adjusted EBITDA with a consequent negative impact on headroom of the leverage and interest cover covenant ratios and higher projected net debt. If the Group's forecast is not achieved, there is a risk that the Group will not meet the net debt to EBITDA leverage covenant and should such a situation materialise, the banks reserve the right to withdraw the existing facilities. Without the support of the lender group, the Group and Parent Company would be unable to meet their liabilities as they fall due. Given the timing and execution risks associated with achieving the forecast and therefore remaining within the leverage ratio as stipulated by the banking covenants, the directors have concluded that it is necessary to draw attention to this as a material uncertainty which may cast significant doubt about the Group's and the Parent Company's ability to continue as a going concern in the basis of preparation to the financial statements.

The directors have confirmed that, after due consideration, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

(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 2017 have had a material impact on the Group.

2. Accounting policies continued

(c) New standards, amendments and interpretations continued

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 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

IFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. The Group will apply IFRS 9 from 1 January 2018. The Group has elected not to restate comparatives on initial application of IFRS 9. The full impact of adopting IFRS 9 on the Group's consolidated financial statements will depend on the financial instruments that the Group has during 2018 as well as on economic conditions and judgements made at the year end. The Group has performed a preliminary assessment of the potential impact of adopting IFRS 9 based on the financial instruments and hedging relationships as at the date of initial application of IFRS 9 (1 January 2018).

Classification and measurement

As at the date of initial application of IFRS 9, the Group has elected to apply the fair value through other comprehensive income option for all of its non-controlling equity interests that were classified as available-for-sale under IAS 39. There will be no impact on the classification and measurement of the other financial assets, and no change in the accounting for financial liabilities, held by the Group.

Impairment

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IFRS 9. Under the impairment approach under IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses, which will be updated at each reporting date.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables as permitted by IFRS 9. The Group's preliminary calculation of the loss allowance for these assets as at 1 January 2018 is ongoing as we conclude analysis of the most appropriate grouping of accounts receivable to take into account drivers of credit risk. The Group has concluded that the most appropriate approach would be a to adopt a partially decentralised approach to impairment provisioning of accounts receivable. Business units will calculate an impairment charge using a provision matrix approach, and then apply judgemental overlays to take into account their future expectations of credit risk. These will then be aggregated and reviewed at a Group level and presented in the half year results.

Hedge accounting

As detailed in note 21, the interest rate swap held by the Group became ineffective at the end of 2017, as forecast drawdowns will no longer be met as we seek to deleverage the business.

IFRS 15

IFRS 15 'Revenue from contracts with customers' establishes principles for determining when and how revenue arising from contracts with customers should be recognised. An entity should recognise revenue when it transfers goods or services to a customer based on the amount of consideration to which the entity expects to be entitled from a customer in exchange for fulfilling its performance obligations.

Management has undertaken a detailed assessment of all contracts and revenue streams across all business units using the five-step approach specified by IFRS 15:

- identify the contract(s) with the customer
- identify the performance obligations in the contract
- determine the transaction price
- allocate the transaction price to the performance obligations in the contract
- recognise revenue when (or as) a performance obligation is satisfied

A high level impact assessment was undertaken during the first half of the 2017 followed by a detailed assessment and documentation exercise of all separate contracts and performance obligations with each of the business units during the latter half of the year. The transition project was steered by the Group Finance function, using the expertise of the business unit operational and finance teams, to ensure consistency with both judgements and approach.

The Group generates revenue and other income from external customers mainly in the UK from four main types of business: UK Sales and Lettings, London Sales and Lettings, Financial Services and Business to Business (B2B). Management is required to take all relevant factors and circumstances into account when determining the revenue recognition methods that appropriately depict the transfer of control of goods or services to the customer for each performance obligation. This requires Management to make certain judgements, including: the determination of the performance obligations in the contract; whether the Group is acting as principal or agent; the estimation of any variable consideration in determining the contract price; the allocation of the price to the performance obligations inherent in the contract; and an appropriate method of recognising revenue. Other key considerations comprise the appropriate accounting treatment of any costs incurred to obtain the contract and the treatment of any costs incurred to fulfil a contract.

In determining the appropriate method of recognising revenue, Management is required to make judgements as to whether performance obligations are satisfied over a period of time or at a point in time. For performance obligations that are satisfied over a period of time, judgements are made as to whether the output method or the input method is more appropriate to measure progress towards complete satisfaction of the performance obligation. If performance obligations are not satisfied over time, the Group recognises revenue at a point in time.

Notes to the financial statements continued

2. Accounting policies continued

(c) New standards, amendments and interpretations continued

IFRS 15 continued

Management has identified that the adoption of IFRS 15 will impact the financial statements as follows:

- B2B: Within the B2B business unit, Lambert Smith Hampton generates revenue from commercial property consultancy and advisory services, property management and valuation services. Work-in-progress (WIP) is currently recognised on specific types of contracts. Under IFRS 15, the performance obligations of certain contracts are deemed to be satisfied at a point in time. As a result, the Group will no longer recognise WIP against these contracts. We will continue to recognise WIP against other contracts where the performance obligations are satisfied over a period of time. Under IFRS 15 we estimate that, based on 2017 revenue, revenue and receivables of approximately £1 million would have been recognised in the following year. This amount will be confirmed in the interim results for the six months ended 30 June 2018. There is no impact on cash flow.
- London: A small proportion of revenue from lettings rent collection is currently recognised at the outset of the rent collection agreement, together with an appropriate clawback provision, based on historical experience. Under IFRS 15, revenue will be recognised over the life of the rent collection agreement in accordance with the satisfaction of the performance obligations. Based on 2017 revenue, we estimate that approximately £0.8 million of revenue would have been recognised in the following year. Operating costs would have conversely been approximately £0.7 million lower. There is no impact on cash flow.

The detailed assessment of all other contracts with customers has not identified any other material change in the timing or quantum of revenue recognition, but management will continue to evaluate judgements to ensure that they remain appropriate.

The initial date of application for the Group is 1 January 2018. The Group will adopt the standard as a change in accounting policy in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' in accordance with the transition requirements set out in IFRS 15. The Group will apply the full retrospective method with expedients.

The adoption of IFRS 15 requires increased disclosures in the financial statements, including details of: disaggregated revenue by category; opening and closing contract balances and their relationship to revenue reported during the period; performance obligations with customers; transaction prices allocated to remaining performance obligations; significant judgements used for determining the timing of satisfaction of performance obligations and the transaction price; and any assets recognised from the costs to obtain or fulfil a contract. These disclosures will be adopted within the financial statements for the year ended 31 December 2018.

IFRS 16

IFRS 16 'Leases' deals with the definition of a lease and recognition and measurement of leases and establishes principles for disclosures. The standard is effective for accounting periods beginning on or after 1 January 2019. The Group currently expects to adopt IFRS 16 for the year ending 31 December 2019. No decision has been made about whether to use any of the transitional options in IFRS 16.

IFRS 16 distinguishes leases and service contracts on the basis of whether an asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model where a right of use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all are on balance sheet), except for short term leases and leases of low value assets.

The right of use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. The classification of cash flows will also be impacted as operating lease payments under IAS 17 are presented in operating cash flows; whereas under the IFRS 16 model, the lease payments are split into a principal and an interest portion which will be presented as financing and operating cash flows respectively. In addition, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of £114,602,000. IAS 17 does not require the recognition of any right of use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 31. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right of use asset and a corresponding liability in respect of these leases unless they qualify for low value or short term leases upon the application of IFRS 16. The new requirement to recognise a right of use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the directors are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review.

In contrast, for finance leases where the Group is a lessee, as the Group has already recognised an asset and a related finance lease liability, and in cases where the Group is a lessor (for the sub-let of properties), the directors do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Group's consolidated financial statements.

(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.

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:

	2017	2016
Euros	1.13	1.17

(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.

Notes to the financial statements continued

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.

Intangible assets other than goodwill that are acquired by the Group, principally acquired brand names, customer contracts and relationships, computer software, pipeline and other intangibles, are stated at cost less accumulated amortisation, where charged, and impairment losses. Brand names 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.

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

Brand names are not amortised as the directors are of the opinion that they each have indefinite useful life. This is based on the expectation that there is no foreseeable limit to the period over which each of the assets are expected to generate net cash inflows to the business and sufficient investment will be made in terms of marketing and communication to maintain the value inherent in the brands, without incurring significant cost. All brands recognised have been in existence for a number of years, and are not considered to be at risk of obsolescence from technical, technological or commercial change. Whilst operating in competitive markets they have demonstrated that they can continue to operate in the face of such competition and that there is expected to remain an underlying market demand for the services offered. The lives of these brand names are not dependent on the useful lives of other assets of the entity. Assets are tested annually for impairment or more frequently if events or changes in circumstances indicate potential impairment. Assets are tested annually for impairment or more frequently if events or changes in circumstances indicate potential impairment.

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

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.

Notes to the financial statements continued

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.

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.

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 by our commercial business, Lambert Smith Hampton, is recognised either: at a point in time on performance of the service; or over a period of time as activity progresses, reflecting the Group's partial performance of its contractual obligations. When revenue is recognised as activity progresses, this is determined according to the nature of the transaction, generally by reference to the cost of services performed to date as a proportion of total costs, services performed to date as a proportion of total services, or milestones reached.

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.

Notes to the financial statements continued

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.

The Board believes that excluding each of the adjusted items, considered to be exceptional or non-operational in nature, in arriving at adjusted EBITDA is necessary to provide a more consistent indication of the trading performance of the Group. This alternative performance measure provides additional useful information to shareholders on the underlying trends and comparable performance of the Group over time. We seek to present a consistent measure of trading performance which is not impacted by the volatility in profile of:

- exceptional items (costs or income): these are specific items which are material by their nature, size or incidence and are highlighted, with further descriptions, in note 10 to the financial statements;
- amortisation of intangibles arising on acquisitions (excluding software): charges can vary significantly dependent on the level and size of acquisitions undertaken in each period, and the related customer relationships and contracts recognised (brands not being subject to amortisation). In addition, we do not believe the amortisation charge provides insight into the costs of running our business as these assets are supported and maintained by marketing costs which are reflected within our operating costs. The directors note that the intangibles acquired in business combinations are used in the business to generate revenue, but that there is no equivalent adjustment made to eliminate this revenue;
- contingent consideration: charges can vary significantly dependent on the level and size of acquisitions undertaken and the associated performance criteria linked to the ongoing service requirement. We reassess the fair value of the resulting liabilities across these arrangements at each reporting period end, reflecting our best estimates of future performance. However, these estimates are inherently judgemental as we are required to look beyond our normal three-year budgeting and planning cycle for the five-year agreements in place. Remeasurement could cause material volatility in our reported results over the earn out periods which would not be reflective of the business' performance in the period; and
- share-based payments: The income statement has been subject to significant charges in respect of the IPO options up to and including 2016. As the Group is now in a turnaround situation, it is anticipated that the incentivisation of performance will be driven by award of future LTIPs which, provided Group performance meets these targets, will see the share-based payment charge continue to increase and reintroduce material volatility into the income statement and distortion to underlying trading results.

