Countrywide

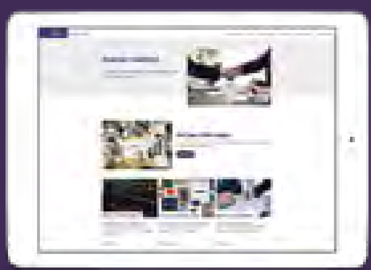
Our next chapter

Annual Report 2018

Contents

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.



For more information, view our website:

www.countrywide.co.uk

2018 results

Financial results[1]

Group income[1]
£627.1m
(2017: £672.8m)

Adjusted EBITDA[2]
£32.7m
(2017: £65.6m)

Loss for the year
£218.2m
(2017: £207.3m)

Basic loss per share
30.8p
(2017: 89.3p)

Adjusted earnings per share[3]
0.6p
(2017: 8.7p)

Net debt to adjusted EBITDA ratio[4]
2.2x
(2017: 3.0x)

1. 2017 comparatives restated for the Group following the adoption of IFRS 15 (impacting Sales and Lettings and B2B) and a prior year error correction (impacting Sales and Lettings). All 2017 comparatives impacted by these changes are restated hereafter (see note 2).
2. 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 for justification of this alternative performance measure.
3. 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) (see note 13).
4. Net debt to adjusted EBITDA ratio (see note 32).

Operational results

Properties exchanged
46,828

18	46,828
17	54,205

Properties under management
125,014

18	125,014
17	125,914

Income from complementary services[1]
44p

18	44
17	38

Mortgages completed
£20.3bn

18	20.3bn
17	17.7bn

Surveys and valuations
381,893

18	381,893
17	365,223

1. Complementary services is the income earned for each £1 of estate agency income from other Group services such as conveyancing and financial services.

At a glance

We are the clear market leader in the property services sector and our diversity across products, geography and customer segments provides resilience throughout the property cycle.

Breadth of our offering

- Sales
- Lettings
- Surveying
- Conveyancing
- Land and new homes
- Mortgages and insurance
- Asset management
- Commercial

Branches

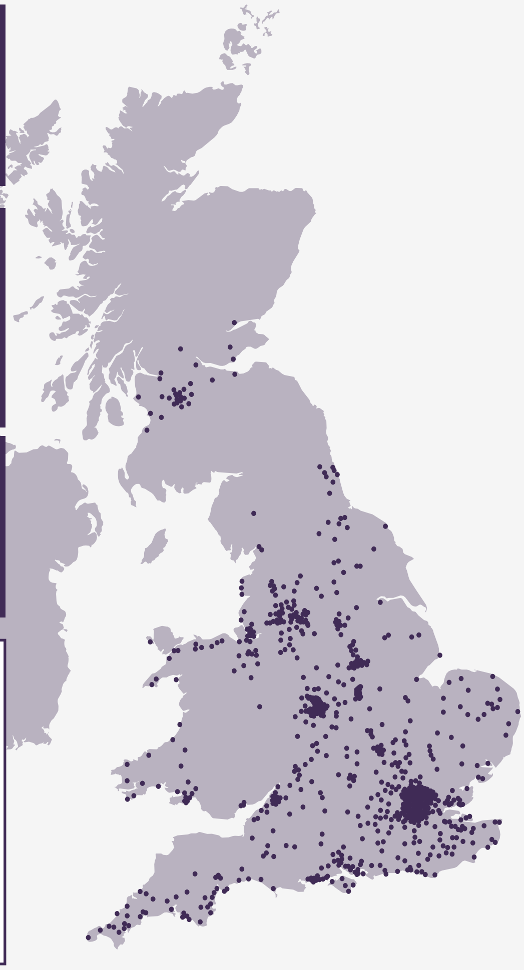
850+

“We are the largest employed mortgage distributor in the UK”

Moves assisted each year

86k+

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.



A selection of our brands

bridgfords

Slater Hogg & Howison

Bairstow eves

Buy to Let business

Our segments

Sales and Lettings

Our Sales and Lettings business consists of approximately 870 physical locations across 65 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)

329.2

-9% (2017[1]: 361.5)

Adjusted EBITDA (£m)

1.2

-96% (2017[1]: 27.4)

Read more in our segmental review pages 18 to 19

Financial Services

We have a dedicated network of over 520 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)

83.9

-4% (2017: 87.3)

Adjusted EBITDA (£m)

16.6

-16% (2017: 19.7)

Read more in our segmental review pages 20 to 21

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)

213.3

-3% (2017: 220.7)

Adjusted EBITDA (£m)

27.9

-21% (2017[1]: 35.5)

Read more in our segmental review pages 22 to 23

1. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).

JOHN D WOOD & CO.

HAMPTONS INTERNATIONAL

Mortgage Intelligence

Lambert Smith Hampton

Our next chapter

At Countrywide we believe we should be the authors of our own success.

Over the last year we've reset the business, built strong foundations and developed a strategy that underpins our future.

We're ready to start our next chapter.

We're ready to start our next chapter

"I am confident that in Countrywide we have a first-class team who will help restore our growth and retain our leading position in the market place."

Peter Long
Executive chairman

2018 was undoubtedly one of the most challenging years that the Group has faced. It was one where, to ensure the future success of our business, we made extensive management changes, reset our strategy and implemented a capital refinancing plan. These measures allowed us to put in place the strategic levers for our three-year turnaround plan.

The retail-centric strategy, centralised decision-making and significant investment in head-office based functions that was introduced in the business in October 2015, together with a significant increase in the Group's indebtedness as a result of acquisitions, dividend payments and share buybacks, resulted in a sharp loss of market share within Sales and Lettings and decline in profitability that overshadowed the stronger performance in other areas of the Group.

In January 2018, following a Board review of the business, the former chief executive left the Company and I was appointed executive chairman. We were in the fortunate position that within the Group we have an industry expert, Paul Creffield, who at that time was responsible for our B2B division but prior to 2015 had led our successful Sales and Lettings business in London. He was appointed group operations director and immediately began to strengthen our Sales and Lettings team both through internal promotion and external appointments, a number of whom returned to the business having left under the previous management. In August, I was delighted to announce that Paul would be promoted to group managing director and join the Board.

In August, we also announced a capital refinancing plan which resulted in us raising £125 million (after deduction of commissions, fees and expenses) by way of a firm placing and placing and open offer. We sought to make the fundraising as inclusive as we could for all shareholders and know that some retail investors were disappointed by the structure of the capital raising. To secure the future of the Company, however, we had no alternative but to raise the capital in the way that we did. This was a substantial fundraising and I would like to thank all shareholders, both existing and new, who have shown confidence in the Group's strategy and turnaround plan.

Financial results

I am pleased to report that in this reset year for the Group, and against a backdrop of increasing geo-political and economic uncertainty, we have delivered financial results in-line with the Board's expectations, setting our baseline for our turnaround plan. Two fundamental areas of focus have been on restoring listings and building the pipeline within our Sales and Lettings business, both of which we have achieved. In terms of the pipeline, having started the year 19% down on the previous year, we ended 2018 with the pipeline flat year-on-year. Pleasingly the UK, excluding London, which accounts for 64% of this business unit's income, finished the year up 5%.

Income for the year reduced from £673 million to £627 million. Adjusted EBITDA at £33 million was £33 million lower than the prior year. Loss for the year stood at £218 million (2017: £207 million) and adjusted earnings per share (EPS) was 0.6 pence versus 8.7 pence in 2017.

As stated in August, the Group does not expect to pay dividends in the medium term and there will, therefore, be no dividend for the 2018 financial year.

Three-year recovery plan

We have reset the strategy for the Group, under-pinned by a "back to basics" principle within Sales and Lettings. Our business is led by experienced industry experts and now that we have a sensible long-term capital structure in place, we are focused on our three-year turnaround. Rigorous planning by our teams gives the Board confidence that, in the normal course of business, we have a sound three-year plan which sets the Group up for long-term future success.

Our strategy comprising five pillars outlined below will be covered in greater detail within the annual report:

- "Back to basics" in Sales and Lettings: Having lost focus on what the Group had traditionally done well, resulting in a significant loss of market share in Sales and Lettings, the Group has taken a range of actions to restore both market share and profitability;
- Increased sales of complementary services: This had reduced from 50p in the £1 at the time of flotation in 2013 to 38p in the £1 in the financial year 2017. The actions taken by the Group saw this increase to 44p at the end of the financial year and further growth is targeted in the three-year plan;
- Cost efficiency: This will be achieved through a number of measures including reduction in central functions, transformation of the Group's IT estate and investment in contact centre optimisation;
- Continued growth in B2B and Financial Services: The Group has strong positions within these markets which it will seek to expand and enhance as part of the three-year turnaround; and
- Financial discipline and cash flow: In addition to reduced interest costs, focus is on bringing a greater financial discipline to budgeting and the forecasting process coupled with a more rigorous approach to working capital management.

Board changes

At the conclusion of the Annual General Meeting in April 2018, Richard Adam stepped down from the Board. On 1 October Mark Shuttleworth joined the Board. An experienced finance leader, he has considerable restructuring and turnaround experience. On 1 January 2019, Mark took on the role of Chair of the Group Audit and Risk Committee.

Colleagues

The future success of Countrywide not only lies with its sound financial structure and robust and deliverable growth plan. As important are the colleagues across the Group who in very trying circumstances, not only in 2018 but also in previous years, have shown dedication and commitment to our Group.

Some very tough decisions have needed to be taken and the results achieved would not have been possible without a fantastic team of colleagues who will continue to play an integral part in our future success.

On behalf of the Board, I would like to personally thank our colleagues for all their efforts. I am confident that in Countrywide we have a first-class team who will help restore our growth and retain our leading position in the market place.

Outlook

We have been encouraged by the progress made in 2018 in resetting the business as part of our return to growth strategy. The principles within "back to basics" in Sales and Lettings resulted in the growth in the register and the sales pipeline in the UK, coupled with an increase in market share of listings.

The market weakness we encountered in Q4 due to the uncertainties surrounding Brexit ,which are not only affecting our sector but also the wider economy and consumer confidence as a whole, have continued into 2019. As a result, we are experiencing a slow-down in residential and commercial property transactions, in particular in London and the South. This will affect our H1 EBITDA by some £3 - £5 million. We currently expect full year EBITDA to be broadly in-line with 2018, (after absorbing the impact of the ban on tenant fees of £9 million, effective from June) although it is too early to anticipate whether we will be able to recover the H1 shortfall in our traditionally stronger H2. As a Group we are in a stronger position than we have been for some considerable time with sound business fundamentals and, despite the difficult market conditions we are facing, we remain confident in delivering our turnaround.

Peter Long
Executive chairman

7 March 2019

"We made extensive management changes, reset our strategy and implemented a capital refinancing plan. These measures allowed us to put in place the strategic levers for our three-year turnaround plan."

Our business model

Creating value for our key stakeholders

Customers | People | Shareholders

Cost efficiency

Financial discipline and cash flow

Our values

Products and services

- Sales
- Lettings
- Mortgages and insurance
- Surveying
- Conveyancing
- Land and new homes
- Asset management
- Commercial

How we create revenue

B2C

- Estate agency
- Lettings
- Mortgages
- Insurance
- Conveyancing

B2B

- Mortgage lending and distribution
- Land and new homes
- Asset management
- Commercial property management
- Surveying

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

- Multichannel
- Branch network
- Complementary services
- Strategic partnerships

Optimising our resources

- Brands
- People
- Cost efficiency
- Cash

Connecting people and property

We aim to deliver sustainable stakeholder value through investment in our people and by delivering market-leading products and services for our customers in Sales and Lettings, Financial Services and the B2B sector.

Creating value for our key stakeholders

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
We provide straightforward products and services that deliver what our customers need to help them throughout their lifetime property journeys.

People
Our aim is to develop, retain and recruit the most dynamic, talented and professional people and create a culture where people are valued, can be themselves, develop and realise their potential.

Shareholders
Our strategy aims to deliver long-term sustainable shareholder value.

Communities
Successfully delivering our strategy supports the property dreams of thousands of people and businesses each year. We provide careers for over 10,000 colleagues who support national and local charities.

Read more on our stakeholders and our values on pages 30 to 35

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

Multichannel
We utilise all our channels, in branch, by phone, and online, to market our products more effectively and support our customers through the channels of their choice and at times that suit them.

Branch network
Our national network of 870 branches is the foundation of our operating model. We have invested in our existing branch network to provide industry expertise and local knowledge.

Complementary services
We offer a suite of services to meet all of the 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
Our multiple brand strategy allows us to focus on specific sectors of both regional and national housing markets and tailor our products and services appropriately.

People
We invest in recruiting, training and developing 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, together with a sustainable and scalable infrastructure that supports our colleagues in the branch and fee earners in B2B.

Cash
We are committed to driving operating cash flow and in prioritising our capital allocation we remain committed to reducing leverage to less than 1x. Cash management is a key performance metric for all business units.

5 pillars of future profitability

We have a clear strategy to turn the business around and deliver profitable growth.

Our strategic focus	Key priorities
1: "Back to basics" in Sales and Lettings	• Build back capability and expertise at branch, territory and regional level, and through that grow the register of properties available for sale and pipeline • Reduce spans of control • Split Sales and Lettings management • Grow our market share of listings
2: Income from complementary services	• Focus on complementary services in each property transaction • Grow revenues in Financial Services and Conveyancing • Investment in lawyer and mortgage and protection consultant (MPC) numbers to support growth
3: Cost efficiency	• Mobilise programme to transform the aged IT infrastructure and applications • Launch programme to optimise customer contact centre processes and costs • Reduce functional costs to efficient operational levels and investing back into our branch network
4: Continued growth in B2B and Financial Services	• Grow coverage of MPC and lawyer numbers to optimise productivity and branch coverage • Plans being reviewed to be more productive with existing customers and facilitating their remortgages • Plans to increase permanent staff and focus on the consumer opportunity for surveys in our surveying business • Continue to explore opportunities with new developers/capitalise on urban regeneration opportunity
5: Financial discipline and cash flow	• Equity raise of £125 million (net) and re-set revolving credit facility and covenants • Reduced leverage to 2.2x • Focus on maximising operating cash flow

Three year turnaround 2019-2021	The size of the prize
• Focus on winning stock, growing register and pipeline of fees • Continue to grow market share	Illustrative impact on adjusted EBITDA **£5m– £10m**
• Grow income from complementary services to greater than 55p per £ of estate agency revenues	**£10m – £15m**
• IT transformation and deliver 30-35% reduction in IT costs by 2021 • Complete contact centre optimisation and deliver 15-20% reduction in contact centre costs by 2021 • Deliver 5-10% cost reduction in Group-wide overheads by 2021	**£15m – £20m**
• Branch MPC numbers to average > 600 • Significant increase in existing customers remortgaging with us • Growth in Surveyors B2C instructions • Increase share of sales of new homes • Improvement in market share of listings of new homes	**£4m – £8m**
• Focus on reducing leverage to 1.0x in the medium term	Illustrative impact on interest costs **£4m – £6m**

Strategic progress

2018: A year of reset

We have made significant progress in a very short time. There is more to do.

1: "Back to basics" in Sales and Lettings

- UK register up 9%
- UK sales pipeline up 5%
- Listings market share up from 7.29% to 7.73% during 2018
- Strengthened management team with experience – built branch staff to operational levels
- Fee discipline in place with fixed fees with pipeline underpinned by material level of fixed fee arrangement
- Sales and Lettings structure finalised – far better spans of control in place now
- Separate regional and branch management structure in place and service line P&Ls introduced
- Clear plans in place to turnaround loss making branches

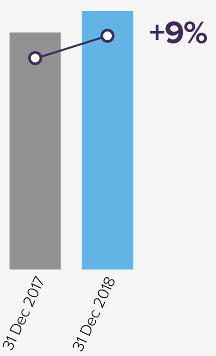
2: Income from complementary services

- Complementary services continuing to build with pence in the £ growing from 38p in 2017 to 44p in 2018
- Clear focus on how complementary services can drive better outcomes for the customer underpinned by investment in training
- Stronger alignment of Financial Services (FS) and Conveyancing complementary services across the Group
- Sales management driving close alignment on all complementary services - FS, Conveyancing, Surveying and New Homes
- Investment in lawyer and mortgage and protection consultant numbers is underway to support growth

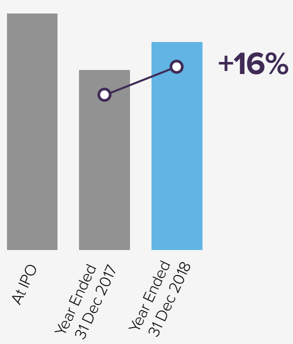
3: Cost efficiency

- Group wide functional costs (excluding IT) reduced by 14% in 2018, allowing for reinvestment back into our branch network, opportunity for further 5-10% p.a.
- Closed larger London HQ and relocated to smaller offices in Aldgate
- IT transformation mobilised and underpins three year cost opportunity of 30-35% cost savings on IT cost base (from 2017 base) whilst ensuring systems provide the foundation for the build back and a differentiator for us
- Transformation underway to establish optimal customer contact centre (CCC) design and processes and planning to achieve 15-20% cost savings p.a.

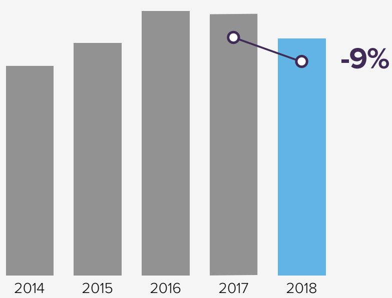
Closing register units in UK Sales and Lettings



Complementary services income for every £1 of Sales and Lettings income (£)



Indirect costs (£m)



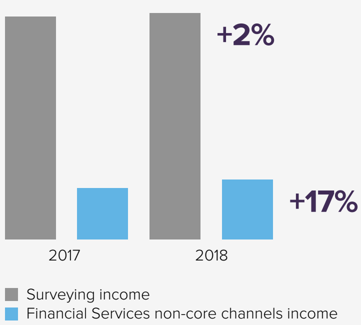
4: Continued growth in B2B and Financial Services

- Advanced plans in place to grow mortgage and protection consultant numbers in the branch channel during 2019
- Continued investment to grow alternative FS channels, and online opportunities within Surveying
- Good progress in land & new homes with register up 49% year on year. Sales capability now integrated with estate agency branches
- Key client contracts retained in valuations
- Key client retentions in Lambert Smith Hampton (LSH)

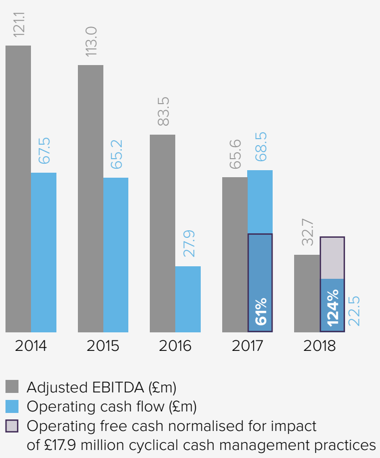
5: Financial discipline and cash flow

- Successful equity raise of £140 million through firm placing and placing and open offer to reduce Group debt and reset revolving credit facility covenants
- Net debt in 2018 at £71 million and leverage down to 2.2x
- Underlying operating free cash of £40 million (after unwind of £18 million of previous cyclical cash management), a conversion of 124%
- A continued focus on debt collection with significant improvements in LSH in 2018

Growth in Surveying income and Financial Services non-core channels income (£m)



Operating cash flow (OCF) conversion



Read more detail on page 16

Strong fundamentals and future opportunities

We are the market leader in a highly fragmented and fundamentally robust UK real estate sector.

Housing market

The housing market in 2018 has been over-shadowed by the continuing political and economic uncertainty from the UK's planned exit from the European Union on 29 March 2019 ("Brexit"), resulting in the overall market for housing transactions in the UK being down 2.1% at 1,194,830 (2017: 1,220,060).

House prices

The pace of house price growth gradually slowed throughout 2018. Prices at the end of the year were 2.8% higher year on year to November 2018, (compared to 4.5% growth at November 2017) (Source: Office of National Statistics).The national average has been dragged down by weaker performance in London and the South where affordability and changes to tax policy have hit hardest. Average house price growth in the Midlands ended the year to November 2018 4.5% higher than in 2017, while prices in London for the same period were 0.7% below last year's level.

The regional pattern of sales over the year was similar. While activity fell in each region compared with 2017 (year to August 2018 comparison on Her Majesty's Land Registry data) the average fall in the Midlands and North was half of that in London and the South.

Mortgage market

Gross mortgage lending rose by 3% to £269 billion (Source: UK Finance) in 2018. This was supported by continued strength in remortgaging. There were 4.2% more remortgage approvals in the year to November 2018 (Source: Bank of England) than the previous year.

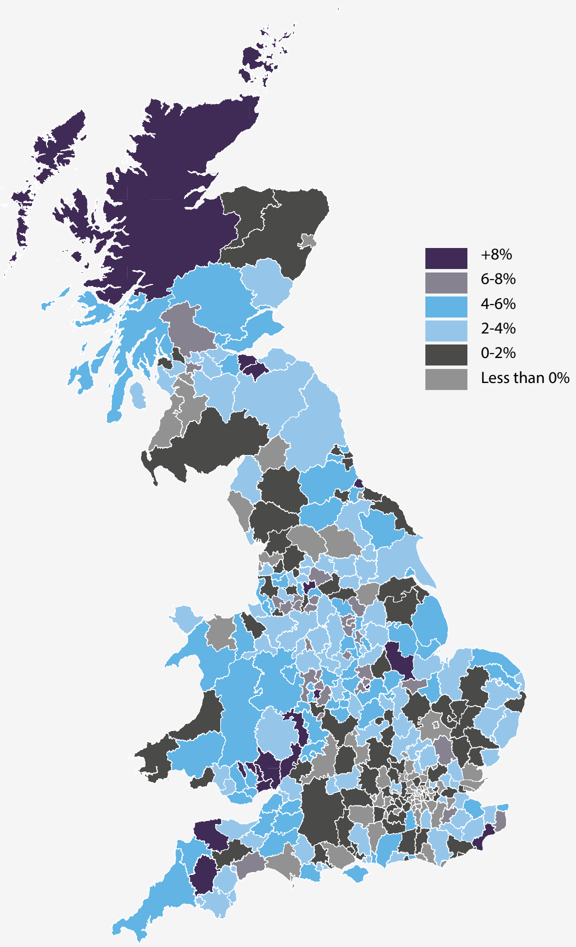
In contrast there were 2.5% fewer approvals for house purchases over the same period as market conditions became tougher.

The absence of buy to let business continued to impact on overall market lending. Despite the 25bp increase in the bank rate in August 2018, mortgage rates have been falling across all product types as lenders compete for business.

Lettings

Over the course of 2018 rental growth in Great Britain slowed despite lower stock levels. There were 4% fewer properties available to rent in 2018 compared with 2017 as the reduction in tax relief available to landlords weighed on investor purchases and caused some of the most indebted landlords to sell up. (Source: Association of Residential Letting Agents).

House price growth in the UK (2018 v 2017)



However, affordability is an issue for tenants and this is keeping a cap on rental growth. The rate of rental growth in Great Britain fell from 2.4% in 2017 to 0.4% in 2018. The fall was mainly driven by a slowdown in London rents, where affordability is tightest. Rental growth in the capital decreased from 3.2% in 2017 to 0.1% in 2018. (Source: Countrywide data).

UK commercial investment market

In spite of persistent uncertainty around Brexit, 2018 was a relatively strong year for the UK commercial property market, with investment market activity and returns in 2018 running ahead of the consensus view at the beginning of last year.

The overall picture belies a substantial variation in performance between the key commercial sectors. A substantial and structural change in shopping patterns is leaving the UK effectively over shopped leading to falling values and increased vacancy rates in the retail sector. Meanwhile, strong demand for industrial and logistics space linked to the growth in ecommerce saw investors and developers flock to the sector in 2018, evidenced by sector leading rental growth and record volumes of £8 billion.

As we approached the end of 2018 we saw greater evidence of uncertainty in the markets feeding through into transaction levels. Looking forward into 2019, we are cautious around activity volumes in the capital investment and occupier markets. The economic and political uncertainty against the backdrop of Brexit is causing investors in particular to sit on their hands and wait on the outcome. This will have an impact on the commercial markets which we expect to be more notable in the first half of 2019.

Outlook for 2019

The outlook for 2019 falls in the shadow of the UK's exit from the EU. The uncertainty arising from the delay in securing a deal continues to affect confidence. Availability of finance however remains strong, with fierce competition among lenders.

In the short-term, there are few signs that levels of activity will pick up from 2018 levels. Transaction volumes will be hindered by affordability levels and uncertainty. The resulting lack of stock liquidity means that deals will take longer to complete. Tax policy means that buy to let investors will not be returning in the short term and affordability is continuing to limit new demand in the homebuyer market.

In 2019 we expect house prices to be broadly flat reflecting the market uncertainty and impact this is currently having on public sentiment. The slowdown will be more pronounced in London and the South, with London prices expected to fall by a greater level year on year in 2019 as the capital is hit harder by Brexit uncertainty and stretched affordability.

Rental growth

Source: Hamptons International Lettings Index (based on Countrywide data).

Our key strengths

"2018 was a year of reset for the business and we are now positioned to move forward into profitable growth, not withstanding the challenging market."

Paul Creffield
Group managing director

2018 was certainly a year of change not only for the Group but also for me personally. At the start of the year we identified that our strategy required resetting. Following management changes early in 2018, I assumed the role of group operations director, assuming responsibility for our Sales and Lettings business and spearheading our "back to basics" principle. In August I became group managing director, continuing our reset and return to profitable growth.

All this could not have been achieved without the help and dedication of our colleagues across the Group and I want to take this opportunity to thank everyone for their commitment and drive to support our turnaround.

We are clearly trading against a tough external environment that is well covered in the media most notably; coverage around house prices, transaction numbers and Brexit.

All this results in uncertainty in people's minds, impacting on sentiment and causing some reticence amongst homebuyers and sellers. Against that backdrop, I am delighted that we have been able to build back our register of available stock and pipelines of fees in our UK Sales and Lettings business.

Our diversity in the property services sector benefits us and in particular I would call out an excellent performance by our Hamptons lettings business, where we saw income increase by 5% year on year and units under management also up 4% year on year against a market that is decreasing in size.

Our three-year recovery plan progress

As our executive chairman, Peter Long, has commented, our three-year plan comprises five key pillars and I am delighted to be able to report on progress against each of these:

1. "Back to basics" in Sales and Lettings

We advised the market at the beginning of the year of our intention to build back staffing and expertise in our Sales and Lettings business at regional, area and branch level. We shared our plan to separate our service lines of sales and lettings to report into dedicated management to help us achieve the right level of support and direction for each business area. I am delighted to say that this has been achieved, and at regional level we now have 89 regional directors in post, all of whom are very experienced in their fields of operation. We also welcomed back over 300 colleagues who had previously left the business.

We have decentralised our business and significantly reduced our overheads and re-invested the cost savings to fund the build back in front-office and experienced staff. In addition, our local management have been empowered with marketing and people budgets so they can better react to local market conditions.

As a result, we have seen our market share of listings grow from 7.29% at the beginning of 2018 to 7.73% in December. This translates through to our UK trading Sales business seeing their register of available stock up 9% year on year.

2. Income from complementary services

In a tough trading environment, we are well placed with our Group businesses to improve sales of complementary services which include; conveyancing and the provision of mortgages, insurance and protection products to both our buyers and sellers. We stated that this will be a core focus for us. We entered 2018 with complementary services income generated by our Sales business at 38p for every £ generated in Sales income. I am delighted to state that at the end of 2018 we achieved an average throughout the year of 44p in the £, an increase of 16%. We intend to build upon this success over the next three years.

3. Cost efficiency

Our plan is to invest in our IT infrastructure and applications which have lacked investment over the years. As a result, the operating costs grew dramatically on an aged IT estate. We also committed to invest in our processes and contact centres to modernise and improve customer service alongside reducing operating costs. This is a three-year programme and I'm pleased to say we are tracking in-line with the plan.

We have also committed to reducing further our central overheads and driving efficiency from our central functions. During 2018 we reduced our central function costs by 14% year on year and we expect further savings over the three-year plan period.

4. Continued growth in B2B and Financial Services

Our B2B businesses delivered a resilient performance in 2018. Our Conveyancing business is starting to see pipeline growth and will benefit from the additional instructions through the complementary services section above. Our commercial business, Lambert Smith Hampton is experiencing significant slowdown in its transactional market as a result of the political and economic uncertainty surrounding Brexit. The new homes business is particularly exciting as we have been winning many new schemes that will mature through to release and sale in 2019 that will boost our exchange numbers moving ahead.

Our surveying business was affected in Q4 as mortgage lending by our key clients reduced, but since Christmas we are seeing a significant upturn in their lending. Overall, the surveying business delivered a robust performance in a challenging market and we are well positioned for 2019.

Prior to 2018 we experienced an overall decline in the focus of our Financial Services business within Sales and Lettings. This was largely due to the amount of changes in the UK Sales and Lettings business, and as a result we have seen a reduction in our Mortgage and Protection Consultant (MPC) headcount this year. This has impacted performance in our core branch-based Financial Services business but we are confident this will return as headcount is being built back and an improved retention plan introduced. Other specialist network and Financial Services businesses moved ahead year on year. I am also delighted to report that in 2018, we placed over £20 billion of mortgage business, a new record for the group. We expect further growth in this exciting business as we launch further initiatives to improve the penetration of our remortgage business for customers who previously obtained their mortgage through us. As we sell more properties, this will deliver further opportunity to grow the written mortgage numbers.

5. Financial discipline and cash flow

Good progress has been made on our approach to working capital management and an Investment Committee now oversees our investments. We are prioritising investment into our IT estate, contact centre modernisation and our branch network.

Debt collection has received strong focus through 2018 and debtor days have reduced in our commercial business, Lambert Smith Hampton.

The capital refinancing, together with our focus on working capital management, resulted in net debt for the full year down to £70.7 million and net debt to adjusted EBITDA ratio of 2.2x.

Summary

Significant progress was made in 2018 as we reset the strategy and delivered a capital refinancing plan that gives us the stability and flexibility to execute our three-year turnaround plan. Having built back our industry expertise and staffing levels within our Sales and Lettings business, we now have a register and pipeline that is in positive territory and gives us the solid trading base to move forward. External factors will continue to challenge the industry, but the long-term UK housing market fundamentals remain strong. As we look ahead long-term, we believe that we have the right strategy in place to maximise these opportunities.

"The five pillars of our strategy and future profitable growth are now well founded. With the quality and experience of our people and loyal support of our customers, I am confident as to the future."

Paul Creffield
Group managing director

7 March 2019

Managing director's review

Sales and Lettings

Summary

- Total income down 9%; adjusted EBITDA of £1.2 million, down 96%
- Properties under management 86,415, down 3%; Lettings income down 1%
- 43,769 homes exchanged, down 13%
- Average FTE down 2% to 5,467

At the heart of our "back to basics" principle in Sales and Lettings was to build back industry expertise to support the growth in the register of properties available for sale, to grow the pipeline of agreed sales in the UK and to improve income from complementary services. The build back of industry expertise is now largely complete, with experienced managing directors for the North, South, Hamptons and our Premier & City business; and we have a full complement of staffing and separate Sales and Lettings expertise at regional and branch management level. At a territory level, we have seven seasoned managing directors now in place supported by 89 regional managers giving an average span of control of around ten branches for each territory.

Sales

We are encouraged by the progress we have made in "back to basics" and in the growth in the register and the pipeline in the UK. The register of properties available for sale in UK Sales and Lettings was up 9% year on year. The pipeline of agreed sales awaiting exchange of contracts in UK Sales and Lettings was up 5%, having begun the year down 21%.

Our estate agency income fell by 16% year on year, principally the result of the lower entry pipeline of sales agreed as we ended 2017. Our Central London brands Hamptons International and John D Wood have outperformed the market decline, compared to an overall decline in the Central London market.

Lettings

Our lettings performance was resilient with an overall decline of just 1% compared with the decline of 8% in 2017. Our London lettings business grew by 1%, a good performance in a challenging market, that helped offset a 3% decline in the UK. Properties under management were 86,415, an overall decline of 3% in line with the market which has seen private landlords exit the market as a result of SDLT and tax changes.

Income from complementary services

Our income from complementary services, comprising Financial Services and Conveyancing delivered by our branch network, has increased from 38 pence to 44p in the £. This is the additional income driven from this activity expressed as an amount compared to each £ of income from sales exchanged income.

Key performance indicators – UK[1]

	Number of exchanges	Average fee per exchange (£)	Number of branches at year end	Average rental properties under management
18	38,973	2,409	714	64,718
17	45,286	2,547	729	68,064

Key performance indicators – London[1]

	Number of exchanges	Average fee per exchange (£)	Number of branches at year end	Average rental properties under management
18	4,796	10,386	143	21,697
17	5,214	10,847	151	21,313

1. Branch allocations have moved between UK and London markets during 2018 and therefore the split of KPIs does not agree to 2017 annual report segment disclosures (although aggregate totals remain the same).

