Countrywide Assured Group plc

Annual Report and Accounts 2003

Highlights

	12 Months 2003	12 Months 2002	Change
Operating Profits	£78.8m	£86.2m	–9%
Profit before tax	£74.2m	£82.8m	–10%
Earnings per share	14.40p	15.89p	–9%
Adjusted earnings per share	15.12p	16.15p	–6%
Interim dividend per share	2.15p	2.05p	+5%
Final dividend per share	4.75p	4.10p	+16%
Life policies arranged	43,587	49,662	–12%
Mortgages arranged	52,763	48,982	+8%
Valuations and survey instructions	605,857	588,212	+3%
House sales exchanged	84,765	93,442	–9%
Conveyances completed	35,063	34,777	+1%

Chairman's Statement

I am delighted to be able to report that in 2003 your Company performed strongly and produced a profit before tax of £74.2 million. We sold 9% fewer houses but this performance was achieved in the face of a reduction in the volume of total UK housing market transactions of circa 16% to 1.33 million. The second half of the year produced £52.3 million profit as house buyer confidence recovered following the end of the war in Iraq.

Outstanding profit performances were again recorded by Countrywide Surveyors, the Financial Services Division and the Estate Agency Division, the last to some extent assisted by strengthening house prices (up 13%) and a modest increase in commission rates which partly offset the fall in volumes.

Owing to systems implementation delays, leading to capacity constraints, our conveyancing business, Countrywide Property Lawyers operated at full capacity throughout 2003 and generated its highest ever level of completions. The costs incurred in developing the new processing support system and infrastructure and its subsequent delayed implementation resulted in a small loss for the year.

Countrywide Assured, our life assurance business, substantially closed for new business in mid-2003. Increased provisions for endowment mortgage compensation and persistency negatively impacted on Countrywide Assured's results. It has successfully restructured its operation reducing headcount by over 100 to reflect the changed nature of its operational focus.

rightmove.co.uk, the property website in which we enjoy a 29% shareholding is profitable, cash generative and has very good potential for future growth.

In December 2003, your Board announced that it proposed to demerge our Life Assurance group. Relevant documents requesting shareholder approval for these proposals will be posted next week. Under these proposals the life assurance businesses will be consolidated under a new company, Chesnara plc, which will demerge from the Group and obtain a separate listing on the London Stock Exchange. The Estate Agency and Property Services group will be consolidated under a new listed company, Countrywide plc.

Simultaneously, Countrywide has arranged medium term debt to fund a return of £85 million to shareholders (25.8p per current share in issue) in addition to the 2003 final dividend of £15.5 million. In recent years, the Group has been strongly cash generative and as a result has been able to substantially increase dividend payments and buy back shares for cancellation. At the end of 2003, the non-life group had an overall cash balance of £59 million and your Board believe that it is sensible and economically sound to add some short term debt to the balance sheet. This will allow the proposed return of cash to shareholders, thereby increasing the efficiency of the Group funding, whilst still preserving a prudent position on working capital.

The Board intends to recommend an increase in the 2003 final dividend payment of 16% to 4.75p per share making a total of 6.9p for the year (6.15p in 2002). Payment is proposed to be made on 11 June 2004 to shareholders on the register on 21 May 2004.

People

Our staff continue to be our greatest asset and their enthusiastic and active participation is vital to achieving our goals. Throughout the business we invest in appropriate training as we constantly seek to reinforce and improve our market-leader status and deliver high standards of customer service in all areas in which we operate.

Throughout 2003, as in past years, we have supported various charities.

Developments

Encouraged by the success in 2003 of the first nine months activity, we plan to extend our Spanish business to the Costa Blanca later this year.

We have entered into agreements for the development of the software and ancillary services to support our planned remortgage conveyancing business. We now anticipate commencing operations in the second half of 2004.

In anticipation of the changes to the remortgage and general insurance regulations, we are developing plans to become authorised by the FSA for the sale of these products.

Outlook

We carried into 2004, a strong pipeline of sales arranged, awaiting exchange, and I am pleased to be able to report that business in January and February has been much better measured against last year's disappointing start. Indeed, after an encouraging January, the fee value of net new sales arranged in February were the second best ever achieved in a single month in our corporate history. Both volumes and house prices have continued to increase, and thus the fee value of house sales arranged has increased by £11.2 million over the same period last year.

Financial Services sales started slowly, but momentum has increased in recent weeks.

Both Countrywide Surveyors and Countrywide Property Lawyers have had encouraging starts to the year.

With a pipeline of commission 31% up on the same time last year, and strong activity levels across all divisions, the current outlook for the Property Services group appears to be excellent.

The Life Company enters 2004 with a strong capital base. Although endowment mortgage complaints have been higher than anticipated, persistency is proving to be slightly better than expected. These will continue to be challenging issues. The demerger will allow the management to pursue its own strategy that may include outsourcing and the consolidation of other life assurance books.

Christopher Sporborg
Chairman
9 March 2004

Directors

Christopher H Sporborg, CBE
Aged 64, is the independent Non-Executive Chairman of Countrywide Assured Group plc, Countrywide Assured plc. He is Chairman of the Remuneration Committee and the Nominations Committee. He was formerly Deputy Chairman of Hambros PLC, Deputy Chairman of Hambros Bank Limited and Chairman of Hambro Insurance Services Group PLC. At Hambros he was responsible for the acquisition of Bairstow Eves PLC in 1985, the formation of Countrywide Assured Group plc, and in 1988 the creation of the Life Company then called Hambro Guardian Assured plc. He is Chairman of Atlas Copco UK Holdings Ltd., Chairman elect of Chesnara plc., a Director of Getty Images Inc., Lindsey Morden Group Inc., and The Horserace Totalisator Board. He joined the Board on 13 June 1986.