The use of an adjusted EBITDA profit measure, as a consistent measure of underlying performance, is also aligned with management's internal financial reporting (including monthly management information reports reviewed by the Board, and the Executive Committee as the chief operating decision maker) and executive director remuneration (being a factor of both the LTIP scheme and annual bonus disclosed in the Remuneration Committee report) and senior management incentive targets.

Reconciliation of adjusted EBITDA to statutory profit measures is provided in note 4 of the financial statements.

(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 tax 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.

2. Accounting policies continued

(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 key sources of estimation uncertainty

In application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities and the disclosure of contingent assets and liabilities. These estimates and associated assumptions 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 estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both the current and future periods.

Critical judgements in applying the Group's accounting policies

The following are critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Going concern

As at 31 December 2017, a total of £210 million was drawn down from the £340 million RCF (amended to £275 million in February 2018). During the year, the Group has complied with the financial covenant requirements, being the leverage ratio (the ratio of net debt to adjusted EBITDA) and interest cover (the ratio of adjusted EBITDA to net interest payable), which are subject to testing dates at 30 June 2018, 30 September 2018 and 31 December 2018. However, 2017 has seen a deterioration in business performance and consequently a worsening of the headroom on covenants, in particular the leverage ratio. The Group benefits from a supportive lender group of six banks who have provided borrowing facilities since March 2013. The lender group agreed an amendment to its leverage covenant thresholds in February 2018.

In assessing the Group's ability to continue as a going concern, the Board has reviewed the Group's cash flow and profit forecasts against these covenants. The impact of potential risks and related sensitivities to the forecasts were considered in assessing the likelihood of a breach of the covenants, whilst identifying what mitigating actions are available to the Group to avoid a potential breach.

The Group's performance is dependent on a number of market and macroeconomic factors including the impact on customer confidence and transactional volumes in the UK housing market from interest rate changes and government policies which are inherently difficult to predict. Specifically, a range of assumptions underpin the profit and cash flow forecasts for the period to 31 December 2019, including:

- recovery of the pipeline to 2017 levels
- achieving the volume of forecast exchanges per branch and associated productivity measures in other areas of the Group
- mitigation of the potential impact of new government legislation banning lettings tenancy fees
- successful realisation of internal Corporate cost saving initiatives currently underway

Failure to achieve one or more of the above would result in lower adjusted EBITDA with a consequent negative impact on headroom of the leverage and interest cover covenant ratios and higher projected net debt. If the Group's forecast is not achieved, there is a risk that the Group will not meet the net debt to EBITDA leverage covenant and should such a situation materialise, the banks reserve the right to withdraw the existing facilities. Without the support of the lender group, the Group and Parent Company will be unable to meet their liabilities as they fall due. Given the timing and execution risks associated with achieving the forecast and therefore remaining within the leverage ratio as stipulated by the banking covenants, the directors have concluded that it is necessary to draw attention to this as a material uncertainty which may cast significant doubt about the Group's and the Parent Company's ability to continue as a going concern in the basis of preparation to the financial statements.

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.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Notes to the financial statements continued

3. Critical accounting judgements and estimates continued

Impairment of goodwill and indefinite life intangible assets

Determining whether goodwill and indefinite life 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.

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 into 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.

The number of valuation claims continued to decline significantly throughout 2017 to historically low levels. 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 valuation claim rate 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 2017 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. A 10% increase in the average liability rate applied to open claims at the end of the year and unreported claims anticipated would impact the provision for claims already received by £0.4 million.

Average loss – the average of total incurred losses for closed claims.

Average losses on claims settled have reduced by 5% in 2017 versus prior year (based on weighted average across the various claim populations). Applying a 10% increase in the average loss to the open claims received would increase the total provision required for this population (the IBNER) by £0.1 million.

3. Critical accounting judgements and estimates continued

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. 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. A number of historic acquisitions have related contingent consideration, set out in note 33, which is remeasured at each reporting date in line with estimates and assumptions in relation to the forecast performance of the acquired business.

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: UK Sales and Lettings, London Sales and Lettings, Financial Services and Business to Business (B2B), and 'all other segments' comprising central head office functions.

The UK network combines estate agency and lettings operations. Estate agency generates commission earned on sales of residential 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 (B2B) 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 £669,507,000 (2016: £734,561,000) and that arising from activities overseas was £2,371,000 (2016: £2,394,000).

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 £570,773,000 (2016: £798,266,000) are included in the total assets in the tables on the following pages. Non-current assets of £922,000 (2016: £838,000) are attributable to the overseas operations. The equity investment in joint venture is disclosed within 'All other segments' and is £2,982,000 (2016: £2,292,000).

The available-for-sale financial assets are disclosed within 'All other segments' (£17,085,000 (2016: £16,058,000)).

Notes to the financial statements continued

4. Segmental reporting continued

	2017					
	UK £'000	London £'000	Financial Services £'000	B2B £'000	All other segments £'000	Total £'000
Revenue	188, 715	150,998	82,124	238,606	606	661,049
Other income	4,129	1,082	1,947	958	2,713	10,829
Total income	192,844	152,080	84,071	239,564	3,319	671,878
Inter-segment revenue	12,342	3,224	3,253	(18,819)	—	—
Total income from external customers	205,186	155,304	87,324	220,745	3,319	671,878
Adjusted EBITDA	14,888	11,547	19,660	35,576	(16,984)	64,687
Contingent consideration	—	(397)	(969)	(62)	(2,501)	(3,929)
Share-based payments	(336)	(316)	(271)	(457)	(243)	(1,623)
Depreciation and amortisation	(14,881)	(5,249)	(2,770)	(7,583)	(3,007)	(33,490)
Share of profit from joint venture	—	—	—	—	690	690
Exceptional costs	(168,477)	(48,586)	(1,304)	(3,844)	(3,658)	(225,869)
Segment operating (loss)/profit	(168,806)	(43,001)	14,346	23,630	(25,703)	(199,534)
Finance costs						(12,607)
Finance income						82
Loss before tax						(212,059)
Total assets	160,788	121,580	120,575	234,897	59,499	697,339
Total liabilities	439,375	94,045	204,793	219,711	(569,722)	388,202
Additions in the year						
Intangible assets	1,919	372	1,786	2,916	584	7,577
Property, plant and equipment	1,762	2,568	371	1,270	5,047	11,018

	2016					
	UK* £'000	London* £'000	Financial Services £'000	B2B* £'000	All other segments* £'000	Total £'000
Revenue	226,444	165,622	82,667	248,859	378	723,970
Other income	3,427	3,178	1,629	1,506	3,245	12,985
Total income	229,871	168,800	84,296	250,365	3,623	736,955
Inter-segment revenue	17,949	3,753	3,878	(25,580)	—	—
Total income from external customers	247,820	172,553	88,174	224,785	3,623	736,955
Adjusted EBITDA	27,846	20,551	22,682	31,498	(19,029)	83,548
Contingent consideration	—	(397)	(867)	(4,692)	(878)	(6,834)
Share-based payments	(303)	(200)	(220)	(397)	(1,357)	(2,477)
Depreciation and amortisation	(14,943)	(5,159)	(6,132)	(7,550)	912	(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	(4,788)	(5,757)	15,416	17,072	6,920	28,863
Finance costs						(9,672)
Finance income						304
Profit before tax						19,495
Total assets	336,327	189,138	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	2,472	13,239	2,308	1,668	—	19,687
Intangible assets	5,849	5,935	9,064	4,027	2,048	26,923
Property, plant and equipment	11,623	1,057	1,405	1,144	5,449	20,678

* Restated from prior year following internal restructuring of operations between UK, London and B2B.

5. Other income

	2017 £'000	2016 £'000
Rent receivable	582	799
Dividend income on available-for-sale financial assets	—	491
Other operating income	10,247	11,695
	10,829	12,985

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

	2017 £'000	2016 £'000
Wages and salaries	337,727	366,513
Contingent consideration deemed remuneration (note 33)*	3,929	6,834
Share options granted to directors and employees (note 27)*	1,828	2,465
Defined contribution pension costs (note 25)	8,182	8,633
Defined benefit scheme costs (note 25)	257	377
Social security costs	37,771	40,334
	389,694	425,156

* The columnar approach of our income statement separates £5,552,000 in respect of employee benefit costs comprising: £3,929,000 contingent consideration from the table above; and £1,623,000 of share-based payment costs (see note 4). The share-based payment costs are detailed in note 27 and comprise: £1,828,000 of charges (as detailed above) net of £205,000 credit in relation to national insurance (reported within social security costs in the table above).

Average monthly number of people (including executive directors) employed:

By business segment	2017 Number	2016* Number
UK	3,710	4,710
London	1,848	2,147
Financial Services	1,000	997
B2B	2,573	2,784
Head office	332	271
	9,463	10,909

* Restated following restructuring of operations between UK, London and B2B.

(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, and all non-executive directors.

	2017 £'000	2016* £'000
Wages and salaries	3,442	3,296
Short term non-monetary benefits	17	18
Share-based payments	364	1,099
Termination costs	202	218
	4,025	4,631

* Restated to include non-executive directors.

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 52.