Financial Services

Summary

- Income down 4% and adjusted EBITDA of £16.6 million (2017: £19.7 million), down 16%
- Over £20 billion mortgage completions, up 15% on 2017, against a market backdrop of only 3% growth

Operating review

In 2018 the UK mortgage market grew by approximately 3% year on year, with overall gross lending finishing at £269 billion[1] (2017: £261 billion). In comparison, Countrywide mortgages completed grew 15% from £17.7 billion in 2017 to £20.3 billion in 2018.

Financial Services income was £83.9 million, (2017: £87.3 million), with another year of strong double digit income growth across the combined The Buy to Let Business (TBTLB), Mortgage Bureau and Mortgage Intelligence (MI) channels offset by lower transactional volumes from estate agency sales which were impacted by a loss of fee earning consultants in the branches.

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. In 2018, MI generated £12.5 billion (2017: £10.2 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 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 and customer contact centre.

As a result of the continued expansion, the business has increased its gross distribution to £1.8 billion (2017: £1.5 billion), an increase of 20% year on year.

Mortgage Bureau is our specialist new build mortgage brokerage. In 2018 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 £0.9 billion (2017: £0.8 billion); an increase of 16% year on year.

In April we launched a new General Insurance product with our strategic partner, AXA. Rated 5 stars by Defaqto, the new product represents excellent quality and value for our customers.

1. Source: Bank of England 2019.

Key performance indicators

	Number of mortgages arranged	Total mortgages written (£billion)	Average number of mortgage and protection consultants	Number of mortgage protection policies sold
	109,379	20.3	652	50,899
18	109,379	20.3	652	50,899
17	96,031	17.7	666	60,876

1st
Largest single employed mortgage broker in the UK

3rd
Largest single mortgage distributor

We completed
£20.3bn
of mortgages

B2B

Summary

- Income down 3%, adjusted EBITDA down 21% to £27.9 million
- Strong year for contract retention and service delivery improvement in surveying
- Successful implementation of new instruction technology in conveyancing leading to operational benefits
- Excellent contract retention in Lambert Smith Hampton in a challenging commercial market

Operating review

Income across our B2B business was down 3% with another good performance in surveying and valuations, and conveyancing offset by a slower market for new homes and a slower commercial transactional property market for our Lambert Smith Hampton business.

Surveying

Our surveying business delivered another year of growth in both income and adjusted EBITDA and significantly improved service delivery to our lender clients. This position was strengthened in 2018 with key contract retentions including Santander, alongside key contract wins including Coventry Building Society and in the expanding market of equity release where we renewed our long-term contract with Just Retirement.

The surveying business continues to help lead the industry with the introduction of new technologies and new valuation approaches to better assess property risk for its lender clients. Following the substantial investments in the IT technology infrastructure within our business, service levels to our core client base have improved, which resulted in an improved turnaround time of our mortgage valuations by 27% to under 4.5 days, when comparing Q4 2017 and Q4 2018.

Conveyancing

The business continued to build on successes in prior years in improving customer service, and in 2018 saw another record year as measured by the customer through our Net Promoter Score (NPS) of +54 (up from +38 in 2017). In this regard the business celebrated another award winning year, winning five awards, including the What Mortgage Award – Best Legal Services Provider, Best Conveyancing Service at the Money Facts Awards and the Best Conveyancer at the Mortgage Strategy Awards 2018.

Land & New Homes and Asset Management

Whilst our Land & New Home business sold over £1.2 billion of new homes in 2018, the rate of completions and house exchanges was impacted by the slower market for second hand homes in the UK. Pleasingly, the closing register finished 49% higher than the closing register in 2017.

Lambert Smith Hampton (LSH)

In the face of the uncertain economic and political environment, our commercial business, Lambert Smith Hampton, saw a resilient performance with overall income down 4%, with excellent contract retention in a difficult market, consulting services were robust, down only 1% with most consulting divisions showing increased income.

Whilst capital markets were up 10%, assisted by the 3% year on year increase in UK investment transactions, overall transactional services were down 6% reflecting the substantial uncertainty in key sectors.

Key performance indicators

Number of surveys/valuations completed

381,893

18	381,893
17	365,223

Conveyances completed

25,873

18	25,873
17	26,870

Corporate properties under management

38,599

18	38,599
17	36,624

Exchanges – new homes

3,059

18	3,059
17	3,705

A more sustainable capital structure

"We finished the year with a net debt to adjusted EBITDA ratio of 2.2x."

Himanshu Raja
Chief financial officer

2018 marked a significant year for the Group. The previous four years had seen an increase in the Group's indebtedness as a result of acquisitions, dividends and share buybacks and the material decline in profitability resulting from the sharp loss of market share.

Our firm placing and placing and open offer announced on 2 August 2018 raised net proceeds of £125 million. Net debt at the end of the year was £71 million, with a net debt to adjusted EBITDA ratio of 2.2x compared with the £212 million of net debt we carried at 30 June 2018. The Group now has a sustainable capital structure and covenant package and we are grateful to shareholders and our lender group for their support to underpin the Group's recovery. We remain committed to reducing leverage to 1x in the medium term.

Overall Group income fell by 7% to £627.1 million which is a resilient performance against the backdrop of both a challenging market and the previously reported 19% opening pipeline deficit in Sales at the beginning of 2018.

The Group's adjusted EBITDA for the year ended 31 December 2018 was £32.7 million (2017: £65.6 million), and includes £2.2 million of net charges, not related to current trading, arising from a review of the carrying value of certain assets and liabilities.

The Group's underlying trading (excluding the £2.2 million of net charges unrelated to current trading) was in line with the Board's expectations at £34.9 million.

Our statutory results were further impacted by restructuring and significant impairment charges relating to historical acquisitions, resulting in a loss for the year of £218.2 million.

The Group incurred net exceptional charges of £245.4 million comprising principally non-cash impairment charges of £218.0 million, with further movements for: strategic and restructuring costs of £12.8 million; onerous lease provisions of £6.1 million, £5.2m restitution of trust funds, and financing costs of £6.5 million, offset by £3.2 million of exceptional income in relation to professional indemnity (see note 10).

Finance costs before exceptional items have decreased by £4.2 million during the year as a result of reduction in our borrowings following the proceeds from the capital refinancing plan in August 2018. Net debt has reduced during the year by £125.8 million to £70.7 million with a net debt to adjusted EBITDA ratio of 2.2x.

Prior year retained earnings have been restated for the impact of the following: £(0.9) million credit in respect of the adoption of IFRS 15 'Revenue from contracts with customers' (see note 2(c)); and £3.6 million debit in respect of the correction of a prior year error in respect of the restitution of trust funds following legal advice received during preparation of results for the first half of the year (see note 2(d)).

In respect of the trust funds, having received further legal advice in the second half of 2018, the Group now understands that all, rather than some, of the historical and untraceable funds arising from the Lettings business for the period from 2008-2017 should be held in trust under a separate client account. As a result, the Group has transferred an additional £5,185,000 into a separate client account in December 2018 in full restitution of these client funds. This further advice during the latter part of 2018 has caused a change in the accounting estimate taken at 30 June 2018 and, given the magnitude of the increase in charge, this has been treated as an exceptional cost.

Summary of results

2018 results were principally influenced by the previously announced opening pipeline deficit of 19% which resulted in our income in the Sales and Lettings business for the full year down 9% and adjusted EBITDA declining 96% to £1.2 million (2017: £27.4 million). The Group saw an improved second half performance and finished the year with a growth in the register of properties available for sale and a stronger pipeline in our UK Sales and Lettings business.

Income in our B2B businesses was £213.3 million, down 3% and adjusted EBITDA down 21% to £27.9 million, with another year of good performance in our surveying and valuations business and in conveyancing. The decline in B2B profitability reflected in part non-current trading items of £1.1 million (from the net charges of £2.2 million noted above) relating to impairment of receivables and the effect of slower market for new homes and a slower commercial transactional property market in particular in the second half.

Our land and new homes business finished the year with a register that was up 49% year on year and a stronger pipeline of properties sold subject to contract.

Financial Services income was £83.9 million, down 4%, and adjusted EBITDA of £16.6 million, down 16% with another year of strong double digit income growth across the combined The Buy to Let Business, Mortgage Bureau and Mortgage Intelligence channels offset by lower transactional volumes from estate agency sales.

Within Group, we took the difficult decision to right size the head office functions and to unwind the centralisation that had been introduced since 2015; which provided the opportunity to reinvest some £6 million in the front line.

Income statement

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

	Sales and Lettings £'000	Financial Services £'000	B2B £'000	All other segments £'000	2018 Total £'000	2017[2] Total £'000
Adjusted EBITDA[1]	1,191	16,613	27,931	(13,052)	32,683	65,587
Contingent consideration	57	(1,830)	(409)	(3,907)	(6,089)	(3,929)
Share-based payments	(691)	(225)	(569)	(211)	(1,696)	(1,623)
Depreciation and amortisation	(7,448)	(2,493)	(7,586)	(4,935)	(22,462)	(33,490)
Share of profit from joint venture	–	–	–	(1,518)	(1,518)	690
Exceptional income	–	–	2,663	504	3,167	–
Exceptional costs	(216,315)	(3,131)	(1,890)	(20,701)	(242,037)	(225,869)
Operating (loss)/profit	(223,206)	8,934	20,140	(43,820)	(237,952)	(198,634)

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).
2. Restated from prior year following the adoption of IFRS 15 and the correction of a prior year error (see note 2).

"The Group now has a sustainable capital structure and covenant package and we are grateful to shareholders and our lender group for their support to underpin the Group's recovery. We remain committed to reducing leverage to 1x in the medium term."

Contingent consideration

Contingent consideration of £6.1 million (2017: £3.9 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 end 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.

Chief financial officer's review continued

Share-based payments

The share-based payment charge to the income statement of £1.9 million (2017: £1.8 million) before National Insurance credit of £0.2 million (2017: £0.2 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 £0.2 million (2017: £0.8 million) as a result of aligning non-market conditions to underlying performance across grants; share incentive plan (SIP) charges of £0.9 million (2017: £0.9 million) arising from employee participation and new SAYE charges of £0.5 million incurred following implementation of the scheme from May 2018 after cessation of the SIP scheme; and deferred bonus share plan charges of £0.3 million (2017: £0.1 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 could reintroduce 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 decreased by £10.2 million to £17.5 million. This was principally due to the impairments in 2017 and June 2018 decreasing the value of assets giving rise to a charge. The depreciation charge was £10.2 million (2017: £17.2 million).

Amortisation of acquired intangibles has decreased to £4.9 million (2017: £5.8 million) following impairments in 2017 and in June 2018. As previously signposted, following the impairments in 2017 and H1 2018, we reviewed the useful economic lives of our brands and from 1 July 2018 adopted finite lives of fifteen years in respect of all of our brand names. This resulted in £1.7 million of amortisation charges during the second half of the year.

Exceptional income

During H1 2018 the Group received exceptional income of £3.2 million (2017: £nil) from: a professional indemnity claim settled in the Group's favour of £2.1 million; and a professional indemnity provision release of £1.1 million following reassessment of our claims position.

Exceptional costs

Significant operational progress has been made with the strategy and turnaround plan during the year. However, the continued subdued external environment and the effects of the weaker opening pipeline which became apparent after conclusion of the 2018 business planning process, have resulted in further impairment charges.

Cash flows driving the current impairment review align to the latest three-year strategy and turnaround plan that has been endorsed by the Board.

Exceptional costs incurred in the year amounted to £248.5 million (2017: £225.9 million), comprising items that have resulted in cash charges of £21.1 million and £227.4 million of non-cash charges as follows:

- Impairment charges of £218.0 million in respect of goodwill, brand names and customer contracts and further intangible assets (computer software) and tangible fixed assets and investments into the property technology sector.
- Strategic and restructuring costs comprising; people-related restructuring costs of £4.2 million incurred principally as a result of our review and rationalisation of group wide central functions; associated restructuring and cost optimisation consultancy costs of £7.1 million and £1.5 million of property closure costs in respect of a head office in London that closed during Q4 2018;
- Onerous lease provisions with a present value of £6.1 million have been recognised in relation to economic outflows arising from onerous contracts in relation to loss making branches, unwinding over a period to 2026;
- £5.2 million incurred in restitution of trust funds in full during H2 2018; and
- Financing costs of £6.5 million, which comprise a £2.2 million write-off of previously capitalised banking fees and £4.3 million in relation to professional fees incurred during the refinancing of the balance sheet (excluding transaction fees offset directly against share premium).

Professional indemnity provisions

During 2018 the Group received reduced numbers of professional indemnity valuation claims, in line with expectations, and achieved closure 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 progress made during the year on some individually significant claims, aligned with the low level of claims made, resulted in some unwinding of the provision.

Interest

Our drawdown on bank borrowing facilities decreased from £210 million at the prior year end to £85 million at 31 December 2018, principally as a result of the payment of net proceeds of £125 million arising from our equity raise on 30 August 2018 being applied to the revolving credit facility.

As a consequence, finance costs were down £4.2 million to £8.4 million (before exceptional costs).

Taxation

A tax charge of £1.0 million (2017: £5.9 million) was recognised on underlying profits of £5.4 million (2017: £26.1 million) which represents an effective tax rate of 17.5% (2017: 22.5%). The Group also recognised an exceptional tax credit of £35.5 million (2017: £9.7 million) on losses before tax of £258.1 million (2017: £237.2 million) which results in an overall tax credit for the year of £34.5 million (2017: £3.8 million). This represents an effective tax rate of 13.7% (2017: 1.8%).

The principal reason for the tax credit is the £214.3 million impairment of intangible and tangible assets 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 receive 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 2018, we will pay corporation tax of £nil (2017: £1.4 million) on profits for the year; we collected employment taxes of £129.2 million (2017: £128.7 million) and VAT of £80.5 million (2017: £87.7 million), of which the Group has incurred £38.8 million and £2.8 million (2017: £36.4 million and £3.0 million) respectively. Additionally we have paid £11.4 million (2017: £11.8 million) in business rates and collected £33.7 million (2017: £38.7 million) of stamp duty land tax though our conveyancing business.

The total tax contribution of the Group was £296.4 million (2017: £307.7 million), which includes both taxes borne of £53.0 million (2017: £52.6 million) and taxes collected totalling £243.4 million (2017: £255.1 million).

Profit for the year – underlying and statutory

The Group reported underlying profit attributable to equity holders ("underlying earnings") of £4.5 million (2017: £20.2 million), a decrease of 78% for the year ended 31 December 2018. The Group's statutory loss after tax of £218.2 million (2017: loss of £207.3 million) is after net exceptional costs of £245.4 million (2017: £225.9 million), contingent consideration charges of £6.1 million (2017: £3.9 million), share-based payment charges, after National Insurance credit, of £1.7 million (2017: £1.6 million) and non-cash charges of £4.9 million for amortisation of acquisition-related intangible assets (2017: £5.8 million) related to historical acquisitions, together with the corresponding tax effect.

Earnings per share

Adjusted earnings per share declined to 0.6 pence (2017: 8.7 pence). Statutory basic earnings per share declined to a loss of 30.8 pence (2017: 89.3 pence). These are based on the weighted average number of shares in issue of 707.6 million (2017: 232.3 million), following the issue of 1.4 billion shares on 30 August 2018. A reconciliation of the basic and adjusted earnings per share is provided in note 13.

Chief financial officer's review continued

Cash flow

In the statutory cash flow, cash generated from operations decreased by £60.9 million to an outflow of £2.8 million for the year (2017: inflow of £58.1 million), principally driven by a reduction in adjusted EBITDA of £32.9 million. This was exacerbated by the unwind, during the first half of the year, of cyclical cash management practices previously undertaken, which involved the delay in supplier payments at 31 December 2017 until after the year end, amounting to £17.9 million.

The non-GAAP cash flow represented below shows operating cash flow conversion of 69% (2017: 104%) of adjusted EBITDA, which when correcting for these cyclical cash management practices would deliver an operating cash flow conversion rate of 124% (2017: 77%). Continued focus has been brought to bear on working capital management, delivering reductions in the debtors days within our commercial business unit.

Capital expenditure has been focused primarily on computer software. During the first half of the year, the Group disposed of its interest in unlisted residential property fund units for proceeds of £15.8 million.

Exceptional cash flows of £14.0 million mainly comprise: £4.2 million of redundancy costs; £6.7 million of transformation project consultancy charges and £5.0 million of payments for the restitution of trust funds offset by £2.1 million of professional indemnity claim settlement receipts.

The £140 million proceeds arising from the firm placing and placing and open offer, net of the transactional costs of £14.9 million, were used to reduce the balance on the revolving credit facility and reduce leverage.

Non-GAAP cashflow

	2018 £m	2017 Restated[1] £m
Adjusted EBITDA	**32.7**	65.6
Changes in working capital:		
Decrease in trade & other receivables	**14.9**	18.4
Decrease in trade & other payables	**(23.1)**	(12.5)
Decrease in provisions	**(2.0)**	(3.0)
Changes in working capital	**(10.2)**	2.9
Operating cash flow (OCF)	**22.5**	68.5
OCF conversion rate	**68.8%**	104.4%
Use of funds		
Capital expenditure	**(9.3)**	(14.5)
Repayment of finance leases	**(2.1)**	(3.7)
Net interest expense	**(7.5)**	(9.8)
Tax	**2.0**	(3.0)
Pension	**(2.0)**	(2.0)
Cash from operations	**3.6**	35.5
Deferred and contingent consideration from historic acquisitions	**(7.9)**	(7.3)
Purchase of investments	**(1.5)**	–
Proceeds from disposals	**16.0**	0.7
Purchase of own shares	**(0.5)**	(1.4)
Financing fees paid	**(0.9)**	(0.7)
Exceptionals	**(14.0)**	(6.4)
Total cash flow before capital refinancing	**(5.2)**	20.4
Capital refinancing	**140.0**	36.8
Cost of refinancing	**(14.9)**	–
Net capital raise	**125.1**	36.8
RCF repaid	**(125.0)**	(80.0)
Net decrease in cash and cash equivalents	**(5.1)**	(22.8)
Opening cash	**22.5**	45.3
Closing cash	**17.4**	22.5

1. Restated from the prior year for the adoption of IFRS 15 and correction of a prior year error (see note 2).

Net debt

At 31 December 2018, the Group had net debt (including finance lease liabilities) of £70.7 million (31 December 2017: £196.4 million as restated following net debt amendments in respect of the correction of a prior year error – see note 20) with a net debt to adjusted EBITDA ratio of 2.2x (31 December 2017: 3.0x, as restated).

Net debt reflects a decrease of £125.8 million principally due to the net proceeds received in respect of the firm placing and placing and open offer undertaken on 30 August 2018 (see note 26).

The Board has previously acknowledged the need to bring the leverage ratio down to the Group's medium term target of 1x. The net debt reconciliation is provided in note 20.

Net debt maturity and changes to committed bank facilities

In August 2018 the Company agreed an amendment, extension and restatement agreement 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 facility to a £125 million revolving credit facility (RCF) repayable in September 2022.

Going concern

The Board's assessment in relation to going concern is included in note 2 to the financial information.

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

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 2018 (2017: nil pence).

In assessing future dividends, the Board will consider: the future investment in the business; and maintaining appropriate levels of gearing.

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. This will take effect from 1 June 2019. We estimate that, after mitigation, this will have £9 million impact on adjusted EBITDA in 2019. The Group has an extensive programme of activity to ensure that we are fully compliant with the new legislation as well as plans to mitigate the effect of the ban.

Pensions

As at 31 December 2018 the net defined benefit scheme liabilities were £4.6 million (2017: £5.6 million). The reduction in the scheme liabilities of £2.8 million exceeded the reduction in the value of the scheme assets.

Pension contributions of £2.0 million (2017: £2.0 million) were made in the year, in line with the payment profile agreed with the trustees in 2016 and which remains in place for another two years.

Tax strategy

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

Himanshu Raja
Chief financial officer

7 March 2019

Engaging with stakeholders

Our relationship with stakeholders is very important to the business.

Embedding our culture

Our people are our greatest asset. The backbone of Countrywide who live and breathe our values and deliver for our customers every day.

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 that what we do really matters.

Non-financial reporting directive

Reporting requirements	Where to read more in this report	Page
Environmental factors	Details can be found in our corporate responsibility section, corporate governance statement, and greenhouse gas emissions within the directors' report.	35, 48, 81
Employees	Read more about our communication and engagement with our people.	33
Human rights, social matters and anti-bribery & corruption	Details of our policies and commitments to ethical standards can be found in our corporate responsibility section, with modern slavery statements also available on our website.	35
Business model	Our strategy is to be the provider of choice for residential and commercial property services, by delivering. Our aim is to deliver sustainable shareholder value through the investment in our people and in delivering market-leading products and services.	8
Non-financial KPIs	Details of our performance on non-financial KPIs can be found in our operating segment reviews, providing insight into the underlying business drivers.	19-23

Corporate responsibility continued

Gender diversity

	Employees	Board	Senior management
Male	4,614	7	41
Female	6,024	3	20
Grand total	10,638	10	61

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.

People

Our people are our greatest asset. As experts in their field who deliver for our customers we recognise the importance of development and opportunity.

Our vision is to be the provider of choice for residential and commercial property services in the UK. In order to achieve this we develop, retain and recruit dynamic, talented, professional people and create a culture where people are valued, can be themselves and realise their potential.

2018 was a year of reset. We made significant progress in ensuring we have the right level of headcount and expertise at territory, regional and branch level across the UK Sales and Lettings business. We continued to grow headcount with focus on recruitment for our Financial Services business, and continued career development and progression within our B2B business.

We recognise that our people need to be inspired to be the best they can be, feel valued and engaged. To support this we offer a range of benefits and development opportunities for our people.

Award winning reward

Under One Roof, winner of 'Employee Benefit Awards 2017' offers colleagues and their families discounts on a range of Countrywide products and services and since launch 6,000 employees and/or their families have benefited from Under One Roof discounts.

Countrywide has a flexible approach to on-the-job learning and a commitment to keeping our teams safe and legal.

Compliance training is managed through our online system and completion rates are at an all-time high. Modules provide colleagues with tailored courses to support them in the roles they perform. Further courses will become available as we introduce induction and on-boarding programmes and maximise our use of technology.

Our surveying business continues to attract trainee surveyors who benefit from intense training to then begin their career with an award winning surveying team. Over 200 surveyors have become AssocRICS qualified since the launch of the programme.

We delivered over one thousand classroom training sessions throughout 2018 to support our colleagues in Sales and Lettings, these are underpinned by the Career Development Framework which maps opportunities within the business and is supported by online and on-the-job coaching and development.

Share plans form a key part of the Group total reward offering. During the year, an in depth review of the Company share plans took place, resulting in closure of the Share Incentive Plan (SIP) and the successful introduction of a Save as You Earn (SAYE) plan on a three year term.

Countrywide provides colleagues with regular information updates including financial results and market updates through Our Place (intranet). In addition to this Executive blogs are shared across the organisation and local meetings held throughout the business units.

HR support

In 2018 the HR team underwent a major restructure to deliver significant savings in line with our focus on cost. HR services moved from a business partnering model to a help desk and online query management service whilst in parallel developed the capability of our management teams. HR Connect was launched as a self-service tool to support hiring managers and colleagues throughout the business.

Communication and engagement

Countrywide delivers timely, clear and consistent messaging to all colleagues. Updates include financial results and market updates through Our Place.

Our Place is a key communication channel with over 60% of colleagues regularly visiting the site for updates including: financial results, market updates, blogs and business related information.

Our Place hosts High Fives, a group-wide recognition programme, created to encourage colleagues, managers and executives to recognise performance and behaviours that reflect the values of Countrywide. Since launching in April 2017 over 60,000 High Fives have been issued thanking colleagues across the Group.

In addition to this Executive blogs are shared across the organisation and local meetings held throughout the business units.

In 2018 we launched the Countrywide long service programme to recognise and celebrate key service milestones. Colleagues are featured on the Roll of Honour on Our Place and receive a personal message from the group managing director. Since launching the programme over 2,000 colleagues have been recognised, celebrating over 9,500 years' service.

Diversity and inclusion

At Countrywide we recognise that the promotion of equality, diversity and inclusion concerns us all and is the responsibility of all colleagues. We all contribute to ensuring that the Company continues to be a welcoming and productive environment, where there is equality of opportunity, fostered in an environment of mutual respect and dignity. We are committed to treating everyone, colleagues and customers, with dignity and respect. We promote an environment free from discrimination, harassment and victimisation.

Countrywide's principle of diversity encompasses acceptance and respect. It means understanding that each individual is unique and recognises our individual differences.

We understand that simply having diversity in our work force is not enough; we must create an inclusive environment where all people can contribute and reach their full potential.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333

Social and community matters

Our social and community interest objective, which includes the promotion of human rights, ethical issues and abolition of modern slavery, is to establish a common and coherent approach within our Group businesses to support investment in the communities in which they operate.

Working in partnership with communities over a sustained period is fundamental to our sustained success. We employ over 10,000 people working in local communities across the country. We encourage our businesses to: make donations to local and national charities; support and organise fundraising events and local community initiatives; and support our employees in their personal fundraising ambitions.

Charitable giving

We encourage our people to support local charities within the communities we serve. Countrywide also supports a workplace charitable giving scheme so that employees can donate to their charities of choice, tax efficiently through payroll deduction.

Similarly, the subsidiary businesses are encouraged to support causes within their local communities, and colleagues from across the country participate in a number of local initiatives.

Human rights

While the Group is accountable to investors, we take into account the interests of all our stakeholders, including our colleagues, customers and 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.

Environmental factors

Environmental savings make good business sense. Our primary objective is to minimise our carbon footprint and our commitment to the reduction of energy consumption, principally in our fleet and branch footprint, has a positive impact both on the environment and reducing costs to the Group. Our greenhouse gas emissions are included on page 81 in the directors' report.

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 is not taking place anywhere in our business and in our supply chains.

A copy of our modern slavery statement can be found on our website: https://www.countrywide.co.uk/modern-slavery-act-statement-countrywide-plc.pdf/.

Anti-bribery and corruption

The Group has in place arrangements to ensure compliance with the Bribery Act 2010 and our corporate ethics policy, included within the staff handbook, includes policies regarding ethical standards within Countrywide, including anti-bribery and corruption, money laundering, employee share dealing and more. Whistleblowing policies and training modules, with associated employee reporting channels, also exist to support these ethical standards.

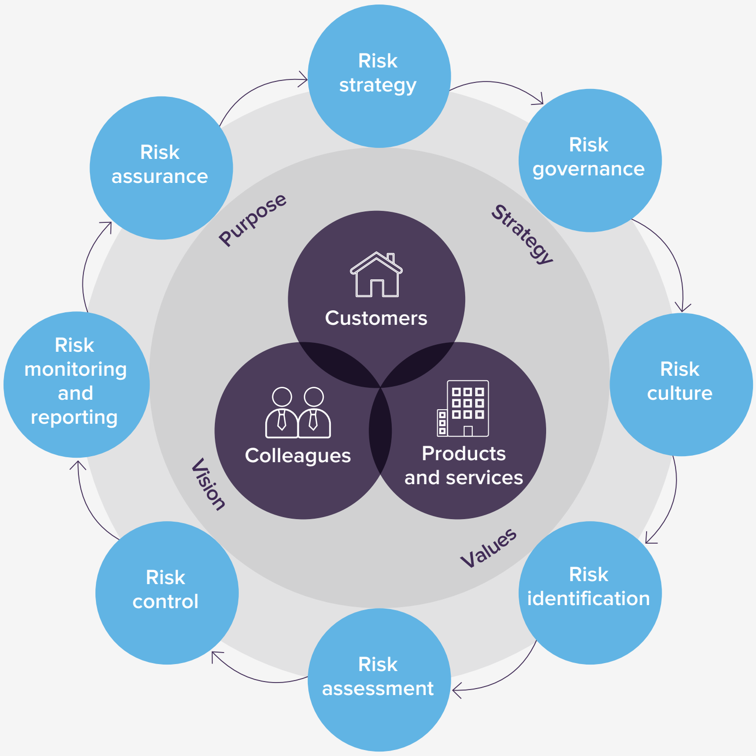
Charity case study

Hamptons International have been supporting their chosen charity Cancer Research UK since 2013. Since then they have raised more than £244,000 from across the business.

In 2018 Hamptons' main fundraiser was the Virgin Sport British 10k. This 10 kilometre run takes place in central London and passes some of London's top sights. In July 2018, Hamptons entered 30 keen runners who together raised £7,665 for Cancer Research UK at this fantastic event.

Overall in 2018, Hamptons raised over £32,000 for Cancer Research UK.

Our approach to risk management



Identifying and managing the risks to our business

The Group recognises that the successful management of risk as part of its everyday activities is essential to support the achievement of its strategic objectives. The Board is responsible for the overall stewardship of the 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 38 to 42.

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 it is aligned with evolving regulatory requirements within the businesses. The eight components of the RMF are shown in the diagram above.

Risk strategy

During 2018 an extensive review has been undertaken of the Group's approach to governance, risk and compliance and, in line with the strategic theme that has been followed elsewhere in the Group, a "back to basics" reset has been carried out.

In doing so, the following core principles have been agreed to direct the approach:

- **Protect value** and provide assurance regarding the controls over the principal risks;
- **Be straightforward** and pragmatic whilst also providing assurance regarding the operation of clearly defined minimum controls; and
- **Embed the right culture** with support and training to ensure accountability and ownership across the whole Group but particularly in the front line of the businesses.

In addition, the associated Group risk appetite framework has also been reviewed and a series of macro-level risk appetite statements proportionate to the nature, scale and complexity of risks faced by the business are in place.

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 Executive Committee.

Individual business units are responsible for executing their activities in accordance with these delegated authorities and as part of the previously mentioned strategic reset, our governance committee structure has also been streamlined and a clearer documented focus on risk and compliance has been implemented for executive and senior leadership team meetings.

Three lines of defence:

1. First line of defence
Senior management is responsible for ensuring that risks associated with our business activities are identified, assessed, controlled, monitored, reported and establishing an appropriate culture and tone from the top.

2. Second line of defence
Our 'control' functions, and the Executive Committee, set policy and frameworks for managing key risks.

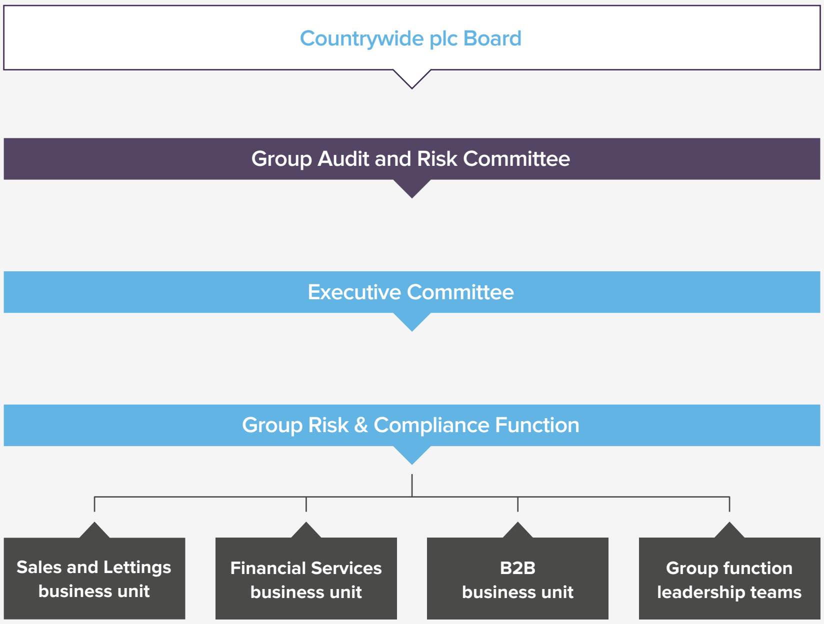
3. Third line of defence
Internal Audit supports the Group Audit and Risk Committee and provides independent assurance on the system of risk and internal control.

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

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

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

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



Risk culture
Operating principles and expectations for risk management are driven by a clear tone-from-the-top. During the year there was further reinforcement of expectations about keeping the business and its customers safe and legal along with the need for a continuous improvement mindset. The Group's Code of Conduct provides the basis for establishing expectations of all colleagues and this is reinforced via an annual programme of compliance and ethics training along with senior manager attestations of policy compliance.

Risk identification
Effective risk management requires that the Group has a complete understanding of the risks it faces and these are defined in the risk universe.

Risk assessment
A standardised assessment framework is used to evaluate risk exposures at both business unit and overall Group levels which enables 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 Committee (ExCo) and Group Audit and Risk Committee (GARC).

Risk control
Controls operate across the business at entity level through Group policy minimum control standards and locally through individual business unit standard operating procedures.

Risk monitoring and reporting
Monitoring and reporting of risk exposures is undertaken through Executive and Senior Leadership Team meetings and is overseen by the Group's risk and compliance function.