Andrew J Brown
Aged 59, is an independent Non-Executive Director of Countrywide Assured Group plc. He is Chairman of the Audit Committee and serves on the Remuneration Committee and the Nominations Committee.He has wide ranging experience of the financial services sector, including executive positions with Sterling Guarantee Trust and Sedgwick Group. He was Finance Director and subsequently Joint Chief Executive of Gartmore Investment Management plc and was Finance Director of Hawkpoint Partners Limited. He is a Chartered Accountant and is a director of The Childrens Trust Limited. He joined the Board on 31 March 2003.

Anthony B Crew
Aged 53, is a Director of Countrywide Assured Group plc, and Managing Director of H_2O Homes Overseas Countrywide. He has worked in estate agency for 30 years and was formerly a partner with Connell Estate Agents. He joined the Group in 1988 and the Board on 27 January 1999.

Anthony H Ekins
Aged 60, is a Director of Countrywide Assured Group plc and Divisional Director of the London Estate Agency Division. He qualified as a Chartered Surveyor in 1965. He was previously Operations Director of Prudential Property Services, who acquired Ekins, Dilley and P Handley in 1986. He joined the Group in 1990 and the Board on 27 January 1999.

Gerald R Fitzjohn
Aged 54, is a Director of Countrywide Assured Group plc, National Sales Director of the Estate Agency Division and Retail Financial Services and a Director of Countrywide Assured Franchising Limited. He has been with the Group since 1974 and was formerly Managing Director of Taylors Estate Agents Limited. He joined the Board on 7 December 1989.

Michael J Gordon
Aged 56, the senior independent Non-Executive Director and serves on the Audit Committee, the Remuneration Committee and the Nominations Committee. He was formerly Group Sales Director of Skandia Life Assurance Holdings Limited. He is a Non-Executive Director of Skandia Life Bankhall Investment Management Limited, and Bankhall Investment Finance Limited, Skandia owned subsidiaries. He joined the Board on 1 May 2002.

Harry D Hill
Aged 55, is Group Managing Director and a Director of Countrywide Property Lawyers Limited. He qualified as a Chartered Surveyor in 1967 and was formerly Managing Director of Abbotts (East Anglia) Limited. He is a Non-Executive Director of Countrywide Assured plc and Jupiter Financial Income Trust PLC. He joined the Board on 10 February 1986.

Terry Marris
Aged 54, has been a Director of Countrywide Assured Group plc since 29 July 1998. Following senior management in Lloyds Bank and General Accident he joined the Group in 1992 and was Managing Director of Countrywide Assured plc before becoming Managing Director of Countrywide Property Lawyers in 2002.

Peter W Mason
Aged 53, is a Non-Executive Director of Countrywide Assured Group plc and serves on the Audit Committee. He is a Non-Executive Director of Countrywide Assured plc. and Investment Director and Actuary of Neville James Group an investment management company. He was admitted as a Fellow of the Institute of Actuaries in 1979. He joined the Board as Non-Executive Director on 27 May 1992.

Michael C Nower
Aged 54, is Group Finance Director and was formerly Company Secretary of Countrywide Assured Group plc. He is a Director of Countrywide Assured plc. He qualified as a Certified Accountant in 1975 and was formally Group Finance Director of Lancaster PLC. He joined the Group and the Board on 9 October 1989.

Christopher P Shaw
Aged 51, is a Director of Countrywide Assured Group plc and Managing Director of Countrywide Surveyors. He qualified as a Chartered Surveyor in 1978 and is a fellow of The Royal Institution of Chartered Surveyors. He was formerly a Director of Abbotts (East Anglia) Limited and joined the Board on 1 January 2002.

Operating and Financial Review

In light of the proposal to demerge the Life Assurance group, which will be put to shareholders on 28 April, we are presenting the Operating and Financial Review and future prospects in two parts.

The first part covers the estate agency and property services divisions, known previously as the non-life business. Under the proposals, this will become Countrywide plc. The second covers the life assurance division, which will become Chesnara plc.

Estate Agency and Property Services group

THE BUSINESS, ITS OBJECTIVES AND STRATEGY

We are in the business of providing services to participants in the residential property market. We have a prominent position in this sector with our four divisions: the largest Estate Agency chain, and associated Financial Services sales force in the UK; the biggest national Surveying and Valuation business; and the country's largest residential Conveyancing operation . We also have a 29% share of rightmove.co.uk, the leading Internet property site, and a 47% share of TM Property Service, a provider of electronic land searches.

Operating under well-known local brands such as Bairstow Eves, Mann & Co, John D Wood, Dixons, Bridgfords, Palmer Snell, Fulfords, Abbotts, Taylors and Faron Sutaria our chain of 880 estate agency branches, including 76 independently owned and operated franchised branches, sells homes on behalf of vendors all over the country. In 2003, we opened 2 offices in Spain to sell property mainly to UK resident clients, many of whom are introduced by our estate agency offices. Our subsidiaries Countrywide Residential Lettings, Countrywide Property Management, PKL and Countrywide Property Auctions supply a broad spectrum of property and management services to residential and commercial clients. The Financial Services Division comprises 792 mortgage consultants based in the owned and franchised estate agency offices to assist both buyers and sellers in their requirements for mortgage finance and insurance, including all types of personal protection and home and contents cover.