Notes to the financial statements continued

7. Other operating costs

	2017 £'000	2016 £'000
Rent	26,783	29,534
Advertising and marketing expenditure	19,590	21,171
Vehicles, plant and equipment hire	14,754	16,574
Other motoring costs	16,050	17,085
Repairs and maintenance	15,651	12,761
Trade receivables impairment (excluding exceptional charge in 2017 (note 10))	38	2,446
Other	130,183	137,991
Total operating costs	223,049	237,562

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:

	2017 £'000	2016 £'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	407	444
– audit-related assurance services	50	50
– other non-audit services	49	16
– tax advisory services	2	40
	643	685

8. Finance costs

	2017 £'000	2016 £'000
Interest costs:		
Interest payable on revolving credit facility	10,359	7,839
Interest arising from finance leases	257	269
Other interest paid	240	318
Cash payable interest	10,856	8,426
Amortisation of loan facility fee	1,525	1,236
Net interest costs arising on the pension scheme (note 25)	73	—
Other finance costs	153	10
Non-cash payable interest	1,751	1,246
Finance costs	12,607	9,672

9. Finance income

	2017 £'000	2016 £'000
Interest income	82	292
Net interest income arising on the pension scheme (note 25)	—	12
Finance income	82	304

10. Exceptional items

The following items have been included in arriving at (loss)/profit before taxation:

	2017 £'000	2016 £'000
Exceptional income		
Profit on disposal of available-for-sale financial assets	—	32,804
Release of professional indemnity provisions	—	2,910
	—	35,714
Exceptional costs		
Strategic and restructuring costs:		
People-related restructuring costs	(4,405)	(8,109)
Transformation project consultancy costs	(1,655)	—
Property closure costs	(1,861)	(15,813)
Marketing review and channel optimisation	—	(2,032)
Other costs	—	(400)
Total strategic and restructuring costs, excluding impairment	(7,921)	(26,354)
Impairment of goodwill (note 14(a))	(192,253)	(19,564)
Impairment of brands (note 14(b))	(12,871)	(1,358)
Impairment of customer contracts (note 14(b))	(5,278)	—
Impairment of non-current assets (note 14(b), 15, 16(c))	(4,084)	—
Impairment of trade receivables (note 17)	(1,641)	—
Total impairment charge	(216,127)	(20,922)
Professional indemnity provisions	(1,821)	—
Acquisition expenses	—	(927)
Total exceptional costs	(225,869)	(48,203)
Net exceptional costs	(225,869)	(12,489)

2017

Exceptional costs

Strategic and restructuring costs

During 2017 the Group commenced a strategic transformation agenda for the fundamental turnaround of the business, which is expected to take place over a period of three years, resulting in a number of exceptional costs in relation to the project and related restructuring costs. The principal elements are:

- £4,405,000 relating to redundancy costs and changes to the leadership structure that occurred during the year to progress the achievement of the appropriate organisational structure;
- £1,655,000 in respect of third party consultancy costs, for a number of different projects scoped to tackle cost optimisation targets and related strategic initiatives which are being project managed centrally and routinely reporting progress to the Group Executive Committee;
- £1,861,000 of property closure costs, comprising: £1,515,000 of property provisions costs, in respect of dilapidations and onerous contract costs in respect of additional premises identified and closed during the period arising from further review, along with £346,000 of associated property closure costs;

Impairment charges

In addition, the Group incurred the following impairment charges, deemed to be exceptional given their size, arising from the annual impairment review of goodwill and indefinite life intangible assets, and the associated review of other intangible and tangible fixed assets impacted by the impairment review:

- £192,253,000 in respect of goodwill associated with: the UK cash generating unit of £151,295,000 and the London cash generating unit of £40,958,000 following an assessment of the recoverable value against the carrying value (see note 14(a));
- £12,871,000 in respect of brand names associated with: the UK cash generating unit of £8,425,000 (reflecting partial impairments of Slater Hogg & Howison and Blundell Property Services) and the London cash generating unit of £4,446,000 following an assessment of the recoverable value against the carrying value (see note 14(b));
- £5,278,000 in respect of customer contracts associated with: the UK cash generating unit of £4,075,000; the London cash generating unit of £1,103,000; and the Professional Services (B2B) cash generating unit of £100,000 following an assessment of the recoverable value against the carrying value (see note 14(b)); and
- £4,084,000 in respect of other non-current assets: £2,669,000 intangible fixed assets (computer software) and £116,000 tangible fixed assets (related computer hardware) associated with the UK cash generating unit, and £734,000 tangible fixed assets associated with the London cash generating unit following an assessment of the recoverable value against the carrying value (the London write-down arising as a result of impairments identified exceeding the intangible asset carrying values); and £565,000 write-off of an available-for-sale investment following the commencement of administration proceedings against the available-for-sale investment (see notes 14(b), 15 and 16(c)).

Notes to the financial statements continued

10. Exceptional items continued

Impairment charges continued

In addition, impairment charges of £1,641,000 have been made against the carrying value of trade receivables. These impairments relate to assets recognised in prior periods, dating back as far as 2013, where circumstances in relation to collectability have changed during the year and principally relate to a portfolio of debts within a business acquired during 2015, now operating as part of Countrywide Residential Development Solutions (B2B). This cost has been treated as exceptional due to the age of the debt and materiality of the impairment.

Professional indemnity provisions

During 2017 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 is highly judgemental and we updated our financial models to reflect the latest inputs and trends and took advice from our panel of lawyers in respect of open claims. The judgemental nature of the provision, and progress made during the year on some individually significant claims, aligned with the low level of claims made, would have provided progress on unwinding the provision. However, an individually significant claim has resulted in the need to increase the provision by £1,821,000. This has been treated as an exceptional cost due to the materiality of the item.

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 is highly judgemental and we updated our financial models to reflect the latest inputs and trends and took 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, resulted in the assessment of a £2,910,000 release in the provision.

Exceptional costs

Restructuring costs

During 2016 the Group undertook a significant branch restructuring, accelerating our transformation agenda and resizing the UK and London 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 UK 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 UK marketplace; 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.

11. Taxation

Analysis of (credit)/charge in year

	2017 £'000	2016 £'000
Current tax on profits for the year	1,371	5,200
Adjustments in respect of prior years	(30)	(623)
Total current tax	1,341	4,577
Deferred tax on profits for the year		
Origination and reversal of temporary differences	(6,229)	(154)
Impact of change in tax rate	—	(2,308)
Adjustments in respect of prior years	901	(160)
Total deferred tax (note 24)	(5,328)	(2,622)
Income tax (credit)/charge	(3,987)	1,955

11. Taxation continued

	2017 £'000	2016 £'000
Tax on items charged to equity		
Deferred tax adjustment arising on share-based payments	(10)	(299)
Tax on items credited/(charged) to other comprehensive income		
Deferred tax adjustment arising on pension scheme assets and liabilities	690	909
Deferred tax adjustment arising on cash flow hedge	(410)	473

The tax charge for the year differs (2016: differs) from the standard rate of corporation tax in the UK of 19.26% (2016: 20.0%). The differences are explained below:

	2017 £'000	2016 £'000
(Loss)/profit on ordinary activities before tax	(212,059)	19,495
Profit on ordinary activities multiplied by the rate of corporation tax in the UK of 19.26% (2016: 20.0%)	(40,843)	3,899
Effects of:		
Profits/(losses) from joint venture	(133)	3
Tax relief on contingent consideration	1,028	1,367
Other expenses not deductible	282	1,351
Permanent difference relating to depreciation not deductible	218	858
Tax relief on purchased goodwill	34,839	3,741
Tax relief on share-based payments charged to equity	168	(32)
Rate change on deferred tax provision	—	(2,308)
Income not subject to tax due to availability of unprovided losses	(430)	(6,294)
Adjustments in respect of prior years	871	(783)
Overseas losses	13	153
Total taxation charge	(3,987)	1,955

The tax rate for the current year is lower than the prior year due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017.

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate, to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted rates and reflected in these financial statements.

The relevant deferred tax balances have been remeasured using rates applicable to when the balances are expected to unwind. There are no material uncertain tax positions.

12. Dividends

	2017 £'000	2016 £'000
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2016 of nil pence (net) per share (2015: 10.0 pence (net) per share)	—	21,963
– interim dividend for the year ended 31 December 2017 of nil pence (net) per share (2016: 5.0 pence (net) per share)	—	10,817
Total	—	32,780

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2017.

Notes to the financial statements continued

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.

	2017 £'000	2016 £'000
(Loss)/profit for the year attributable to owners of the parent	(208,072)	17,404
Weighted average number of ordinary shares in issue	232,317,964	216,683,218
Basic (loss)/earnings per share (in pence per share)	(89.56)p	8.03p

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.

	2017 £'000	2016 £'000
(Loss)/profit for the year attributable to owners of the parent	(208,072)	17,404
Weighted average number of ordinary shares in issue	232,317,964	216,683,218
Adjustment for weighted average number of contingently issuable share options	111,460	12,824
Weighted average number of ordinary shares for diluted earnings per share	232,429,424	216,696,042
Diluted (loss)/earnings per share (in pence per share)*		8.03p
Adjusted earnings		
(Loss)/profit for the year attributable to owners of the parent	(208,072)	17,404
Adjusted for the following items, net of taxation:		
Amortisation arising on intangibles recognised through business combinations	4,127	6,365
Contingent consideration	4,202	6,834
Share-based payments charge	1,465	2,145
Exceptional income	—	(35,133)
Exceptional costs	217,755	44,285
Adjusted earnings, net of taxation	19,477	41,900
Adjusted basic earnings per share (in pence per share)	8.38p	19.34p
Adjusted diluted earnings per share (in pence per share)	8.38p	19.34p

* As there is a loss in 2017, the diluted EPS is not presented on the basis that this is equal to the basic loss per share. The comparative diluted EPS is presented.

14. Intangible assets

(a) Goodwill

	2017 £'000	2016 £'000
Cost		
At 1 January	908,669	888,982
Arising on acquisitions	—	19,687
At 31 December	908,669	908,669
Accumulated impairment (note 14(c))		
At 1 January	436,920	417,356
Impairment (note 10)	192,253	19,564
At 31 December	629,173	436,920
Net book amount		
At 31 December	279,496	471,749

Goodwill impairment charges of £151.3 million and £41.0 million respectively have been made in relation to the UK and London cash generating units following an assessment of the recoverable value against the carrying value. These charges have been included within exceptional items (note 10).