The GARC 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 Committee is also provided with regular reports on the activities of the Group's risk and compliance function.

Risk assurance
Assurance regarding 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 internal audit reports along with progress in implementing agreed management actions. The results of this assurance activity are reported at all relevant levels within the Group including ExCo and GARC.

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 along with 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 potentially have a material adverse effect on the 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			
Effective management of the Group's capital structure, banking facilities and covenants is central to the achievement of its strategic objectives and profitability.	The Group undertakes open and regular communication with its lending institutions. 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 detailed operating plans and budgets to support the restoration of profitable growth and continually seeks to optimise its working capital through close and proactive cash management.	Decrease	The Group successfully completed its capital refinancing plan in August 2018 which was supported by shareholders and the Group's lending syndicate. The Group raised £125 million in net proceeds and an amended revolving credit facility was secured with its lender group which now extends to September 2022. As a result, net debt was reduced from £212 million at 30 June 2018 to £71 million at 31 December 2018. Covenants were also reset, and further details are available on page 276 of the Prospectus relating to our 2018 Placing and open offer, on our investor relations website at: https://www.countrywide.co.uk/corporate/investor-relations/investing-in-countrywide/countrywide-prospectus-2018.pdf/.

Risk and impact	Mitigation	Change	
Exposure to UK housing market trends			
The UK housing market continues to follow cyclical trends and be impacted in particular by continuing uncertainty around the implications of the UK's planned exit from the European Union (Brexit). There remains 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 in relation to other complementary services that are offered.	The Group continuously monitors the state of UK housing market transaction levels, pricing, mortgage approvals and other forward-looking indicators such as interest rate predictions. Financial scenario planning is also undertaken as part of the annual budgeting and three-year planning process to assess the potential impact of the political and economic uncertainty arising from Brexit. The Group has also developed mitigation plans to address its cost base at a business unit level should there be a material change in the level of housing transactions.	Increase	Investment in restoring lettings market expertise remains ongoing and the Group will continue to reduce its dependency on housing sales transactions. In addition, it has embarked on the transformation of its IT systems and customer contact centres which will yield cost savings in 2019 and beyond.
Professional indemnity exposure			
The previous downturn in the UK housing and commercial property markets along with the impact of sub-prime lending exposed the Group to a higher level of professional indemnity insurance claims within its surveying division.	The Group has consciously changed its risk profile and continues to avoid property valuations relating to higher risk lending and client types. The Group's valuation and surveying business serves predominantly the UK's largest ten lenders and does not operate in the sub prime market. Monitoring arrangements including operational controls implemented for the review and audit of valuation reports along with the targeted use of automated valuation models continue to aid checks in perceived higher risk cases. Further investment is also ongoing to provide the Group's surveying workforce with technology that aids compliance. Close monitoring of legacy claim trends and related financial provisions remains ongoing. Different professional indemnity insurance arrangements are maintained for the Group's commercial property business, Lambert Smith Hampton, as potential individual exposures could be larger. In doing so, this protects overall Group cover and effectively ring-fences commercial risks, delivering a financially beneficial position.	Decrease	Further improvements have been experienced in this area during 2018 and the volume of claims remains considerably reduced when compared to prior years. Risk management in the Group's surveying operations remains a top priority and continues to deliver recognisable benefits for our clients as well as the business. To support the approach further in this regard, senior colleagues with lender credit risk experience have also been recruited into the first line risk management team.

Risk management and principal risks continued

Risk and impact	Mitigation	Change	Commentary
Potential loss of a major business partner or contract			
The Group has a number of material commercial relationships with banks, building societies, insurers and other key partners. The loss of one of these contracts, or a significant reduction in volumes or fees, could have a significant impact on revenues in more than one area of the business and consequently on the Group's profitability.	The Group has an agreed approach to corporate client management with key relationship responsibilities defined at senior management level and supported by members of the Group's Executive Committee. Regular reviews are undertaken with key clients to ensure continued focus on investment, maintenance of service levels and compliance with contractual requirements. A highly experienced relationship management team is also in place with responsibility for key client liaison and developing new contract opportunities.	No change	The importance of key partner alliances remains a key focus as part of the Group's B2B strategy. The Group continues to benefit from strong relationships with its corporate partners and has retained existing, as well as won new clients during 2018.
Resilience of IT infrastructure and arrangements for the protection of data			
The business relies upon a series of interdependent systems for operational performance and financial information; a failure of one of these, a security breach or a cyber-attack could impact the Group's operations, reputation and future profitability.	In addition to implementing a series of progressive IT system improvements to support operational performance during 2018, significant capital investment has also been approved to underpin a Group wide IT transformation programme. This is being supported by specialist consultants and further system improvements will be implemented in 2019 and beyond. The Group's in-house information security team continues to monitor information security risks and potential data breaches. Ongoing Group-wide training is being maintained to ensure that colleagues are aware of good information security practices and data protection requirements. Following the implementation of the General Data Protection Regulation (GDPR) in May 2018, improvements have also been made to relevant working practices and controls and these will continue into 2019.	Increase	A review has been completed of the Group's IT related risks and the requirements of the IT transformation programme have been mapped to ensure that these will be reduced on a prioritised basis. Ongoing risk monitoring of the IT transformation programme is undertaken monthly by the Executive Committee and also at every meeting of the Group's Audit and Risk Committee.

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.	The Group continues to maintain an appropriate 'tone at the top', which is cascaded via its Code of Conduct, policies and management communications along with associated compliance and ethics training. Expertise within the main business areas is supported by centralised legal and compliance teams who monitor existing business practices and any changes closely. A programme of core compliance and ethics training is also in place across the Group which is supported by learning management technology. Results are monitored closely by both the Executive Committee and the Group's Audit and Risk Committee. Specific projects are mobilised to address material regulatory changes (e.g. the Financial Conduct Authority's Senior Managers' and Certification Regime – SM&CR). Robust complaints management systems are in place across all operating divisions.	No change –	The Group maintains close links and open dialogue with its regulators and continues to monitor regulatory developments along with the consequent implications for its businesses. The overall cost of regulation continues to grow (e.g. the implementation of SM&CR).
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.	The Group's strategy is to concentrate on its strengths of being an integrated property services provider that brings people and property together through its sales, lettings and financial services businesses operating out of its 870 branches. Targeted management reporting and staff incentive schemes have been developed that continue to drive the link between Group value related services; these benefit customers as well as the Group's businesses. The Group's service offering is monitored continually to ensure that customer expectations are met.	No change –	The Group's strengths lie in the expertise and advice it is able to offer customers across a wide range of services. In particular, reinvestment in the sales and lettings business continues to strengthen industry experience and the ability to service changing customer needs at local level.

Risk management and principal risks continued

Risk and impact	Mitigation	Change	Commentary
Securing and retaining excellent people			
The Group's ability to deliver its strategy is dependent on attracting, developing, motivating and retaining people of the highest quality. An inability to recruit or retain talent could impact the ability to deliver financial performance and growth targets.	The Group continues to invest in its people. During 2018, standard career development frameworks were developed for the Sales and Lettings business along with clear retention plans in Financial Services. The Group also continues to fund graduate and trainee schemes in Surveying, Conveyancing, Lambert Smith Hampton and supports professional development for colleagues in support functions. The Group has also recently launched a wellbeing programme (BeWell) to support colleagues' mental, physical and financial health as well as the environment. A range of employee benefits are in place that seek to incentivise and motivate performance across all levels of management. These are overseen by the Remuneration Committee. A structured approach has been developed for talent recruitment by investing in internal capability to support the Group's employer of choice strategy.	No change –	People are at the heart of the Group's business and are essential to deliver its strategy. Following the increased level of colleague attrition experienced in the Sales and Lettings business during 2017, further investment at branch, area and regional levels in 2018 has improved the position with over 300 colleagues returning to the Group during the year. In addition, the Group continues to monitor overall levels of colleague engagement to drive activity that focuses on: improving morale; reducing attrition; and identifying potential pressure points to improve operational efficiency.

Brexit

The UK is due to leave the European Union (EU) in March 2019. Brexit has created inherent uncertainty across the UK and the EU. As a result of the consequential uncertainty to the UK economy, the impact to interest rates and the change of consumer spending habits is unknown.

The directors recognise that the outcome of Brexit presents an unavoidable risk, although since the referendum there has been a material impact to the results of the Group as a result of the reduction in transactional market volumes. Additionally, the level of risk discussed above is subject to whether there is a "hard" or "soft" Brexit, however it should also be considered that future economic weaknesses may be offset by new reforms targeting the housing market in general.

Whilst it is not possible to predict the outcome of Brexit, the directors have considered specific threats to the business plan and methods to mitigate those risks, as outlined in the 'Exposure to UK housing market trends' risk. They are monitoring the developments and continue to update our plans accordingly.

As Brexit could impact future cash flows and forecasts, it should be noted that, whilst the directors have performed sensitivity analysis on their impairment calculation, the assessments are based on there being no significant adverse change to the current macro economic climate. Our going concern assessment has been performed on the same basis. As the Group operates within the UK, has a limited number of EU employee and is primarily service based, it is protected from other significant Brexit risks.

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 a detailed review 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. In 2018, the Group completed its capital refinancing plan raising net proceeds of £125 million, and agreed an extension and amendment to its revolving credit facility of £125 million. The new facility provides a revised covenant package that recognises that the Group is in a turnaround position in a challenging market environment. The facility expires in September 2022. 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 2021 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 stress tested 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 changes in legislation in respect of tenancy fees).

These scenarios were tested against a decline in transactional volumes and the consequent 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 changes to our cost base and flexing of capital expenditure (capex). 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.

However, this statement is not a guarantee because not all future events and conditions are predictable. Particularly, and as discussed above, the terms on which the United Kingdom may withdraw from the European Union are not clear and therefore it is difficult to evaluate the potential implication on the Group's trade, customers, suppliers and the wider economy.

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 2021.

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 financial statements.

The strategic report was approved by the Board of Directors on 7 March 2019 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

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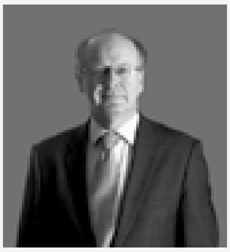
Peter was appointed non-executive director of Countrywide in February 2016 and took over as non-executive chairman at Countrywide's annual general meeting on 27 April 2016. On 24 January 2018 he became executive chairman of Countrywide. A respected business leader, Peter was chairman of Royal Mail plc from June 2015 to September 2018, and also 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 (2006-2014). He was also a non-executive director of Debenhams plc (2006-2009).



David Watson
Deputy chairman and senior independent non-executive director

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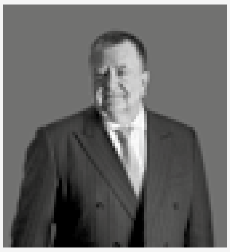
David joined the Group in September 2013 as non-executive director of Countrywide and is deputy chairman and the senior independent non-executive director. David is currently a non-executive director of Hermes Fund Managers Limited and Kames Capital plc, where he chairs the audit committees, and senior independent non-executive director at TR Property Investment Trust plc. He has extensive industry and accounting experience. David has had a distinguished career as a finance director. Most recently he was finance director of the general insurance division of Aviva. Before 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 from 1 August 2017. Himanshu brings strong turnaround skills and a proven track record of value creation with over 25 years' experience in large multinational organisations in the business and IT services, software and telecommunications sectors. He led the Group's capital raise and the re-setting of the Group's banking facilities in August 2018. Himanshu was previously chief financial officer of G4S plc for three years where he was responsible for finance, treasury, tax, IR and M&A and IT and procurement and led a significant improvement in contract risk management and governance across the Group and delivered significant cost transformation and cash flow improvement. Prior to G4S plc, Himanshu was chief financial officer of Misys plc, under PE ownership; and before that, was chief financial officer of Logica plc, where he led 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.



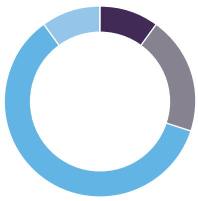
Paul Creffield
Group managing director

Paul rejoined the Group in October 2006 (having worked for Countrywide previously), and was promoted to the Board as group managing director in August 2018. With over 35 years of industry experience, Paul has an in-depth knowledge of the market and operations. Since joining the Group, Paul has led the B2B business unit, was commercial development managing director (responsible for Lambert Smith Hampton and the Vista commercial property fund), and led the London and high value market brands for Sales and Lettings. Paul was formerly operational managing director at Rightmove plc, and held senior roles within Nationwide Building Society.

Cathy Turner
Independent non-executive director

A N R

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

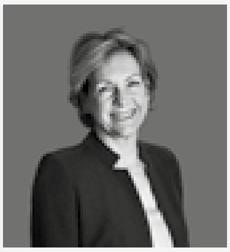


Chairman	1
Executive director	2
Independent non-executive directors	6
Non-independent non-executive director	1

Key

Committee membership:

- A Audit and Risk Committee
- N Nomination Committee
- R Remuneration Committee
- Chair of Committee



Jane Lighting
Independent non-executive director

A N R

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

Rupert Gavin
Independent non-executive director

N R

Rupert was appointed non-executive director 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. Rupert 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, before which he was at the Dixons Stores Group, latterly as deputy managing director.

Natalie Ceeney CBE
Independent non-executive director

A R

Natalie was appointed as a non-executive director in April 2017. Natalie chairs the board of Innovate Finance, is a non-executive director of Anglian Water and Sports England, 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.

Mark Shuttleworth
Independent non-executive director

A R

Mark was appointed non-executive director in October 2018 and became chair of the Audit and Risk Committee on 1 January 2019. He has spent his executive career as a CFO, with extensive Plc, venture capital and US experience. He finished his executive career as CFO of Pace Plc, a FTSE 250 company. Prior to that, Mark had considerable experience in the Middle East where he was the CFO of Emirates Integrated Telecommunications ("du"), based in the UAE, and prior to that, was the Group CFO of Qtel (now known as Ooredo), the publicly quoted Qatar headquartered telecoms company. His executive career has covered a significant amount of restructuring, both from within the profession and subsequently in industry before moving into telecoms 15 years ago, focusing on electronic manufacturing and distribution with International scale. He is a chartered accountant and certified INSEAD Director.

Caleb Kramer
Non-independent non-executive director

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

Chairman's introduction to corporate governance

"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 our plans and strategy."

Peter Long
Executive chairman

Dear shareholder

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

2018 saw the Group focus on its strategy and turnaround. In order to ensure the Group has the financial flexibility to execute the strategy and turnaround plan, on 2 August 2018 we announced the launch of a firm placing and placing and open offer which, following shareholder approval, raised gross proceeds of £140 million. The Group's high standards of corporate governance underpinned and supported the capital raise process, and I was delighted and grateful at both the level of support we received from our shareholders, and to welcome new investors.

There are considerable changes going on in the corporate governance environment, principally with the introduction of a new UK Corporate Governance Code that will be applicable to the Group's 2019 reporting year. The Board continues to recognise the value and importance of meeting the principles of good corporate governance as set out in the Code. The Board acknowledges that achieving high standards of corporate governance is a continual process and changes to the structure and operation of our governance processes will continue to be embedded during the course of 2019 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 continue and support our strategy and turnaround plan.

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 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 which continues to be based on openness and accountability. Our boardroom culture both encourages and supports constructive challenge from our non-executive directors. This has been borne out by our 2018 Board and Committee evaluation, which has provided valuable insights.

There have been a number of changes to the Board over the past year.

After Alison Platt, the Group's chief executive, left the business on 24 January 2018, I took over as executive chairman. The Board was also strengthened by the appointments of Paul Creffield as executive director on 2 August 2018, and Mark Shuttleworth as independent non-executive director on 1 October 2018.

Further details of changes to the Board are contained in my Nomination Committee Report on pages 52 to 53.

The Nomination Committee will continue to review the composition of the Board to ensure 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 we play a full and constructive part in the development and delivery of the Group's strategy and overall commercial objectives. 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 on page 53.

Peter Long
Executive chairman

7 March 2019

Board activities in 2018

Growth

Growth comprises a key strategic focus as the Company seeks to regain market share, leveraging from its network and diversified business lines. Continued investment in and development of strategy is therefore central to Board review and discussion.

Activities

- New management immediately implemented a back to basics approach in Q1 2018, empowering local management within a framework of compliance oversight, best practice and support;
- Reducing non-fee earning head office staff numbers by one third and investing in recruitment, retention and training at local fee generating level; and
- Instigating a full three year strategy review led by senior leaders from the business and subject experts.

Productivity

The Board pays close attention to the Group's cost reduction and operational efficiency programmes aimed at delivering a more centralised platform for supporting local operations, including updating its IT infrastructure.

The capital raise in August 2018 has enabled the company to invest in its infrastructure and operations in a number of key areas including IT development and recruitment of industry expertise.

Activities

- Commissioned AlixPartners to review IT infrastructure, supplier arrangements and operational structures including customer contact centres;
- Re-aligning head office roles with focus on delivering tangible benefits to business operations; and
- Removing superfluous layers of head office decision making protocols and management.

Sustainability

The Board extols the importance of sustainable business performance and corporate responsibility.

Activities

- All staff, including all executive leaders and Board members, are required to complete online training modules that cover key areas of compliance;
- Accountability for sustainable business practices is more firmly vested at the "first line" of defence at operational level, with guidance and oversight provided at the "second line" of defence utilising compliance specialists. The Group's Executive Committee receives reports and analysis on performance, which is in turn referred to the Board and its constituent committees for scrutiny and debate;
- The Group's risk register is updated and referred to at Board and at Board Committee level with input received on risk appetite, priorities and mitigation;
- The Group obtains appropriate professional risk insurance cover with significant claims and trends referred to Board and Board Committee review; and
- The views of employees and customers are regarded as a critical indication of performance, with routine confidential staff surveys, customer surveys and reporting on customer complaints and outcomes at Board and Board Committee level.

Organisation

The Board considers that providing top down leadership and placing the Company's core values at the heart of operations will underpin the turnaround. The Board's composition and guiding hand is central to this process.

Activities

- Succession planning in terms of reviewing the capabilities and any skill gaps of the Board members and top team;
- Reviewing performance of senior management;
- Ensuring alignment of performance with good business practices; and
- Monitoring delivery of core values across the organisation through regular management reporting and site visits.

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 note the following instance of non-compliance: as a result of 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 in compliance with the Code to that extent. Furthermore, the executive chairman has, during the financial year, resigned two of his non executive directorships including his role as Chairman of Royal Mail plc. The board is wholly satisfied that the executive chairman brings particular skills, was able to devote sufficient time to Countrywide throughout the year and that shareholders' interests have been and continue to be best served by his serving in an executive capacity. The executive chairman, in conjunction with the executive team, is committed to steering the Company through its turnaround, which requires sufficient calls on his time to deal with performance and strategy at a detailed level.

The corporate governance report comprises pages 48 to 51. Additional information in respect of the operation, and terms of reference, of the Remuneration Committee is included within the separate directors' remuneration report.

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

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

The Board has a close working relationship with the new group managing director and his executive and senior leadership teams through a continuous programme of Board presentations and informal meetings. Members of the Board have visited selected Group locations and branches. The experience and quality of the Company's staff and leadership, in conjunction with appropriate policies to incentivise and reward performance, underpins the relationship between the Board and management, with alignment and focus on the turnaround strategy.

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's retention of decision making and control of these key areas ensures effective stewardship and risk management by providing integrated reporting, for example, in respect of strategic priorities and associated risk and mitigating governance controls.

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. The group managing director was appointed to the board during the year although the chairman remains in the role of executive chairman, assuming some of the responsibilities of the role of chief executive officer.

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.

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.

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 2018, the Board comprised three executive and seven non-executive directors.

The Nomination Committee considers the skill set and sector experience of the Board, appointments to the Board, director development and succession planning.

Details of these activities and the process of Board evaluation and development are discussed in the Nomination Committee report on pages 52 to 53.

The Board held eight meetings in accordance with its scheduled calendar and, as a result of the level of activity during the year, held six additional meetings. 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 below. 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).

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.

Board attendance

Director	Date of appointment	**Board meetings**	Audit and Risk Committee meetings	Nomination Committee meetings	Remuneration Committee meetings
Peter Long	11 February 2016	**14/14**	–	2/2	–
Alison Platt[1]	1 September 2014	**0/0**	–	–	–
Himanshu Raja	12 June 2017	**14/14**	–	–	–
Paul Creffield[2]	2 August 2018	**5/5**	–	–	–
Caleb Kramer[3]	19 February 2013	**10/14**	–	–	–
David Watson[4]	2 September 2013	**13/14**	6/6	2/2	9/9
Cathy Turner[4]	31 July 2013	**12/14**	6/6	2/2	9/9
Richard Adam[5]	9 June 2014	**5/5**	3/3	1/1	1/1
Jane Lighting[4]	9 June 2014	**14/14**	6/6	2/2	8/9
Rupert Gavin[4]	25 June 2014	**14/14**	–	2/2	8/9
Natalie Ceeney	28 April 2017	**14/14**	1/1	–	9/9
Mark Shuttleworth[6]	1 October 2018	**1/1**	1/1	–	1/1

1. Alison Platt resigned from the Board with effect from 24 January 2018.
2. Paul Creffield was appointed to the Board on 2 August 2018.
3. Caleb Kramer was engaged in overseas activities which meant he was unable to attend four Board meetings, some of which were unscheduled during the refinancing process.
4. David Watson, Cathy Turner, Jane Lighting and Rupert Gavin were absent from each of the specific Board / Committee meetings as detailed above due to the unscheduled nature of some of these meetings during the refinancing process.
5. Richard Adam resigned from the Board with effect from 25 April 2018.
6. Mark Shuttleworth was appointed to the Board on 1 October 2018.

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 major 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. Including the appointment of Mark Shuttleworth on 1 October 2018, there are six (of a possible seven) non-executive directors determined to be independent 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 38 to 42 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 54 to 61.

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 62 to 77.

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 2018 the Company undertook a wide variety of investor relations activities. Institutional shareholders represent the largest group of shareholders and much of the activity is focused on this group. The chief financial officer and I 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.

Employee engagement

Our people are key to the success of the business and the Board promotes full management engagement and open dialogue with the Group's employees. For example, the group managing director operates an open door policy and engages with the wider workforce through regular blogs and site visits, regular communications and updates. This is provided in conjunction with divisional management communication for example routine marketing newsletters on the "Our Place" internal website; competitions and prizes; the "Hall of Fame" recognition scheme; and the intra colleague "High Five" acknowledgement scheme, amongst other means of engaging which will be further developed throughout the year.

An employee survey that captures the views of the Company's people was commissioned in the summer and its results were reviewed by the Board in September 2018 with differences in participation and satisfaction levels across the divisions but with overall participation of 57%. It was noted that the survey was completed during a challenging point in the Group's standing and as such should make a good benchmark to compare with subsequent progress.

Remuneration policies supporting long term success and gender diversity are covered in more detail in the Director remuneration report on pages 62 to 77 and the Board reviews recruitment strategy and management's approach to diversity.

Other stakeholders

The Board engages and is made aware of engagement with its shareholders, investors and stakeholders and how their interests are aligned with the duty to promote the success of the Company and with regard to long term decision making, standards of business conduct and fairness. The Board has identified the key stakeholders as including employees, business relationships (customers, suppliers), community and environment and is satisfied that their views and opinions are taken into account in Board discussions and decision making. The Group is accountable to its stakeholders, shareholders and investors, and the Board will take into account the interest of all, as well as the local community and the environment in which we operate.

The Group'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.

The Board ensures that in its interactions with stakeholders, the Group:

Customers

- seeks to be honest and fair in its relationships with customers
- provides the standards of products and services that have been agreed
- takes all reasonable steps to ensure the safety and quality of products or services that it produces
- promotes relevant Ombudsman redress schemes and subscribes to industry Codes of Best Practice

Suppliers

- seeks to be honest and fair in its relationships with suppliers and subcontractors
- pays suppliers and subcontractors in accordance with agreed terms
- has a policy not to offer, pay or accept bribes or substantial favours
- encourages suppliers and subcontractors to abide by the same standards and principles

Shareholders

- is financially accountable to its investors
- communicates to investors all matters that are material to an understanding of the future prospects of the organisation
- aims to protect investors' funds, manage risks and ensure funds are used as agreed

Local communities

- aims to make the communities in which we work better places to live and do business
- aims to be sensitive to the local communities' cultural, social and economic needs
- endeavours to protect and preserve the environment wherever Countrywide operates
- encourages its subsidiary businesses to support causes within their local communities

Industry participation

- engages in consultation with Government regulators and relevant trade bodies including the Association of Residential Letting Agents on issues affecting the housing sector, related industry services and consumer protection
- engages with journalists and reputable research bodies on topical themes
- provides support to public bodies, including The Property Ombudsman Scheme, Royal Institute of Chartered Surveyors, Association of Mortgage Intermediaries and the Council of Mortgage Lenders

Environmental matters

Environmental savings make good business sense. Our primary objective is to minimise our carbon footprint and any negative impact we may have on the environment.

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

7 March 2019

Report of the Nomination Committee

Peter Long
Chair of the Nomination Committee

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 2018, together with appointment date, is set out below.

The composition of the Committee did change during the period as detailed below; however, 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 49.

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 to 25 April 2018
Rupert Gavin	25 June 2014
Jane Lighting	9 June 2014

The Committee's work

The Committee held two formal meetings during 2018.

On 24 January 2018, Alison Platt, the Group's Chief Executive, left the business and I took over as executive chairman.

On 2 August 2018, Paul Creffield, who has been with the Group since 2006, joined the Board as group managing director.

Mark Shuttleworth was appointed to the Board on 1 October 2018 and became chair of the Company's Audit and Risk Committee with effect from 1 January 2019. Mark brings substantial restructuring and turnaround expertise; and was appointed taking account of the balance of skills, experience and diversity of the Board. The appointment process was led by the Nomination Committee and was assisted by the external search firm, Ridgeway Partners. Ridgeway has no connection with the Company.

Board and Committee composition

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 ten 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 33.

Induction and training

Following Mark's appointment to the Board, as with all directors of the Company, he received a tailored induction programme which provided him with the opportunity to gain a good understanding of the Group business and organisation, operations and governance environment, in order to maximise his 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 2018

Countrywide engages the services of Lintstock to assist with the annual assessment of Board performance, which in relation to 2018 comprised completing online questionnaires designed in conjunction with the chair. Lintstock has no other relationship with the Company.

In addition to assessing core Board and Committee performance topics, the exercise was weighted to ensure that issues identified in previous Board reviews were followed up, as well as having a particular focus on themes that emerged during 2018, resulting in focus on the following areas:

- The evaluation of the Board's skills and review of succession planning for the Board's non-executive directors;
- Ensuring the adequacy of succession plans for key members of management;
- The Board's understanding of, and engagement with, key stakeholder groups including investors, employees and customers;
- The provision of Management updates between formal meetings, and encouraging opportunities for non-executive directors to engage with senior management;
- The enhancement of the Board's oversight of the identification, likelihood and impact of risks;
- The management of the board agenda cycle to enable directors to cover areas of priority in more depth during Board and Committee meetings; and
- The top priorities for the Board were identified as: succession planning; monitoring progress of the turnaround; maintaining an open and collaborative approach; addressing long-term strategy; and ensuring adequate discussion time at meetings.

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, with the exception of Cathy Turner who will be stepping down after the AGM, and as detailed in the notice of the AGM all directors will stand for re-election.

Peter Long
Chair of the Nomination Committee

7 March 2019

Report of the Audit and Risk Committee

“The Committee has been strengthened and realigned to reassure shareholders that their interests are properly protected.”

Mark Shuttleworth
Chair of the Audit and Risk Committee

Dear shareholder

On behalf of the Board, I am pleased to present the report of the Audit and Risk Committee.

On 1 January 2019, I was appointed chair of the Audit and Risk Committee, having been a committee member since joining the Board as an independent non-executive director on 1 October 2018. I would like to thank my predecessor, David Watson, for his assured leadership of the Committee and his continued membership following Richard Adam’s step down as independent non-executive director of the Company, and chair of the Audit and Risk Committee at the Company’s Annual General Meeting on 25 April 2018.

Since my appointment, I have reviewed the operation and the role of the Committee to ensure that it continues to provide the support to the Board that is required and to also ensure that the Committee is fulfilling its role in the review of the integrity of the Group’s financial reporting, monitoring the effectiveness of the Group’s risk management and internal controls framework, and its effective oversight of the Group’s internal audit function and its external auditor.

With a view to adopting a continuous improvement mind set within the Committee, and taking into account the journey the Company has been on, I have adjusted the standing agendas and qualitative reporting into the Committee to include regular monitoring of the Group’s transformation of its IT infrastructure and applications and associated risks, and also to strengthen the Group’s processes around addressing and closing out risks identified by the Group’s internal audit function and external auditors. I have also reviewed the composition of the committee to ensure that its skill sets are appropriate to the Group. I am pleased that Natalie Ceeney has joined the committee which, with her considerable financial services background, is a welcome addition.

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 chair of the Committee I have also held meetings with the Company’s internal (Deloitte) and external (PwC) auditors, the chief financial officer, the enterprise risk director, senior members of the Group finance department, and other senior executives in order to ensure an understanding of key issues relevant to the Committee are being addressed.

That said, 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 2018, the Committee has:

- 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 the Group's prospectus in connection with the open offer and placing in August 2018 and the Group's associated amendment, extension and restatement of its revolving credit facility, and satisfied itself on the additional covenant headroom which this provided.

I will be available at the Annual General Meeting, together with David Watson, to answer any questions about the work of the Committee during the year and its focus going forward.

Mark Shuttleworth
Chair of the Audit and Risk Committee

7 March 2019

Committee composition

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

Member	Audit and Risk Committee member since
Mark Shuttleworth (chair)	1 October 2018
Jane Lighting	9 June 2014
Cathy Turner	31 July 2013
David Watson	2 September 2013
Natalie Ceeney	9 October 2018

The composition of the Committee changed during the period with Richard Adam resigning from 25 April 2018, following the announcement on 5 October 2017 of his intention to step down at the 2018 AGM, and the appointment of Mark Shuttleworth on 1 October 2018. There was also the appointment of Natalie Ceeney to the Committee on 9 October 2018. 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, Mark Shuttleworth, and the Group's deputy chairman, David Watson, have recent and relevant financial experience. The biography of each member of the Committee is set out on pages 44 to 45.

Attendance by members at the Committee meetings is shown on page 49. Meetings are attended, by invitation, by the chief financial officer, the enterprise risk director, 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. At the end of each meeting, a private session is held by the Committee with representatives of both the external and internal auditors which is 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 2018 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.

Report of the Audit and Risk Committee continued

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 2018 annual report was fair, balanced and understandable and whether it provided the necessary information for the shareholders to assess the Group's performance, business model and strategy. In reaching this view, the Committee took into account: its own knowledge of the Group, and its strategy and performance in the year; debates and discussions regarding principal risks and uncertainties; robust processes to ensure internal verification of the factual content within the document; and a detailed review, by senior management and the external auditor, to ensure consistency and overall balance. After careful review and consideration of all relevant information, the Committee was satisfied that, taken as a whole, the annual report is fair, balanced and understandable and affirmed that view to the Board.

Prior to the publication of the 2018 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 43.

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
Impairment of goodwill and intangibles with an indefinite life The total value of the Group's goodwill was £233.8 million as at 31 December 2018 and relates to a number of historical acquisitions. The estimation of the recoverable amount of goodwill 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 a half year impairment review of the carrying value of goodwill and intangibles with an indefinite life, the following impairments were recorded: £14 million of goodwill and £58 million of brand names in relation to the UK Sales and Lettings cash generating unit and £31 million of goodwill and £68 million of brand names in relation to the London Sales and Lettings cash generating unit. Further impairments of assets with finite lives were also incurred and detailed in note 10. From 1 July 2018, as signposted in the 2017 annual report, finite lives have been attributed to brand names and amortisation charges incurred. As a result of a year end impairment review of the carrying value of goodwill, the following impairments were recorded: £1 million of goodwill in relation to the Commercial cash generating unit. The balance remaining at the 2018 financial year end in respect of goodwill was £233.8 million (see note 14 to the consolidated financial statements. Details of the Group's impairment, impairments test and related disclosures are provided in notes 10 and 14).	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. The Committee also reviewed the finite lives attributed to brand names from 1 July 2018 and resultant amortisation charges. **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 2018.