Countrywide Surveyors employs 645 qualified surveyors, working out of 148 offices, who, acting for both major lenders and house buyers, conduct significant numbers of residential mortgage valuations and surveys.

Operating out of five property law centres, our Conveyancing Division employs 502 conveyancing and customer services staff providing legal services for home buyers and sellers. Later this year we plan to open a business based in Brentwood utilising outsourcing facilities in Chennai, India offering remortgage conveyancing services to mortgage lenders.

The management's objectives for the group are to offer services to clients at all stages of the residential property transaction thereby maintaining profitable growth and whenever possible, to return the cash generated to shareholders.

Recognising the Group's dependence on the UK housing market, the management's strategy for profitable growth lies in building on our existing strengths and increasing market share where possible by acquisition, organic growth and the expansion of capacity; and in extending the range of services and products we provide into new but related markets. We also believe our philosophy of decentralised management coupled with tight financial controls puts us in a better position to manage the cyclical nature of the UK housing market, capitalising on the upturns and helping to minimise the effect of any downturn.

Operating and Financial Review

OPERATING REVIEW

Performance in the period

The Estate Agency and Property Services group Operating Profit of £80.4 million (2002: £75.8 million) was, once again, a record.

The Estate Agency Division results benefited from a full year's contribution from the offices acquired from Friends Provident in August 2002, but also bore the start-up costs of our new Spanish operation.

The additional offices acquired added to the Financial Services Division profits, which also gained from the higher commission received under the arrangements with Friends Provident, in place from August 2002.

Countrywide Property Lawyers suffered frustrating and unexpected delays to the delivery of its new software. This left the division carrying additional premises and staff costs, the benefits of this investment will be fully realised once the new computer system and procedures have been rolled out later this year.

We have reviewed the carrying value of our investment in TM Property Service Limited and written down the goodwill by £1.9 million.

Estate Agency Division

		12 Months 2003	12 Months 2002	Change
Turnover		**£253.6m**	£242.7m	+4%
Operating profit	– Estate Agency	**£34.0m**	£38.7m	–12%
	– Lettings	**£2.3m**	£1.5m	+53%
	– H_2O Homes Overseas Countrywide	**(£2.7m)**	–	N/A
		£33.6m	£40.2m	–16%
House exchanges		**84,765**	93,442	–9%
Average commission		**1.76%**	1.74%	
Average house price		**£149,755**	£132,653	+13%
Headcount (average FTE)		**5,408**	5,568	–3%
Branches at year end	– Group	**804**	808	–1%
	– Franchised	**76**	49	+55%

It was an unusual year for the housing market. Immediately following the New Year, buyer confidence appeared to evaporate and sales arranged, particularly in the southern half of the country, dropped sharply. As the year progressed confidence returned and the number of sales arranged in the summer were at levels not seen for a number of years, although the end of the year saw some slowing in activity. The 2003 national transactions statistics produced by the Central Statistical Office show volumes down in excess of 16%, whereas the division's house exchanges reduced by a little over 9%, aided, to an extent, by a full year contribution from the acquired offices. However, house prices were a different story. The average price of houses we exchanged grew strongly all year, with the average for the year increasing to £149,755, up nearly 13% on the previous year. It is difficult to separate out the components of house price movement but, undoubtedly, a lower proportion of sales to first time buyers has had an upward influence on the average price recorded.

Nevertheless, the evidence seems to support an underlying increase in house prices, despite apparently lower demand, probably caused by a shortage of suitable property.

Our businesses took advantage of the opportunity afforded by these market conditions to raise average commission rates from 1.74% to 1.76%

Whilst many competitors seek to sell on price, we aim to sell on the superior nature and broad range of the Group's services, and are committed to maximising commission rates wherever possible. When the market is slower, and the competition for new instructions is less fierce it is possible to increase commission rates. This approach means that in tougher markets, we tend to gain market share. This was the case in 2003. Our focus on service and resistance to selling on price alone, means that our estate agency business has recorded a profit in its own right for the last eight years, unlike most of the other major chains. In 2003, the combination of higher commission rates and higher average house prices resulted in an increase in the average fee received of over 14%.

2003 saw further growth in our franchise business, with another 27 offices being opened bringing the network up to 76 branches. During the year some 3,128 properties were sold and exchanged through Countrywide's franchised offices and like the owned business, the end of year pipeline is materially stronger than the previous year.

Letting activity during the year was encouraging, although there was some evidence of reduced demand and rental falls, particularly at the top end of the market, and for poor quality homes. Continued buy to let interest across the UK has substantially increased the number and quality of residential properties available to let and, as a consequence, we have continued to carefully grow our representation in the market.

In April 2003, we opened our first office in Spain, in Marbella, trading as H_2O Homes Overseas Countrywide. Although there have been signs of a softening in the market during the intervening period, property prices on the Costa de Sol remain firm (average sale price €306,769) and commission rates at 5.57% average are attractive. A small sub-branch, east of Malaga, was opened in November to allow customers access to more modestly priced homes and early months' sales figures are encouraging.