14. Intangible assets continued

(b) Other intangible assets

	2017					
	Computer software £'000	Brand names £'000	Customer contracts and relationships £'000	Pipeline £'000	Other intangibles £'000	Total £'000
Cost						
At 1 January	66,860	232,015	131,232	6,206	403	436,716
Additions	7,577	—	—	—	—	7,577
Disposals	(1,473)	—	—	—	—	(1,473)
At 31 December	72,964	232,015	131,232	6,206	403	442,820
Accumulated amortisation and impairment losses (note 14(c))						
At 1 January	44,724	41,328	94,108	6,206	40	186,406
Charge for the year	10,503	—	5,756*	—	51*	16,310
Impairment (note 10)	2,669	12,871	5,278	—	—	20,818
On disposals	(1,372)	—	—	—	—	(1,372)
At 31 December	56,524	54,199	105,142	6,206	91	222,162
Net book amount						
At 31 December	16,440	177,816	26,090	—	312	220,658

* The columnar approach of our income statement separates £5,807,000 from total depreciation and amortisation. This is in respect of amortisation of acquired intangibles as detailed in the table above.

Computer software includes the following amounts where the Group is a lessee under a finance lease:

	2017 £'000	2016 £'000
Cost – capitalised finance lease	6,381	6,381
Accumulated depreciation	(4,360)	(3,084)
Net book amount	2,021	3,297

	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	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).

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.

Following the assessment of recoverable value against carrying value, impairments of £12.9 million were charged against brand names associated with the UK (£8.4 million) and London (£4.5 million) cash generating units, and impairments of £5.3 million were charged against customer contracts and relationships associated with the UK (£4.1 million), London (£1.1 million) and Professional Services (B2B) (£0.1 million) cash generating units. These charges have been included within exceptional items (note 10).

In light of the impairment charges triggered against brand names in the past two years, as part of the wider turn around plan, we will undertake an assessment in 2018 to reassess our brand strategy and the related impact on the useful economic life of our brands currently held as indefinite.

Notes to the financial statements continued

14. Intangible assets continued

(b) Other intangible assets continued

The carrying amounts of various brand names owned by the Group are disclosed below:

	2017 £'000	2016 £'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	3,652	9,709
Taylors Estate Agents	10,071	10,071
Hamptons International	58,774	58,774
Blundell Property Services	4,654	6,494
Lambert Smith Hampton	28,377	28,377
	142,627	150,524
Other brands	35,189	40,163
Net book value	177,816	190,687

(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 UK, 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 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			
2017	UK £'000	London £'000	Financial Services £'000	Professional Services £'000	Countrywide Residential Development Solutions £'000	Commercial £'000	Total £'000
Goodwill	14,045	30,770	89,885	132,890	2,111	9,795	279,496
Indefinite life intangible assets	58,270	85,815	4,343	—	1,011	28,377	177,816
	72,315	116,585	94,228	132,890	3,122	38,172	457,312

				B2B CGUs			
2016	UK* £'000	London* £'000	Financial Services £'000	Professional Services £'000	Countrywide Residential Development Solutions £'000	Commercial £'000	Total £'000
Goodwill	165,340	71,728	89,885	132,890	2,111	9,795	471,749
Indefinite life intangible assets	66,695	90,261	4,343	—	1,011	28,377	190,687
	232,035	161,989	94,228	132,890	3,122	38,172	662,436

* Restated from prior year following internal restructuring of operations between UK, London and B2B.

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 2017 impairment review was performed in accordance with IAS 36 'Impairment of assets' by comparing the carrying amount of each CGU against its recoverable amount.

Recoverable amount

The recoverable amount of each CGU is based on its value in use which is calculated by discounting pre-tax cash flow projections derived from formally approved strategic budgets and forecasts. For each of the CGUs with significant amounts of goodwill, the key assumptions used in the value in use calculation are set out below.

Cash flows

Cash flow projections for each CGU are based on the formally approved strategic budget covering the period from 2018 to 2020. For details of the key assumptions please refer to the sensitivity analysis below. Growth rates applied within the strategic plan are based on past experience, market data and expectation of future market outlook and development. Cash flows assume that UK housing market volumes remain flat over the period from 2018 to 2020. Mortgage approval volumes are assumed to grow by 2% per annum in each of 2018, 2019 and 2020. Cash flows include the impact of cost saving initiatives that have been endorsed by the Executive Committee.

The 2016 impairment review was based on cash flows from the strategic budget covering the period from 2017 to 2020.

14. Intangible assets continued

(c) Impairment continued

Growth rate

For the purpose of the impairment review, nil growth is assumed for 2021 and 2022. Cash flows beyond the five-year period ending 2022 are extrapolated using a terminal value which includes a growth rate of 0% into perpetuity.

The 2016 impairment review assumed nil growth for 2021, with cash flows extending beyond the initial five-year period extrapolated using a terminal value that included a growth rate of 0% into perpetuity.

Discount rate

Cash flows have been discounted using a pre-tax discount rate of between 10.3% and 10.5%, reflecting the weighted average cost of capital assigned to each CGU.

The 2016 impairment review used discount rates of between 8.7% and 10.5%.

Outcome of impairment review

Goodwill

The 2017 goodwill impairment review concluded that impairment charges of £151.3 million (2016: £5.0 million) and £41.0 million (2016: £13.5 million) were appropriate against goodwill held by the UK and London CGUs respectively (see note 10).

The 2017 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 (2016: £Nil).

Indefinite life intangible assets

A similar impairment review was performed on indefinite life intangible assets at 31 December 2017 using assumptions that were consistent with the goodwill impairment review. The review identified an impairment of £8.4 million (2016: £1.4 million) against brand names held within the UK business unit (reflecting partial impairments of Slater Hogg & Howison and Blundell Property Services) and an impairment of £4.5 million (2016: £Nil) against the Greene & Co brand name held within the London business unit (see note 10).

Other intangible assets

A further impairment review of the remaining intangible assets, using assumptions consistent with the goodwill and indefinite life asset reviews, concluded that impairment charges of £4.1 million, £1.1 million and £0.1 million were appropriate against customer contracts and relationships held against the UK, London and B2B business units respectively. In addition, an impairment charge of £2.7 million was made against computer software associated with the UK business unit. There was no impairment charge against customer contracts and relationships in 2016, but an impairment charge of £6,000 was booked against computer software.

Cumulative impairments, including the goodwill, brand names, customer contracts and relationships, and computer software 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	Customer contracts & relationships £'000	Computer software £'000	Total £'000
Cash generating unit					
UK*	374,396	43,627	4,075	2,674	424,772
London*	100,390	10,572	1,103	1	112,066
Financial Services	114,387	—	—	—	114,387
B2B – Professional Services	40,000	—	100	10,500	50,600
	629,173	54,199	5,278	13,175	701,825

* Allocation between UK and London restated from prior year following restructuring between the business units.

Sensitivity analysis

A range of assumptions with varying significance drive the 2017 value in use models used for the impairment reviews. Recoverable amounts for the UK and London CGUs are most sensitive to the following key assumptions:

- recovery of the pipeline to 2017 levels;
- volume of forecast exchanges per branch and associated productivity measures in other parts of the Group:
- potential impact of the new government legislation banning letting tenancy fees; and
- successful realisation of internal corporate cost saving initiatives currently underway.

A change in the above assumptions, for example, lower exchanges per branch, higher impact of the tenancy fee ban, or lower savings achieved through corporate cost saving plans, would result in lower adjusted EBITDA for the UK and London CGUs.

Growth rates applied within the strategic plan are based on past experience, market data and expectation of future market outlook and development. Cash flows assume that UK housing market volumes remain flat over the period from 2018 to 2020. Mortgage approval volumes are assumed to grow by 2% per annum in each of 2018, 2019 and 2020. Cash flows include the impact of cost saving initiatives that have been endorsed by the Executive Committee.

Notes to the financial statements continued

14. Intangible assets continued

Sensitivity analysis continued

In order to quantify the impact of the above risks on the goodwill, indefinite-life intangible assets, and other intangible assets impairment reviews, management modelled three separate scenarios:

- 10% reduction to adjusted EBITDA from operating cash flows, but keeping all other cash flows such as capital investment in line with the strategic plan;
- 10% increase in discount factor; and
- terminal growth rate of 1% into perpetuity.

The following table sets out the sensitivity of the UK and London CGUs to possible changes in key and current assumptions:

	(Increase)/decrease in impairment charge	
	UK CGU £'000	London CGU £'000
Goodwill		
10% reduction to adjusted EBITDA	(14,045)	(18,611)
10% increase in discount factor	(13,526)	(12,001)
Terminal growth rate of 1% into perpetuity	13,186	12,313
Brand names		
10% reduction to adjusted EBITDA	(570)	—
10% increase in discount factor	(928)	—
Terminal growth rate of 1% into perpetuity	886	—
Customer contracts and relationships		
10% reduction to adjusted EBITDA	—	(10)
10% increase in discount factor	—	(11)
Terminal growth rate of 1% into perpetuity	—	2

Mitigating actions are available should either of the first two scenarios, which we believe to be a reasonable downside as they are reflective of macroeconomic risk associated with the underlying forecast, arise.

Applying the most aggressive of the above sensitivity scenarios to the remaining cash generating units decreases headroom between the recoverable value and carrying value of each CGU as follows: Financial Services: £24.9 million; B2B – Professional Services: £27.8 million; B2B – CRDS: £5.9 million; and B2B – LSH: £11.6 million.

In 2016 management modelled similar sensitivity analyses, including a 10% reduction to adjusted EBITDA from operating cash flows and an increase of 10% in the discount factor of 8.7%. The sensitivity analyses concluded that goodwill allocated to the UK CGU would have been impaired by an additional £47 million in the first scenario or an additional £28 million in the latter scenario. For the London CGU, the additional impairment charges indicated under the scenario modelling totalled £24 million and £14 million respectively.

15. Property, plant and equipment

	2017					
	Freehold 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	1,922	34,251	937	43,792	1,954	82,856
Additions at cost	—	962	6	7,859	2,191	11,018
Disposals	—	(210)	(746)	(256)	—	(1,212)
Reclassification*	—	(4,271)	—	4,271	—	—
Transfers	—	4,006	—	139	(4,145)	—
At 31 December	1,922	34,738	197	55,805	—	92,662
Accumulated depreciation						
At 1 January	351	14,652	330	18,078	—	33,411
Charge for the year	16	6,186	150	10,828	—	17,180
Impairment (note 10)	—	18	—	832	—	850
Disposals	—	(27)	(478)	(72)	—	(577)
Reclassification*	—	(4,271)	—	4,271	—	—
At 31 December	367	16,558	2	33,937	—	50,864
Net book amount						
At 31 December	1,555	18,180	195	21,868	—	41,798

* Assets with a £nil net book value have been reclassified during the year following a review of the fixed asset registers of legacy acquisitions to align with the accounting policy classifications within the Group.