Matter and description	Action the Committee has taken and conclusion
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 2018 was £9.5 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, and concurred with the provision release of £1.1 million and £2.1 million of income arising from a favourable claim outcome within exceptional items. In addition, a further £2.8 million of provision release has been recorded within adjusted EBITDA as this relates to the revision of assumptions based on recent claims experience and the release of provisions which were not established by charging the costs as exceptional items but within underlying trading results. 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 2018.
Onerous lease provisions The total value of the Group's onerous lease provisions in respect of loss making branches as at 31 December 2018 was £3.6 million, with associated dilapidations provisions (see note 23). Onerous lease provisions with a present value of £6.1 million (see note 10) were recognised during the year. The Committee will receive quarterly updates on the status of the onerous lease provision which will include reconciliation of the utilisation of the provision within trading results and release of unutilised provisions to exceptional items.	The Committee reviewed the methodology and resultant onerous lease provision prepared by management, noting that the underlying assumptions adopted in respect of branch performance aligned with the Board approved budget. The Committee concluded that the methodology and assumptions adopted were reasonable, as was the release of £0.7 million of the provision to adjusted EBITDA, to align with underlying branch contributions, during 2018. The Committee notes that evaluating these potential liabilities is highly judgemental and estimates can be significantly affected by the outcome, good or bad, of the trading performance of a limited number of branches. Accordingly, sensitivity disclosures have been provided in note 3. **Conclusion**: The Committee was satisfied with the level of onerous lease provisions and the related disclosures as at 31 December 2018.

Report of the Audit and Risk Committee continued

Matter and description	Action the Committee has taken and conclusion
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 £206.6 million and £195.3 million respectively. As a result of the impairment charges recorded within the consolidated financial statements during the year detailed 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 in 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 cashflow forecast used in the impairment test of goodwill described above. The results showed that there was insufficient headroom between the carrying value and the recoverable value, and therefore impairment changes have been recognised in the parent Company as follows: £179.8 million impairment of investment carrying value; and a £37.3 million impairment of intercompany receivables.	Linked to the impairment testing of goodwill noted above, the Committee had reviewed the discounted cashflow forecast also used in the impairment assessment of the value in use of subsidiaries and the ability of subsidiaries to repay the intercompany receivables on the Company balance sheet. **Conclusion:** The Committee was satisfied with the impaired carrying value of the investments in subsidiaries and intercompany receivables held by the Company.

Other issues considered by the Committee:

Going concern

The Group has net debt of £71 million.

As explained in note 32 to the financial statements, the Group meets its day to day working capital requirements through a revolving credit facility (RCF), which was amended and extended in August 2018, and the Group currently has a £125 million committed facility through to 30 September 2022. Management forecasts show that this facility provides adequate liquidity for the Group.

As at 31 December 2018, a total of £40 million remained undrawn from these facilities. During the period from inception of this reset RCF, 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 cash flow and profit forecasts to assess the potential of a breach of the banking covenants. In assessing the forecasts, the Board also considers the impact of potential risks and opportunities. The Group's forecasts and projections, which have been prepared for the period to 31 December 2021 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 (details of which are provided in the prospectus issued in relation to our placing and open offer undertaken in August 2018).

The Committee reviewed a management paper detailing the ability of the Group to continue as a going concern, including: future profitability of the Group, forecast future cash flows, associated headroom under financing facilities and banking covenants. The Committee also reviewed and noted the amendment to the Group's revolving credit facility, signed in August 2018, and noted the additional covenant headroom which this provided. The key judgements, assumptions and estimates underpinning this review, and the associated sensitivities, were discussed and considered.

Conclusion: The Committee was satisfied that it was appropriate for the Group to adopt the going concern basis of accounting in the financial statements and recommended the same to the Board.

Matter and description	Action the Committee has taken and conclusion
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.
Restitution of trust funds The Group holds money on behalf of parties to property transactions. For example, the Group holds deposits made by lessees of properties. Generally, the Group does not recognise this client money on its consolidated balance sheet. However, the Group deposits client money in interest-bearing accounts and recognises the interest component as finance income in the Group's consolidated income statement. The Group takes all practical and reasonable measures to identify the ownership of the funds and to trace and return funds in a timely manner. Historically, balances that remained untraceable and were more than six years old were recognised in the Group's consolidated income statement as other income and an indemnity was put in place by Countrywide Group plc to the underlying subsidiary entities to ensure that any claims arising subsequently on these funds would be met by the Countrywide Group plc. In practice, less than 1% of the funds released have ever been claimed and paid out. Following a management review of client accounting, and having received legal advice on the use of such funds, the Group understands that some of these historical and untraceable funds arising from the Lettings business for the period from 2008-2017 should be held in trust under a separate client account. A prior year error correction, along with a related reduction in retained earnings net of deferred tax was recognised at 30 June 2018 amounting to £4.5 million. The Group's operating segment results for the Sales and Lettings operating segment for 2017 (as the comparative period) were also restated (see note 2d). Additional investigations and further legal guidance during H2 2018 resulted in a revision to the accounting estimate. Accordingly, a further charge of £5.2 million has been recognised as an exceptional cost in H2 2018 (see note 10).	The Committee reviewed management's assessment of the position at 30 June 2018 and related legal advice, along with disclosures adopted within the interim financial statements (see note 2d). As this position was still subject to further investigation, the Committee reviewed revised papers on conclusion of this investigation, which were also subject to review by the Group's internal auditor, which also incorporated further legal guidance on the matter. As a result of this change in estimate, all relevant funds have now been reinstated into a separate client account held in trust. **Conclusion:** The Committee is satisfied that the disclosures given within the accounts are sufficient to gain a proper understanding of the nature of the prior year error correction and the change to accounting estimate giving rise to an exceptional charge in the second half of the year.
IFRS 15 and balance sheet restatement The adoption of IFRS 15 has led to changes in the revenue recognition policies across the Group and significant restatement of prior period balance sheets and income statements. The project involved reviewing a number of business units number of business units to confirm the contractual performance obligations arising given the diverse nature of the Group's activities. Management provided presentations that captured the key judgements applied under the new accounting policy adopted and this included the adoption of a policy to ensure appropriate recognition of revenue be that over time or point in time.	The new revenue recognition policy includes disclosure of the significant judgements and estimates in relation to its application and the Committee is satisfied that these have been properly disclosed. **Conclusion:** The Committee is satisfied that the disclosures given within the accounts are sufficient to gain a proper understanding of the methodology of accounting for revenue across the Group including the recognition of deferred income at the balance sheet date.

For further information on the critical accounting estimates and assumptions refer to the notes to the consolidated financial statements on pages 108 to 109. For a discussion of the areas of particular audit focus by the auditor, refer to pages 86 to 88 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 36 and 37, which includes the Committee. Following the change of executive leadership in 2018, the Company's approach to risk management has been reset and agreed with the Committee to ensure clear focus in both Executive and Senior Leadership Team meetings.

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 to an acceptable level.

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;
- 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 actions. 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, under the direction of the Group's enterprise risk director, using a questionnaire for key stakeholders as an underlying framework;
- completed an annual review of the effectiveness of the Group's risk management and internal control systems;
- received updates from the Group's enterprise risk director 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 2019 Group risk function plan, outlining the objectives and activities of the Group risk function for the forthcoming year;
- monitored completion and pass rates of mandatory compliance and ethics related training courses taken by colleagues throughout the Group;
- monitored the risks and associated controls over the financial reporting processes, including the process by which the Group's financial statements are prepared for publication;
- reviewed reports from the external auditors on any issues identified during the course of its work, including a report on control weaknesses identified; and
- reviewed, and recommended for approval, the Group's risk management disclosures for inclusion within the annual report and accounts, including the consideration of the Group's viability statement as required under the Code.

Oversight of the external audit

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

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

To further safeguard the objectivity and independence of the external auditors, the Committee has a formal policy governing the engagement of the external auditors to provide non-audit services, providing details of prohibited, audit-related and permitted services. The policy requires approval by the chief financial officer of any work undertaken by PwC and mandates Committee approval, prior to the commencement of work.

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

Matter	2018 £'000	2017 £'000
Audit-related assurance services	58	50
Tax advisory services	–	2
Other non-audit services*	992	49
Non-audit fees	1,050	101
Audit fees (excluding audit-related assurance services)	558	542

* £982,000 of these non-audit services related to work undertaken in relation to the capital refinancing plan.

Amounts paid to PwC were reported to and considered by the Committee. Non-audit fees 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 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 to tender its audit for the year ending 31 December 2017 to ensure that it would be in a position to meet the ten year requirement to retender the Group's audit.

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.

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 53.

Directors' remuneration report

Cathy Turner
Chair of the Remuneration Committee

Annual statement

Dear shareholder

On behalf of the Board, I present below our directors' remuneration report for the year ended 31 December 2018.

It has been one of the most challenging years the Group has faced, with extensive changes being made to ensure the future success of the business. Although, in this year of reset for the Group, financial results have been delivered in line with the Board's expectations based on the turnaround plan, overall financial performance has seen a significant decline in profitability. As you would expect in such circumstances the remuneration decisions for 2018 are reflective of this performance. Whilst this is a disappointing outcome it clearly demonstrates the application of pay for performance. The focus now shifts to ensuring the remuneration strategy for 2019 onwards fully supports the turnaround plan at a critical time for the Group.

During the year Paul Creffield joined the Board as group managing director on 2 August 2018, having been promoted from his previous role of group operations director and bringing with him a wealth of experience within the sector. In his role of group managing director Paul is responsible for the day to day running of the business and has line reporting responsibility for all areas. Peter Long has remained in post as executive chairman, focusing primarily on external communication and investor relations, and as a result his remuneration has remained unchanged. Himanshu Raja, chief financial officer during 2018, has reported into Paul Creffield from 2 August 2018. Alison Platt stepped down from the Board on 24 January 2018.

As referred to in the chief financial officer's review, the capital refinancing of August 2018 deleveraged the Group's balance sheet providing the Group with greater long term certainty, flexibility and balance sheet strength, together with improved liquidity and covenant headroom. The impact of the firm placing and open offer had, as you would expect, a significant negative impact on executive director reward as a result of share dilution, affecting the value of existing executive shareholdings in the same way as other shareholders and also impacting the value of in-flight awards such as the LTIP.

As part of the strategic plan that followed the capital refinancing, the Committee supported the introduction of the 'Absolute Growth Plan' (AGP), an incentive plan designed to reward the Executive Team for achievement of significant and sustainable shareholder value growth.

Given the business situation and specific design of the AGP, we consulted widely with key existing and prospective shareholders. There were a wide range of views. Whilst the majority of shareholders would support its introduction, due consideration was given to all dialogue as well as the broader business environment, and so the plan was withdrawn.

The current remuneration policy, which was approved by shareholders at the 2017 AGM, continues to be appropriate and therefore no changes have been made since that 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 30 April 2019.

2018 performance and reward

During 2018, against challenging market conditions, Group adjusted EBITDA of £32.7 million for the year ended 31 December 2018 was £32.9 million below the £65.6 million achieved in 2017.

The Committee, whilst acknowledging the positive steps taken by management to improve the performance of the Sales and Lettings business in particular, 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 2018 financial performance for a third consecutive year:

- annual bonus: no bonuses were payable to the executive directors for 2018;
- LTIP: there was no vesting of LTIP awards for Paul Creffield and Himanshu Raja in 2018. The 2016 LTIP, of which Paul Creffield participated, did not vest due to the non-achievement of the challenging adjusted EPS and relative TSR-based performance conditions attached to these awards. Himanshu Raja did not join the Group until 12 June 2017 and therefore did not participate in the LTIP before this time.

These negative remuneration outcomes were broadly reflective of the wider employee population experience, with the share dilution significantly reducing the value of existing LTIP awards for the executive directors and senior management. Some technical adjustments were made in line with the plan rules and HMRC rules for the all employee share plans, although these did not fully offset the impact of the capital refinancing.

Remuneration policy for 2019

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 2019.

The key points to note are as follows:

- there will be no increase to either the group managing director or chief financial officer's salaries in 2019;
- no increase in fee for the executive chairman;
- benefits and pension provision will remain unchanged (although will be reviewed as part of the policy review ahead of the 2020 AGM);
- the structure and quantum of the annual bonus, with one-third of any award deferred into shares, continues to be appropriate. The 2019 annual bonus framework will be largely consistent with the 2018 annual bonus, with 70% of the award now based on adjusted EBITDA, with the remaining 30% incorporating strategic/personal targets. The strategic/personal targets will align with the strategic objectives of the Group and represent both personal and customer outcomes; and
- The performance conditions that apply to the long-term incentive grant policy, whereby nil-cost awards are granted annually, will be adjusted earnings per share and relative total shareholder return, with weighting split two-thirds/one third respectively. Our immediate focus as part of the business reset is to regrow earnings and value creation over the next three years, hence the focus on a narrower number of performance measures for the 2019 awards. The impact of the capital refinancing on EPS in 2018 has resulted in the targets for the 2019 award to be set at significantly higher growth levels than usual. The measures will provide strong alignment between the senior executive team and shareholders. Ongoing grant levels are expected to be consistent with the normal grant policy. However, in recognition of the current low share price, the Committee has determined that 2019 award levels will be reduced significantly i.e. less than half the typical award, for the Group managing director and chief financial officer. Further, the maximum value of any individual payouts has been capped as to avoid undue windfalls for a recovery in the share price.

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 policy has been included in this report, with some supplementary notes located on the company website for reference.

Further details of how the current policy will be applied in practice for the 2019 financial year are set out in the annual report on remuneration on page 65.

Directors' remuneration report continued

UK Corporate Governance Code

The Committee spent time during 2018 considering the implications of the new revised UK Corporate Governance Code which comes into effect for Countrywide from 1 January 2019. The Committee already reviews and approves the pay arrangements for senior executives below the Board and has taken an active interest in understanding pay policies more generally across the workforce. During 2019 we will be formalising our processes so that greater attention can be given to reviewing pay and employment conditions across the Group.

As noted earlier in the corporate governance section, the Board as a whole will be seeking to develop the ways in which it engages with employees. Existing mechanisms which include branch visits, colleague surveys and Board dinners with commercial teams will form the foundations on which we can build further avenues for hearing the employee voice. The Committee members will play an active part in this process so that they are fully informed of employee sentiment when setting executive remuneration.

Looking ahead

By the end of 2019, the remuneration policy will have been in place for three years and will therefore need to be renewed at the 2020 AGM. During 2019, the Committee will be reviewing the policy to ensure it remains appropriately aligned to the business needs, reflects developments in market practice and remains compliant with the new UK Corporate Governance Code. Any material changes which are planned will be the subject of consultation with our major shareholders.

Shareholder support

The Committee was pleased to receive positive support from 94.18% of the shareholders who voted on our 2018 remuneration report (the annual statement and annual report on remuneration). The remuneration policy was approved by shareholders at the AGM on 27 April 2017, where positive support of 99.71% was received. We remain committed to ongoing engagement with our shareholders and take an active interest in their views and voting on this remuneration report.

I hope that 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

7 March 2019

PART A: annual report on remuneration

Directors' remuneration for the year ended 31 December 2018 (audited)

The remuneration of the directors for the years 2018 and 2017 was as follows:

	Salary and fees		Taxable benefits[5]		Annual bonuses		Long term incentives		Pension[6]		Total[7]	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Executive directors												
Peter Long[3]	**169**	–	**–**	–	**–**	–	**–**	–	**–**	–	**169**	–
Himanshu Raja	**410**	229	**14**	8	**–**	–	**–**	–	**62**	34	**486**	271
Paul Creffield[8]	**187**	–	**6**	–	**–**	–	**–**	–	**28**	–	**221**	–
Non-executive directors												
Peter Long[3]	**180**	180	**–**	–	**–**	–	**–**	–	**–**	–	**180**	180
Caleb Kramer[11]	**40**	40	**–**	–	**–**	–	**–**	–	**–**	–	**40**	40
David Watson	**102**	95	**–**	–	**–**	–	**–**	–	**–**	–	**102**	95
Cathy Turner	**55**	55	**–**	–	**–**	–	**–**	–	**–**	–	**55**	55
Rupert Gavin	**45**	45	**–**	–	**–**	–	**–**	–	**–**	–	**45**	45
Jane Lighting	**45**	45	**–**	–	**–**	–	**–**	–	**–**	–	**45**	45
Natalie Ceeney[4]	**55**	36	**–**	–	**–**	–	**–**	–	**–**	–	**55**	36
Mark Shuttleworth[9]	**11**	–	**–**	–	**–**	–	**–**	–	**–**	–	**11**	–
Former directors												
Alison Platt[1]	**48**	575	**1**	15	**–**	–	**–**	–	**7**	86	**56**	676
Jim Clarke[2]	**–**	198	**–**	9	**–**	–	**–**	–	**–**	30	**–**	237
Richard Adam[10]	**18**	55	**–**	–	**–**	–	**–**	–	**–**	–	**18**	55
	1,365	1,553	**21**	32	**–**	–	**–**	–	**97**	150	**1,483**	1,735

1. Alison Platt stepped down from the Board on 24 January 2018, however served notice with the Company until 23 January 2019 as was stipulated in her contract. Further details are noted in the payments to past directors. During her time in post she 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. 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.
3. Peter Long served as non-executive chairman until 24 January 2018, at which time he became executive chairman. During 2018 he served as a non-executive director for three companies and retained the following fees during the year for his services; Royal Mail plc £215,342 (stepped down on 19 September 2018); Parques Reunidos Servicios Centrales, S.A.U ("Parques") 135,614 euros (stepped down on 17 July 2018); TUI AG 246,000 euros.
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, Himanshu Raja and Paul Creffield received a 15% of salary supplement in lieu of pension entitlements.
7. Matching shares were also issued to the eligible executive directors under the Share Incentive Plan (until cessation of the plan in April 2018), 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.
8. Paul Creffield joined the Board on 2 August 2018. His remuneration is shown for the period in which he served as a director.
9. Mark Shuttleworth joined the Board on 1 October 2018. He received pro-rata fees during 2018.
10. Richard Adam stepped down from his role on 25 April 2018.
11. Caleb Kramer's services are provided to the Company under an agreement between the Company and Oaktree Capital Management FIE LLC.

2018 base salaries and pension

Executive	Annual salary / fee from 1 January 2018 (or date of appointment)	Pension allowance
Peter Long	£360,000[1]	0%
Paul Creffield	£450,000[2]	15%
Himanshu Raja	£410,000	15%

1. Peter Long previously received a fee of £180,000 per annum as non-executive chairman. This was increased to £360,000 per annum for the period that he is executive chairman of Countrywide. He is not eligible for other employment benefits and does not participate in any incentive plans.
2. Paul Creffield was appointed to the Board as group managing director on 2 August 2018. His annual salary was set at £450,000 per annum. When setting his salary, the Committee considered a number of reference points. Whilst external benchmarking data was viewed to provide wider market context, internal relativities, the skills and experience of the individual and the criticality of the role in rebuilding the business were more influential factors considered. The Committee is of the view that this salary level adequately reflects the scope and responsibilities of the role.

PART A: annual report on remuneration continued

2018 annual bonus award (audited)

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

As set out in the capital raise prospectus, the Remuneration Committee decided to restructure the annual bonus plan during the course of 2018, to better align with the turnaround strategy. The Remuneration Committee determined that there would be no bonus payable for performance during H1 2018 due to not achieving the threshold performance targets. As noted at the time of the capital raise, any bonuses for H2 2018 would be, as before, subject to the achievement of adjusted EBITDA and strategic objectives, but also be based on the achievement of turnaround objectives.

The maximum bonus that could be earned by Executive Directors for 2018 was half of the normal maximum, so 60% of base salary for the group managing director and the chief financial officer. The intention was to ensure that the targets for the senior managers and the wider leadership team were relevant and motivational.

H1 annual bonus

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

The primary driver of the award was based on Group adjusted EBITDA, Group income and Group operating cash flow 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, income and operating cash flow targets, performance against these targets and the resultant bonus outturn. As noted above, the financial performance was assessed for the first six months of the financial year, based on performance to that time and with an assessment of potential full year performance.

		Performance required				
Measure	Weighting	Threshold	On-target	Maximum	Actual	Payout
Group adjusted EBITDA	25% (i.e. up to 30% of salary)	£60m	£72m	£75m	£32.7m	0% of salary
Group income	25% (i.e. up to 30% of salary)	£622m	£692m	£705m	£627.1m	0% of salary
Operating cash flow	20% (i.e. up to 24% of salary)	£54m	£72m	£83m	£(3)m	0% of salary

Personal/strategic targets (up to 30% of bonus)

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

Target	Weighting	Committee’s assessment of whether target was met
Personal/strategic targets	30% (i.e. up to 36% 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.

H2 annual bonus

As noted above, the Committee felt it necessary to set performance targets post capital raising, which reflected the turnaround strategy and the key indicators of that strategy being delivered. Any bonus payment required Group adjusted EBITDA of £40 million to be achieved. This was not achieved. Thereafter, the performance was assessed against individual criteria as set out below:

Measure	Target	Performance assessment	Outcome
Paul Creffield			
Market share of listings	8% increase on 2017	6% increase	0%
Pipeline convergence year on year	Closing pipeline convergence year on year by end of 2018	1% down	0%
Cross sales target (pence in the £)	16% increase on 2017	16% increase	0%
Leadership	Establish, develop and engage the executive committee to set strategic direction and lead the organisation through the turnaround	Achieved	0%
Himanshu Raja			
Capital structure	Re-set covenants to provide headroom for the build back of the business Placing and rights issue and put in place a long term capital structure for the Group	Achieved	0%
Cost reduction	Lead on the cost agenda for the Group to continue to bring down the cost base	Achieved	0%
Reset KPIs	Fit for purpose financials and KPIs: • Clear view of business unit profitability • Clear view of the cost base and costs by function and for Group HO • Service line profitability • One set of financials and KPI's per business unit	Partially achieved	0%
Leadership	Establish, develop and engage the Executive Committee to set strategic direction and lead the organisation through the turnaround	Partially achieved	0%

Total award

Based on the underlying financial performance targets not being met, no bonus is payable under either element.

Vesting of scheme interests in respect of the year ended 31 December 2018 (audited)

Awards granted under the LTIP to Paul Creffield in March 2016 would be due to vest on the third anniversary of grant in 2019 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 2018	37.3p	48.9p	0.6p	0%
Relative TSR (vs FTSE 250 ex financial services) for the three years ended 31 December 2018	Median	Upper quartile	Below median	0%

Based on the above, none of the outstanding 2016 LTIP awards held by Paul Creffield will vest.

PART A: annual report on remuneration continued

Scheme interests awarded during the year (audited)

LTIP awards

The following LTIP awards, structured as nil-cost options, were granted to executive directors during 2018:

Executive	Date of grant	Basis of award granted	Share price at date of grant (pence)	Number of shares	Face value of award at grant[1]	% of face value that would vest at threshold performance	Vesting determined by performance over	Normal vesting (exercise) date
Himanshu Raja	26/03/18	200% of salary	89p	922,385	£820,000	25%	Three-year period ending 31 December 2020	26 March 2021 (26 March 2028)
Paul Creffield	26/03/18	200% of salary	89p	708,661	£630,000	25%	Three-year period ending 31 December 2020	26 March 2021 (26 March 2028)

1. 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 2020;
- 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
- operating cash flow conversion (25% of award) – 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.

As noted in last year's report, 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 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 took into account the automatic increase in responsibilities for Mr Raja as a result of the chief executive officer position being vacant. This was permitted under the approved policy. Mr Raja also bought shares in Countrywide in the open market. Mr Raja will only benefit from the enhanced award if he and Countrywide outperform.

Outstanding share awards

	Date of grant	Interest at 1 January 2018	Options/ awards granted during the year	Options/ awards lapsed during the year	Options/ awards exercised during the year	Adjusted for capital raising[2]	**Interest at 31 December 2018**	Exercise price pence	Expected exercise/vested to expiry date (if appropriate)
Alison Platt[1]									
LTIP	16/03/15	163,507	–	(163,507)	–	–	**–**	–	16/03/18 (16/03/25)
LTIP	22/03/16	279,960	–	–	–	214,331	**494,291**	–	22/03/19 (22/03/26)
Deferred bonus	05/05/16	27,010	–	–	–	20,678	**47,688**	–	05/05/19
LTIP	02/05/17	508,100	–	–	–	388,991	**897,091**	–	02/05/20 (02/05/27)
Paul Creffield									
LTIP	16/03/15	44,550	–	(44,550)	–	–	**–**	–	16/03/18 (16/03/25)
Deferred bonus	22/05/15	10,880	–	–	–	8,330	**19,210**	–	22/05/18
LTIP	22/03/16	81,148	–	–	–	62,123	**143,271**	–	22/03/19 (22/03/26)
Deferred bonus	05/05/16	11,450	–	–	–	8,765	**20,215**	–	05/05/19
LTIP	02/05/17	110,457	–	–	–	84,564	**195,021**	–	02/05/20 (02/05/27)
LTIP	26/03/18	–	708,661	–	–	542,536	**1,251,197**	–	26/03/21 (26/03/28)
Himanshu Raja									
LTIP	14/06/17	344,984	–	–	–	264,112	**609,096**	–	14/06/20 (14/06/27)
LTIP	26/03/18	–	922,385	–	–	706,159	**1,628,544**	–	26/03/21 (26/03/28)

1. Following her resignation all outstanding LTIP awards for Alison Platt will lapse on the date of her ceasing employment in line with the plan rules. Alison Platt's 2016 deferred bonus award vested in full on the date of her ceasing employment.
2. Awards were adjusted to take into account the impact of the capital raising. This technical adjustment is permitted by the plan rules and is in line with the treatment approved by HMRC for other all-employee share plans as a result of a placing and open offer. This is designed to ensure that the economic value of the award is substantially the same before and after the transaction.

The executive directors' interests in ordinary shares of the Company under the SIP as at 31 December 2018 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 2018	Partnership shares purchased	Matching shares awarded	**Total SIP shares at 31 December 2018**
Alison Platt[1]	2,846	277	184	**3,307**
Paul Creffield	4,283	728	486	**5,497**

1. Ms Platt was treated in line with the rules of the scheme following her resignation.

Mr Raja had completed less than twelve months' service when the SIP was closed in April 2018.

Up to April 2018 when the plan was closed, matching shares were awarded each month in the ratio of two matching shares for every three partnership shares purchased at the prevailing market price on the date of the award.

Statement of directors' shareholding and share interests (audited)

The interests of the directors who served during 2018 have been subject to audit and are set out in the table below:

	Legally owned		LTIP awards			DSBP options			
	31 December 2018	31 December 2017	Unvested	Vested	SIP matching share awards (unvested)	Unvested	Vested	**Total 31 December 2018**	Shareholding guideline (200% of salary)[2]
Paul Creffield	**2,519,016**	–	1,589,489	–	2,063	20,215	19,210	**4,149,993**	47%
Himanshu Raja[1]	**1,700,723**	222,841	2,237,640	–	–	–	–	**3,938,363**	35%
Alison Platt	**43,689**	43,412	1,391,382	–	1,318	47,688	–	**1,484,077**	n/a
Peter Long	**3,436,985**	371,429	–	–	–	–	–	**3,436,985**	n/a
David Watson[1]	**149,946**	22,070	–	–	–	–	–	**149,946**	n/a
Cathy Turner	**56,638**	10,722	–	–	–	–	–	**56,638**	n/a
Richard Adam	**28,254**	12,843	–	–	–	–	–	**28,254**	n/a
Rupert Gavin	**20,900**	9,500	–	–	–	–	–	**20,900**	n/a
Jane Lighting	**70,304**	10,629	–	–	–	–	–	**70,304**	n/a
Caleb Kramer	**–**	–	–	–	–	–	–	**–**	n/a
Natalie Ceeney	**125,368**	23,067	–	–	–	–	–	**125,368**	n/a
Mark Shuttleworth	**–**	–	–	–	–	–	–	**–**	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 8.40 pence on 31 December 2018 and excludes unvested share awards for these calculations.

Peter Long, Paul Creffield and Himanshu Raja all bought additional shares in the Company as part of the capital raising and therefore the number of shares legally owned has increased. Formal share ownership guidelines do not apply to Peter Long in his role as executive chairman. For Paul Creffield and Himanshu Raja, the lower current share price means that the value of their holding (as a percentage of salary) is lower than the shareholding guideline requires. Progress against the guideline will be monitored. The Committee has considered the issue of post-cessation shareholding requirements in light of the new UK Corporate Governance Code. The Committee has formalised its policy, whereby the default approach will be for deferred bonuses and outstanding LTIP awards to continue to vest on their normal vesting date for those treated as "good leavers". Holding periods attached to the LTIP awards will also continue to apply post-cessation. This approach is considered to provide executive directors with a direct alignment with the Company performance up to three years after employment ceases.

There have been no changes in the interests of any director between 1 January 2019 and the date of this report.

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

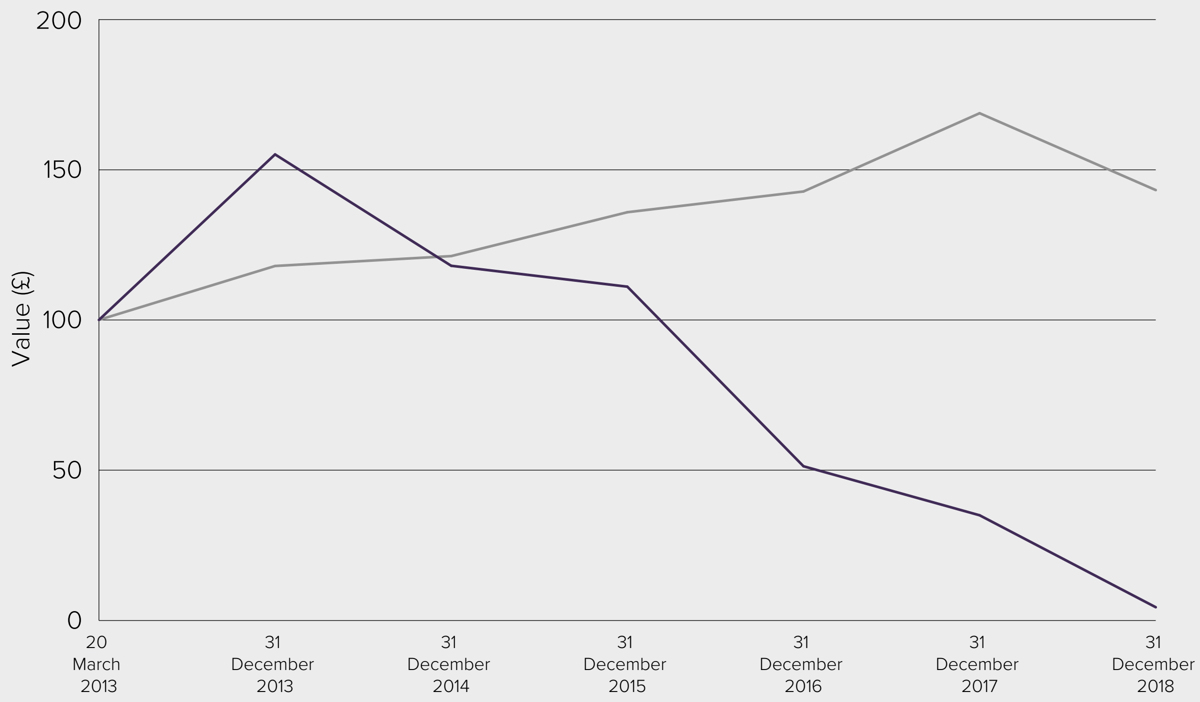
Alison Platt stepped down from the Board on 24 January 2018, and was paid in lieu of notice until 23 January 2019 as was stipulated in her service contract. The main provisions relating to her departure (which comply with the Company's remuneration policy) are as follows:

- Base salary, benefits and pension continued to be paid up to the end of her notice period on 23 January 2019.
- No bonus payment was payable for 2018.
- SIP awards were treated in accordance with the plan rules.
- Outstanding 2016 DSBP awards vested in full on cessation of employment and will remain exercisable until 23 January 2020.
- Outstanding LTIP awards lapsed on the date of cessation.

Directors' remuneration report continued

PART A: annual report on remuneration continued

Total shareholder return



The graph shows the value, by 31 December 2018, 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 %
2018	Paul Creffield[3]	221	0	0
2018	Alison Platt[1]	56	0	0
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 and stepped down on 24 January 2018.
2. Grenville Turner stepped down as chief executive officer with effect from 1 September 2014.
3. Paul Creffield is the group managing director. The Committee considers this is currently the role most commensurate with the role of a full-time chief executive officer.

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 2017 and 2018:

	Percentage increase in remuneration in 2018 compared with remuneration in 2017	
	Chief executive officer	Average pay based on all Countrywide employees
Salary and fees	(22)	0
All taxable benefits	(33)	(1)
Annual bonuses/variable pay	0	6

Given the Board changes in the year and operating without a full time CEO, the Committee did not think a pay ratio calculation for 2018 would provide a meaningful comparison to other employees. However, we will produce an appropriate number for 2019 in line with the new reporting regulations.

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:

	2018 £'000	2017 £'000	Change %
Employee costs	**390,262**	389,694	(0)
Dividends	**0**	0	n/a
Tax credit	**(34,518)**	(3,816)	805
Retained losses	**218,155**	207,343	(5)

Implementation of the remuneration policy for the year ending 31 December 2019

Details of how the Committee intends to operate the remuneration policy for directors for the year ending 31 December 2019 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, neither Paul Creffield nor Himanshu Raja will be awarded a base salary increase in 2019[1]:

	1 January 2018 £'000	**1 January 2019 £'000**
Himanshu Raja	410	**410**
Paul Creffield	450	**450**

1. Peter Long will continue to receive an additional annual £180,000 fee in recognition of his role as executive chairman. He receives no other remuneration for the role.