For the first six months of the year in response to the slower UK market, we allowed natural wastage to reduce headcount in the division and, although there was some recruitment as the market improved, at the year end, total numbers remained below the previous year. A full year of the costs of the Friends Provident estate agency business has raised the level of the division's overall expense base. This has also been increased by the start-up and continuing costs of our new operation in Spain and its UK support operation. These costs served to depress our margin in 2003, but, nevertheless, the margin was higher than that achieved in 2001, when sales volumes were higher.

Operating and Financial Review

Financial Services Division

	12 Months 2003	12 Months 2002	Change
Turnover	**£72.9m**	£59.0m	+24%
Operating profit	**£21.9m**	£10.6m	+107%
Life protection policies arranged	**43,587**	49,662	–12%
Total mortgages arranged	**52,763**	48,982	+8%
– value	**£4.7bn**	£3.9bn	+21%
Panel mortgages arranged	**50,773**	46,586	+9%
– value	**£4.6bn**	£3.6bn	+28%
General insurance policies arranged	**49,664**	50,969	–3%
Conversion rate			
– mortgages	**62.2%**	52.4%	
– life policies	**51.4%**	53.1%	
Headcount (average FTE)	**1,288**	1,219	+6%

The Financial Services Division, which provides services to estate agency clients, leverages off the level of house sales achieved in the estate agency offices. Although, as described earlier, house sales were some 9% lower than the previous year, the effect of this was offset by a significantly higher mortgage conversion rate. The volumes of mortgages distributed on behalf of our "blue chip" panel of mortgage providers again set record levels at £4.6 billion (2002: £3.6 billion). These improvements arose from the benefits of a more stable and growing sales force and higher sales of remortgage products. The overall penetration rate of sales of mortgages, life assurance and general insurance continue to achieve levels of genuine excellence. As the division's fees and commissions are linked to mortgage and insurance policy case sizes, the profits also benefited from the effect of higher house prices.

In addition, the division's profits benefited from a full year's commission earnings from the distribution deal with Friends Provident, since the commission earned from each policy is higher compared to the previous in-house arrangements. Our own specialist sub prime and buy to let mortgage broking initiative, Countrywide Lending Solutions, continues to grow strongly and contributed over £2 million to the division's profit.

Surveying and Valuation Division

	12 Months 2003	12 Months 2002	Change
Turnover	**£108.0m**	£101.8m	+6%
Operating profit	**£31.9m**	£28.7m	+11%
Valuations and survey instructions completed	**605,857**	588,212	+3%
Headcount (average FTE)	**1,233**	1,184	+4%

Countrywide Surveyors benefited from an increase in average prices and, despite the contraction in transaction volumes in the residential housing market, completed a record number of mortgage surveys and valuations. The benefit of additional instructions from new clients, together with an increase in the number of remortgage cases, more than compensated for the fall off in the residential market. However, the business continued to be capacity constrained and therefore outsourced some 81,000 cases at significantly lower margins. Whilst it is beneficial to maintain some level of outsourcing capacity to provide a cushion against market fluctuations, in-house capacity was increased by the net recruitment of a further 45 surveyors. Future capacity will be enhanced by new improvements in technological support for our surveyors, described in more detail below, as we seek to maximise individual productivity and accuracy. This will allow us to continue to pursue market share increases in a still, predominantly highly fragmented market.

Conveyancing Division

	12 Months 2003	12 Months 2002	Change
Turnover	**£20.2m**	£18.7m	+8%
Operating profit/(loss)	**(£1.5m)**	£1.8m	
Completions	**35,063**	34,777	+1%
Headcount (average FTE)	**502**	438	+15%

Countrywide Property Lawyers has been developing its business around the delivery of a new computer system, originally planned for Spring 2003. This is designed to substantially enlarge the volume and profit capability of the division which is currently constrained by existing systems to circa 35,000 completions per annum. Central to these plans is the consolidation of client services in a single centre based in Manchester and premises were obtained, and staff recruited, in anticipation of the roll out of the new system. Regrettably, the level of software errors in the delivered system was such that the management did not have the confidence to implement the new system immediately. In consequence, in 2003, the business has been carrying approximately £2.3 million of additional costs with no commensurate increase in revenue. Despite the reduction in volumes in the residential housing market, the five property law centres received nearly 69,000 instructions from our estate agency offices, nearly 17% more than in 2002. In addition, because of capacity constraints, over 17,000 instructions were passed to third party lawyers.

We have reviewed the carrying value of the investment in EDC Lord, which we made in 1999. The business acquired has been completely absorbed into Countrywide Property Lawyers and it is no longer possible to identify a separate income stream from this business. Therefore, in accordance with the requirements of FRS11, we have written the goodwill arising on the investment down to nil, at a cost to this year's profits of £855,000.

Joint Ventures and Associates

	12 Months 2003	12 Months 2002	Change
Joint Venture			
Profit/(loss) before tax	**£0.2m**	(£0.2m)	
Net assets	**£1.2m**	£1.0m	+20%
Associated companies			
Profit/(loss) before tax	**(£2.7m)**	(£4.4m)	+39%
of which goodwill amortised	**(£2.4m)**	(£2.7m)	+11%
Net assets	**£0.9m**	£0.7m	+29%

There is now strong evidence that over 50% of all homebuyers make the first contact with the property that they buy via the Internet. www.rightmove.co.uk, the property web site, in which we have a 29% stake, continues to dominate property advertising on the internet. 2003 saw rightmove become the first national property web site to generate significant profits. Membership grew from 3,025 resale offices at the start of 2003 to 4,450 at year end, with 400 new homes sites and a further 700 lettings only offices. rightmove now lists the properties of all five of the UK's largest estate agency groups and more than 50% of the top 100 high street estate agency brands. At any one time rightmove now displays close to 300,000 properties, representing more than a third of all properties for sale and to let in the UK. As the first property web site to serve 100 million page impressions in a month, rightmove has joined an elite group of UK sites (numbering around 25) who have ever achieved this milestone.