15. Property, plant and equipment continued

	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	—	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).

Assets in the course of construction with a value of £Nil (2016: £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.

An assessment of the recoverable values of cash generating units (CGUs) against their carrying values resulted in an impairment of £116,000 against tangible fixed assets held within the UK CGU and an impairment of £734,000 against tangible fixed assets held within the London CGU (see note 10).

Furniture and equipment includes the following amounts in respect of computer hardware where the Group is a lessee under a finance lease:

	2017 £'000	2016 £'000
Cost – capitalised finance lease	16,497	12,737
Accumulated depreciation	(11,176)	(6,953)
Net book amount	5,321	5,784

The Group leases various assets, principally computer hardware and related costs, under finance lease agreements whose terms are between two and three years.

Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred, relating to 2017 and the subsequent year, is as follows:

	2017 £'000	2016 £'000
Property, plant and equipment	1,962	2,590

Notes to the financial statements continued

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 2017 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
UK				
Countrywide Estate Agents	Estate Agency and Lettings	UK	—	100
London				
Hamptons Group Limited	Holding company	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
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	—	51
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 2017 is included within the appendix. The appendix on pages 125 to 130 forms part of these financial statements.

(b) Interests in joint venture

TM Group (UK) Limited

At 31 December 2017 the Group had a 33% (2016: 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.

16. Investments continued

(b) Interests in joint venture continued

There are no outstanding commitments or contingent liabilities relating to the Group's interest in the joint venture.

During the year, TMG was a joint venture company.

	2017 £'000	2016 £'000
At 1 January:		
Net assets excluding goodwill	812	825
Goodwill	1,480	1,480
	2,292	2,305
Share of profits/(losses) retained	690	(13)
At 31 December:		
Net assets excluding goodwill	1,502	812
Goodwill	1,480	1,480
	2,982	2,292

The summarised financial information of TM Group (UK) Limited, which is accounted for using the equity method, is presented below:

	2017 £'000	2016 £'000
Cash and cash equivalents	4,176	4,620
Other current assets (excluding cash)	2,692	3,227
Total current assets	6,868	7,847
Non-current assets	1,088	816
Current liabilities	(3,450)	(6,202)
Net assets	4,506	2,461
Net assets adjusted for the percentage of ownership	1,502	812
Income	60,645	59,735
Depreciation	(372)	(395)
Expenses (excluding depreciation)	(58,219)	(59,423)
Interest income	16	44
Post-tax results	2,070	(39)
Share of post-tax results	690	(13)

There is no other comprehensive income arising in the joint venture in either year.

(c) Available-for-sale financial assets

	2017 £'000	2016 £'000
At 1 January	16,058	57,760
Disposal of ZPG shares	—	(45,304)
Acquisition of shares in unlisted equity and debentures	—	1,504
Movement in fair value	1,627	2,132
Impairment of unlisted equity	(565)	—
Amortisation	(35)	(34)
At 31 December	17,085	16,058

Available-for-sale financial assets, which are all Sterling denominated, include the following:

	2017 £'000	2016 £'000
Unlisted residential property fund units	15,766	14,139
Unlisted equity	1,232	1,797
Wimbledon debentures (acquired and amortised over the life of the debenture)	87	122
At 31 December	17,085	16,058

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 33).

Notes to the financial statements continued

17. Trade and other receivables

	2017 £'000	2016 £'000
Amounts falling due within one year		
Trade receivables not past due	43,018	44,964
Trade receivables past due but not impaired	25,900	35,090
Trade receivables past due but impaired	4,211	3,421
Trade receivables	73,129	83,475
Less: provision for impairment of receivables	(4,211)	(3,421)
Trade receivables – net	68,918	80,054
Amounts due from customers for contract work	3,356	3,368
Other receivables	5,311	7,569
Prepayments	19,540	25,373
Accrued income	4,202	3,843
Corporation tax asset	1,784	148
	103,111	120,355

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 32.

As at 31 December 2017, trade receivables of £25,900,000 (2016: £35,090,000) 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:

	2017 £'000	2016 £'000
Less than three months	12,579	17,229
Over three months	13,321	17,861
	25,900	35,090

Trade and other receivables are denominated in Pounds Sterling with the exception of £944,000 (2016: £673,000) which is receivable in Euros (2016: Euros).

A summary of the movement in the provision for impairment of receivables is detailed below:

	2017 £'000	2016 £'000
At 1 January	3,421	3,124
Additional provisions (notes 7 and 10)	1,679	2,446
Amounts utilised	(889)	(2,149)
At 31 December	4,211	3,421

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

	2017 £'000	2016 £'000
Cash and cash equivalents		
Cash at bank and in hand	22,533	5,299
Short term bank deposits	—	40,027
	22,533	45,326

Of the short term bank deposits held in 2016, a number were interest bearing within the following range: 0.35%–0.55%.

The following amounts were held in foreign currencies:

	2017 £'000	2016 £'000
Hong Kong Dollars	102	152
Euros	125	463
	227	615

19. Trade and other payables

	2017 £'000	2016 £'000
Trade payables	**20,461**	16,333
Deferred consideration	**3,550**	6,164
	24,011	22,497
Other tax and social security payable	**25,065**	26,253
Accruals and other payables	**53,998**	59,981
	103,074	108,731
Trade and other payables due within one year	**94,779**	95,072
Trade and other payables due after one year	**8,295**	13,659
	103,074	108,731

The principal components of trade and other payables due after one year are: deferred and contingent consideration payments of £7,921,000 (2016: £12,964,000); and accrued National Insurance share-based payment charges of £374,000 (2016: £695,000).

Deferred consideration falls due: £1,264,000 within one year; and £2,286,000 after one year. Contingent consideration accrued falls due: £7,528,000 within one year; and £5,634,000 after one year.

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 £24,000 (2016: £26,000) which is receivable in Hong Kong Dollars and Euros.

20. Borrowings

	2017 £'000	2016 £'000
Non-current		
Bank borrowings	**210,000**	290,000
Other loans	**2,840**	2,699
Capitalised banking fees	**(1,700)**	(3,223)
Finance lease liabilities	**2,349**	3,029
	213,489	292,505
Current		
Finance lease liabilities	**1,011**	721
	1,011	721
Total borrowings	**214,500**	293,226

Analysis of net debt

	At 1 January 2017 £'000	Cash flow £'000	Non-cash changes £'000	At 31 December 2017 £'000
Cash and cash equivalents	45,326	(22,793)	—	**22,533**
Capitalised banking fees	3,223	724	(2,247)	**1,700**
Other loans	(2,699)	—	(141)	**(2,840)**
Revolving credit facility due after one year	(290,000)	80,000	—	**(210,000)**
Finance leases due after one year	(3,029)	—	680	**(2,349)**
Finance leases due within one year	(721)	3,698	(3,988)	**(1,011)**
Total	(247,900)	61,629	(5,696)	**(191,967)**

Net debt excludes derivative financial instruments. Details of the interest rate swap liability are disclosed in note 21.

Borrowings and other loans

At the year end, the facility was 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 was payable based on LIBOR plus a margin of 3.0%. 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, interest cover and leverage covenants and £80 million was repaid during the period.

On 2 February 2018 the Company agreed an amendment relating to the RCF, originally dated 20 March 2013, which is due to expire in March 2020. The RCF is now £275 million, with an additional £60 million accordian facility, with a margin of 3.25%. Capitalised banking fees are being amortised over the duration of the RCF, until March 2020.

'Other loans' disclosed above comprise: £1 million of unsecured loan notes which are non-interest bearing, repayable in 2029, which 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.

Notes to the financial statements continued

20. Borrowings continued

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:

	2017 £'000	2016 £'000
No later than one year	1,363	953
Later than one year and no later than five years	2,507	3,163
Greater than five years	1	45
	3,871	4,161
Future finance charges on finance lease liabilities	(511)	(411)
Present value of finance lease liabilities	3,360	3,750

The present value of finance lease liabilities is as follows:

	2017 £'000	2016 £'000
No later than one year	1,011	721
Later than one year and no later than five years	2,349	3,029
	3,360	3,750

21. Derivative financial instruments

Liabilities due after one year	2017 £'000	2016 £'000
Interest rate swaps – cash flow hedge	337	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 2017 was £240,000,000.

At 31 December 2017, the fixed interest rate was 0.799% and the main floating rate was 0.498%. There was no ineffectiveness to be recorded in the income statement. The gain of £2,030,000 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.

Future interest charges will increase as the interest rate swap became ineffective at the end of 2017, as forecast drawdowns will no longer be met as we seek to deleverage the business. As a result of this prospective ineffectiveness, future revaluations of the interest rate swap forming the cash flow hedge will be charged to the income statement and not through reserves.

22. Deferred income

Deferred income will unwind as follows:

	2017 Total £'000	2016 Total £'000
Within one year	1,379	3,890
After one year:		
Between one and two years	575	1,920
Between two and three years	78	567
Between three and four years	7	76
Between four and five years	3	—
	663	2,563
	2,042	6,453

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.

23. Provisions

	2017					
	Onerous contracts* £'000	Property repairs* £'000	Clawback £'000	Claims and litigation* £'000	Other £'000	Total £'000
At 1 January	5,865	6,342	3,581	14,401	1,914	32,103
Utilised in the year	(3,177)	(1,440)	(3,980)	(3,677)	(1,012)	(13,286)
Charged to income statement	1,090	377	3,839	6,326	491	12,123
Credited to income statement	—	(35)	—	(1,530)	(274)	(1,839)
At 31 December	3,778	5,244	3,440	15,520	1,119	29,101
Due within one year or less	248	4,445	2,287	9,107	1,029	17,116
Due after more than one year	3,530	799	1,153	6,413	90	11,985
	3,778	5,244	3,440	15,520	1,119	29,101

	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	—	—	274	—	—	274
Utilised in the year	(1,762)	(784)	(3,592)	(13,820)	—	(19,958)
Charged to income statement	6,359	4,252	3,164	1,612	62	15,449
Credited to income statement	—	(603)	—	(2,300)	—	(2,903)
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

* See exceptional charges in note 10

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 two years.