Benefits in kind and pension

Paul Creffield and 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. Peter Long is not eligible for any employment benefits, nor any pension allowance. All executives will be reimbursed reasonable business-related expenses (including any tax thereon) in line with the Countrywide expenses policy.

PART A: annual report on remuneration continued

Annual bonus

For 2019, the maximum bonus potential will continue to be 120% of salary for Paul Creffield and Himanshu Raja, with one-third of any bonus payable to be deferred into Company shares for a period of three years. Peter Long will not participate in the annual bonus.

The metrics used in 2019 will be as follows:

- 70% – Group adjusted EBITDA targets
- 30% – Personal/strategic metrics

In addition, any bonuses accruing will only be payable if the Committee is satisfied that underlying performance warrants such payments.

The Committee does not believe it to be in shareholders' interests to disclose the performance targets in advance for 2019 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 2019 annual report on remuneration.

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

Long term incentives

The LTIP awards for 2019 will be 65% of salary for Paul Creffield and 50% for Himanshu Raja, which is a significant reduction compared with prior years. This is in recognition of the current low share price (awards to other participants will likewise be scaled back). A limit on the value which can be delivered to any individual will also be applied for this award (set at £1m) to avoid excessive outcomes.

The performance conditions that will apply to the long-term incentive grant policy, whereby nil-cost awards are granted annually, will for 2019 be adjusted earnings per share (two-thirds weighting) and relative total shareholder return (one-third weighting). Our immediate focus as part of the business reset is to grow earnings leading to value creation. We have therefore simplified the awards by focusing on two measures only for the 2019 awards.

The award will be assessed over the three-year performance period from 1 January 2019 to 31 December 2021 and will be subject to the following targets:

- Adjusted EPS (two-thirds weighting) – 25% of this part of an award will vest if adjusted EPS reaches 0.80 pence increasing pro-rata to 100% vesting for EPS of 3.00 pence; and
- Relative TSR (one-third weighting) – measured against the FTSE Small Cap Index (excluding investment trusts) with 25% of this part of an award vesting for median ranking performance, increasing pro-rata to 100% vesting for an upper quartile ranking position or better.

Note that in assessing the achievement of the relative TSR measure, the Committee will need to be satisfied that the outcome is reflective of underlying financial and operational performance as well as absolute returns to shareholders. We take the view that the measures and targets will provide a strong alignment between the senior executive team and shareholders.

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 inappropriate 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 has been achieved.

Non-executive directors

Non-executive director fee levels for 2019 are as follows:

Director	Committee chair role	2019 £'000	2018 £'000
Peter Long[1]	Chairman, Nomination	**360**	360
David Watson[2]	Deputy Chairman and senior independent director	**95**	102
Cathy Turner[3]	Remuneration	**55**	55
Rupert Gavin	–	**45**	45
Jane Lighting	–	**45**	45
Caleb Kramer	–	**40**	40
Natalie Ceeney[4]	–	**55**	55
Mark Shuttleworth[5]	Audit and Risk	**55**	11

1. Peter Long received an increased annual fee of £360,000 from 24 January 2018 in recognition of his role as executive chairman of Countrywide. If he reverts to a non-executive role, his annual fee will decrease to £180,000.
2. David Watson receives an annual non-executive director fee of £95,000, and received an additional (pro-rata) annual fee of £10,000 from 25 April 2018 until 31 December 2018 in recognition of his role as Chair of the Group Audit and Risk Committee.
3. Cathy Turner receives an annual non-executive director fee of £45,000 and receives an additional annual fee of £10,000 in recognition of her role as Chair of the Remuneration Committee.
4. Natalie Ceeney receives an annual non-executive director fee of £45,000 and an additional annual fee of £10,000 in recognition of her role on the Countrywide Principal Services Board within the Financial Services division.
5. Mark Shuttleworth receives an annual non-executive director fee of £45,000 and, from 1 January 2019, receives an additional annual fee of £10,000 in recognition of his role as Chair of the Group Audit and Risk Committee.

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 (chair)	31 July 2013
Rupert Gavin	25 June 2014
Jane Lighting	9 June 2014
David Watson	2 September 2013
Natalie Ceeney	28 April 2017
Mark Shuttleworth	1 October 2018

Attendance by members at the meetings is shown on page 49. All members of the Committee are considered independent non-executive directors.

The chair 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 2018 FIT received fees of £135,367 (2017: £50,672) in connection with its work for the Committee, which it provided pursuant to its standard terms of business. Of these fees, £80,124 related to supporting the capital financing, with the remaining £55,243 representing normal fees.

Shareholder voting and engagement

The remuneration policy was approved at the Annual General Meeting held in April 2017. The last remuneration report was approved at the Annual General Meeting held in April 2018. The voting in respect of the resolutions was as follows:

		Votes					
AGM	Resolution	For		Against		Withheld	Total
26 April 2018	2 Directors' remuneration report	186,239,889	94.18%	11,511,829	5.82%	3,184	197,751,718
27 April 2017	3 Directors' remuneration policy	202,605,093	99.71%	580,400	0.29%	300	203,185,793

PART B: remuneration policy report continued

For ease of reference, set out below is a summary of the remuneration policy (the "policy") which was approved by shareholders 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. The full report is available on the Company's website at https://www.countrywide.co.uk/corporate/investor-relations/reports-presentations/2017/countrywide-annual-report-2017.pdf/

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 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

PART B: remuneration policy report continued

Purpose/link to strategy	Operation	Opportunity	Applicable performance measure
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
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 and Risk 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 2019 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 2019 under the annual bonus and LTIP can be found on page 72. 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.

The full policy approved by shareholders at the 2017 AGM is set out in the 2017 directors' remuneration report and includes further information on:

- Statement of employment conditions elsewhere in the Company
- Statement of consideration of shareholder views
- Illustration of the application of the remuneration policy
- Recruitment of executive directors and promotions
- Service agreements and letter of appointment
- Policy on payment for loss of office
- External appointment of executive directors

Approval

This report was approved by the Board of directors on 7 March 2019 and signed on its behalf by:

Cathy Turner
Chair of the Remuneration Committee

Directors' report

Group directors' report for the year ended 31 December 2018

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2018. 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 31 and 32 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	Page 68 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 65 of the directors' remuneration report (note 11)
LR 9.8.4(14)	Details of transactions with controlling shareholders	Page 145 (note 33 to the financial statements)

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 44 and 45, with the exceptions of Alison Platt, who retired from the Board on 24 January 2018, and Richard Adam, who retired from the Board on 25 April 2018.

Dividends

The directors do not recommend the payment of a final dividend and no interim dividend was paid (2017: nil).

Capital structure

Details of the issued share capital are shown in note 26 to the Group financial statements 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. Any shares held by the Group Employee Benefit Trust abstain from voting.

Firm placing and placing and open offer of share capital

On 2 August 2018 the Company announced a firm placing of 1,114,419,569 firm placing shares at 10 pence each, and a placing and open offer of 285,580,431 open offer shares at 10 pence each, which were approved at a General Meeting held on 28 August 2018 and subsequently admitted for trading on the London Stock Exchange on 30 August 2018. The proceeds were used to deliver the Group's objectives of accelerating the deleveraging of the Group's balance sheet; providing the Group with greater long term certainty, flexibility and balance sheet strength, together with improved liquidity and covenant headroom; and reducing the Group's interest payments as a result of the reduction of indebtedness.

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 25 April 2018, 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 2019 AGM.

Substantial shareholdings

At 6 March 2019, 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 Mgt	299,536,321	18.3
Brandes Investment Partners	255,133,013	15.6
Investec Asset Mgt	245,678,227	15.0
Jupiter Asset Mgt	128,275,422	7.8
Hosking Partners	117,546,197	7.2
Schroder Investment Mgt	91,000,000	5.6
Fidelity Mgt & Research	86,140,597	5.3
Aberdeen Standard Investments (Standard Life)	67,377,130	4.1
Harris Associates	61,291,845	3.7
Aberforth Partners	53,575,107	3.3

Relationship agreement with major 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 18% of the Company's voting rights. Although the Relationship Agreement is no longer required by the Listing Rules (as the Oaktree Shareholders do not currently constitute a 'controlling shareholder' of the Company), the provisions of the Relationship Agreement will continue to apply for so long as the Oaktree Shareholders hold in aggregate 10% or more of the voting rights of the Company. Under the terms of the Relationship Agreement, the Oaktree Shareholders have agreed to comply with the independence undertakings described above.

The Board confirms that, since the entry into the Relationship Agreement on 19 March 2013 until 6 March 2019, 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 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' report continued

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 44 to 45 and their interests in the shares of the Company are disclosed on page 69.

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.

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 48 to 51 of this annual report. The corporate governance statement forms part of this directors' report and is incorporated into it by cross-reference.

Going concern and viability

The Group's going concern and viability statements can be found in note 2 and on page 43 respectively and are incorporated into this directors' report 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 2018

	Tonnes of CO_2e*	
	2018	2017
Scope 1		
Controlled vehicle fleet	**3,887**	3,767
Scope 2		
Electricity and heat purchased for own use	**6,446**	10,427
Tonnes of CO_2e*/£m revenue	**16.5**	21.1

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

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

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

Post-balance sheet events

Particulars of important post-balance sheet events of the Company are set out in note 34 to the Group financial statements on page 148 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 92 to 162 were approved by the Board of directors on 7 March 2019 and signed on its behalf.

By order of the Board

Gareth Williams
Company secretary

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.

Financial statements

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 Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (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 2018 ("the Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 December 2018; 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 Group 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

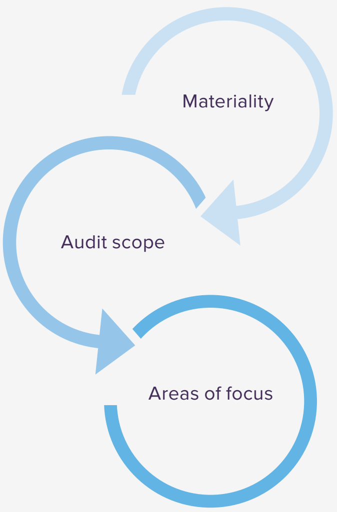
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview



- Overall Group materiality: £2.2 million (2017: £1.8 million), based on 0.36% of the Group's revenue (2017: 5% of 3-year average of the Group's profit before tax adjusted for exceptional items).
- Overall Company materiality: £1.6 million (2017: £1.6 million), based on 1% of total assets.

- The Group has three operating segments (Sales and Lettings, Financial Services and B2B) 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.
- We performed full scope audits on 9 legal entities (6 of which are financially significant) in order to obtain appropriate audit coverage.

- Presentation and disclosure of exceptional items (Group).
- Accounting estimates and judgements in relation to professional indemnity and related litigation costs (Group).
- Valuation and completeness of onerous lease provisions (Group).
- Impairment of goodwill and other intangible assets (Group).
- Impairment of the Company's investment in subsidiary and intercompany balances (Company).

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.

The Group has three operating segments (Sales and Lettings, Financial Services and B2B) 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.

We performed full scope audits on 9 legal entities (6 of which are financially significant) in order to obtain appropriate audit coverage.

The entities where we performed full scope audits accounted for approximately 93% (2017: 92%) of the Group's revenue and 86% (2017: 89%) 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 of each of the legal entities within the Group).

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risk of non-compliance with laws and regulations was in respect of the restitution of trust funds under the Royal Institute of Chartered Surveyors guidelines and company law (see pages 59 and 117 of the Annual Report). We considered the extent to which non-compliance might have a material effect on the financial statements and the Group has disclosed a prior year error in relation to the treatment of such funds in the past. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and the Listing Rules, Pensions legislation and UK tax and HMRC legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to achieve desired financial results and the manipulation of exceptional items and management bias in accounting estimates. Audit procedures performed by the Group engagement team included:

- enquiries with management and the Group's legal counsel, including consideration of known or suspected instances of fraud and non-compliance with laws and regulations and examining supporting calculations where adjustments have been made in respect of these;
- reading key correspondence with external legal counsel in relation to compliance with certain laws and guidelines; and
- challenging the assumptions and judgements made by management in their significant accounting estimates, in particular in relation to Professional Indemnity provisions, impairment of goodwill and other intangible assets, the valuation of onerous lease provisions and the classification of exceptional items (see related key audit matters below).

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations are from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, 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.

Independent auditors' report to the members of Countrywide plc 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
Presentation and disclosure of exceptional items **Group** Refer to Note 3 to the financial statements for the Directors' disclosures of the critical accounting estimates and judgements and page 57 for the views of the Audit and Risk Committee. The Group has separately disclosed net exceptional items of £245.4 million (Note 10) comprising the following: • Professional indemnity exceptional income (£3.2 million); • Strategic and restructuring costs (£12.8 million); • Impairment charges (£218.0 million); • Onerous lease provisions (£6.1 million); • Restitution of trust funds (£5.2 million); and • Financing costs (£6.5 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. We challenged management on the presentation of the items as exceptional in the financial statements and suggested areas of enhanced disclosure which have been reflected in the Annual Report. From our work, we have concluded that the exceptional items are classified appropriately.
Accounting estimates and judgements in relation to professional indemnity and related litigation costs **Group** Refer to Note 3 to the financial statements for the Directors' disclosures of the critical accounting estimates and judgements and page 57 for the views of the Audit and Risk Committee. Professional indemnity (PI) provisions principally relate to the Surveyors and Lambert Smith Hampton businesses within the B2B operating segment. In common with other valuers, the Group is subject to significant claims in relation to incorrect mortgage valuation reports. 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 third party legal report and the provisions held are based on experience of settling past claims, discussions with the Group's insurers and advice from legal counsel.	**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. We verified the Bordereaux report was complete by obtaining confirmations from third party legal providers. With respect to the input data, we agreed a sample of claims received and provisions made to the advice from lawyers. 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. We also compared a sample of historical provisions to the actual amounts settled, determining that management's estimation techniques were satisfactory. **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.

Key audit matter	How our audit addressed the key audit matter
Valuation and completeness of onerous lease provisions **Group** Refer to Note 3 to the financial statements for the Directors' disclosures of the critical accounting estimates and judgements and page 57 for the views of the Audit and Risk Committee. The Group has performed an assessment to identify all loss making branches. An onerous lease provision of £3.6 million, together with forecast dilapidation payments, has been recognised at 31 December 2018. The provision is based on the future cost of rent and rates of loss making branches, offset by any forecast recovery in profitability over the life of the lease. This has been discounted to a net present value at an appropriate discount rate. A dilapidation provision has also been included based on the size of the branch. This is an area of focus because the assessment of loss making branches involves judgements associated with the forecast trading results of the business.	We obtained management's assessment of loss making branches and agreed the cash flow forecast used in the assessment to the forecast used in the assessment of goodwill and other intangible assets for consistency. We challenged the Directors' key assumptions through discussions with branch managers, especially for branches where improvements are forecast to understand management's plan to deliver these. We agreed future rent and rate costs to underlying contracts and considered the use of an appropriate rate to be used to discount the provision to a net present value. We compared the assessment of dilapidations to a third party valuation to assess the reliability of the estimate. We concluded that these onerous lease provisions are reasonable and supported by the available evidence. We considered the related disclosures in the financial statements to check compliance with IFRS. The disclosure appropriately describes the inherent degree of subjectivity in the estimates, including the impact of changes in the key assumptions.
Impairment of goodwill and other intangible assets **Group** Refer to Note 3 to the financial statements for the Directors' disclosures of the critical accounting estimates and judgements and page 56 for the views of the Audit and Risk Committee. The Group has goodwill and other intangible assets, principally brand names and customer contracts. We have focused on this area due to the size of the balances and the risk of impairment arising due to deterioration of business performance. Management's annual impairment testing concluded that the adverse trading conditions have triggered an impairment in the UK, London and B2B Commercial Cash Generating Units (CGUs), where an aggregate impairment charge of £45.8 million against goodwill has been recorded. This impairment was recorded alongside impairment charges of £156.3 million in respect of brands and customer contracts.	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 a: • 10% reduction to adjusted EBITDA from operating cash flows; • 10% increase in the WACC rate; and • Terminal growth rate of 0% into perpetuity (1% in the base case). We concluded that the impairment charge booked against goodwill associated with the UK, London and B2B – Commercial 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 to check compliance 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.

Independent auditors' report to the members of Countrywide plc continued

Key audit matter	How our audit addressed the key audit matter
Impairment of the Company's investment in subsidiary and intercompany balances **Company** Refer to Note 2 to the Company's financial statements for the Directors' disclosures of the critical accounting estimates and judgements. The Company holds investments in its subsidiaries (£386.4m before impairment) and intercompany receivables (£238.7m before impairment). Following Group impairment charges recorded in the UK, London and B2B – Commercial 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 performed an assessment of the carrying value of the investments and intercompany receivables and compared this to the recoverable value, cash flow forecasts used in the impairment test of intangible assets described above. This resulted in impairment charges against both investments in subsidiaries (£179.8m) and intercompany receivables (£43.4m), the latter using an expected credit loss methodology.	We reviewed management's assessment under IFRS 9 'Financial Instruments' of the estimated discounting in respect of the likely timing of future receipts against the intercompany receivable balance. We also reviewed management's impairment assessment of the carrying value of the investments. We agreed the cash flows used in the assessment to the forecasts used in the assessment of impairment of goodwill and other intangible assets. Following the conclusion of our procedures above, we agree with management's calculation of the impairment in the carrying value of the investments in subsidiaries and intercompany balances held by the 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 Company, the accounting processes and controls, and the industry in which they operate.

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.

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

	Group financial statements	Company financial statements
Overall materiality	£2.2 million (2017: £1.8 million).	£1.6 million (2017: £1.6 million).
How we determined it	0.36% of the Group's revenue (2017: 5% of 3-year average of the Group's profit before tax adjusted for exceptional items).	1% of total assets, restricted to a threshold lower than Group materiality.
Rationale for benchmark applied	In light of the Group's turnaround status, and the expectation that a return to previous levels of profitability will take time, we have changed our materiality assessment to a Revenue benchmark for 2018. We believe continuing to use a 3-year average of the Group's profit before tax adjusted for exceptional items), as an accounting benchmark would derive an unrealistically low materiality for a business of this size. 0.36% is the average agreed materiality over the last three years as a percentage of revenue in those years.	We believe total assets to be the key performance benchmark of the 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 £14,000 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 and Risk Committee that we would report to them misstatements identified during our audit above £150,000 (Group audit) (2017: £150,000) and £78,000 (Company audit) (2017: £78,000) 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 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. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Group's and Company's trade, customers, suppliers and the wider economy.
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).

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 2018 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 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)*

Independent auditors’ report to the members of Countrywide plc continued

Reporting on other information continued

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (in the Corporate Governance report) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA (“DTR”) 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 Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. *(CA06)*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement with respect to the Company’s corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. *(CA06)*

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. *(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 pages 38 to 43 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 43 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.

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 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 82, 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 Company’s position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 54 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 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 Statement of directors' responsibilities in respect of the financial statements, 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 Company or to cease operations, or have no realistic alternative but to do so.

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 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 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 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 March 2013 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 March 2013 to 31 December 2018.

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

London

7 March 2019

Consolidated income statement

For the year ended 31 December 2018

	Note	2018 Pre-exceptional items, amortisation, contingent consideration and share-based payments £'000	2018 Exceptional items, amortisation, contingent consideration and share-based payments £'000	2018 Total £'000	2017 (Restated)[2] Pre-exceptional items, amortisation, contingent consideration and share-based payments £'000	2017 (Restated)[2] Exceptional items, amortisation, contingent consideration and share-based payments £'000	2017 (Restated)[2] Total £'000
Revenue		**619,119**	**–**	**619,119**	662,188	–	662,188
Other income	5	**7,952**	**–**	**7,952**	10,590	–	10,590
	4	**627,071**	**–**	**627,071**	672,778	–	672,778
Employee benefit costs	6	**(382,477)**	**(7,785)**	**(390,262)**	(384,142)	(5,552)	(389,694)
Other operating costs	7	**(211,911)**	**–**	**(211,911)**	(223,049)	–	(223,049)
Adjusted EBITDA[1]	4	**32,683**			65,587		
Depreciation and amortisation	14, 15	**(17,516)**	**(4,946)**	**(22,462)**	(27,683)	(5,807)	(33,490)
Share of (loss)/profit from joint venture	16(b)	**(1,518)**	**–**	**(1,518)**	690	–	690
Group operating profit/(loss) before exceptional items		**13,649**	**(12,731)**	**918**	38,594	(11,359)	27,235
Employee benefit costs		**–**	**(4,234)**	**(4,234)**	–	(4,405)	(4,405)
Other operating costs		**–**	**(16,595)**	**(16,595)**	–	(6,978)	(6,978)
Impairment of non-current assets		**–**	**(218,041)**	**(218,041)**	–	(214,486)	(214,486)
Exceptional items (net):	10	**–**	**(238,870)**	**(238,870)**	–	(225,869)	(225,869)
Operating profit/(loss)	4	**13,649**	**(251,601)**	**(237,952)**	38,594	(237,228)	(198,634)
Finance costs	8, 10	**(8,432)**	**(6,489)**	**(14,921)**	(12,607)	–	(12,607)
Finance income	9	**200**	**–**	**200**	82	–	82
Net finance costs		**(8,232)**	**(6,489)**	**(14,721)**	(12,525)	–	(12,525)
Profit/(loss) before taxation		**5,417**	**(258,090)**	**(252,673)**	26,069	(237,228)	(211,159)
Taxation (charge)/credit	11	**(950)**	**35,468**	**34,518**	(5,863)	9,679	3,816
Profit/(loss) for the year		**4,467**	**(222,622)**	**(218,155)**	20,206	(227,549)	(207,343)
Loss per share attributable to owners of the parent							
Basic and diluted loss per share	13			**(30.83)p**			(89.25)p

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. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).

The notes on pages 97 to 147 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 £'000	2017 (Restated)[1] £'000
Loss for the year		**(218,155)**	(207,343)
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss			
Actuarial loss arising in the pension scheme	25	**(168)**	(3,633)
Deferred tax arising on the pension scheme	25	**32**	690
		(136)	(2,943)
Items that may be subsequently reclassified to profit or loss			
Foreign exchange rate gain/(loss)		**10**	(30)
Cash flow hedge gain/(loss):			
– Gains arising during the year		**–**	2,030
– Less reclassification adjustments for gains included in the profit and loss	21	**337**	–
Deferred tax arising on cash flow hedge		**(63)**	(410)
Available-for-sale financial assets:			
– Gains arising during the year	16(c)	**–**	1,627
		284	3,217
Other comprehensive income for the year		**148**	274
Total comprehensive expense for the year		**(218,007)**	(207,069)

1. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).

The notes on pages 97 to 147 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Note	Share capital £'000	Share premium £'000	Other reserves £'000	Retained (losses)/ earnings £'000	Total £'000
Audited balance at 1 January 2017 as originally presented		2,197	211,838	(17,941)	283,454	479,548
Change in accounting policy and correction of prior year error	2	–	–	–	(3,436)	(3,436)
Restated total equity at the beginning of the financial year[1]		2,197	211,838	(17,941)	280,018	476,112
Loss for the year (restated)[1]		–	–	–	(207,343)	(207,343)
Other comprehensive income/(expense)						
Currency translation differences		–	–	(30)	–	(30)
Movement in fair value of available-for-sale financial assets	16(c)	–	–	1,627	–	1,627
Cash flow hedge: fair value gain		–	–	2,030	–	2,030
Cash flow hedge: deferred tax on gain		–	–	(410)	–	(410)
Actuarial loss on the pension fund	25	–	–	–	(3,633)	(3,633)
Deferred tax movement relating to pension	25	–	–	–	690	690
Total other comprehensive income/(expense)		–	–	3,217	(2,943)	274
Total comprehensive income/(expense)		–	–	3,217	(210,286)	(207,069)
Transactions with owners						
Issue of share capital		216	–	36,634	–	36,850
Transfer of reserves	28	–	–	(36,634)	36,634	–
Share-based payment transactions	27	–	–	–	1,944	1,944
Deferred tax on share-based payments		–	–	–	(10)	(10)
Purchase of treasury shares	28	–	–	(1,397)	–	(1,397)
Transactions with owners		216	–	(1,397)	38,568	37,387
Audited balance at 31 December 2017 as originally presented		2,413	211,838	(16,121)	111,007	309,137
Restated total equity at 31 December 2017[1]		2,413	211,838	(16,121)	108,300	306,430
Change in accounting policy	2	–	–	(1,967)	993	(974)
Restated total equity at 1 January 2018[2]		2,413	211,838	(18,088)	109,293	305,456
Loss for the year		–	–	–	(218,155)	(218,155)
Other comprehensive income/(expense)						
Currency translation differences		–	–	10	–	10
Cash flow hedge: fair value on termination	21	–	–	337	–	337
Cash flow hedge: deferred tax on termination		–	–	(63)	–	(63)
Actuarial loss on the pension fund	25	–	–	–	(168)	(168)
Deferred tax movement relating to pension	25	–	–	–	32	32
Total other comprehensive income/(expense)		–	–	284	(136)	148
Total comprehensive income/(expense)		–	–	284	(218,291)	(218,007)
Transactions with owners						
Issue of share capital	26	14,000	126,000	–	–	140,000
Transactional costs of shares issued	26	–	(8,481)	–	–	(8,481)
Share-based payment transactions	27	–	–	–	1,888	1,888
Deferred tax on share-based payments		–	–	–	(90)	(90)
Purchase of treasury shares	28	–	–	(499)	–	(499)
Utilisation of treasury shares for DSBP options	28	–	–	49	(49)	–
Transactions with owners		14,000	117,519	(450)	1,749	132,818
Balance at 31 December 2018		**16,413**	**329,357**	**(18,254)**	**(107,249)**	**220,267**

1. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).
2. Restated from prior year following the adoption of IFRS 9 and IFRS 15 and correction of a prior year error (see note 2).

The notes on pages 97 to 147 form an integral part of these consolidated financial statements.

Consolidated balance sheet

As at 31 December 2018

	Note	2018 £'000	2017 (Restated)[1] £'000	1 January 2017 (Restated)[1] £'000
Assets				
Non-current assets				
Goodwill	14(a)	**233,820**	279,496	471,749
Other intangible assets	14(b)	**74,191**	220,658	250,310
Property, plant and equipment	15	**7,403**	41,798	49,445
Investments accounted for using the equity method:				
Investments in joint venture	16(b)	**1,464**	2,982	2,292
Available-for-sale financial assets	16(c)	**–**	17,085	16,058
Financial assets at fair value through profit or loss	16(d)	**153**	–	–
Deferred tax assets	24	**18,389**	10,751	10,262
Total non-current assets		**335,420**	572,770	800,116
Current assets				
Trade and other receivables	17	**88,817**	105,782	122,127
Cash and cash equivalents	18	**17,426**	22,533	45,326
Total current assets		**106,243**	128,315	167,453
Total assets		**441,663**	701,085	967,569
Equity and liabilities				
Share capital	26	**16,413**	2,413	2,197
Share premium	26	**329,357**	211,838	211,838
Other reserves	28	**(18,254)**	(16,121)	(17,941)
Retained (losses)/earnings		**(107,249)**	108,300	280,018
Total equity		**220,267**	306,430	476,112
Liabilities				
Non-current liabilities				
Borrowings	20	**84,432**	213,489	292,505
Derivative financial instruments	21	**–**	337	2,367
Net defined benefit scheme liabilities	25	**4,634**	5,626	3,663
Provisions	23	**10,916**	11,985	12,503
Deferred income	22	**239**	663	2,563
Trade and other payables	19	**9,931**	8,295	13,659
Deferred tax liability	24	**7,756**	33,522	38,694
Total non-current liabilities		**117,908**	273,917	365,954
Current liabilities				
Borrowings	20	**3,663**	1,011	721
Trade and other payables	19	**81,146**	99,720	99,774
Deferred income	22	**2,143**	2,554	5,056
Provisions	23	**16,536**	17,453	19,952
Total current liabilities		**103,488**	120,738	125,503
Total liabilities		**221,396**	394,655	491,457
Total equity and liabilities		**441,663**	701,085	967,569

1. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).

The notes on pages 97 to 147 form an integral part of these consolidated financial statements.

The financial statements on pages 92 to 147 were approved by the Board of directors and signed on its behalf by:

Himanshu Raja
Chief financial officer

7 March 2019

Consolidated cash flow statement

For the year ended 31 December 2018

	Note	2018 £'000	2017 (Restated)[1] £'000
Cash flows from operating activities			
Loss before taxation		**(252,673)**	(211,159)
Adjustments for:			
Depreciation	15	**10,162**	17,180
Amortisation of intangible assets	14	**12,300**	16,310
Share-based payments	27	**1,888**	1,944
Impairment of intangible assets	14(a), 14(b)	**186,494**	213,071
Impairment of tangible assets	15	**27,826**	850
Impairment of available-for-sale financial assets	16(c)	**–**	565
Impairment of financial assets at fair value through profit or loss	16(d)	**2,379**	–
Profit on disposal of fixed assets		**(9)**	(22)
Loss/(profit) from joint venture	16(b)	**1,518**	(690)
Finance costs	8	**14,921**	12,607
Finance income	9	**(200)**	(82)
		4,606	50,574
Changes in working capital (excluding effects of acquisitions and disposals of Group undertakings):			
Decrease in trade and other receivables		**14,865**	18,367
Decrease in trade and other payables[3]		**(20,271)**	(7,802)
Decrease in provisions		**(1,986)**	(3,017)
Net cash (used in)/generated from operating activities[2]		**(2,786)**	58,122
Pension paid		**(2,000)**	(2,000)
Interest paid		**(7,702)**	(9,834)
Income tax received/(paid)		**2,037**	(2,980)
Net cash (outflow)/inflow from operating activities		**(10,451)**	43,308
Cash flows from investing activities			
Acquisitions net of cash acquired		**(160)**	–
Deferred consideration paid in relation to prior year acquisitions		**(997)**	(3,354)
Purchase of property, plant and equipment	15	**(3,400)**	(6,940)
Purchase of intangible assets	14(b)	**(5,930)**	(7,577)
Proceeds from sale of property, plant and equipment		**46**	657
Purchase of investments	16(d)	**(1,300)**	–
Proceeds from disposal of financial assets at fair value through profit or loss	16(d)	**15,980**	–
Interest received		**200**	82
Net cash inflow/(outflow) from investing activities		**4,439**	(17,132)
Cash flows from financing activities			
Proceeds from issue of shares	26	**140,000**	36,850
Transactional costs of shares issued	26	**(8,481)**	—
Purchase of own shares	28	**(499)**	(1,397)
Term and revolving facility loan repaid	20	**(125,000)**	(80,000)
Financing fees paid	20	**(3,028)**	(724)
Capital repayment of finance lease liabilities	20	**(2,087)**	(3,698)
Net cash inflow/(outflow) from financing activities		**905**	(48,969)
Net decrease in cash and cash equivalents		**(5,107)**	(22,793)
Cash and cash equivalents at 1 January		**22,533**	45,326
Cash and cash equivalents at 31 December	18	**17,426**	22,533

1. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).
2. Net cash generated from operating activities includes £18,392,000 (2017: £6,060,000) of net cash expended on exceptional items. Cash flows from financing activities included £647,000 (2017: £Nil) of net cash expended on exceptional items, as discussed in note 10.
3. Includes £10,094,000 of cash payments in respect of the restitution of trust funds (see notes 2 and 10).

The notes on pages 97 to 147 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 2018. 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 Greenwood House, 1st Floor, 91-99 New London Road, Chelmsford, Essex, CM2 0PP.

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 (from 2018), 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.

In assessing the Group's ability to continue as a going concern, the Board has reviewed the Group's cash flow and profit forecasts which have been stress tested with various assumptions regarding future housing market volumes. 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 2020, including: the continued build back of the Group's register of properties available for sale and the pipeline; mitigation of the potential impact of new government legislation banning lettings tenancy fees; and successful realisation of internal corporate cost saving initiatives currently underway.

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

The following new standards effective for the first time for the financial year beginning on or after 1 January 2018 have had a material impact on the Group.

IFRS 9 'Financial instruments'

IFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities.

Classification and measurement

The Group has applied the requirements of IFRS 9 to instruments owned at 1 January 2018 and has not applied the requirements to instruments that had already been derecognised prior to 1 January 2018. Comparative amounts have not been restated.

As at the date of initial application of IFRS 9, the Group has elected to apply the fair value through profit or loss option for all of its non-controlling equity interests that were classified as available-for-sale under IAS 39. There is 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.

On transition, £1,967,000 of gains previously recorded within 'Other reserves' in relation to the Group's holding in the investment property fund have been reclassified to retained earnings. The asset was subsequently disposed of during the year.

Notes to the financial statements continued

2. Accounting policies continued

Impairment

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IAS 39. 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.