TM Property Service's business is the effective delivery of electronic search information to lawyers. Unfortunately, the laudable plans to speed up the delivery of Local Authority Searches to lawyers acting on behalf of home buyers have made little progress for the last two or three years. As a consequence, growth of the business has been disappointing. During 2003, our 47% share of the business, produced a loss of £281,000. We have reviewed the carrying value of our investment in TM Property Service. The rationale for our investment in this business was to use its technology to develop an electronic sellers' pack incorporating many of the Group's products and services. In the Queen's Speech, the Government announced its intention to legislate to make Home Information Packs mandatory. The enabling bill has now been introduced, but it is unlikely that Home Information Packs will become compulsory before 2006. In addition, as mentioned earlier, the slow progress being made towards the provision of electronic searches, is a key dependency for TM's future income streams. In the light of these factors, the discounted value of the projected future cash flows arising from the investment have reduced which, following the principles of FRS 11, has led to a reduction in the value of the investment and we have written off £1.9 million of goodwill.

Central Costs

Following completion of the refurbishment of 100 Cannon Street in July, Central Costs includes the rental income and running costs of this investment property, as well as a write down of £2.75 million in the carrying value. These items have been offset by a recovery of professional indemnity insurance claims previously written off. Underlying Head Office costs were £7.4 million, 19% higher than 2002, due to increased National Insurance and pension costs (£0.6 million) and salaries (£0.3 million).

Returns to Shareholders

As mentioned earlier, management's aim is to generate returns for shareholders through profitable growth. However, due to the significant operational cash flow generated by the business, we have previously been able to distribute cash to shareholders by way of share buybacks, although we have now utilised all available distributable reserves. Given the cyclical nature of our estate agency business we have, historically, always taken a very cautious approach to gearing up our balance sheet. However, the development and refinement of our business model and the level of cash flows we have experienced in the past few years, give us the confidence to accept a level of gearing in the Balance Sheet and, thus, a more efficient capital structure. This will enable us to make a further return of cash to shareholders by means of a Court approved Scheme of Arrangement. These proposals will be put to shareholders on 28 April 2004.

Previously our dividend policy has been based on the earnings of the non-life group plus any cash distribution from the life assurance group. In light of the proposed demerger of the Life Assurance group, we do not anticipate a dividend by Countrywide Assured will be paid in respect of 2003. Thus the proposed final dividend of 4.75p relates solely to the restated earnings per share of the Estate Agency and Property Services group. Adjusted for the court approved buy back of shares in June 2003, the underlying dividend cover is 2.2 times. Taking into account the interest cost of the proposed gearing and the slightly higher implied risk, we currently anticipate that, in the short term at least, future dividend cover will be in the range 2.5 to 3 times.

Dynamics of the Business

Our success is linked to the fortunes of the UK residential housing market. The profits of the Estate Agency Division are the most sensitive to movements in the volume of sales and house prices. However, as witnessed in the early months of 2003, the division is also more able to react quickly to manage its costs in reaction to changing market conditions. Staff turnover in the industry is relatively high and thus head count, 63% of total costs, can be rapidly increased or decreased as the market requires. Our new operation in Spain, H_2O Homes Overseas Countrywide, is not directly exposed to the UK housing market. However, its clients are sensitive to the health of the broader UK economy. In the short term, its results are more likely to be influenced by the Sterling/Euro exchange rate, although this is not likely to influence clients' buying decisions in the medium term.

The Financial Services Division results are more sensitive to volume changes than price changes, although, any reduction in volume can be partially offset by commensurate changes in penetration and productivity.

Countrywide Surveyors and Countrywide Property Lawyers results are less sensitive to house price fluctuations and, at the margin, to volume changes. In

2003, despite the more subdued level of activity in the market, both divisions continued to outsource a significant amount of work. To some extent, Countrywide Surveyors is dependent on remortgage surveys and valuations to offset any slowing of the residential market. In the future we will also rely on this aspect of the mortgage market to provide work for our remortgage conveyancing business. Each of these businesses is also dependent on the market for qualified staff, surveyors and conveyancers respectively and management of staff retention is a critical task. Similarly, all rely on increasingly sophisticated information technology and systems to deliver the high service standards required by our customers. All are investing considerable amounts in updating their technology, which should start to bear fruit in 2004.

Although most of the Group's customers are retail clients we nevertheless have some very important commercial relationships. We depend on our insurance partners to produce appropriate products to meet our customers' requirements for financial and property protection, and to service these clients and our sales force, to the highest standards. We are similarly reliant on the lenders for whom we write mortgages, and our successful 'Big Deal' mortgage campaigns are only achievable through the active participation of our lending panel, both in product design and volume processing. These same lenders, and others, are major clients of Countrywide Surveyors, for whom we carried out over six hundred thousand surveys and valuations in 2003.