Notes to the financial statements continued

24. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17%–19% (2016: 17%–20%).

The movement on the deferred tax account is shown below:

	2017 £'000	2016 £'000
Net deferred tax liability at 1 January	(29,444)	(30,024)
Credited to income statement	5,328	2,622
Acquired on acquisition of subsidiary	—	(3,125)
Credited to other comprehensive income	280	1,382
Charged to equity	(10)	(299)
Net deferred tax liability at 31 December	(23,846)	(29,444)
Deferred tax asset	9,676	9,250
Deferred tax liability	(33,522)	(38,694)
Net deferred tax liability at 31 December	(23,846)	(29,444)
Deferred tax asset expected to unwind within one year	1,530	1,839
Deferred tax asset expected to unwind after one year	8,146	7,411
	9,676	9,250
Deferred tax liability expected to unwind within one year	(986)	(1,975)
Deferred tax liability expected to unwind after one year	(32,536)	(36,719)
	(33,522)	(38,694)

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.

	2017		
	Asset/ (liability) £'000	Credited/ (charged) to income £'000	Credited/ (charged) to other comprehensive income/equity £'000
Origination and reversal of temporary differences			
Capital allowances	6,615	925	—
Employee pension liabilities	1,069	(317)	690
Share-based payments	299	(26)	(10)
Intangible assets	(32,438)	5,368	—
Cash flow hedge	63	—	(410)
Gain deferred by roll-over relief	(887)	—	—
Other temporary and deductible differences	1,433	(622)	—
	(23,846)	5,328	270

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

Deferred tax assets have not been recognised in respect of unused capital losses of £9,374,000 (2016: £9,366,000), non-trading loan relationships of £217,000 (2016: £217,000) or trading losses of £42,000 (2016: £42,000). 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 £8,182,000 (2016: £8,633,000).

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 UK 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 three years. During the year, the Group paid £2.0 million (2016: £1.9 million) to the defined benefit scheme. During the year which commenced on 1 January 2018, the employer is expected to pay contributions of £2.0 million (2017: £2.0 million). Further contributions of £2.0 million will be made in each of the next three years.

A pensioner buy-in of all remaining non-insured pensioners was concluded during December 2017 which allowed transformation of the Scheme's risk profile, without requiring any additional funding from the Company, thus maintaining the current payment profile for company contributions.

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.

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 2017. The results of the calculations and the assumptions adopted are shown overleaf.

Notes to the financial statements continued

25. Post-employment benefits continued

Defined benefit pension arrangements continued

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:

	2017 £'000	2016 £'000
Present value of funded obligations	(52,905)	(57,203)
Fair value of plan assets	47,279	53,540
Net liability recognised in the balance sheet	(5,626)	(3,663)

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 2017	(57,203)	53,540	(3,663)
Expected return on Scheme assets	—	1,355	1,355
Actuarial loss	—	(4,747)	(4,747)
Employer contributions	—	2,000	2,000
Service cost	(257)	—	(257)
Interest cost	(1,428)	—	(1,428)
Actuarial gain from changes in financial assumptions	1,114	—	1,114
Benefits paid	4,612	(4,612)	—
Expenses	257	(257)	—
At 31 December 2017	(52,905)	47,279	(5,626)

	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)

The major categories of scheme assets as a percentage of total scheme assets are:

	2017 %	2016 %
Cash	3	1
UK equities	7	6
Overseas equities	7	6
UK fixed interest gilts	—	11
Corporate bonds	—	47
Other – GARS	1	10
Other – insured pensioners	82	19
	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.

25. Post-employment benefits continued

Defined benefit pension arrangements continued

The amounts recognised in the income statement are:

	2017 £'000	2016 £'000
Current service cost	257	377
Net interest cost/(income) on pension scheme liabilities (within net finance costs)	73	(12)
Total charge to the income statement	330	365

The amounts recognised in the statement of comprehensive income are:

	2017 £'000	2016 £'000
Actuarial (loss)/gain on scheme assets	(4,747)	4,782
Actuarial (loss)/gain on scheme liabilities:		
Actuarial loss from changes in financial assumptions	(1,384)	(9,565)
Actuarial gain from changes in demographic assumptions	900	—
Changes due to experience adjustments	1,598	—
Other comprehensive expense	(3,633)	(4,783)
Deferred tax adjustment arising on the pension scheme assets and liabilities	690	909
	(2,943)	(3,874)
Cumulative actuarial loss recognised in the statement of comprehensive income (after tax)	(11,346)	(8,403)

The principal assumptions made by the actuaries were:

	2017	2016
Rate of increase in pensions in payment and deferred pensions:		
– on benefits earned prior to 1 December 1999	4.25%	4.30%
– on benefits earned after 1 December 1999	3.35%	3.40%
Discount rate	2.40%	2.60%
RPI inflation	2.90%	3.00%
CPI inflation	1.90%	2.00%
Expected net return on plan assets	2.40%	2.60%
Cash commutation	20%	20%
Life expectancy at age 65 (years):		
– male pensioner member	22.5	22.6
– female pensioner member	24.3	24.6
– male pensioner non-member (age 45 now)	23.9	24.3
– female pensioner non-member (age 45 now)	25.8	26.5

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.

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.

Notes to the financial statements continued

25. Post-employment benefits continued

Sensitivity analysis continued

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	(52,905)	47,279	(5,626)	—
Discount rate less 0.25%	(54,798)	48,493	(6,305)	(679)
RPI and linked assumptions plus 0.25%	(53,070)	47,341	(5,729)	(103)
Members living one year longer than assumed	(55,354)	49,167	(6,187)	(561)

Defined benefit obligation trends:

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Scheme assets	47,279	53,540	47,435	45,524	39,143
Scheme liabilities	(52,905)	(57,203)	(47,850)	(50,740)	(43,581)
Scheme deficit	(5,626)	(3,663)	(415)	(5,216)	(4,438)
Experience gain/(loss) on scheme liabilities	1,598	—	(602)	—	84
Gain from changes in the demographic assumptions for value of scheme liabilities	900	—	1,029	—	1,015
(Loss)/gain from changes in the assumptions for value of scheme liabilities	(1,384)	(9,565)	1,700	(6,667)	28
Experience (loss)/gain adjustments on assets	(4,747)	4,782	1,121	4,252	(474)

Expected maturity analysis of undiscounted pension benefits at 31 December 2017:

	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	2,012	2,106	6,759	65,557	76,433

26. Share capital

Called up issued and fully paid ordinary shares of 1 pence each

	Number	£'000
At 1 January 2017	219,692,972	2,197
Share capital issued	21,610,467	216
At 31 December 2017	**241,303,439**	**2,413**

On 9 March 2017, the Company placed 21,610,467 ordinary shares in the capital of the Company, raising gross proceeds of £37.8 million. The proceeds, net of £968,000 transaction costs, are shown in the statement of changes in equity.

At 31 December 2017, 3,371,972 (2016: 3,371,972) of the shares disclosed above have been subject to share buy-back and were held in treasury.

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, 1,811,951 shares (2016: 908,886 shares), costing £5,102,590 (2016: £3,723,609), 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 £1,828,000 in the year ended 31 December 2017 (2016: £2,465,000), comprising £1,944,000 (2016: £2,261,000) of equity-settled share-based payments, and a credit of £116,000 (2016: charge of £204,000) 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 credit for the year was £205,000 (2016: charge of £12,000).

The following table analyses the total cost between each of the relevant schemes, together with the number of options outstanding:

	Outstanding at 31 December			
	2017		2016	
	Charge £'000	Number of options (thousands)	Charge £'000	Number of options (thousands)
IPO plan	—	—	322	—
Long term incentive plan	753	4,027	1,252	3,225
Deferred share bonus plan	119	103	128	123
Share incentive plan	956	1,812	763	909
	1,828	5,942	2,465	4,257

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 44 to 57.

Executive schemes

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:

	2017			2016			
	Executive schemes*	Other schemes		Executive schemes*		Other schemes	
	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	3,225	123	909	1,221	2,033	59	449
Granted	2,700	—	1,062	—	2,455	90	604
Exercised	—	—	(36)	(1,221)	—	—	—
Lapsed	(1,898)	(20)	(123)	—	(1,263)	(26)	(144)
At 31 December	4,027	103	1,812	—	3,225	123	909

* Executive schemes are granted at £Nil consideration and SIP matching shares are granted at £Nil consideration.

The LTIP awards that were granted on 21 March 2014 and on 8 September 2014 lapsed during the year, as minimum threshold levels set out in the performance conditions were not met.

Notes to the financial statements continued

27. Share-based payments continued

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) 2017	2016
LTIP grants				
21 March 2014–21 March 2017	21 March 2024	—	—	288
8 September 2014–8 September 2017	8 September 2024	—	—	246
16 March 2015–16 March 2018	16 March 2025	—	491	598
31 March 2015–31 March 2018	31 March 2025	—	—	24
21 September 2015–21 September 2018	21 September 2025	—	77	100
22 March 2016–22 March 2019	22 March 2026	—	1,171	1,666
26 September 2016–22 March 2019	22 March 2026	—	138	222
26 September 2016–26 September 2019	26 September 2026	—	23	81
2 May 2017 – 2 May 2020	2 May 2027	—	1,751	—
14 June 2017 – 14 June 2020	14 June 2027	—	345	—
29 September 2017 – 2 May 2020	2 May 2027	—	31	—
DSBP				
22 May 2015–22 May 2018	22 May 2025	—	41	43
5 May 2016–5 May 2019	5 May 2026	—	62	80
SIP				
Monthly rolling grants and vesting three years later		—	1,812	909
			5,942	4,257

The following information is relevant to the determination of the fair value of the awards granted during the year under the schemes:

	LTIP (TSR condition)	LTIP (EPS condition)	DSBP	Share incentive plan
Option pricing model	Monte Carlo/ Stochastic	Black Scholes	Fair value at grant date	Fair value at grant date
Share price at grant date	108p–527p	108p–527p	352p–576p	114p–579p
Weighted average fair value of options granted during the year	66p	144p	n/a	151p
Exercise price	0p	0p	0p	0p
Weighted average share price at date of exercise	n/a	n/a	n/a	151p
Weighted average contractual life	2.98 years	2.98 years	3 years	3 years
Expected dividend yield	1.56–6.94%	1.56–6.94%	2.6–4.26%	n/a
Risk-free interest rate	0.07–0.85%	n/a	0.43–0.8%	n/a
Volatility	19.96–41.9%	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:

	Merger 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 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 1 January 2017	—	(1,894)	(292)	340	(16,095)	(17,941)
Currency translation differences	—	—	(30)	—	—	(30)
Share placing	36,634	—	—	—	—	36,634
Transfer of reserves	(36,634)	—	—	—	—	(36,634)
Movement in fair value of available-for-sale financial assets	—	—	—	1,627	—	1,627
Cash flow hedge: fair value gain	—	2,030	—	—	—	2,030
Cash flow hedge: deferred tax on gain	—	(410)	—	—	—	(410)
Purchase of treasury shares	—	—	—	—	(1,397)	(1,397)
Balance at 31 December 2017	**—**	**(274)**	**(322)**	**1,967**	**(17,492)**	**(16,121)**

The following describes the nature and purpose of each reserve within shareholders' equity:

Merger reserve

Placing of ordinary shares, referred to in note 26, was concluded through a cashbox structure. The distributable merger reserve created on 9 March 2017 has subsequently been transferred to retained earnings.