As at 1 January 2018, the Group reviewed and assessed existing financial assets, amounts due from customers, for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk. An additional credit allowance of £1,202,000 has been recognised against retained earnings net of its related deferred tax impact, at £974,000 (see note 2(d)).

	Provision against trade and other receivables £'000
At 31 December 2017 calculated under IAS 39	(4,211)
Amounts restated through retained earnings	(1,202)
Opening loss allowance at 1 January 2018 under IFRS 9	**(5,413)**

The additional loss allowance recognised upon the initial application of IFRS 9 as disclosed above resulted entirely from a change in the measurement attribute of the loss allowance relating to the financial assets.

In determining the expected credit losses for these assets, the Group has taken into account the historical default experience and the financial position of the counterparties in estimating the likelihood of default of each of these financial assets occurring within their loss assessment time horizon.

IFRS 15 'Revenue from contracts with customers'

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; and recognise revenue when (or as) a performance obligation is satisfied.

The Group generates revenue and other income from external customers mainly in the UK from three main types of business: 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.

The adoption of IFRS 15 has impacted 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) was previously 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 no longer recognises WIP against these contracts. We continue to recognise WIP against other contracts where the performance obligations are satisfied over a period of time.

2. Accounting policies continued

IFRS 15 'Revenue from contracts with customers' continued

- Sales and Lettings: A proportion of revenue from lettings rent collection was previously recognised at the outset of the rent collection agreement, together with an appropriate clawback provision, based on historical experience. Under IFRS 15, revenue is now recognised over the life of the rent collection agreement in accordance with the satisfaction of the performance obligations. Subsequent to the Group's 2018 interim results for the period ended 30 June 2018, further information has identified that a proportion of revenue earned from tenant introduction (or tenant renewal) was recognised over the life of the tenancy agreement. This revenue is now recognised when the underlying tenancy agreement commences (or is renewed) in accordance with the satisfaction of the performance obligations, together with a liability for future refunds, and has resulted in the amendment of the Group's opening transition adjustment.

The Group adopted IFRS 15 on 1 January 2018 and has elected to restate comparative information from prior periods (see note 2(d)). The Group has applied the practical expedients under which contracts that began or ended in 2017, or contracts that were completed prior to 1 January 2017, have not been restated.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 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 16 'Leases'

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 will adopt IFRS 16 for the year ending 31 December 2019.

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 2018, the Group has non-cancellable operating lease commitments of £105,690,000. 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 29. 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 balance sheet. Whilst the IFRS 16 assessment is ongoing it is not practicable to quantify the impact. It is likely the Group will follow a modified transition approach.

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) Prior year error correction in respect of the restitution of trust funds

The Group holds money on behalf of parties to property transactions. For example, the Group holds deposits made by lessees of properties. Generally, the Group does not recognise client money on its consolidated balance sheet. However, the Group deposits client money in interest-bearing accounts and recognises the interest component as finance income in the Group's consolidated income statement.

The Group takes all practical and reasonable measures to identify the ownership of the funds and to trace and return funds in a timely manner. Historically, funds that remained untraceable and were more than six years old were recognised in the Group's consolidated income statement as other income and an indemnity was put in place by Countrywide Group plc to the underlying subsidiary entities to ensure that any claims arising subsequently on these funds would be met by Countrywide Group plc. In practice, less than 1% of the funds released have ever been claimed and paid out.

Notes to the financial statements continued

2. Accounting policies continued

(d) Prior year error correction in respect of the restitution of trust funds continued

At the half year, following a management review of client accounting, and having received legal advice on the treatment of funds, the Group understood that some of these historical and untraceable funds arising from the Lettings business for the period from 2008 to 2017 should be held in trust under a separate client account. A liability of £4,681,000 in respect of certain untraceable funds for such period was therefore recognised in the Group's balance sheet in the 2018 condensed consolidated interim report, £4,456,000 of which was recognised as a prior year error correction, along with a related reduction in retained earnings net of deferred tax. These funds were transferred into a separate client account in August 2018. Additional investigation and further legal guidance during the second half of 2018 resulted in a revision to the accounting estimate. Accordingly, a further charge of £5,185,000 has been recognised as an exceptional cost in H2 2018. As a result, management has transferred an additional £5,185,000 into a separate client account in December 2018 in full restitution of these client funds.

The tables below show the impact of the adoption of IFRS 15 and the impact of the prior year error correction on the balance sheets as at 1 January 2017 and 31 December 2017, and on the income statement and cash flow statement for the year ended 31 December 2017. The impact of the adoption of IFRS 9 is shown on the balance sheet as at 1 January 2018.

Consolidated balance sheet (extract)	31 December 2016 As previously reported £'000	Impact of IFRS 15 (B2B) £'000	Impact of IFRS 15 (Sales and Lettings) £'000	Correction of prior year error £'000	1 January 2017 Restated £'000
Non-current assets					
Deferred tax assets	9,250	211	—	801	10,262
Current assets					
Trade and other receivables	120,355	(1,111)	2,883	—	122,127
Impact on total assets	129,605	(900)	2,883	801	132,389
Equity and liabilities					
Retained earnings	283,454	(900)	880	(3,416)	280,018
Current liabilities					
Trade and other payables	95,072	—	485	4,217	99,774
Deferred income	3,890	—	1,166	—	5,056
Provisions	19,600	—	352	—	19,952
Impact on current liabilities	118,562	—	2,003	4,217	124,782
Impact on total equity and liabilities	402,016	(900)	2,883	801	404,800

Consolidated balance sheet (extract)	31 December 2017 As previously reported £'000	Impact of IFRS 15 (B2B) £'000	Impact of IFRS 15 (Sales and Lettings) £'000	Correction of prior year error £'000	31 December 2017 Restated £'000	Impact of IFRS 9 £'000	1 January 2018 Restated £'000
Non-current assets							
Deferred tax assets	9,676	229	—	846	10,751	147	10,898
Current assets							
Trade and other receivables	103,111	(1,201)	3,872	—	105,782	(1,121)	104,661
Impact on total assets	112,787	(972)	3,872	846	116,533	(974)	115,559
Equity and liabilities							
Other reserves	(16,121)	—	—	—	(16,121)	(1,967)	(18,088)
Retained earnings	111,007	(972)	1,875	(3,610)	108,300	993	109,293
Impact on equity	94,886	(972)	1,875	(3,610)	92,179	(974)	91,205
Current liabilities							
Trade and other payables	94,779	—	485	4,456	99,720	—	99,720
Deferred income	1,379	—	1,175	—	2,554	—	2,554
Provisions	17,116	—	337	—	17,453	—	17,453
Impact on current liabilities	113,274	—	1,997	4,456	119,727	—	119,727
Impact on total equity and liabilities	208,160	(972)	3,872	846	211,906	(974)	210,932

2. Accounting policies continued

(d) Prior year error correction in respect of the restitution of trust funds continued

Consolidated income statement (extract)	Year ended 31 December 2017 As previously reported £'000	Impact of IFRS 15 (B2B) £'000	Impact of IFRS 15 (Sales and Lettings) £'000	Correction of prior year error £'000	Year ended 31 December 2017 Restated £'000
Revenue	661,049	(89)	1,228	–	662,188
Other income	10,829	–	–	(239)	10,590
Total income	671,878	(89)	1,228	(239)	672,778
Adjusted EBITDA	64,687	(89)	1,228	(239)	65,587
(Loss)/profit before taxation	(212,059)	(89)	1,228	(239)	(211,159)
Taxation credit/(charge)	3,987	17	(233)	45	3,816
(Loss)/profit for the period	(208,072)	(72)	995	(194)	(207,343)

Consolidated cash flow statement (extract)	Year ended 31 December 2017 As previously reported £'000	Impact of IFRS 15 (B2B) £'000	Impact of IFRS 15 (Sales and Lettings) £'000	Correction of prior year error £'000	Year ended 31 December 2017 Restated £'000
(Loss)/profit before taxation	(212,059)	(89)	1,228	(239)	(211,159)
Changes in working capital (excluding effects of acquisitions and disposals of Group undertakings):					
Decrease/(increase) in trade and other receivables	19,500	89	(1,222)	–	18,367
(Decrease)/increase in trade and other payables	(8,050)	–	9	239	(7,802)
Decrease in provisions	(3,002)	–	(15)	–	(3,017)
Impact on cash and cash equivalents	(203,611)	–	–	–	(203,611)

(e) 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.

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 the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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.

Notes to the financial statements continued

2. Accounting policies continued

(f) 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.

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:

	2018	2017
Euros	**1.11**	1.13
Hong Kong Dollars	**10.00**	10.56

(g) 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.

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.

2. Accounting policies continued

(h) 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.

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 – 15 years

Brand names, which previously were assigned an indefinite life, have been subject to review following impairments in prior years and during the six months ended 30 June 2018. We disclosed our intent to undertake this review within the 2017 annual report and have concluded a change in accounting estimate effective from 1 July 2018. Brand names have been assigned useful economic lives of 15 years and amortisation has commenced from that date.

- 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

(i) 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.

(j) Financial assets

Classification

The Group classifies its financial assets as financial assets at amortised cost and financial assets at fair value through profit or loss. The classification depends on the purpose and business model for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Notes to the financial statements continued

2. Accounting policies continued

(j) Financial assets continued

Financial assets at amortised cost

Financial assets at amortised cost 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. Financial assets at amortised cost comprise mainly cash and cash equivalents and trade and other receivables.

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.

Financial assets at amortised cost are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method.

Impairment of financial assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses. In determining the expected credit losses for these assets, the Group has taken into account the historical default experience and the financial position of the counterparties, in estimating the likelihood of default of each of these financial assets occurring within their loss assessment time horizon.

Trade receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Previous accounting policy for impairment of trade receivables:

In the prior year, impairment provisions were recognised when there was objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group would 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.

(k) 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 in line with the provisioning policy noted above.

(l) 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.

(m) Trade and other payables

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

(n) 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.

(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.

2. Accounting policies continued

(o) Pensions continued

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.

(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

A five-step approach is taken for recognising revenue from contracts with customers, namely to: 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; and recognise revenue when (or as) a performance obligation has been satisfied.

The Group generates revenue from external customers mainly in the UK from three main types of business: Sales and Lettings, Financial Services and Business to Business (B2B). All relevant factors and circumstances are taken into account when determining the revenue recognition methods that appropriately depict the transfer of control of goods or services to customers for each performance obligation.

Commission earned on sales of residential and commercial property is recognised at a point in time, upon the exchange of contracts for such sales.

The Group offers the following residential lettings services to customers: Tenant Introduction, Tenant Renewal, Standard Lettings (often referred to as Rent Collection), Full Property Management, and a Leasehold Property Management service. Commissions and fees earned for Tenant Introduction and Tenant Renewal in respect of securing or extending the letting are recognised in full at a point in time upon delivery of the service, when the underlying tenancy agreement commences. A liability for future refunds is recognised for contracts that contain a break clause and which may require a refund if broken early. Fees for standard lettings (rent collection) and property management services, including leasehold property management services, are recognised on a straight line basis over the life of the contract in line with the satisfaction of the performance obligations.

Fees earned from surveying, valuation and conveyancing services are recognised at a point in time when we have fully provided the service to the customer.

The Group acts as principal in the majority of contracts with customers, with the exception of commission earned on the sale of third party financial services products and revenue generated from surveying panel management contracts, where we act as an agent. Revenue from the sale of third party financial services products is recognised at a point in time when the policies go on risk or the mortgage is exchanged. Revenue from surveying panel management contracts is recognised at a point in time, net of any fees payable to other parties in the arrangement.

2. Accounting policies continued

(s) Revenue continued

Revenue in respect of consultancy services performed by our commercial business, Lambert Smith Hampton, is recognised either: at a point in time when we have fully provided the service; or over a period of time as activity progresses, reflecting the Group's partial performance of its contractual obligations.

Management is required 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, including judging whether the performance obligations have been 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.

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.

(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.

2. Accounting policies continued

(w) Adjusting items continued

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 Board 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.

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.

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.

3. Critical accounting judgements and key sources of estimation uncertainty continued

Key sources of estimation uncertainty continued

- Provision for incurred but not reported (IBNR claims): 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 very low number of claims received for surveys conducted over eight years ago and the volatility that can impact on the size of the provision, the data set has been limited to surveys conducted within eight years. Since the data set is now limited to claims for surveys beyond the 2004 to 2008 period prior to the financial crisis, we no longer hold a sub-set of data for surveys conducted during that period, which is now more than ten years ago.

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 2018 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. During 2018 we experienced a modest decrease in the rate of claims received. It should be noted that a 10% increase in the valuation claim rate applied to all surveys could lead to a £0.4 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 throughout 2017 and 2018 where clients have withdrawn their claim. In 2018 we did see a modest increase to the claim liability rate but owing to the low volumes of claims this has not had a material impact on the overall provision.

The liability rate is sensitive to changes in experience and therefore we have used the average liability rate for claims closed over three 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 7% in 2018 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.

Onerous lease provisions

Onerous lease provisions with a present value of £6.1 million were recognised in relation to economic outflows arising from onerous contracts in respect of loss making branches (at the direct contribution level), unwinding over periods up to 2026 (comprising £4.2 million in respect of onerous lease provisions and £1.9 million in respect of dilapidations provisions – see note 23). The economic outflows in relation to these loss making branches will continue to be monitored to ensure that provisions are unwound in line with the losses being reported within operating results, or released in full when a branch is forecast to be profitable on turnaround, or ceases to become an onerous contract due to other circumstances, for example if a branch is sublet or a lease is renegotiated so that cash flows become positive.

The liability is dependent on the status of each lease and there is no correlation between lease and poor performance. Since the liability is based on the lower of the future anticipated operating losses and the contractual commitment to the end of the lease there is the possibility for the losses for some of those branches to deteriorate and therefore the provision would increase up to the level of the lease commitment. This would add an additional £1.4 million to the provision.

Restitution of trust funds

As described in note 2(d), a liability of £4,681,000 in respect of certain untraceable funds for prior years was recognised in the Group's balance sheet in the 2018 condensed consolidated interim report, £4,456,000 of which was recognised as a prior year error correction, along with a related reduction in retained earnings net of deferred tax. These funds were transferred into a separate client account in August 2018. Having received further legal advice in the second half of 2018, the Group now understands that all of these historical and untraceable funds arising from the Lettings business for the period from 2008-2017 should be held in trust under a separate client account. As a result, management has transferred an additional £5,185,000 into a separate client account in December 2018 in full restitution of these client funds. This change in advice during the latter part of 2018 has caused a change in the accounting estimate taken at 30 June 2018, and been treated as an exceptional cost. The estimate is therefore based on full restitution of all such funds.

4. Segmental reporting

Management has determined the operating segments based on the operating reports reviewed by the Board that are used to assess both performance and strategic decisions. Management has identified that the Board is the chief operating decision maker in accordance with the requirements of IFRS 8 'Operating segments'.

The change to the Group's segmental presentation in 2018 is aligned with management's current internal financial reporting framework (including monthly management information reports reviewed by the directors, and the Board as the chief operating decision maker) and the basis on which decisions for allocation of resources and assessing performance of segments is undertaken.

The Board considers the business to be split into three main types of business generating revenue: Sales and Lettings, Financial Services and Business to Business (B2B), and 'all other segments' comprising central head office functions.

The Sales and Lettings 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 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 Board 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, employment-linked 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 function which manages the cash and debt position of the Group.

The revenue from external parties reported to the Board 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 £624,810,000 (2017: £670,407,000) and that arising from activities overseas was £2,261,000 (2017: £2,371,000).

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 £334,595,000 (2017: £571,848,000) are included in the total assets in the tables on the following pages. Non-current assets of £825,000 (2017: £922,000) are attributable to the overseas operations. The equity investment in joint venture is disclosed within 'All other segments' and is £1,464,000 (2017: £2,982,000).

The financial assets at fair value through profit or loss are disclosed within 'All other segments' (£153,000 (2017: £17,085,000 available-for-sale financial assets)).

4. Segmental reporting continued

	2018				
	Sales and Lettings £'000	Financial Services £'000	B2B £'000	All other segments £'000	Total £'000
Revenue	309,131	80,199	229,317	472	619,119
Other income	5,832	1,009	922	189	7,952
Total income	314,963	81,208	230,239	661	627,071
Inter-segment revenue	14,207	2,704	(16,911)	–	–
Total income from external customers	329,170	83,912	213,328	661	627,071
Adjusted EBITDA	1,191	16,613	27,931	(13,052)	32,683
Contingent consideration	57	(1,830)	(409)	(3,907)	(6,089)
Share-based payments	(691)	(225)	(569)	(211)	(1,696)
Depreciation and amortisation	(7,448)	(2,493)	(7,586)	(4,935)	(22,462)
Share of loss from joint venture	–	–	–	(1,518)	(1,518)
Exceptional income	–	–	2,663	504	3,167
Exceptional costs	(216,315)	(3,131)	(1,890)	(20,701)	(242,037)
Segment operating (loss)/profit	(223,206)	8,934	20,140	(43,820)	(237,952)
Finance costs					(14,921)
Finance income					200
Loss before tax					(252,673)
Total assets	83,858	115,597	219,880	22,328	441,663
Total liabilities	536,907	193,844	181,453	(690,808)	221,396
Additions in the year					
Goodwill	–	–	160	–	160
Intangible assets	859	892	2,676	2,087	6,514
Property, plant and equipment	1,927	127	1,042	508	3,604

Notes to the financial statements continued

4. Segmental reporting continued

	2017				
	Sales and Lettings (Restated)[1 2] £'000	Financial Services £'000	B2B (Restated)[2] £'000	All other segments £'000	Total (Restated)[1 2] £'000
Revenue	340,941	82,124	238,517	606	662,188
Other income	4,972	1,947	958	2,713	10,590
Total income	345,913	84,071	239,475	3,319	672,778
Inter-segment revenue	15,566	3,253	(18,819)	–	–
Total income from external customers	361,479	87,324	220,656	3,319	672,778
Adjusted EBITDA	27,424	19,660	35,487	(16,984)	65,587
Contingent consideration	(397)	(969)	(62)	(2,501)	(3,929)
Share-based payments	(652)	(271)	(457)	(243)	(1,623)
Depreciation and amortisation	(20,130)	(2,770)	(7,583)	(3,007)	(33,490)
Share of profit from joint venture	–	–	–	690	690
Exceptional costs	(217,063)	(1,304)	(3,844)	(3,658)	(225,869)
Segment operating (loss)/profit	(210,818)	14,346	23,541	(25,703)	(198,634)
Finance costs					(12,607)
Finance income					82
Loss before tax					(211,159)
Total assets	287,086	120,575	233,925	59,499	701,085
Total liabilities	539,873	204,793	219,711	(569,722)	394,655
Additions in the year					
Intangible assets	2,291	1,786	2,916	584	7,577
Property, plant and equipment	4,330	371	1,270	5,047	11,018

1. Restated from prior year following the aggregation of previous operating segments (UK and London).
2. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).

Disaggregation of total segment revenue

2018	**Sales and Lettings £'000**	**Financial Services £'000**	**B2B £'000**	**All other segments £'000**	**Total revenue £'000**
Major service lines					
Sales	149,919	539	14,604	–	**165,062**
Lettings	165,536	–	12,112	428	**178,076**
Financial Services	–	79,579	–	–	**79,579**
Surveying	327	74	71,654	–	**72,055**
Commercial	–	–	100,373	–	**100,373**
B2B other	7,556	2,711	13,663	–	**23,930**
Other	–	–	–	44	**44**
	323,338	**82,903**	**212,406**	**472**	**619,119**
Timing of revenue recognition					
Services transferred at a point in time	163,219	54,076	150,778	44	368,117
Services transferred over a period of time	160,119	28,827	61,628	428	251,002
	323,338	**82,903**	**212,406**	**472**	**619,119**

4. Segmental reporting continued

2017	Sales and Lettings[1] £'000	Financial Services £'000	B2B £'000	All other segments £'000	Total revenue[1] £'000
Major service lines					
Sales	179,312	547	19,069	–	198,928
Lettings	168,807	–	11,421	546	180,774
Financial Services	–	81,355	–	–	81,355
Surveying	614	211	70,635	–	71,460
Commercial	–	–	104,579	–	104,579
B2B other	7,774	3,264	13,994	–	25,032
Other	–	–	–	60	60
	356,507	85,377	219,698	606	662,188
Timing of revenue recognition					
Services transferred at a point in time	192,506	54,486	156,542	60	403,594
Services transferred over a period of time	164,001	30,891	63,156	546	258,594
	356,507	85,377	219,698	606	662,188

1. Restated from prior year following the adoption of IFRS 15 (see note 2).

5. Other income

	2018 £'000	2017 (Restated)[1] £'000
Rent receivable	**599**	582
Other operating income	**7,353**	10,008
	7,952	10,590

1. Restated from prior year following the correction of a prior year error (see note 2).

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

	2018 £'000	2017 £'000
Wages and salaries	**335,245**	337,727
Contingent consideration deemed remuneration (note 32)[1]	**6,089**	3,929
Share options granted to directors and employees (note 27)[1]	**1,897**	1,828
Defined contribution pension costs (note 25)	**9,761**	8,182
Defined benefit scheme costs (note 25)	**325**	257
Social security costs	**36,945**	37,771
	390,262	389,694

1. The columnar approach of our income statement separates £7,785,000 in respect of employee benefit costs comprising: £6,089,000 contingent consideration from the table above; and £1,696,000 of share-based payment costs (see note 4). The share-based payment costs are detailed in note 27 and comprise: £1,897,000 of charges (as detailed above) net of £201,000 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	2018 Number	2017 Number (Restated)[1]
Sales and Lettings	**5,467**	5,558
Financial Services	**976**	1,000
B2B	**2,540**	2,573
Head office	**283**	332
	9,266	9,463

1. Restated from prior year following the aggregation of previous operating segments (UK and London).

Notes to the financial statements continued

6. Employees and directors continued

(b) Key management compensation

The following table details the aggregate compensation paid in respect of the members of the Board including the executive directors, and all non-executive directors.

	2018 £'000	2017 £'000
Wages and salaries	2,778	3,442
Short term non-monetary benefits	12	17
Share-based payments	(54)	364
Termination costs	754	202
	3,490	4,025

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 65.

7. Other operating costs

	2018 £'000	2017 £'000
Rent	27,244	26,783
Advertising and marketing expenditure	15,031	19,590
Vehicles, plant and equipment hire	13,252	14,754
Other motoring costs	16,172	16,050
Repairs and maintenance	16,016	15,651
Trade receivables impairment (excluding exceptional charge in 2017 (note 10))	2,905	38
Other	121,291	130,183
Total operating costs	211,911	223,049

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:

	2018 £'000	2017 £'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	423	407
• audit-related assurance services	58	50
• other non-audit services (2018 amounts relate to work undertaken on capital refinancing plan)	992	49
• tax advisory services	–	2
	1,608	643

8. Finance costs

	2018 £'000	2017 £'000
Interest costs:		
Interest payable on revolving credit facility	7,272	10,359
Interest arising from finance leases	163	257
Other interest paid	225	240
Cash payable interest	7,660	10,856
Amortisation of loan facility fee (including £2,220,000 of exceptional items in 2018 (note 10))	2,764	1,525
Net interest costs arising on the pension scheme (note 25)	115	73
Other finance costs	113	153
Non-cash payable interest	2,992	1,751
Capital refinancing costs (note 10)	4,269	–
Finance costs	14,921	12,607

9. Finance income

	2018 £'000	2017 £'000
Interest income	200	82

10. Exceptional items

The following items have been included in arriving at loss before taxation:

	2018 £'000	2017 £'000
Exceptional income		
Professional indemnity	3,167	–
Exceptional costs		
Strategic and restructuring costs:		
People-related restructuring costs	(4,234)	(4,405)
Transformation project consultancy costs	(7,069)	(1,655)
Property closure costs	(1,453)	(1,861)
Total strategic and restructuring costs, excluding impairment	(12,756)	(7,921)
Impairment of goodwill (note 14(a))	(45,836)	(192,253)
Impairment of brands (note 14(b))	(126,192)	(12,871)
Impairment of customer contracts (note 14(b))	(9,605)	(5,278)
Impairment of non-current assets (note 14(b), 15, 16(c))	(36,408)	(4,084)
Impairment of trade receivables (note 17)	–	(1,641)
Total impairment charge	(218,041)	(216,127)
Onerous lease provision	(6,055)	–
Restitution of trust funds	(5,185)	–
Financing costs[1]	(6,489)	–
Professional indemnity provisions	–	(1,821)
Total exceptional costs	**(248,526)**	**(225,869)**
Net exceptional costs	**(245,359)**	**(225,869)**

1. Reported within finance costs (see note 8).

2018

Net exceptional costs comprise items that have resulted in cash charges of £19,039,000 (2017: £6,060,000) and £226,320,000 (2017: £219,809,000) of net non-cash charges as follows:

Exceptional income

Professional indemnity

A claim was settled in the Group's favour resulting in the recognition of £2,064,000 of exceptional income.

Estimating the liability for professional indemnity 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 £1,103,000 release in the provision.

Exceptional costs

Strategic and restructuring costs

During 2018 the Group has progressed a strategic transformation agenda for the fundamental turnaround of the business, which is expected to take place over a period of around three years, resulting in a number of exceptional costs in relation to the project and related restructuring costs. The principal elements are:

- £4,234,000 relating to redundancy costs, principally arising from the restructuring of head office functions undertaken following our announcement on 8 March 2018, and changes to the leadership structure that occurred during the year to progress the achievement of the appropriate organisational structure;
- £7,069,000 in respect of restructuring costs, including the write-down of assets related to curtailed projects, third party consultancy costs arising from a number of different projects undertaken to tackle cost optimisation targets, including IT transformation consultancy, and related strategic initiatives which are being project managed centrally and routinely reporting progress to the Group Executive Committee; and

10. Exceptional items continued

- £1,453,000 of property closure costs, all relating to closed property provisions in respect of the London office that was identified for closure and communicated to impacted individuals prior to the 30 June period end. The closed property provision covers the onerous commitment for the costs from the period from the office vacation date at 31 October 2018 until the end of the lease term.

Impairment charges

Significant progress has been made with the strategy and turnaround plan during the year. However, the continued subdued external environment and the deterioration in trading, which became apparent after conclusion of the 2018 business planning process that underpinned the 2017 impairment review, resulted in impairment charges taken at the half year to 30 June 2018. Cash flows driving the current impairment review align to the latest three-year strategy and turnaround plan that has been scrutinised and endorsed by the Board.

The Group incurred the following impairment charges, deemed to be exceptional given their size, arising from the 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:

- £45,836,000 in respect of goodwill associated with: the UK cash generating unit of £14,045,000, the London cash generating unit of £30,770,000 and the B2B-Commercial cash generating unit of £1,021,000 following an assessment of the recoverable value against the carrying value (see note 14);
- £126,192,000 in respect of brand names associated with: the UK cash generating unit of £58,270,000 (reflecting full impairments of all brand names held) and the London cash generating unit of £67,922,000 (reflecting partial impairments of all brand names held) following an assessment of the recoverable value against the carrying value (see note 14);
- £9,605,000 in respect of customer contracts associated with: the UK cash generating unit of £6,377,000 and the London cash generating unit of £3,228,000 following an assessment of the recoverable value against the carrying value (see note 14); and
- £36,408,000 in respect of other non-current assets (see notes 14, 15 and 16):
  - £2,379,000 intangible fixed assets (computer software) and £17,779,000 tangible fixed assets (related computer hardware and other assets) associated with the UK cash generating unit;
  - £2,482,000 intangible fixed assets (computer software) and £9,330,000 tangible fixed assets (related computer hardware and other assets) associated with Head Office assets following an assessment of the recoverable value against the carrying value. The Head Office write-down arising as a result of impairments identified exceeding the intangible asset carrying values within the UK cash generating unit, triggering an impairment of £6,741,000 against the assets within Head Office supporting the UK cash generating unit, and £2,589,000 in respect of IT hardware identified as obsolete;
  - £717,000 of tangible fixed assets associated with the office in London that was identified for closure; and
  - £3,721,000 in respect of write-off in full of three investments into the property technology sector which, following trading and structural changes, are deemed to have no economic value. The costs relate to the impairment of the three equity investments amounting to £2,379,000 (see note 16(d)), the associated loan outstanding with Dynamo of £1,200,000, and £142,000 associated legal costs for the wind up of the venture.

Onerous lease provision

Onerous lease provisions with a present value of £6,055,000 were recognised in relation to the economic outflows arising from onerous contracts in respect of loss making branches (at the direct contribution level), unwinding over periods up to 2026 (comprising £4,204,000 in respect of onerous lease provisions and £1,851,000 in respect of dilapidations provisions – see note 23). The economic outflows in relation to these loss making branches will continue to be monitored to ensure that provisions are unwound in line with the losses being reported within operating results, or released in full when a branch is forecast to be profitable on turnaround, or ceases to become an onerous contract due to other circumstances, for example if a branch is sublet or a lease is renegotiated so that cash flows become positive.

During the year, provisions of £651,000 unwound as a credit to adjusted EBITDA, in line with the losses being reported within operating results.

10. Exceptional items continued

Restitution of trust funds

In note 4.3 of our 2018 condensed consolidated interim report, we noted a prior year error correction in respect of the restitution of trust funds.

The Group holds deposits made by lessees of properties. Generally, the Group does not recognise client money on its consolidated balance sheet. However, the Group deposits client money in interest-bearing accounts and recognises the interest component as finance income in the Group's consolidated income statement. The Group takes all practical and reasonable measures to identify the ownership of the funds and to trace and return funds in a timely manner. Historically, balances that remained untraceable and were more than six years old were recognised in the Group's consolidated income statement as other income and an indemnity was put in place by Countrywide Group plc to the underlying subsidiary entities to ensure that any claims arising subsequently on these funds would be met by the Countrywide Group plc. In practice, less than 1% of the funds released have ever been claimed and paid out.

At the half year, following a management review of client accounting, and having received legal advice on the treatment of such funds, the Group understood that some of these historical and untraceable funds arising from the Lettings business for the period from 2008-2017 should be held in trust under a separate client account. A liability of £4,681,000 in respect of certain untraceable funds for such period was therefore recognised in the Group's balance sheet in the 2018 condensed consolidated interim report, £4,456,000 of which was recognised as a prior year error correction, along with a related reduction in retained earnings net of deferred tax. These funds were transferred into a separate client account in August 2018.

Having received further legal advice in the second half of 2018, the Group now understands that all of these historical and untraceable funds arising from the Lettings business for the period from 2008-2017 should be held in trust under a separate client account. As a result, management has transferred an additional £5,185,000 into a separate client account in December 2018 in full restitution of these client funds. This further advice during the latter part of 2018 has caused a change in the accounting estimate taken at 30 June 2018, and given the magnitude of the increase in charge, this has been treated as an exceptional cost.

Financing costs

Following the revolving credit facility amendment undertaken on 2 February 2018, previously capitalised financing fees (net of amortisation to date) of £1,573,000 were written off. Fees relating to this amendment were simultaneously capitalised. As part of the wider balance sheet refinancing, a subsequent amendment was made to the revolving credit facility and therefore in August 2018, fees capitalised in February 2018 (net of amortisation charged in the six months) amounting to £647,000 were also written off. (Fees incurred in relation to the August 2018 amendment of the revolving credit facility, amounting to £2,145,000 have been capitalised and will be amortised over the period to September 2022).

In addition, costs of £4,269,000 were also incurred in relation to professional fees provided in respect of work undertaken to restructure the Group's borrowing and raise equity finance. Costs of £8,481,000 which were directly attributable to the equity raise have been offset against share premium (see note 26). Other costs incurred as part of the wider refinancing project, and specifically in relation to restructuring of borrowing, including professional fees provided in respect of work undertaken to potentially restructure the Group's borrowing which were then expensed as abortive fees, amounting to £4,269,000 have been treated as exceptional financing costs.

These financing costs have been treated as exceptional due to the size of the fees, but also in relation to the non-recurrent costs which have been incurred in relation to refinancing the business to facilitate the financial flexibility to undertake the turnaround transformation.

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; and
- £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.

10. Exceptional items continued

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)).

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.

11. Taxation

Analysis of (credit)/charge in year

	2018 £'000	2017 (Restated)[1] £'000
Current tax on profits for the year	–	1,605
Adjustments in respect of prior years	(1,140)	(30)
Total current tax	(1,140)	1,575
Deferred tax on profits for the year		
Origination and reversal of temporary differences	(34,353)	(6,293)
Adjustments in respect of prior years	975	902
Total deferred tax (note 24)	(33,378)	(5,391)
Income tax credit	(34,518)	(3,816)

1. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).