The majority of our businesses operate in highly regulated markets, and compliance with the required standards is key for us, and commands much attention by our management. The financial services products we sell are currently governed by voluntary codes – The Mortgage Code and The Association of British Insurers Code. The sale of mortgages is due to be governed by formal Financial Services Authority regulations in October this year and the sale of insurance in January 2005. We welcome these moves as we believe that, unlike many in the industry, our existing operating standards and procedures are robust enough to cope with this new regime. We plan to apply to be authorised directly by the FSA for the sale of these products.

Key to our success is the integrated nature of our business. The house sale leads to the sale of the financial products, the survey and valuation and the conveyance. We have adopted a highly decentralised operating structure and our management teams have many years of experience. They are highly profit focused and we strongly encourage them to maximise earnings for their subsidiaries and themselves by taking full advantage of the products offered across the Group. The localised nature of the estate agency management structure, together with the strength of the local brands, has enabled us to be the leading estate agency in many parts of the country. This, coupled with the quality of the training we provide, enables us to realise above average fee income, despite market pressures. Each of our main trading divisions is a market leader in its sector and we have a 29% holding in rightmove.co.uk, the country's leading Internet property site which, after incurring relatively modest losses since its launch 4 years ago, was profitable in 2003.

A recent triennial valuation of the defined benefit section of the Group's pension scheme has revealed an increased past service deficit, largely due to a reduction in the value of its equity investments. Further details are given in note 32. This scheme has been closed to new entrants for some time, but in the light of the increased deficit, it was closed to future service accrual with effect from 31 December 2003. In consultation with the Scheme Actuary, we have proposed a funding programme designed to eliminate the deficit over the next ten years. Under this programme, we anticipate making a single contribution of £5 million in 2004. The current proportion of retired members versus members below retirement age is relatively low, which leads us to believe that the current mix of equity and fixed interest investments shown in note 32 to the accounts is appropriate.

Investment for the Future

Capital expenditure is not a significant feature of our business, but in 2003 we incurred expenditure on IT of £10 million. A significant part of this expenditure £4.9 million, was incurred by our nascent remortgage conveyancing business and there is a further £3.1 million planned for 2004. This system will enable us to outsource offshore the bulk of the work required to process remortgage conveyances, significantly reducing the cost in what is a highly competitive market.

We have spent £0.3 million on the roll out of our estate agency computer system, with a further £0.3 million planned for 2004. Amongst other benefits, this system facilitates the listing of property on rightmove.co.uk and encourages electronic links between offices and with clients.

Countrywide Property Lawyers invested £2.8 million of capital expenditure and a further £2.3 million of revenue expenditure on its new computer system and in restructuring its operations. Currently the operation enjoys a 1.5% market share of a highly fragmented 2-3 million transaction market. In addition to increasing capacity, the investment will also increase productivity and thus bring increased margins. After the considerable difficulties experienced in 2003, the roll-out of the new system is now anticipated for the end of the first half of 2004, with full implementation early next year.

Countrywide Surveyors has started testing of it's new system, having spent £0.8 million with a further £1.4 million to be spent in 2004, and £0.3 million in 2005. The aim is to completely revamp the management of the workflow within the business, and to improve electronic communications, both internal and external. Implementation should be fully completed in 2005.

The refurbishment of 100 Cannon Street, a high quality City office investment, was completed in July 2003 on time and within budget. Regrettably, this completion coincided with a substantial downturn in the City office rental market caused by a large increase in the amount of sub-let space. Whilst the ground floor of this development is already let to Sainsburys, current prospects for the offices are less encouraging, to date we have been unable to let any of this space. In light of this, we commissioned a valuation which resulted in a reduction in the carrying value of this investment of £2.75 million which has been charged to profits. The existing bank facility, which is secured on this development, has been reduced to £15.6 million and renewed to 31 December 2005.

Our capital expenditure plans for 2004 include £7 million total capex to refurbish a number of our estate agency offices and update their computer systems to improve Internet links.

We are close to completing our planned improvements to the point of sale system operated by our mortgage consultants. These are designed to speed up the underwriting processes through web-enabled links with Friends Provident, our mortgage centres and lenders and should bring improvements to both productivity and client service.

It is our practice to absorb within Central Costs the legal and other costs of new ventures and projects. In 2003 this cost amounted to £410,000 and included remortgage conveyancing which will be borne centrally until launch. In 2004 Central Costs will also bear the costs of the demerger and return of capital. These are estimated at £10 million.

FINANCIAL REVIEW

Capital Structure and Treasury Policy

Financial Instruments

The Group finances its operations through bank borrowings, retained profits and working capital balances. Currently, no other financial instruments are used. Direct exposure to other currencies is currently limited to the cost of funding our Spanish operation. When the Group is cash positive, it holds its deposits on terms of less than one year, pending investment. Where appropriate, term facilities are used to finance specific property investments. In the current interest rate environment and given the Group's relatively low gearing and positive operating cash flow, the Directors have considered that this level of interest rate risk is acceptable. If the proposed restructuring and return of capital is approved, then appropriate hedging strategies will be considered to cover the interest exposure.

Cash Flows

In 2003, the operating cash flow of the non-life business was very strong and generated £92.8 million which represents a cash inflow of 28.2p per share.

During the year we invested a further £4 million in the office development at 100 Cannon Street, of which £1 million was funded by a secured bank loan. Tax payments on account of Corporation Tax absorbed £24.9 million, £20.3 million was distributed to shareholders in dividends and £13.4 million incurred in capital expenditure.