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.

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.

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.

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.

29. Acquisitions during the prior year

During the prior year the Group acquired ten businesses. The total consideration paid was £39.8 million and goodwill recognised was £19.7 million. The proforma revenue and adjusted EBITDA generated by these businesses in 2016 was £24.7 million and £5.1 million respectively.

Notes to the financial statements continued

30. Operating lease commitments – minimum lease payments

Commitments under non-cancellable operating leases due are as follows:

	2017		2016	
	Property £'000	Vehicles, plant and equipment £'000	Property £'000	Vehicles, plant and equipment £'000
Within one year	24,310	12,215	23,417	14,763
Later than one year and less than five years	51,192	10,465	48,658	20,753
After five years	16,367	53	18,371	—
	91,869	22,733	90,446	35,516

At 31 December 2017, the Group had sub-leased a number of surplus premises and was entitled to receive rents under non-cancellable leases as follows:

	2017 £'000	2016 £'000
Sub-leases		
Within one year	472	385
Later than one year and less than five years	743	755
After five years	21	150
	1,236	1,290

31. Financial instruments

Financial instruments by category

	31 December 2017		
Assets as per balance sheet	Loans and receivables £'000	Available for sale £'000	Total £'000
Available-for-sale financial assets	—	17,085	17,085
Trade and other receivables excluding prepayments	81,787	—	81,787
Cash and cash equivalents	22,533	—	22,533
	104,320	17,085	121,405

	31 December 2017		
Liabilities as per balance sheet	Derivatives used for hedging £'000	Other financial liabilities at amortised cost £'000	Total £'000
Borrowings (excluding finance lease liabilities)	—	211,140	211,140
Finance lease liabilities	—	3,360	3,360
Derivative financial instruments	337	—	337
Trade and other payables excluding non-financial liabilities	—	76,882	76,882
	337	291,382	291,719

	31 December 2016		
Liabilities 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	94,834	—	94,834
Cash and cash equivalents	45,326	—	45,326
	140,160	16,058	156,218

* Restated following further disaggregation of other receivables for 2016 (see note 17).

31. Financial instruments continued

Financial instruments by category continued

	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

32. 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 RCF has therefore been classified as a fixed rate liability in the table below as it is underpinned by the fixed interest rate swap.

The interest profile of the Group's financial assets and liabilities are as follows:

	2017 £'000	2016* £'000
Floating rate assets	22,564	5,313
Fixed rate assets	609	40,408
Interest-free assets	98,232	110,497
Total financial assets	121,405	156,218
Floating rate liabilities	337	71,644
Fixed rate liabilities	213,500	222,949
Interest-free liabilities	77,882	81,953
Total financial liabilities	291,719	376,546

* Restated following further disaggregation of other receivables for 2016 (see note 17).

The average rate at which the fixed rate liabilities were fixed in 2017 was 3.56% (2016: 3.58%) and the average period for which the liabilities were fixed was 365 days (2016: 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 but is subject to an interest rate swap to hedge the interest cash flows (see note 21).

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.

Notes to the financial statements continued

32. Financial risk management continued

Cash flow and fair value interest rate risk continued

	2017 £'000	2016 £'000
Increase in basis points	100	100
Effect on profit before tax (£'000)	(3)	(749)
Decrease in basis points	(50)	(50)
Effect on profit before tax (£'000)	2	374

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 investment strategy. Investment decisions 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 investment.

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 £275 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:

	2017 £'000	2016 £'000
Trade payables	20,461	16,333
Deferred consideration	3,550	6,164
Borrowings	211,140	289,476
Finance lease liabilities	3,360	3,750
Derivative financial instruments	337	2,367
Accruals and other payables	52,871	58,456
	291,719	376,546

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.

	2017 £'000	2016 £'000
In less than one year	68,624	65,718
In more than one year but not more than two years	7,573	11,968
In more than two years but less than three years	210,959	4,163
In more than three years but not more than four years	4,280	293,076
In more than four years but less than five years	—	988
Over five years	1,001	1,045
	292,437	376,958

32. Financial risk management continued

Counterparty credit risk

The Group's financial assets (excluding available-for-sale financial assets) at the year end were as follows:

	2017 £'000	2016* £'000
Cash and cash equivalents	22,533	45,326
Trade receivables	68,918	80,054
Amounts due from customers for contract work	3,356	3,368
Other receivables	9,513	11,412
	104,320	140,160

* Restated following further disaggregation of other receivables for 2016 (see note 17).

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 and 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:

	2017 £'000	2016 £'000
Individual customers	15,130	31,797
Major lenders	10,607	10,346
Other commercial customers	47,392	41,332
	73,129	83,475

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:

	2017 £'000	2016 £'000
Aa3	1,668	—
Aa2	—	10,445
A1	2,927	32,780
A3	17,698	1,975
Other	240	126
	22,533	45,326

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 £17,085,000 (2016: £16,058,000). If the price used in the 2017 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 £0.8 million.

33. 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 revolving credit facility), adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Please note the change in revolving credit facility items and related covenants, and the suspension of dividend payments for 2017 in the chief financial officer's review on pages 26 to 27.

The Group defines capital as the total of equity shareholders' funds and long term borrowings net of available cash balances:

	2017 £'000	2016 £'000
Borrowings (note 20)	214,500	293,226
Cash and cash equivalents (note 18)	(22,533)	(45,326)
Net debt	191,967	247,900
Shareholders' equity	309,137	479,548
Total capital	501,104	727,448
Gearing ratio	38%	34%

Notes to the financial statements continued

33. Capital management continued

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 revolving credit 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:

- 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 2017:

	Level 2 £'000	Level 3 £'000	Total £'000
Assets			
Available-for-sale financial assets	15,766	1,319	17,085
Liabilities			
Derivative financial instrument – interest rate swap	337	—	337
Contingent consideration	—	13,162	13,162

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016:

	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	13,163

There was no change in valuation technique from that applied at 31 December 2016 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 2017 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 values 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.

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:

	2017		2016		
	Available-for-sale financial assets £'000	Contingent consideration in a business combination	Available-for-sale financial assets £'000	Contingent consideration in a business combination	Put options £'000
Opening balance at 1 January	1,919	13,163	449	8,072	2,700
Acquisitions	—	—	1,504	—	(2,700)
Amortisation	(35)	—	(34)	—	—
Impairment	(565)	—	—	—	—
Contingent consideration paid	—	(3,930)	—	(1,743)	—
Gains and losses recognised in profit or loss	—	3,929	—	6,834	—
Closing balance at 31 December	1,319	13,162	1,919	13,163	—

The fair value of contingent consideration is undertaken using a discounted cash flow based on management's expectation of performance of the underlying entities, consistent with operating plans approved. This method continues to be based on unobservable data, and therefore there have been no changes in valuation techniques adopted in the year and no changes in fair value hierarchies in respect of these liabilities.

33. Capital management continued

The contingent consideration relates to amounts payable in the future on eight acquisitions undertaken in prior years require the Group to pay in cash a potential undiscounted maximum aggregate amount of £26.1 million. 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 liability, estimates have been made as to the future profitability of each entity based on management's expectation of performance, consistent with operating plans approved.

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 are being accrued over the relevant periods of one to five years specific to each of the agreements with remaining periods of up to three years. £24.8 million of this contingent consideration is also subject to performance conditions being satisfied. There 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. £7.5 million of this potential contingent consideration is payable in less than one year and there is no material difference in out-turn anticipated. £17.9 million of the potential contingent consideration is payable, on two material acquisitions, between one to three and at five years after the acquisition dates (with residual periods of one and three years remaining) 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 £5.2 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 £4.2 million.

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.

34. 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	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Joint venture	Purchases by Group	**(2,057)**	(2,415)	**(156)**	(169)
Joint venture	Rebate received/receivable	**918**	2,165	**42**	1,134
The Buy To Let Group – Subsidiary	Loan payable	**141**	109	**1,840**	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 2017 regarding related party transactions.

35. Events after the balance sheet date

On 2 February 2018 the Company agreed an amendment letter relating to its term and revolving credit facility with its lender partners which provides the Company with the financial flexibility to invest in the business as it takes action to restore the sales and lettings business back to profitable growth.

Company balance sheet

As at 31 December 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Investments in subsidiaries	5	**386,372**	386,372
Current assets			
Trade and other receivables	6	**241,922**	254,476
Cash at bank and in hand		**52**	40,063
		241,974	294,539
Creditors: amounts falling due within one year	7	**(634)**	(338)
Net current assets		**241,340**	294,201
Total assets less current liabilities		**627,712**	680,573
Creditors: amounts falling due after more than one year	8	**(208,637)**	(289,380)
Net assets		**419,075**	391,193
Capital and reserves			
Share capital	10	**2,413**	2,197
Share premium		**211,838**	211,838
Hedging reserve		**(274)**	(1,894)
Treasury share reserve		**(17,492)**	(16,095)
Profit and loss account		**222,590**	195,147
Total shareholders' funds		**419,075**	391,193

The notes on pages 120 to 124 form an integral part of the Company (registration number: 08340090) financial statements.