	2018 £'000	2017 £'000
Tax on items charged to equity		
Deferred tax adjustment arising on share-based payments	(90)	(10)
Tax on items credited/(charged) to other comprehensive income		
Deferred tax adjustment arising on pension scheme assets and liabilities	32	690
Deferred tax adjustment arising on cash flow hedge	(63)	(410)

11. Taxation continued

The tax charge for the year differs (2017: differs) from the standard rate of corporation tax in the UK of 19% (2017: 19.26%). The differences are explained below:

	2018 £'000	2017 (Restated)[1] £'000
Loss before taxation	(252,673)	(211,159)
Loss multiplied by the rate of corporation tax in the UK of 19% (2017: 19.26%)	(48,008)	(40,669)
Effects of:		
Losses/(profits) from joint venture	288	(133)
Tax relief on contingent consideration	1,156	1,028
Other expenses not deductible	1,594	278
Permanent difference relating to depreciation not deductible	448	218
Tax relief on purchased goodwill	9,199	34,839
Tax relief on share-based payments charged to equity	151	168
Losses not provided/(unprovided losses utilised)	765	(430)
Adjustments in respect of prior years	(165)	872
Overseas losses	54	13
Total taxation credit	(34,518)	(3,816)

1. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).

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

	2018 £'000	2017 £'000
Dividends (interim and final)	–	–

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2018.

Notes to the financial statements continued

13. Earnings per share

Basic earnings per share is calculated by dividing the net profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares of Countrywide plc.

	2018 £'000	2017 (Restated)[1] £'000
Loss for the year attributable to owners of the parent	**(218,155)**	(207,343)
Weighted average number of ordinary shares in issue	**707,628,836**	232,317,964
Basic and diluted loss per share (in pence per share)	**(30.83)p**	(89.25)p

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.

	2018 £'000	2017 (Restated)[1] £'000
Adjusted earnings		
Loss for the year attributable to owners of the parent	**(218,155)**	(207,343)
Adjusted for the following items, net of taxation:		
Amortisation arising on intangibles recognised through business combinations	**4,006**	4,127
Contingent consideration	**6,181**	4,202
Share-based payments charge	**1,380**	1,465
Exceptional income	**(135)**	–
Exceptional costs	**211,190**	217,755
Adjusted earnings, net of taxation	**4,467**	20,206
Adjusted basic and diluted earnings per share (in pence per share)	**0.63p**	8.70p

1. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).

As there is a loss in 2018 and in the comparative year, the diluted EPS is not presented on the basis that this is equal to the basic loss per share.

14. Intangible assets

(a) Goodwill

	2018 £'000	2017 £'000
Cost		
At 1 January	**908,669**	908,669
Arising on acquisitions	**160**	–
At 31 December	**908,829**	908,669
Accumulated impairment (note 14(c))		
At 1 January	**629,173**	436,920
Impairment (note 10)	**45,836**	192,253
At 31 December	**675,009**	629,173
Net book amount		
At 31 December	**233,820**	279,496

Goodwill impairment charges of £14,045,000 (2017: £151,295,000), £30,770,000 (2017: £40,958,000) and £1,021,000 (2017: £Nil) have been made in relation to the UK, London and B2B-Commercial cash generating units respectively 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

	2018				
	Computer software £'000	Brand names £'000	Customer contracts and relationships £'000	Other intangibles £'000	Total £'000
Cost					
At 1 January	72,964	232,015	131,232	403	436,614
Additions	6,514	–	–	–	6,514
Disposals	(5,215)	–	–	–	(5,215)
At 31 December	74,263	232,015	131,232	403	437,913
Accumulated amortisation and impairment losses (note 14(c))					
At 1 January	56,524	54,199	105,142	91	215,956
Charge for the year	7,354	1,720[1]	3,175[1]	51[1]	12,300
Impairment (note 10)	4,861	126,192	9,605	–	140,658
On disposals	(5,192)	–	–	–	(5,192)
At 31 December	63,547	182,111	117,922	142	363,722
Net book amount					
At 31 December	10,716	49,904	13,310	261	74,191

1. The columnar approach of our income statement separates £4,946,000 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:

	2018 £'000	2017 £'000
Cost – capitalised finance lease	6,969	6,381
Accumulated amortisation and impairment	(6,494)	(4,360)
Net book amount	475	2,021

	2017				
	Computer software £'000	Brand names £'000	Customer contracts and relationships £'000	Other intangibles £'000	Total £'000
Cost					
At 1 January	66,860	232,015	131,232	403	430,510
Additions	7,577	–	–	–	7,577
Disposals	(1,473)	–	–	–	(1,473)
At 31 December	72,964	232,015	131,232	403	436,614
Accumulated amortisation and impairment losses (note 14(c))					
At 1 January	44,724	41,328	94,108	40	180,200
Charge for the year	10,503	–	5,756[1]	51[1]	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	91	215,956
Net book amount					
At 31 December	16,440	177,816	26,090	312	220,658

1. 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.

All amortisation and impairment charges are treated as an expense in the income statement.

In our 2017 annual report we noted that, in light of the impairment charges triggered against brand names in the previous two years, as part of our wider turnaround plan, we would undertake an assessment in 2018 to reassess our brand strategy and the related impact on the useful economic life of our brand names currently held as indefinite.

Notes to the financial statements continued

14. Intangible assets continued

(b) Other intangible assets continued

During 2018 management concluded its review of our brand portfolio and, as a result of the changing competitive landscape and the Group's internal strategy, undertook a brand name impairment review as at 30 June 2018 which resulted in impairment charges against brand names associated with the UK and London cash generating units. Finite lives of 15 years have been assigned to each of the remaining brand names held on the balance sheet at 30 June 2018. Amortisation commenced from 1 July 2018.

The assessment of recoverable value against carrying value resulted in the following impairment charges at 30 June 2018: £126,192,000 against brand names associated with the UK (£58,270,000) and London (£67,922,000) cash generating units; £9,605,000 against customer contracts and relationships associated with the UK (£6,377,000) and London (£3,228,000) cash generating units; £4,861,000 against computer software associated with the UK cash generating unit (£2,379,000) and Head Office (£2,482,000); and a further £24,520,000 against other tangible assets (UK: £17,779,000; Head Office: £6,741,000) (the Head Office write-downs as a result of impairments identified exceeding the intangible and tangible asset carrying values within the UK cash generating unit, triggering an impairment of the assets within Head Office supporting the UK cash generating unit). Tangible fixed assets of £717,000 associated with the office in London that had been identified for closure (noted above) were impaired during the year. These charges have been included within exceptional items (note 10).

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

	2018 £'000	2017 £'000
Brand names		
Lambert Smith Hampton	**27,431**	28,377
Hamptons International	**11,194**	58,774
John D Wood	**3,265**	14,464
Bairstow Eves	**2,054**	17,173
Taylors Estate Agents	**–**	10,071
Mann & Co	**–**	5,462
Blundell Property Services	**–**	4,654
Slater Hogg & Howison	**–**	3,652
	43,944	142,627
Other brands	**5,960**	35,189
Net book value	**49,904**	177,816

(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 businesses and consequently the economic flows are not monitored at a lower level than the CGUs identified for goodwill impairment review. Where necessary, assets have been reallocated to the goodwill-level CGUs that are expected to benefit from the business combination in which the goodwill arose as follows:

				B2B CGUs			
2018	**UK £'000**	**London £'000**	**Financial Services £'000**	**Professional Services £'000**	**Countrywide Residential Development Solutions £'000**	**Commercial £'000**	**Total £'000**
Goodwill	**–**	**–**	**89,885**	**133,050**	**2,111**	**8,774**	**233,820**

				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

14. Intangible assets continued

(c) Impairment continued

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.

June 2018 impairment review

Management performed an impairment review in June 2018 in accordance with IAS 36 'Impairment of assets' by comparing the carrying value 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 were based on the latest 2018 forecast and three-year plan covering the period from 2018 to 2021 that had been endorsed by the Board. Growth rates and other assumptions applied within the strategic plan were based on past experience, market data and expectation of future market outlook and development. UK housing market volumes were assumed to remain flat over the period from 2018 to 2021. UK mortgage market volumes were assumed to grow by 4.2% in 2019, followed by 2% in each of 2020 and 2021. UK survey market volumes were assumed to remain flat over the period from 2018 to 2021.

Terminal growth rate

For the purpose of the impairment review, cash flows beyond the period of the plan ending 2021 were extrapolated using a terminal value which included a growth rate of 1% into perpetuity.

Discount rate

Cash flows were discounted using pre-tax discount rates of between 12.0% and 12.3%, reflecting the weighted average cost of capital assigned to each CGU.

Outcome of impairment review

Whilst significant progress had been made with the strategy and turnaround plan during the six months ended 30 June 2018, the review resulted in further impairment charges. This impairment was a function of the reset of the strategy and the fundamental review of the Sales and Lettings business since the conclusion of the 2018 business planning process that underpinned the 2017 impairment review.

Goodwill

The goodwill impairment review concluded that impairment charges of £44,815,000 were appropriate against goodwill held by the UK (£14,045,000) and London (£30,770,000) CGUs respectively (see note 10), resulting in goodwill held by both of the CGUs being impaired in full.

The review further concluded that the recoverable amount for all other CGUs to which goodwill was allocated exceeded their respective carrying values, resulting in no further indication of impairment.

Indefinite-life intangible assets

An impairment review was performed on indefinite-life intangible assets at 30 June 2018 using assumptions that were consistent with the goodwill impairment review. The combined goodwill and indefinite-life intangible assets impairment reviews identified impairment charges of £126,192,000 against brand names held within the UK (£58,270,000) and London (£67,922,000) cash generating units (see note 10).

Other intangible and tangible assets

The goodwill impairment review resulted in further impairment charges of £9,605,000 against customer contracts and relationships held against the UK (£6,377,000) and London (£3,228,000) cash generating units respectively. In addition, impairment charges of £4,861,000 were made against computer software associated with the UK cash generating unit (£2,379,000) and Head Office (£2,482,000), and a further impairment charge of £24,520,000 was taken against other tangible assets (UK: £17,779,000; Head Office: £6,741,000) (the Head Office write-downs as a result of impairments identified exceeding the intangible and tangible asset carrying values within the UK cash generating unit, triggering an impairment of the assets within Head Office supporting the UK cash generating unit). Tangible fixed assets of £717,000 associated with the central functions head office in London that had been identified for closure were impaired during the period. These charges have been included within exceptional items (note 10).

Notes to the financial statements continued

14. Intangible assets continued

December 2018 impairment review

The annual 2018 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 three-year plan covering the period from 2019 to 2021 that has been endorsed by the Board. Growth rates and other assumptions applied within the strategic plan are based on past experience, market data and expectation of future market outlook and development. UK housing market volumes are to remain flat over the period from 2019 to 2021 with average house price increases of 2% per annum. Average lettings fees are assumed to remain flat over the same period. UK mortgage market volumes are assumed to grow by 4.2% in 2019, followed by 2% in each of 2020 and 2021. UK survey market volumes are assumed to remain flat over the period from 2019 to 2021.

The 2017 impairment review was based on cash flows from the strategic budget covering the period from 2018 to 2020.

Growth rate

For the purpose of the impairment review, cash flows beyond the period of the plan ending 2021 are extrapolated using a terminal value which includes a growth rate of 1% into perpetuity. The 2017 impairment review assumed nil growth for 2021, with cash flows extending beyond this date extrapolated using a terminal value that included a growth rate of 0% into perpetuity.

Discount rate

Cash flows have been discounted using pre-tax discount rates of between 11.8% and 12.4%, reflecting the weighted average cost of capital assigned to each CGU.

The 2017 impairment review used discount rates of between 10.3% and 10.5%.

Outcome of impairment review

Goodwill

The December 2018 goodwill impairment review concluded that an impairment charge of £1,021,000 was appropriate against goodwill held by the B2B – Commercial CGU (see note 10). The recoverable amounts for all other CGUs to which goodwill is allocated exceeded their respective carrying values, resulting in no further indication of impairment in addition to the charges taken in June 2018 (December 2017: £192.3m).

Cumulative impairments, including the goodwill, brand names, customer contracts and relationships, and computer software impairments identified during the current year, combined with previous impairments, amount to the following:

	Goodwill £'000	Brand names £'000	Customer contracts & relationships £'000	Computer software £'000	Total £'000
Cash generating unit					
UK	388,441	101,897	10,452	5,053	505,843
London	131,160	78,494	4,331	1	213,986
Financial Services	114,387	–	–	–	114,387
B2B – Professional Services	40,000	–	100	10,500	50,600
B2B – Commercial	1,021	–	–	–	1,021
Total cash generating units	675,009	180,391	14,883	15,554	885,837
All other segments	–	–	–	2,482	2,482
	675,009	180,391	14,883	18,036	888,319

14. Intangible assets continued

Sensitivity analysis

A range of assumptions with varying significance drive the 2018 value in use models used for the impairment reviews. CGU recoverable amounts are most sensitive to the following key assumptions:

- Delivery of the turnaround strategy;
- Continued growth in B2B and Financial Services; and
- Delivery of overhead reduction and cost efficiency.

A change in the above assumptions, for example, non-delivery of the turnaround strategy, lack of growth in B2B and Financial Services, or non-delivery of overhead reduction and cost efficiency, would result in lower CGU adjusted EBITDA.

In order to quantify the impact of the above risks on the goodwill impairment review, 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 pre-tax discount rate; and
- terminal growth rate of 0% into perpetuity (1% in the base case)

The following table sets out the sensitivity of all CGUs that hold goodwill to possible changes in key assumptions:

	Reduction in discounted cash flows			
	Financial Services CGU £'000	B2B-Professional Services CGU £'000	B2B- Countrywide Residential Development Solutions CGU £'000	B2B-Commercial CGU £'000
Goodwill				
10% reduction to adjusted EBITDA	(21,910)	(44,493)	(2,450)	(11,111)
10% increase in pre-tax discount rate	(15,869)	(35,848)	(1,348)	(4,742)
Terminal growth rate of 0% into perpetuity	(14,307)	(32,260)	(1,202)	(4,275)

The above scenarios indicate further impairment in the B2B – Commercial CGU, but mitigating actions are available should any of the scenarios arise. The sensitivity analysis does not indicate impairment in any other CGU.

In 2017 management modelled sensitivity analyses, including a 10% reduction to adjusted EBITDA from operating cash flows, an increase of 10% in the discount rate of 10.3-10.5% and incorporating a terminal growth rate of 1% into perpetuity. The sensitivity analyses concluded that the first two scenarios would result in additional impairment charges against both goodwill and other intangible assets with indefinite lives in each of the UK and London CGUs.

15. Property, plant and equipment

	2018				
	Freehold Land and buildings £'000	Leasehold improvements £'000	Motor vehicles £'000	Furniture and equipment £'000	Total £'000
Cost					
At 1 January	1,922	34,738	197	55,805	92,662
Additions at cost	–	1,834	2	1,772	3,608
Disposals	–	(208)	(56)	(16,253)	(16,517)
At 31 December	1,922	36,364	143	41,324	79,753
Accumulated depreciation					
At 1 January	367	16,558	2	33,937	50,864
Charge for the year	10	3,460	39	6,653	10,162
Impairment (note 10)	1,467	14,211	139	12,009	27,826
Disposals	–	(208)	(41)	(16,253)	(16,502)
At 31 December	1,844	34,021	139	36,346	72,350
Net book amount					
At 31 December	78	2,343	4	4,978	7,403

Notes to the financial statements continued

15. Property, plant and equipment continued

	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[1]	–	(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[1]	–	(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

1. Assets with a £nil net book value were 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.

The June 2018 assessment of the recoverable values of cash generating units (CGUs) against their carrying values resulted in an impairment of £24,520,000 against tangible fixed assets held within the UK CGU (£17,779,000) and against Head Office tangible fixed assets (£6,741,000) (the Head Office write-down as a result of impairments identified exceeding the intangible asset carrying values within the UK cash generating unit triggering an impairment of the assets within Head Office supporting the UK CGU). Tangible fixed assets of £717,000 associated with the central functions head office in London that had been identified for closure were also impaired.

Review of the recoverable amount of property, plant and equipment during the second half of the year resulted in a further impairment charge of £2,589,000 against furniture and equipment. These charges have been included within exceptional items (note 10).

In 2017, an assessment of the recoverable values of 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:

	2018 £'000	2017 £'000
Cost – capitalised finance lease	**6,967**	16,497
Accumulated depreciation	**(6,192)**	(11,176)
Net book amount	**775**	5,321

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 2018 and the subsequent year, is as follows:

	2018 £'000	2017 £'000
Property, plant and equipment	**1,295**	1,962
Computer software	**5,805**	–
	7,100	1,962

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 2018 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	100
Balanus Limited	Holding company	UK	–	100
Sales and Lettings				
Countrywide Estate Agents	Estate Agency and Lettings	UK	–	100
B2B				
Lambert Smith Hampton Limited	Holding company	UK	–	100
Lambert Smith Hampton Group Limited	Property consultancy	UK	–	100
Lambert Smith Hampton Limited (N Ireland)	Property consultancy	UK	–	100
Lambert Smith Hampton Limited (Ireland)	Property consultancy	Ireland	–	100
Lambert Smith Hampton Investment Management Limited	Investment brokerage	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
Mortgage Next Network 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 2018 is included within the appendix. The appendix on pages 156 to 162 forms part of these financial statements.

(b) Interests in joint venture

TM Group (UK) Limited

At 31 December 2018 the Group had a 33% (2017: 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.

	2018 £'000	2017 £'000
At 1 January:		
Net assets excluding goodwill	1,502	812
Goodwill	1,480	1,480
	2,982	2,292
Share of (losses)/profits retained	(1,518)	690
At 31 December:		
Net assets excluding goodwill	(16)	1,502
Goodwill	1,480	1,480
	1,464	2,982

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

	2018 £'000	2017 £'000
Cash and cash equivalents	1,157	4,176
Other current assets (excluding cash)	5,109	2,692
Total current assets	6,266	6,868
Non-current assets	4,730	1,088
Current liabilities	(11,044)	(3,450)
Net (liabilities)/assets	(48)	4,506
Net (liabilities)/assets adjusted for the percentage of ownership	(16)	1,502
Income	56,276	60,645
Depreciation	(341)	(372)
Expenses (excluding depreciation)	(60,507)	(58,219)
Interest income	18	16
Post-tax results	(4,554)	2,070
Share of post-tax results	(1,518)	690

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

(c) Financial assets previously classified as available-for-sale financial assets

	2018 £'000	2017 £'000
At 1 January	–	16,058
Movement in fair value	–	1,627
Impairment of unlisted equity	–	(565)
Amortisation	–	(35)
At 31 December	–	17,085

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

	2018 £'000	2017 £'000
Unlisted residential property fund units	–	15,766
Unlisted equity	–	1,232
Debentures (acquired and amortised over the life of the debenture)	–	87
At 31 December	–	17,085

16. Investments continued

d) Financial assets at fair value through profit or loss

	2018 £'000	2017 £'000
At 1 January[1]	16,998	–
Disposal of unlisted residential property fund units	(15,766)	–
Acquisition of shares in unlisted equity	1,300	–
Impairment of unlisted equity	(2,379)	–
At 31 December	153	–

1. Debentures (2017: £87,000) have been reclassified as prepayments in 2018.

Financial assets at fair value through profit or loss, which are all Sterling denominated, include the following:

	2018 £'000	2017 £'000
Unlisted equity	153	–
At 31 December	153	–

During the year, the Group disposed of its interest in unlisted residential property fund units (31 December 2017: £15,766,000) for proceeds of £15.8 million and disposed of unlisted equity that had previously been fully impaired for proceeds of £141,000.

During the year, the Group acquired a 49% interest in the ordinary share capital of Dynamo Mortgages Limited, trading as Dynamo, a direct to consumer digital mortgage offering that the Group recently developed and launched with its joint venture partner Blenheim Chalcott. The key performance indicators in the business plan were not being achieved and as a result the venture has been wound up, with the investment of £1,300,000 being fully impaired. In addition, two legacy property technology investments which have continued to underperform have also been written off, resulting in an impairment of £1,079,000. These impairments have been treated as exceptional items and are disclosed in note 10.

17. Trade and other receivables

	2018 £'000	2017 (Restated)[1] £'000
Amounts falling due within one year		
Trade receivables not past due	45,510	43,018
Trade receivables past due but not impaired	14,514	25,900
Trade receivables past due but impaired	5,157	4,211
Trade receivables	65,181	73,129
Less: provision for impairment of receivables	(5,157)	(4,211)
Trade receivables – net	60,024	68,918
Amounts due from customers for contract work	776	2,155
Other receivables	4,036	5,311
Prepayments	16,192	19,540
Accrued income	7,329	8,628
Corporation tax asset	460	1,230
	88,817	105,782

1. Restated from prior year following the adoption of IFRS 15 (see note 2).

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. Trade receivables are reviewed for impairment by taking into account the historical default experience and the financial position of the counterparties to estimate the likelihood of default. Trade receivables are written off when there is no reasonable expectation of recovery. Further information in respect of financial assets, including credit risk, is provided in note 31.

Notes to the financial statements continued

17. Trade and other receivables continued

As at 31 December 2018, trade receivables of £14,514,000 (2017: £25,900,000) 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:

	2018 £'000	2017 £'000
Less than three months	**12,568**	12,579
Over three months	**1,946**	13,321
	14,514	25,900

Trade and other receivables are denominated in Pounds Sterling with the exception of £622,000 (2017: £944,000) which is receivable in Euros (2017: Euros).

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

	2018 £'000	2017 £'000
At 1 January	**4,211**	3,421
IFRS 9 opening transition provision (note 2)	**1,202**	–
Additional provisions (notes 7 and 10)	**2,905**	1,679
Amounts utilised	**(3,161)**	(889)
At 31 December	**5,157**	4,211

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

	2018 £'000	2017 £'000
Cash and cash equivalents		
Cash at bank and in hand	**17,426**	22,533

The following amounts were held in foreign currencies:

	2018 £'000	2017 £'000
Hong Kong Dollars	**46**	102
Euros	**212**	125
	258	227

19. Trade and other payables

	2018 £'000	2017 (Restated)[1] £'000
Trade payables	**14,620**	20,461
Deferred consideration	**2,721**	3,550
	17,341	24,011
Other tax and social security payable	**23,581**	25,065
Accruals and other payables (including contingent consideration)	**50,155**	58,939
	91,077	108,015
Trade and other payables due within one year	**81,146**	99,720
Trade and other payables due after one year	**9,931**	8,295
	91,077	108,015

1. Restated from prior year following the correction of a prior year error (see note 2).

The principal components of trade and other payables due after one year are: deferred and contingent consideration payments of £9,763,000 (2017: £7,921,000); and accrued National Insurance share-based payment charges of £168,000 (2017: £374,000).

Deferred consideration falls due: £1,450,000 within one year; and £1,271,000 after one year. Contingent consideration accrued falls due: £3,748,000 within one year; and £8,492,000 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 £37,000 (2017: £24,000) which is receivable in Euros (2017: Hong Kong Dollars and Euros).

20. Borrowings

	2018 £'000	2017 £'000
Non-current		
Bank borrowings	**85,000**	210,000
Other loans	**1,000**	2,840
Capitalised banking fees	**(1,966)**	(1,700)
Finance lease liabilities	**398**	2,349
	84,432	213,489
Current		
Other loans	**1,993**	–
Finance lease liabilities	**1,670**	1,011
	3,663	1,011
Total borrowings	**88,095**	214,500

Analysis of net debt

	At 1 January 2018 £'000	Cash flow £'000	Non-cash changes £'000	At 31 December 2018 £'000
Cash and cash equivalents	22,533	(5,107)	–	**17,426**
Capitalised banking fees	1,700	3,028	(2,762)	**1,966**
Other loans	(2,840)	–	(153)	**(2,993)**
Revolving credit facility due after one year	(210,000)	125,000	–	**(85,000)**
Finance leases due after one year	(2,349)	–	1,951	**(398)**
Finance leases due within one year	(1,011)	2,087	(2,746)	**(1,670)**
Total net debt, as previously reported	(191,967)	125,008	(3,710)	**(70,669)**
Restatement of debt arising from prior year correction (note 2)	(4,456)	4,456	–	**–**
Total	(196,423)	129,464	(3,710)	**(70,669)**

Borrowings and other loans

At the year end, the facility was a £125 million revolving credit facility, with any outstanding balance repayable in full on 30 September 2022. 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 £125 million was repaid during the year (against a facility of up to £340 million at 31 December 2017, revised to £275 million at 2 February 2018 and revised to £125 million at 2 August 2018).

On 2 August 2018 the Company agreed an amendment and extension relating to the RCF, originally dated 20 March 2013, which was due to expire in March 2020. The RCF is now £125 million, with margin and covenants as disclosed in the Prospectus for our equity placing in August 2018. Capitalised banking fees are being amortised over the duration of the RCF, until September 2022.

'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 repayable in 2019.

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:

	2018 £'000	2017 £'000
No later than one year	**1,683**	1,363
Later than one year and no later than five years	**413**	2,507
Greater than five years	**–**	1
	2,096	3,871
Future finance charges on finance lease liabilities	**(28)**	(511)
Present value of finance lease liabilities	**2,068**	3,360

20. Borrowings continued

Finance lease liabilities continued

The present value of finance lease liabilities is as follows:

	2018 £'000	2017 £'000
No later than one year	1,670	1,011
Later than one year and no later than five years	398	2,349
	2,068	3,360

21. Derivative financial instruments

Liabilities due after one year	2018 £'000	2017 £'000
Interest rate swaps – cash flow hedge	–	337

The interest rate swap became ineffective at the end of 2017, as forecast drawdowns would no longer be met as we sought to deleverage the business. The hedge was subsequently terminated in the first half of the year.

22. Deferred income

Deferred income will unwind as follows:

	2018 £'000	2017 (Restated)[1] £'000
Within one year	2,143	2,554
After one year:		
Between one and two years	142	575
Between two and three years	71	78
Between three and four years	26	7
Between four and five years	–	3
	239	663
	2,382	3,217

1. Restated from prior year following the adoption of IFRS 15 (see note 2).

The Group recognises deferred income as a result of cash received in advance in relation to certain sales distribution contracts, standard lettings services 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

	2018						
	Onerous contracts[1]						
	Closed property £'000	Loss making branches £'000	Property repairs[1] £'000	Clawback £'000	Claims and litigation[1] £'000	Other £'000	Total £'000
At 1 January	3,778	–	5,244	3,777	15,520	1,119	29,438
Utilised in the year	(2,202)	(651)	(1,149)	(3,528)	(2,686)	(995)	(11,211)
Charged to income statement	1,453	4,204	2,755	3,781	589	495	13,277
Credited to income statement	(82)	–	(99)	–	(3,926)	–	(4,107)
Unwind of discount rate	15	40	–	–	–	–	55
At 31 December	2,962	3,593	6,751	4,030	9,497	619	27,452
Due within one year or less	1,900	1,771	5,369	2,502	4,375	619	16,536
Due after more than one year	1,062	1,822	1,382	1,528	5,122	–	10,916
	2,962	3,593	6,751	4,030	9,497	619	27,452

1. See exceptional items in note 10.

23. Provisions continued

	2017 (Restated)					
	Onerous contracts[1] £'000	Property repairs[1] £'000	Clawback[2] £'000	Claims and litigation[1] £'000	Other £'000	Total[2] £'000
At 1 January	5,865	6,342	3,933	14,401	1,914	32,455
Utilised in the year	(3,177)	(1,440)	(3,528)	(3,677)	(1,012)	(12,834)
Charged to income statement	1,090	377	3,372	6,326	491	11,656
Credited to income statement	–	(35)	–	(1,530)	(274)	(1,839)
At 31 December	3,778	5,244	3,777	15,520	1,119	29,438
Due within one year or less	248	4,445	2,624	9,107	1,029	17,453
Due after more than one year	3,530	799	1,153	6,413	90	11,985
	3,778	5,244	3,777	15,520	1,119	29,438

1. See exceptional items in note 10.
2. Restated from prior year following the adoption of IFRS 15 (see note 2).

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, and additionally in 2018 in respect of loss making branches. 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. In relation to closed or relocated operations, these costs are typically incurred over an average of a two-year period. Provisions are released when properties are assigned or sub-let. With regard to the loss making branches, these costs unwind over periods up to 2026. Provisions will be unwound in line with the losses being reported within operating results, or released in full when a branch reaches profitability on turnaround, or ceases to become an onerous contract due to other circumstances, for example if a branch is sublet or a lease is renegotiated so that cash flows become positive.

The provision for property repairs represents estimates of the cost to repair existing dilapidations under leasehold covenants and dilapidation provisions in respect of loss making branches, 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 three years.

Clawback provisions represent amounts provided to meet the estimated cost of repaying indemnity commission income received on life assurance policies that may lapse in the two years following issue and estimated refunds due to customers in respect of residential lettings services.

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 year.

24. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17%–19% (2017: 17%–19%).

The movement on the deferred tax account is shown below:

	2018 £'000	2017 (Restated)[1] £'000
Net deferred tax liability at 1 January	(22,771)	(28,432)
Change in accounting policy[2]	147	–
Restated net deferred tax liability at 1 January	(22,624)	(28,432)
Credited to income statement	33,378	5,391
(Charged)/credited to other comprehensive income	(31)	280
Charged to equity	(90)	(10)
Net deferred tax asset/(liability) at 31 December	10,633	(22,771)
Deferred tax asset	18,389	10,751
Deferred tax liability	(7,756)	(33,522)
Net deferred tax asset/(liability) at 31 December	10,633	(22,771)
Deferred tax asset expected to unwind within one year	2,056	1,530
Deferred tax asset expected to unwind after one year	16,333	9,221
	18,389	10,751
Deferred tax liability expected to unwind within one year	(1,114)	(986)
Deferred tax liability expected to unwind after one year	(6,642)	(32,536)
	(7,756)	(33,522)

1. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).
2. Change in accounting policy following the adoption of IFRS 9 (see note 2).

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.

	2018		
	Asset/ (liability) £'000	Credited/ (charged) to income £'000	Credited/ (charged) to other comprehensive income/equity £'000
Origination and reversal of temporary differences			
Capital allowances	8,375	1,760	–
Employee pension liabilities	880	(221)	32
Trading losses	7,349	6,128	–
Share-based payments	193	(16)	(90)
Intangible assets	(6,702)	25,736	–
Cash flow hedge	–	–	(63)
Gain deferred by roll-over relief	(887)	–	–
Other temporary and deductible differences	1,425	(9)	–
	10,633	33,378	(121)

24. Deferred tax continued

	2017 (Restated)[1]		
	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
Trading losses	1,074	64	–
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	1,434	(623)	–
	(22,771)	5,391	270

1. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).

Deferred tax assets have not been recognised in respect of unused capital losses of £9,351,000 (2017: £9,374,000), non-trading loan relationships of £596,000 (2017: £217,000) or trading losses of £14,000 (2017: £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 £9,761,000 (2017: £8,182,000).

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 13 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 Regulator. The regulatory framework requires the Group to fund the Scheme and every three years the Group needs to agree a valuation with the trustees. The funding arrangements are being reviewed as part of the current valuation being carried out as at 5 April 2018. The Group (with the trustees of the Scheme) are responsible for ensuring that pension arrangements are adequately funded and the directors will need to agree a funding programme with the trustees to bring down the deficit in the defined benefit scheme over an appropriate period. During the year, the Group paid £2.0 million (2017: £2.0 million) to the defined benefit scheme. During the year which commenced on 1 January 2019, the Group is expected to pay contributions of £2.0 million (2018: £2.0 million). Further contributions of £2.0 million will be made in each of the next two years, although this is subject to review as part of the current valuation as at 5 April 2018 that is being carried out.

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.

Notes to the financial statements continued

25. Post-employment benefits continued

Defined benefit pension arrangements continued

The defined benefit liabilities set out in this note have been calculated by an independent actuary using the data being used for the current valuation at 5 April 2018, updated to 31 December 2018. The results of the calculations and the assumptions adopted are shown below.

The Group immediately recognises the actuarial gains and losses directly in other comprehensive income as shown in the consolidated statement of comprehensive income.

The amounts recognised in the balance sheet are as follows:

	2018 £'000	2017 £'000
Present value of funded obligations	(50,140)	(52,905)
Fair value of plan assets	45,506	47,279
Net liability recognised in the balance sheet	(4,634)	(5,626)

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 2018	(52,905)	47,279	(5,626)
Expected return on Scheme assets	–	1,120	1,120
Actuarial loss	–	(1,651)	(1,651)
Employer contributions	–	2,000	2,000
Past service cost – GMP equalisation	(400)	–	(400)
Administration cost	(325)	–	(325)
Interest cost	(1,235)	–	(1,235)
Actuarial gain from changes in financial assumptions	1,483	–	1,483
Benefits paid	2,917	(2,917)	–
Expenses	325	(325)	–
At 31 December 2018	(50,140)	45,506	(4,634)

	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
Administration cost	(257)	–	(257)
Interest cost	(1,428)	–	(1,428)
Actuarial gain from changes in assumptions	1,114	–	1,114
Benefits paid	4,612	(4,612)	–
Expenses	257	(257)	–
At 31 December 2017	(52,905)	47,279	(5,626)

25. Post-employment benefits continued

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

	2018 %	2017 %
Cash	4	3
UK equities	7	7
Overseas equities	7	7
Other – GARS	1	1
Other – insured pensioners	81	82
	100	100

Insured pensioners and cash constitute unquoted investments. All other investments are managed funds either quoted directly or comprising quoted investments. The Group does not have any of its own transferable instruments, property occupied or other assets used held as plan assets.