The Estate Agency and Property Services group net cash inflow for the year was £32.9 million, and the year end cash balance was £58.5 million.

Life Assurance group

THE BUSINESS, ITS OBJECTIVES AND STRATEGY

The principal operating subsidiaries of the Life Assurance group are Countrywide Assured plc, a medium sized Life Assurance company in the business of servicing our book of approximately 250,000 life and pension policies and Key Retirement Solutions Limited, a leading specialist independent financial adviser operating in the homeowner equity release market.

During the reporting period the Countrywide Assured Group plc (CAG) Board undertook a strategic review which resulted in the decision to investigate the possible sale or demerger of the Life Assurance group. These investigations resulted in the announcement on 18th December 2003 that the Life Assurance group would, subject to the relevant permissions, be demerged and listed separately on the London Stock Exchange as Chesnara plc during the Spring of 2004.

At the end of 2003 the split of our inforce book by number was 36.7% endowment, 40.0% protection, 10.4% whole life and 12.9% other. This reflects our historic purpose of providing mortgage-related policies to the financial services sales force of CAG and our strategic decision to exit the endowment market in 2001 and thereafter solely sell protection products to this marketplace.

Further to the Group's distribution agreement with Friends Provident in August 2002 we continued to write significant volumes of protection business until August 2003 under a reinsurance agreement with Friends Provident. Following cessation of this contract and the consequent substantial closure to new business, we have, in addition to running off the pipeline of pending applications, continued to write Guaranteed Income Bonds and a small amount of life protection business.

In preparation for the substantial closure to new business the Life Company, Countrywide Assured plc, was restructured and the headcount was reduced by 110 to 215 during the year. This reduction includes 60 new business related people who transferred to Friends Provident under a TUPE arrangement.

The Financial Services Authority (FSA) regulates both Countrywide Assured plc and Key Retirement Solutions Limited, the latter becoming directly approved in December 2003. As a result we are subject to both the general operation of the Financial Services and Market Act and the specific regulation processes of the FSA. Whilst the weight of conduct of business rules has reduced slightly following the substantial closure to new business we are still subject to the full weight of the prudential regulation. This falls largely on the areas of solvency, capital adequacy and policyholder protection and is the subject of progressive development to bring it in line with EU directives and will therefore continue to bring developmental challenges to Chesnara. As part of this regulatory process we are subject to a regime of annual reviews and the development and maintenance of an ongoing risk mitigation programme.

The management's priority is to focus on maximising cash flows and shareholder returns through increased operating efficiency, mitigation of risk and policyholder retention whilst ensuring continued regulatory compliance.

OPERATING REVIEW

Performance in the period

Basis of Accounting

We report primarily on the Modified Statutory Solvency Basis (MSSB) and will continue to provide supplementary information on the Achieved Profit (AP) basis. While the AP method is value based and recognises profits as they are earned over the life of an insurance policy, MSSB recognises profits on the basis used for regulatory reporting, modified principally by the deferral costs incurred in the acquisition of new business arising in the current year and by amortisation of acquisition costs deferred from previous years. Adjustments are also made to certain actuarial reserves which have been established for prudential reasons. As the Company was substantially closed to new business in August 2003 and has reinsured its new business to Friends Provident with effect from 1 September 2002 there has been a significant reduction in the amount of acquisition costs deferred into future periods.

The significant related charges to profit are expected to continue through 2004 until the costs become fully amortised in 2005 at which point there will no longer be significant charges to profit arising from this modification.

Operating and Financial Review

MSSB Results

The following shows the Life Assurance group MSSB operating result together with headline statistics.

	12 months 2003	12 months 2002
Life Assurance group operating result before tax	**(£15.3m)**	£4.0m
Group consolidation adjustments		
• Losses arising on Friends Provident reinsurance treaty	**£9.8m**	£6.3m
• Adjustments arising in connection with prospective demerger	**£3.6m**	–
• Intercompany charges	**£0.3m**	£0.1m
Life Assurance group operating (loss)/profit before tax per Countrywide Assured Group plc financial statements	**(£1.6m)**	£10.4m
New Business		
• Policies arranged in period	**36,941**	52,489
• Life annual premium income	**£17.3m**	£20.9m
• Life single premium income	**£21.2m**	£92.3m
• Life annualised premium income	**£19.4m**	£30.2m
Policies in force at end of period	**251,000**	268,000
Headcount (average FTE)	**295**	340

The Life Assurance group operating result before tax reflects the underlying result as it pertains to the prospectively demerged Life Assurance group.

The consolidation adjustments for losses arising on the Friends Provident reinsurance treaty relate to losses in the Life Assurance group which result from the arrangements with Friends Provident, which were entered into in 2002. These losses arise principally from the fact that:

(1) expenses recoverable from Friends Provident for maintaining policies reinsured with them are less than the prospective actual costs of maintaining the policies;

(2) the substantial closure to new business, consequent upon the arrangements, gives rise to dis-economies of scale in the Life Assurance group expense base; that is fixed and semi fixed costs previously attributed to the new business segment of the business are now absorbed by the policy maintenance segment of the business, thus increasing unit costs.

As Countrywide Assured is now substantially closed to new business there will be no further underlying losses arising from this source. There is now only a small pipeline of these reinsured policies to be issued in 2004.