As disclosed in note 1, the Company's loss for the financial year was £11,139,000 (2016: £8,646,000).

These financial statements on pages 118 to 124 were approved by the Board of directors and signed on its behalf by:

Himanshu Raja
Chief financial officer
8 March 2018

Company statement of changes in equity

For the year ended 31 December 2017

	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2016		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)
Transactions with owners								
Issue of shares for IPO options		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)
Transactions with owners		1	(1)	—	—	(13,854)	(34,784)	(48,638)
Balance at 1 January 2017		2,197	211,838	—	(1,894)	(16,095)	195,147	391,193
Loss for the year		—	—	—	—	—	(11,139)	(11,139)
Other comprehensive income/(expense)								
Cash flow hedge: fair value gain		—	—	—	2,030	—	—	2,030
Cash flow hedge: deferred tax on gain	9	—	—	—	(410)	—	—	(410)
Total other comprehensive income		—	—	—	1,620	—	—	1,620
Total comprehensive income/(expense)		—	—	—	1,620	—	(11,139)	(9,519)
Transactions with owners								
Issue of share capital	10	216	—	36,634	—	—	—	36,850
Transfer of reserves		—	—	(36,634)	—	—	36,634	—
Share-based payment transactions		—	—	—	—	—	1,948	1,948
Purchase of treasury shares		—	—	—	—	(1,397)	—	(1,397)
Transactions with owners		216	—	—	—	(1,397)	38,582	37,401
Balance at 31 December 2017		**2,413**	**211,838**	**—**	**(274)**	**(17,492)**	**222,590**	**419,075**

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 The Companies Act 2006 as applicable to companies using 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 £11,139,000 (2016: £8,646,000).

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

Please refer to note 2 of the consolidated 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.

1. General information and accounting policies continued

(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.

(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.

Going concern

Please refer to note 3 of the consolidated financial statements.

Investments in subsidiaries and intercompany receivables

The directors periodically review investments in subsidiaries and intercompany receivables 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 2017.

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.

Notes to the Company financial statements continued

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 52 and are summarised below.

	2017 £'000	2016 £'000
Wages and salaries	**1,694**	1,489
Share-based payments	**236**	763
Social security costs	**240**	219
Post-employment benefits – salary supplement	**150**	137
	2,320	2,608

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 on page 52.

4. Dividends

	2017 £'000	2016 £'000
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2016 of nil pence (net) per share (2015: 10.0 pence (net) per share)	**—**	21,963
– interim dividend for the year ended 31 December 2017 of nil pence (net) per share (2016: 5.0 pence (net) per share)	**—**	10,817
Total	**—**	32,780

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2017.

5. Investments in subsidiaries

	2017 £'000
Cost	
At 1 January 2017 and 31 December 2017	**386,372**
Accumulated impairment	
At 1 January 2017 and 31 December 2017	**—**
Net book amount	**386,372**

At 31 December 2017, 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

	2017 £'000	2016 £'000
Amounts falling due within one year		
Amounts owed by Group undertakings	**238,729**	250,308
Group relief receivable	**2,892**	3,372
Deferred tax asset (note 9)	**220**	698
Prepayments and accrued income	**66**	84
Other debtors	**15**	14
	241,922	254,476

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

	2017 £'000	2016 £'000
Trade creditors	**67**	55
Other creditors	**567**	283
	634	338

8. Creditors: amounts falling due after more than one year

	2017 £'000	2016 £'000
Bank borrowings	210,000	290,000
Derivative financial instruments	337	2,367
Capitalised banking fees	(1,700)	(3,223)
Other creditors	—	236
	208,637	289,380

At the year end, the facility was 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 was payable based on LIBOR plus a margin of 3.0%. 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, interest cover and leverage covenants and £80 million was repaid during the period (see note 20 of the consolidated financial statements).

On 2 February 2018 the Company agreed an amendment relating to the RCF, originally dated 20 March 2013, which was due to expire in March 2020 (see note 12). The RCF is now £275 million, with additional £60 million accordian facility, with a margin of 3.25%.

Capitalised banking fees are being amortised over the duration of the RCF, until March 2020.

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.

9. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17%–19% (2016: 17%–20%). The movement on the deferred tax account is shown below:

	2017 £'000	2016 £'000
Deferred tax asset at 1 January	698	1,138
Charged to income statement	(68)	(913)
Credited to other comprehensive income	(410)	473
Deferred tax asset at 31 December	220	698
Deferred tax asset expected to unwind within one year	60	84
Deferred tax asset expected to unwind after one year	160	614
	220	698

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.

	2017		
	Asset £'000	Charged to income £'000	Credited to other comprehensive income/equity £'000
Origination and reversal of temporary differences			
Share-based payments	157	(68)	—
Cash flow hedge	63	—	(410)
	220	(68)	(410)

	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

There are no unused tax losses.

Notes to the Company financial statements continued

10. Called up share capital

Called up issued and fully paid ordinary shares of 1 pence each

	Number	£'000
At 1 January 2017	219,692,972	2,197
Share capital issued	21,610,467	216
At 31 December 2017	**241,303,439**	**2,413**

On 9 March 2017, the Company placed 21,610,467 ordinary shares in the capital of the Company, raising gross proceeds of £37.8 million. The proceeds, net of £968,000 transaction costs, are shown in the statement of changes in equity.

At 31 December 2017, 3,371,972 (2016: 3,371,1972) of the shares disclosed above have been subject to share buy-back and were held in treasury.

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, 1,811,951 shares (2016: 908,886 shares), costing £5,102,590 (2016: £3,723,609), were held in relation to matching shares of the SIP scheme.

11. Auditors' remuneration

The auditors' remuneration for the audit of the Company is disclosed in note 7 to the consolidated financial statements. Fees paid to the auditors 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

On 2 February 2018 the Company agreed an amendment letter relating to its term and revolving credit facility with its lender partners which provides the Company with the financial flexibility to invest in the business as it takes action to restore the sales and lettings business back to profitable growth.

Appendix

Related undertakings of the Group as at 31 December 2017

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 Ltd	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 Ltd	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	1	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) Ltd	2	UK	100%	Indirect
CHK (Esher) Limited	2	UK	100%	Indirect
Cliftons International Ltd	2	UK	100%	Indirect

Appendix continued

Company name	Registered address (refer to note)	Country of incorporation	% owned	Direct/ indirect (Group interest)
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 Ltd	2	UK	100%	Indirect
Duck & Hedges Limited	2	UK	100%	Indirect
Edinburgh Property Letting Limited	6	UK	100%	Indirect
Elite Property (Berks) Ltd	2	UK	100%	Indirect
Entwistle Green Limited	2	UK	100%	Indirect
Executive Property Services Residential Ltd	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
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

Company name	Registered address (refer to note)	Country of incorporation	% owned	Direct/ indirect (Group interest)
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
Hamptons Property Consultancy Limited	20	Barbados	100%	Indirect
Harecastle Limited	7	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 Ltd	2	UK	100%	Indirect
Herring Baker Harris Europe Ltd	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 Ltd	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
Lambert Smith Hampton (NIreland) 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

Appendix continued

Company name	Registered address (refer to note)	Country of incorporation	% owned	Direct/ indirect (Group interest)
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 Ltd	2	UK	100%	Indirect
Letmore Lettings Ltd	2	UK	100%	Indirect
Letmore Management Ltd	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 Ltd	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	2	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 Ltd	2	UK	100%	Indirect
Ohmes Limited	2	UK	100%	Indirect
Palmer Snell Limited	2	UK	100%	Indirect
Patterson Bowe Ltd	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

Company name	Registered address (refer to note)	Country of incorporation	% owned	Direct/ indirect (Group interest)
Plaza Letting Agents Limited	2	UK	100%	Indirect
Poolman Harlow Limited	2	UK	100%	Indirect
Portfolio Letting Agents & Consultants Ltd	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 Ltd	2	UK	100%	Indirect
R.A. Bennett & Partners Ltd	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 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 Ltd	2	UK	100%	Indirect
Spencers Estate Agents Limited	2	UK	100%	Indirect
Spencers Surveyors Limited	2	UK	100%	Indirect
Sprint Property Acquisitions Ltd	2	UK	100%	Indirect
Statehold Limited	3	UK	100%	Indirect
Stoberry Lettings Ltd	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 Ltd	2	UK	100%	Indirect
Sutton Kersh Holdings Ltd	2	UK	100%	Indirect
Tablesign Limited	2	UK	100%	Indirect
Taylors Estate Agents Ltd	2	UK	100%	Indirect
The Butler Club Limited	2	UK	100%	Indirect
The Buy To Let Business Limited	5	UK	51%	Indirect
The Buy To Let Group Limited	5	UK	51%	Indirect
The Flat Managers Limited	2	UK	100%	Indirect
The Good Mortgage Company Ltd	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

Appendix continued

Company name	Registered address (refer to note)	Country of incorporation	% owned	Direct/ indirect (Group interest)
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. 86-88 Leeson Street Lower, Dublin 2, DO 2 A668, Ireland
20. Heritage House, Pinfold Street, Bridgetown, Barbados

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Chief financial officer
Himanshu Raja

Company secretary
Gareth Williams

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Registered in England
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Caldecotte
Milton Keynes MK7 8JT

Registrar

Link Asset Services*
The Registry
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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	25 April 2018
Interim results	July 2018

*Shareholder enquiries
The Company's registrar is Link 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.

Link Asset Services is a trading name of Link Market Services Limited.

Link shareholder helpline: 0871 664 0300 (calls cost 12 pence per minute plus network extras) (Overseas: +44 371 664 0300)

Email: enquiries@linkgroup.co.uk

Share portal: www.countrywide-shares.co.uk

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

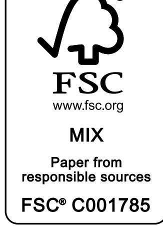
This report includes forward-looking statements, which involve risks and uncertainties. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms ‘believes’, ‘estimates’, ‘anticipates’, ‘expects’, ‘intends’, ‘may’, ‘will’ or ‘should’ or, in each 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.



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