The amounts recognised in the income statement are:

	2018 £'000	2017 £'000
Past service cost – GMP equalisation	400	–
Administration cost	325	257
Net interest cost on pension scheme liabilities (within net finance costs)	115	73
Total charge to the income statement	840	330

The amounts recognised in the statement of comprehensive income are:

	2018 £'000	2017 £'000
Actuarial loss on scheme assets	(1,651)	(4,747)
Actuarial gain on scheme liabilities:		
Actuarial gain/(loss) from changes in financial assumptions	2,475	(1,384)
Actuarial gain from changes in demographic assumptions	385	900
Changes due to experience adjustments	(1,377)	1,598
Other comprehensive expense	(168)	(3,633)
Deferred tax adjustment arising on the pension scheme assets and liabilities	32	690
	(136)	(2,943)
Cumulative actuarial loss recognised in the statement of comprehensive income (after tax)	(11,482)	(11,346)

The principal assumptions made by the actuaries were:

	2018	2017
Rate of increase in pensions in payment and deferred pensions:		
– on benefits earned prior to 1 December 1999	4.25%	4.25%
– on benefits earned after 1 December 1999	3.35%	3.35%
Discount rate	2.75%	2.40%
RPI inflation	3.50%	2.90%
CPI inflation	2.15%	1.90%
Expected net return on plan assets	2.75%	2.40%
Cash commutation	20%	20%
Life expectancy at age 65 (years):		
– male pensioner member	22.3	22.5
– female pensioner member	24.2	24.3
– male pensioner non-member (age 45 now)	23.7	23.9
– female pensioner non-member (age 45 now)	25.8	25.8

To develop the expected long term rate of return on assets assumption, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target assets allocation to develop the expected long term rate of return on assets assumption for the portfolio.

Notes to the financial statements continued

25. Post-employment benefits continued

Sensitivity analysis

The results of the calculations are sensitive to the assumptions used. The defined benefit obligation position revealed by IAS 19 calculations must be expected to be volatile, principally because the market value of the assets is being compared with a liability assessment derived from corporate bond yields. However, the Group has taken steps to mitigate these risks of asset volatility, including insuring some of the pensioners (as illustrated by the asset portfolio).

The Trustees of the Scheme invest the assets in line with the statement of investment principles, which has been established taking into consideration the liabilities of the Scheme and the investment risk that the Trustees are willing to take after consideration of the strength of the employer covenant. There is no direct use of derivative strategies, although this may be employed by the GARS Fund. The Scheme also has a number of annuity policies with insurance companies written in the name of the Trustees that provide pension payments to some of the pensioner membership. The Scheme also invests in gilt and corporate bond funds which provide some protection for the Scheme with regards to interest and inflation risk.

The sensitivity analyses (below) are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

	Defined benefit obligation £'000	Fair value of assets £'000	Deficit £'000	Increase in disclosed deficit £'000
Defined benefit obligation	(50,140)	45,506	(4,634)	–
Discount rate less 0.25%	(51,816)	46,576	(5,240)	606
RPI and linked assumptions plus 0.25%	(50,296)	45,554	(4,742)	108
Members living one year longer than assumed	(52,889)	47,647	(5,242)	608

Defined benefit obligation trends:

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Scheme assets	**45,506**	47,279	53,540	47,435	45,524
Scheme liabilities	**(50,140)**	(52,905)	(57,203)	(47,850)	(50,740)
Scheme deficit	**(4,634)**	(5,626)	(3,663)	(415)	(5,216)
Experience (loss)/gain on scheme liabilities	**(1,377)**	1,598	–	(602)	–
Gain from changes in the demographic assumptions for value of scheme liabilities	**385**	900	–	1,029	–
Gain/(loss) from changes in the assumptions for value of scheme liabilities	**2,475**	(1,384)	(9,565)	1,700	(6,667)
Experience (loss)/gain adjustments on assets	**(1,651)**	(4,747)	4,782	1,121	4,252

Expected maturity analysis of undiscounted pension benefits at 31 December 2018:

	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	2,069	2,084	6,641	64,503	75,297

26. Share capital

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

	Number of shares	Share Capital £'000	Share Premium £'000	Total £'000
At 1 January 2018	241,303,439	2,413	211,838	214,251
Share capital issued	1,400,000,000	14,000	126,000	140,000
Transactional costs of shares issued	–	–	(8,481)	(8,481)
At 31 December 2018	**1,641,303,439**	**16,413**	**329,357**	**345,770**

On 30 August 2018, the Company, through a firm placing and placing and open offer, issued 1,400,000,000 ordinary shares in the capital of the Company, raising gross proceeds of £140 million. The proceeds, net of £8,481,000 transaction costs, are shown in the statement of changes in equity.

26. Share capital continued

At 31 December 2018, 3,273,590 (2017: 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, 1,939,064 shares (2017: 1,811,951 shares), costing £4,317,000 (2017: £5,103,000), were held in relation to matching shares of the SIP scheme.

27. Share-based payments

The Group operates a number of share-based payment schemes for executive directors and other employees. The Group has no legal or constructive obligation to repurchase or settle any of the options in cash. The total cost recognised in the income statement was £1,897,000 in the year ended 31 December 2018 (2017: £1,828,000), comprising £1,888,000 (2017: £1,944,000) of equity-settled share-based payments, and £9,000 (2017: credit of £116,000) 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 £201,000 (2017: credit of £205,000).

On 30 August 2018, the Company, through a firm placing and placing and open offer, issued 1,400,000,000 ordinary shares in the capital of the Company (note 26). As a result of the Capital Refinancing, the number of options outstanding under share-based payment schemes has been subject to a theoretical ex-rights price (TERP) adjustment.

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

		Outstanding at 31 December		
	2018		2017	
	Charge £'000	**Number of options/ shares (thousands)**	Charge £'000	Number of options/ shares (thousands)
Long term incentive plan	**232**	**23,273**	753	4,027
Deferred share bonus plan	**314**	**235**	119	103
Save As You Earn plan	**450**	**14,174**	–	–
Share incentive plan (shares)	**901**	**1,939**	956	1,812
	1,897	**39,621**	1,828	5,942

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 62 to 77.

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

Save As You Earn plan (SAYE)

The Group implemented an HMRC approved Save As You Earn (SAYE) option scheme in May 2018 after cessation of the SIP scheme. Employees were invited to acquire options over ordinary shares at a discount of 20% to their market price. The scheme started in May 2018 and will vest in May 2021. Options granted under the scheme can be exercised during a six month period starting on the third anniversary of the scheme. The SAYE scheme is not subject to any performance measures.

27. Share-based payments continued

Share incentive plan (SIP)

An HMRC approved share incentive plan was introduced in October 2013. Under the SIP, eligible employees were invited to make regular monthly contributions into a scheme operated by Link Asset Services. Ordinary shares in the Company were purchased at the current market price and since May 2016 an award of two matching shares had been 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 SIP scheme ended in April 2018.

The aggregate number of share awards outstanding for the Group is shown below:

	2018				2017		
	Executive schemes[1]		Other schemes		Executive schemes[1]		Other schemes
	LTIP number of options (thousands)	DSBP number of options (thousands)	SAYE number of options (thousands)	SIP[1] number of shares (thousands)	LTIP number of options (thousands)	DSBP number of options (thousands)	SIP[1] number of shares (thousands)
At 1 January	**4,027**	**103**	**–**	**1,812**	3,225	123	909
Award true-up	**–**	**60**	**–**	**(93)**	–	–	–
Granted	**5,865**	**–**	**4,989**	**552**	2,700	–	1,062
Exercised	**–**	**(52)**	**–**	**(98)**	–	–	(36)
Lapsed	**(851)**	**–**	**–**	**(234)**	(1,898)	(20)	(123)
Number of share awards before TERP adjustment	**9,041**	**111**	**4,989**	**1,939**	4,027	103	1,812
Theoretical Ex-Rights Price adjustment	**15,140**	**170**	**10,720**	**–**	–	–	–
Adjusted number of share awards	**24,181**	**281**	**15,709**	**1,939**	4,027	103	1,812
Exercised (post TERP adjustment)	**–**	**(46)**	**–**	**–**	–	–	–
Lapsed (post TERP adjustment)	**(908)**	**–**	**(1,535)**	**–**	–	–	–
At 31 December	**23,273**	**235**	**14,174**	**1,939**	4,027	103	1,812

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

The LTIP awards that were granted on 16 March 2015 and on 21 September 2015 lapsed during the year, as minimum threshold levels set out in the performance conditions were not met.

Share options outstanding at the end of the year have the following expiry date (and all have £Nil exercise prices):

			Share options / shares (thousands)	
Grant – vest	Expiry date	Exercise price pence	2018	2017
LTIP grants				
16 March 2015–16 March 2018	16 March 2025	–	**–**	491
21 September 2015–21 September 2018	21 September 2025	–	**–**	77
22 March 2016–22 March 2019	22 March 2026	–	**2,825**	1,171
26 September 2016–22 March 2019	22 March 2026	–	**225**	138
26 September 2016–26 September 2019	26 September 2026	–	**71**	23
2 May 2017 – 2 May 2020	2 May 2027	–	**3,782**	1,751
14 June 2017 – 14 June 2020	14 June 2027	–	**609**	345
29 September 2017 – 2 May 2020	2 May 2027	–	**19**	31
26 March 2018 – 26 March 2021	26 March 2028	–	**15,742**	–
DSBP				
22 May 2015–22 May 2018	22 May 2025	–	**79**	41
5 May 2016–5 May 2019	5 May 2026	–	**156**	62
SAYE				
14 May 2018-14 May 2021	14 November 2021	24p	**14,174**	–
SIP				
Monthly rolling grants and vesting three years later		–	**1,939**	1,812
			39,621	5,942

27. Share-based payments continued

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	Save As You Earn	Share incentive plan
Option pricing model	Monte Carlo/ Stochastic	Black Scholes	Fair value at grant date	Black Scholes	Fair value at grant date
Share price at grant date	89p–387p	89p–387p	352p–576p	114p	89p-384p
Weighted average fair value of options granted during the year	43p	89p	n/a	114p	103p
Exercise price (adjusted)	0p	0p	0p	24p	0p
Weighted average share price at date of exercise	n/a	n/a	50p	n/a	57p
Weighted average contractual life	2.99 years	2.99 years	3 years	3 years	3 years
Expected dividend yield	0–6.94%	0–6.94%	2.6–4.26%	0%	n/a
Risk-free interest rate	0.07–0.95%	n/a	0.43–0.8%	0.85%	n/a
Volatility	30.54–41.9%	n/a	n/a	37.8%	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 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)
Change in accounting policy[1]	–	–	–	(1,967)	–	(1,967)
Balance at 1 January 2018	–	(274)	(322)	–	(17,492)	(18,088)
Currency translation differences	–	–	10	–	–	10
Cash flow hedge: fair value gain	–	337	–	–	–	337
Cash flow hedge: deferred tax on gain	–	(63)	–	–	–	(63)
Purchase of treasury shares	–	–	–	–	(499)	(499)
Utilisation of treasury shares for DSBP options	–	–	–	–	49	49
Balance at 31 December 2018	**–**	**–**	**(312)**	**–**	**(17,942)**	**(18,254)**

1. Restated from prior year following the adoption of IFRS 9 (see note 2).

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

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. The hedge was terminated during the year (note 21).

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.

28. Other reserves continued

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 and deferred tax on share-based payments recognised in the statement of comprehensive income.

29. Operating lease commitments – minimum lease payments

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

	2018		2017	
	Property £'000	Vehicles, plant and equipment £'000	Property £'000	Vehicles, plant and equipment £'000
Within one year	23,079	8,293	24,310	12,215
Later than one year and less than five years	56,612	5,976	51,192	10,465
After five years	11,730	–	16,367	53
	91,421	14,269	91,869	22,733

At 31 December 2018, the Group had sub-leased a number of surplus premises and was entitled to receive rents under non-cancellable leases as follows:

	2018 £'000	2017 £'000
Sub-leases		
Within one year	430	472
Later than one year and less than five years	653	743
After five years	38	21
	1,121	1,236

30. Financial instruments

Financial instruments by category

	31 December 2018		
Financial assets as per balance sheet	Financial assets at amortised cost £'000	Financial assets at FV through profit or loss £'000	Total £'000
Financial assets at fair value through profit or loss	–	153	153
Trade and other receivables excluding prepayments	72,165	–	72,165
Cash and cash equivalents	17,426	–	17,426
	89,591	153	89,744

Financial liabilities at amortised cost:

Financial liabilities as per balance sheet	31 December 2018 £'000
Borrowings (excluding finance lease liabilities)	86,027
Finance lease liabilities	2,068
Trade and other payables excluding non-financial liabilities	65,268
	153,363

30. Financial instruments continued

Financial assets as per balance sheet	31 December 2017 (Restated)[1] Loans and receivables[1] £'000	Available for sale £'000	Total £'000
Available-for-sale financial assets	–	17,085	17,085
Trade and other receivables excluding prepayments	85,012	–	85,012
Cash and cash equivalents	22,533	–	22,533
	107,545	17,085	124,630

1. Restated from prior year following the adoption of IFRS 15 (see note 2).

Financial liabilities as per balance sheet	31 December 2017 (Restated)[1] Derivatives used for hedging £'000	Other financial liabilities at amortised cost[1] £'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	–	81,823	81,823
	337	296,323	296,660

1. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).

31. 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 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.

In prior years (2016 and 2017), the Group managed 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 revolving credit facility had therefore been classified as a fixed rate liability in the table below in 2017 as it was underpinned by the fixed interest rate swap. Following termination of the swap during 2018, (see note 21), the interest payable on the revolving credit facility is at variable rates.

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

	2018 £'000	2017 (Restated)[1] £'000
Floating rate assets	**17,426**	22,564
Fixed rate assets	**348**	609
Interest-free assets	**71,970**	101,457
Total financial assets	**89,744**	124,630
Floating rate liabilities	**83,034**	337
Fixed rate liabilities	**4,061**	213,500
Interest-free liabilities	**66,268**	82,823
Total financial liabilities	**153,363**	296,660

1. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).

Notes to the financial statements continued

31. Financial risk management continued

The average rate at which the fixed rate liabilities were fixed in 2018 was 4.15% (2017: 3.56%) and the average period for which the liabilities were fixed was 365 days (2017: 365 days).

There is no material difference between the book and the fair values of the financial assets and liabilities.

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.

	2018 £'000	2017 £'000
Increase in basis points	100	100
Effect on profit before tax (£'000)	(850)	(3)
Decrease in basis points	(50)	(50)
Effect on profit before tax (£'000)	425	2

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 £125 million revolving credit facility which incurs interest payments on defined one, three or six-month periods.

The Group's discounted financial liabilities at the year end were as follows:

	2018 £'000	2017 (Restated)[1] £'000
Trade payables	14,620	20,461
Deferred consideration	2,721	3,550
Borrowings	86,027	211,140
Finance lease liabilities	2,068	3,360
Derivative financial instruments	–	337
Accruals and other payables	47,927	57,812
	153,363	296,660

1. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).

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.

	2018 £'000	2017 (Restated)[1] £'000
In less than one year	56,918	73,565
In more than one year but not more than two years	888	7,573
In more than two years but less than three years	8,358	210,959
In more than three years but not more than four years	85,000	4,280
In more than four years but less than five years	–	–
Over five years	2,231	1,001
	153,395	297,378

1. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).

31. Financial risk management continued

Counterparty credit risk

The Group's financial assets at the year end were as follows:

	2018 £'000	2017 (Restated)[1] £'000
Cash and cash equivalents	17,426	22,533
Trade receivables	60,024	68,918
Amounts due from customers for contract work	776	2,155
Other receivables and accrued income	11,365	13,939
	89,591	107,545

1. Restated from prior year following the adoption of IFRS 15 (see note 2).

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:

	2018 £'000	2017 (Restated)[1] £'000
Individual customers	16,884	15,130
Major lenders	9,992	10,607
Other commercial customers	38,305	47,392
	65,181	73,129

1. Restated from prior year following the adoption of IFRS 15 (see note 2).

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:

	2018 £'000	2017 £'000
Aa3	5,654	1,668
A1	10,446	2,927
A2	352	–
A3	761	17,698
Other	213	240
	17,426	22,533

32. Capital management

The Group's objectives when managing capital is 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 2018, in the chief financial officer's review on pages 24 to 29.

32. Capital management continued

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

	2018 £'000	2017 (Restated)[1] £'000
Borrowings (note 20)	**88,095**	214,500
Cash and cash equivalents (note 18)	**(17,426)**	(22,533)
Net debt, as previously reported	**70,669**	191,967
Restatement of debt arising from prior year correction	**–**	4,456
Net debt	**70,669**	196,423
Shareholders' equity	**220,267**	306,430
Total capital	**290,936**	502,853
Gearing ratio	**24%**	39%
Adjusted EBITDA	**32,683**	65,587
Net debt to adjusted EBITDA ratio	**2.2x**	3.0x

1. Restated from prior year following the adoption of IFRS 15 and correction of a prior year error (see note 2).

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 2018:

	Level 3 £'000
Assets	
Financial assets at fair value through profit or loss	**153**
Liabilities	
Contingent consideration	**12,240**

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

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:

	2018		2017	
	Financial assets at fair value through profit or loss £'000	Contingent consideration in a business combination £'000	Available-for-sale financial assets £'000	Contingent consideration in a business combination £'000
Opening balance at 1 January[1]	**1,232**	**(13,162)**	1,919	13,163
Acquisition	**1,300**	**–**	–	–
Amortisation	**–**	**–**	(35)	–
Impairment	**(2,379)**	**–**	(565)	–
Contingent consideration paid	**–**	**7,011**	–	(3,930)
Gains and losses recognised in profit or loss	**–**	**(6,089)**	–	3,929
Closing balance at 31 December	**153**	**(12,240)**	1,319	13,162

1. Debentures (2017: £87,000) have been reclassified as prepayments in 2018.

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.

The contingent consideration relates to amounts payable in the future on six acquisitions undertaken in prior years, requiring the Group to pay in cash a potential undiscounted maximum aggregate amount of £19.3 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. Each contingent consideration arrangement is also subject to performance conditions being satisfied. There are 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 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. £3.7 million of this potential contingent consideration is payable in less than one year and there is no material difference in out-turn anticipated. £17.8 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 less than one year and less than 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 £9.9 million, based on assumed profitability. If the future profitability of the entity with less than a three year out-turn was to decline, with a 10% reduction in adjusted EBITDA, the size of the total contingent consideration would decrease by approximately £1.6 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.

33. 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	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Joint venture	Purchases by Group	**(2,232)**	(2,057)	**(158)**	(156)
Joint venture	Rebate received/receivable	**3,279**	918	**1,968**	42
The Buy To Let Group – Subsidiary	Loan payable	**153**	141	**1,993**	1,840
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 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 2018 regarding related party transactions.

34. Events after the balance sheet date

After the balance sheet date and up to the date of signing the financial statements there were no events requiring disclosure.

Company balance sheet

As at 31 December 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Investments in subsidiaries	5	**206,607**	386,372
Current assets			
Trade and other receivables	6	**204,660**	241,922
Cash at bank and in hand		**99**	52
		204,759	241,974
Creditors: amounts falling due within one year	7	**(387)**	(634)
Net current assets		**204,372**	241,340
Total assets less current liabilities		**410,979**	627,712
Creditors: amounts falling due after more than one year	8	**(83,034)**	(208,637)
Net assets		**327,945**	419,075
Capital and reserves			
Called up share capital	10	**16,413**	2,413
Share premium	10	**329,357**	211,838
Hedging reserve		**–**	(274)
Treasury share reserve		**(17,942)**	(17,492)
Profit and loss account		**117**	222,590
Total shareholders' funds		**327,945**	419,075

The notes on pages 150 to 155 form an integral part of the Company (registration number: 08340090) financial statements.

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The total comprehensive expense was £209,098,000 (2017: £11,139,000).

These financial statements on pages 148 to 155 were approved by the Board of directors and signed on its behalf by:

Himanshu Raja
Chief financial officer

7 March 2019

Company statement of changes in equity

For the year ended 31 December 2018

	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 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		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
Audited balance at 31 December 2017		2,413	211,838	–	(274)	(17,492)	222,590	419,075
Change in accounting policy	1	–	–	–	–	–	(15,214)	(15,214)
Restated total equity at 1 January 2018[1]		2,413	211,838	–	(274)	(17,492)	207,376	403,861
Loss for the year		–	–	–	–	–	(209,098)	(209,098)
Other comprehensive income/(expense)								
Cash flow hedge: fair value gain		–	–	–	337	–	–	337
Cash flow hedge: deferred tax on gain	9	–	–	–	(63)	–	–	(63)
Total other comprehensive income		–	–	–	274	–	–	274
Total comprehensive income/(expense)		–	–	–	274	–	(209,098)	(208,824)
Transactions with owners								
Issue of share capital	10	14,000	126,000	–	–	–	–	140,000
Transactional costs of shares issued	10	–	(8,481)	–	–	–	–	(8,481)
Share-based payment transactions		–	–	–	–	–	1,888	1,888
Purchase of treasury shares		–	–	–	–	(499)	–	(499)
Utilisation of treasury shares for DSBP options		–	–	–	–	49	(49)	–
Transactions with owners		14,000	117,519	–	–	(450)	1,839	132,908
Balance at 31 December 2018		**16,413**	**329,357**	**–**	**–**	**(17,942)**	**117**	**327,945**

1. Restated from prior year following the adoption of IFRS 9 (see note 1).

Notes to the Company financial statements

1. General information and accounting policies

Countrywide plc ('the Company') is a holding company of subsidiaries of the Group. 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 Greenwood House, 1st Floor, 91-99 New London Road, Chelmsford, Essex, CM2 0PP.

(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 £209,098,000 (2017: £11,139,000).

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.

New standards, amendments and interpretations

Standards, amendments and interpretations effective and adopted by the parent company

The following new standards effective for the first time for the financial year beginning on or after 1 January 2018 have had a material impact on the parent Company.

1. General information and accounting policies continued

IFRS 9 'Financial instruments'

IFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities.

Classification and measurement

The Company has applied the requirements of IFRS 9 to instruments owned at 1 January 2018 and has not applied the requirements to instruments that had already been derecognised prior to 1 January 2018. Comparative amounts have not been restated.

Impairment

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IAS 39. 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.

As at 1 January 2018, the Group reviewed and assessed existing financial assets, amounts due from group undertakings, for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk. An additional credit allowance of £18,391,000 has been recognised against retained earnings net of its related deferred tax impact at £15,214,000.

	Amounts owed by Group undertakings £000
At 31 December 2017 calculated under IAS 39	–
Amounts restated through retained earnings	(18,391)
Opening loss allowance at 1 January 2018 under IFRS 9	(18,391)

The additional loss allowance recognised upon the initial application of IFRS 9 as disclosed above resulted entirely from a change in the measurement attribute of the loss allowance relating to the financial assets.

In determining the expected credit losses for these assets, the Company has taken into account the financial position of the counterparties, and the likely timing of receipts against balances that are technically repayable on demand, in estimating the discounting across these financial assets occurring within their repayment assessment time horizon.

(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.

Notes to the Company financial statements
continued

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) 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.

(i) 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.

Impairment of 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 recorded impairment charges during the year ended 31 December 2018 against both investments in subsidiaries and intercompany receivables, the latter using expected credit loss methodology (see notes 5 and 6 respectively).

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 65 and are summarised below.

	2018 £'000	2017 £'000
Wages and salaries	1,387	1,694
Share-based payments	(95)	236
Social security costs	206	240
Post-employment benefits – salary supplement	99	150
	1,597	2,320

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 65.

4. Dividends

	2018 £'000	2017 £'000
Dividends (interim and final)	–	–

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2018.

5. Investments in subsidiaries

	2018 £'000
Cost	
At 1 January 2018 and 31 December 2018	386,372
Accumulated impairment	
At 1 January 2018	–
Impairment charge during the year	(179,765)
At 31 December 2018	(179,765)
Net book amount	206,607

Impairments arising during the year align to the wider assessment of the Group discounted cash flows, resulting in impairments undertaken at the half year against assets in the consolidated financial statements and revisited at the year end.

At 31 December 2018, 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

	2018 £'000	2017 £'000
Amounts falling due within one year		
Amounts owed by Group undertakings	195,299	238,729
Group relief receivable	1,464	2,892
Deferred tax asset (note 9)	7,589	220
Prepayments and accrued income	31	66
Other debtors	277	15
	204,660	241,922

Amounts owed by subsidiary undertakings are unsecured and payable on demand. Interest is received at base rate plus a margin of 2.25% per annum.

Amounts owed by group undertakings are stated net of a £37,268,000 provision (2017: £nil) which reflects the estimated discounting in respect of the likely timing of future receipts against balances that are technically repayable on demand.

Notes to the Company financial statements
continued

7. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	35	67
Other creditors	352	567
	387	634

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

	2018 £'000	2017 £'000
Bank borrowings	85,000	210,000
Derivative financial instruments	–	337
Capitalised banking fees	(1,966)	(1,700)
	83,034	208,637

At the year end, the facility was a £125 million revolving credit facility, with any outstanding balance repayable in full on 30 September 2022. 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 £125 million was repaid during the year (against a facility of up to £340 million at 31 December 2017, revised to £275 million at 2 February 2018 and revised to £125 million at 2 August 2018). On 2 August 2018 the Company agreed an amendment and extension relating to the RCF, originally dated 20 March 2013, which was due to expire in March 2020. The RCF is now £125 million, with margin and covenants as disclosed in the Prospectus for our equity placing in August 2018. Capitalised banking fees are being amortised over the duration of the RCF, until September 2022.

9. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17%–19% (2017: 17%–19%). The movement on the deferred tax account is shown below:

	2018 £'000	2017 £'000
Deferred tax asset at 1 January	220	698
Change in accounting policy[1]	3,177	–
Restated deferred tax asset at 1 January	3,397	698
Credited/(charged) to income statement	4,255	(68)
Charged to comprehensive income	(63)	(410)
Deferred tax asset at 31 December	7,589	220
Deferred tax asset expected to unwind within one year	455	60
Deferred tax asset expected to unwind after one year	7,134	160
	7,589	220

1. Change in accounting policy following the adoption of IFRS 9 (see note 1).

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.

9. Deferred tax continued

	2018		
	Asset £'000	(Charged)/ credited to income £'000	Charged to other comprehensive income/equity £'000
Origination and reversal of temporary differences			
Share-based payments	85	(72)	–
Cash flow hedge	–	–	(63)
Other timing differences	7,504	4,327	–
	7,589	4,255	(63)

	2017		
	Asset £'000	Charged to income £'000	Charged 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)

There are no unused tax losses.

10. Called up share capital

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

	Number of shares	Share capital £'000	Share premium £'000	Total £'000
At 1 January 2018	241,303,439	2,413	211,838	214,251
Share capital issued	1,400,000,000	14,000	126,000	140,000
Transactional costs of shares issued	–	–	(8,481)	(8,481)
At 31 December 2018	**1,641,303,439**	**16,413**	**329,357**	**345,770**

On 30 August 2018, the Company, through a firm placing and placing and open offer, issued 1,400,000,000 ordinary shares in the capital of the Company, raising gross proceeds of £140 million. The proceeds, net of £8,481,000 transaction costs, are shown in the statement of changes in equity.

At 31 December 2018, 3,273,590 (2017: 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, 1,939,064 shares (2017: 1,811,951 shares), costing £4,317,000 (2017: £5,103,000), 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

After the balance sheet date and up to the date of signing the financial statements there were no events requiring disclosure.

Appendix

Related undertakings of the Group as at 31 December 2018

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
Aeromind Limited	2	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	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	2	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

Related undertakings of the Group as at 31 December 2018 continued

Company name	Registered address (refer to note)	Country of incorporation	% owned	Direct/indirect (Group interest)
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
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	1	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	1	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
Entwistle Green Limited	2	UK	100%	Indirect
Executive Property Services Residential Ltd	2	UK	100%	Indirect
Faron Sutaria & Company Limited	2	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

Appendix continued

Related undertakings of the Group as at 31 December 2018 continued

Company name	Registered address (refer to note)	Country of incorporation	% owned	Direct/indirect (Group interest)
Gascoigne Pees Estate Agents Limited	2	UK	100%	Indirect
Gatlink Limited	2	UK	100%	Indirect
Gertingpet Limited	2	UK	100%	Indirect
Gilpro Management Limited	6	UK	100%	Indirect
Greene & Co Maintenance Limited	2	UK	100%	Indirect
Grosvenor Private Clients Limited	2	UK	100%	Indirect
Hamptons Estates Limited	1	UK	100%	Indirect
Hamptons Group Limited	2	UK	100%	Indirect
Hamptons International (Hong Kong) Limited	10	Hong Kong	100%	Indirect
Hamptons International (India) Private Limited	11	India	100%	Indirect
Hamptons International Mortgages Limited	2	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 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	2	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
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	21	UK	100%	Indirect
John D Wood & Co. Plc	2	UK	100%	Indirect
John Frances Limited	2	UK	100%	Indirect

Related undertakings of the Group as at 31 December 2018 continued

Company name	Registered address (refer to note)	Country of incorporation	% owned	Direct/indirect (Group interest)
John Francis (Wales) 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 Investment Management Limited	3	UK	100%	Indirect
Lambert Smith Hampton Limited	3	UK	100%	Indirect
Lambert Smith Hampton Limited (Ireland)	19	Ireland	100%	Indirect
Lampons Residential Limited	2	UK	100%	Indirect
Land and New Homes Countrywide Limited	2	UK	100%	Indirect
Lanes Land Limited	2	UK	100%	Indirect
Lanes Property Agents (Cheshunt) Limited	2	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
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

Appendix continued

Related undertakings of the Group as at 31 December 2018 continued

Company name	Registered address (refer to note)	Country of incorporation	% owned	Direct/indirect (Group interest)
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	2	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	2	UK	100%	Indirect
Pebble Property Management and Lettings Limited	2	UK	100%	Indirect
Personal Homefinders Limited	2	UK	100%	Indirect
Phillips Brown Limited	2	UK	100%	Indirect
PKL Group Limited	2	UK	100%	Indirect
PKL Limited	2	UK	100%	Indirect
PKL Management Limited	2	UK	100%	Indirect
Plaza Letting Agents Limited	2	UK	100%	Indirect
Poolman Harlow Limited	2	UK	100%	Indirect
Portfolio Letting Agents & Consultants 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

Related undertakings of the Group as at 31 December 2018 continued

Company name	Registered address (refer to note)	Country of incorporation	% owned	Direct/indirect (Group interest)
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	2	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	2	UK	100%	Indirect
The Greene Corporation Limited	2	UK	100%	Indirect
The London Residential Agency Limited	2	UK	100%	Indirect
Thomas James Lettings Limited	2	UK	100%	Indirect
Thomson & Moulton Limited	2	UK	100%	Indirect
Tingleys Lettings Limited	2	UK	100%	Indirect
TitleAbsolute Limited	15	UK	100%	Indirect
TLS Wilts. Limited	2	UK	100%	Indirect
TM Group (UK) Limited	16	UK	33%	Indirect
Town & County Residential Limited	2	UK	100%	Indirect
Tucker Gardner Residential Limited	2	UK	100%	Indirect
Umberman Limited	2	UK	100%	Indirect
United Surveyors Limited	2	UK	100%	Indirect
Vanet Property Asset Management Limited	2	UK	100%	Indirect
Waferprime Limited	2	UK	100%	Indirect
Wallhead Gray & Coates	2	UK	100%	Indirect
Watson Bull & Porter 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	7	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

Appendix continued

Registered offices:

1. Greenwood House, 1st Floor, 91-99 New London Road, Chelmsford, Essex, CM2 0PP
2. 3rd Floor, 1 Ashley Road, Altrincham, Cheshire, WA14 2DT, United Kingdom
3. 5th Floor, United Kingdom House, 180 Oxford Street, London, W1D 1NN, United Kingdom
4. 17 Duke Street, Chelmsford, Essex, CM1 1HP, United Kingdom
5. 6 Caldecotte Lake Business Park, 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. The Capitol Building, Oldbury, Bracknell, RG12 8FZ, 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
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Company information

Contacts

Executive chairman
Peter Long

Chief financial officer
Himanshu Raja

Company secretary
Gareth Williams

Website
www.countrywide.co.uk

Registered office
Greenwood House
1st Floor
91-99 New London Road
Chelmsford
Essex CM2 0PP

Registered in England
08340090

Corporate headquarters

Countrywide House
6 Caldecotte Lake Business Park
Caldecotte Lake Drive
Caldecotte
Milton Keynes
Buckinghamshire MK7 8JT

Registrar

Link Asset Services*
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Corporate advisors

Independent auditors
PricewaterhouseCoopers LLP

Bankers
Royal Bank of Scotland 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	30 April 2019
Interim results	July 2019

*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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