Adjustments arising in connection with the prospective demerger relate principally to the write off of Group relief receivable of £3.8 million in the Life Assurance group, which eliminates against a corresponding write up within CAG.

In 2003 the business was subject to a number of negative influences. These included the terms of the Friends Provident Reinsurance Agreement, as described above, the relatively poor persistency of the policy base and the effect of an increase in the number of alleged endowment misselling compensation claims.

As regards endowment mortgage misselling claims, which have also had a material adverse impact on the reported AP result, there have been a number of factors that have affected the complaint levels and hence the compensation paid. Early in the year a particular consumer group campaign allied to weak and falling Stock Market performance significantly increased the volume of complaints. Subsequent to that in May we commenced our second mailing of all endowment policyholders detailing the projected outturn of their policy at maturity (commonly known as the RAG mailings). Although the entire mailing is staggered over a year the early mailings were issued at the time the Stock Market was recovering from its April low point. Later in the year the FSA sponsored another campaign which recommended policyholders to file misselling claims before insurance companies introduced time-barring. The introduction of time-barring in February 2003 allowed product providers the right to decline a misselling claim where, in certain circumstances, the policyholder, having been advised of a potential shortfall, had not filed a misselling claim within set timescales. In addition to time-barring the recovery in the stock market has positively affected policyholder sentiment and reduced the average compensation at the year end by 20%.

Whilst these improvements are welcome, it became apparent during 2003 that the provisions we had made were inadequate. The provision was increased at the half year and in the third quarter we developed a more detailed model, which indicated the necessity for further strengthening of the provision, particularly as it took account of the expected cost of the ongoing administration and the pipeline of received but not settled complaint cases. The total cost of provision increases at the end of the third quarter was approximately £3 million. The provision was £12.25 million at the end of the year. Whilst the provision is regarded as realistic by management, there remains the possibility that unforeseen external influences could mean it will still require further strengthening in the future.

Our optimism in last year's Operating and Financial Review regarding our chances of success in litigation with our Professional Indemnity Insurers proved well founded. During the course of the year the matter, regarding the losses incurred due to pensions misselling claims, was settled in our favour.

Operating expenses fell in 2003, as a result of the transfer of approximately 60 people to Friends Provident in August 2003, and the earlier restructuring of the business in the first half of the year. The cumulative effect of the transfer and the restructuring is a headcount of approximately 200 in the life company. We anticipate further cost savings in 2004 will arise mainly from salary, systems and other expenses, and that we will continue to match operating costs with expense deductions from policyholders.

Operating and Financial Review

The following is a summarised statement of our AP results

	12 months 2003	12 months 2002
New business contribution	**(£0.7m)**	£16.3m
Existing business contribution		
• Expected return	**£14.9m**	£14.2m
• Experience variances		
Persistency	**(£12.2m)**	(£4.5m)
Pension and complaints redress	**(£14.1m)**	(£9.6m)
Other	**£7.3m**	£6.2m
• Assumption changes		
Persistency rates	**(£26.8m)**	(£25.6m)
Expenses	**(£12.2m)**	(£7.7m)
Other	**(£0.8m)**	(£2.4m)
• Economic assumption changes		
Investment return	**£3.9m**	(£5.7m)
Risk discount rate	**(£2.6m)**	£4.5m
• Investment variances	**(£1.2m)**	(£6.1m)
Life Assurance group achieved loss before tax	**(£44.5m)**	(£20.4m)

The AP losses stated above reflect the underlying achieved loss figure before tax as it pertains to the prospectively demerged Life Assurance group.

Besides the impact of complaints redress and the terms of the Friends Provident reinsurance agreement described above, the AP results are materially impacted by poor persistency experience.

This resulted from the effect of negative publicity regarding endowments, heightened activity in the remortgage market, which led to significant levels of product replacement, poor investor sentiment and regulatory mailings on endowment products. Significant effort was expended on the effect of persistency during 2003 in two areas. Firstly we have, in conjunction with Tillinghast Towers Perrin, the Actuarial Consultancy, reworked our modelling of our expectations of persistency. This resulted in a further strengthening of assumptions resulting in a charge to profits of £26.8 million in addition to an experience variance of £12.2 million. Secondly we continued the development of our Customer Contact Centre which has a specialist team, including qualified financial advisors, who have demonstrated success in the retention of customers through the provision of information and advice.

Guardian Assurance Default Reserve

As signposted in the last Annual Report, in April 2003, the Insurers (Reorganisation and Winding Up) Regulations 2003 came into force. The effect is that if a UK insurer were to wind-up then the direct policyholders would have priority over other debtors e.g. reassured policyholders. Prior to 1993, Countrywide Assured reassured the majority of its business with Guardian Assurance. Following the implementation of the Regulations, Countrywide Assured has increased its reserve relating to default on insurance obligations, now or in the future, by Guardian Assurance to £11 million. As at 31 December 2003, the aggregate liabilities reassured to Guardian Assurance were £180 million. Guardian Assurance is a wholly owned subsidiary of Aegon, one of the world's largest insurance companies.

While the reserve is maintained primarily to establish the regulatory solvency position and, therefore, serves to restrict the amount which may be transferred from the long-term business fund to shareholders' funds, it is not recognised for MSSB reporting purposes, as the likelihood of default under the reassurance arrangements is currently considered by the Group's management to be remote. However, there is a cost to shareholders in maintaining the reserve and this cost of capital, estimated at £1.7 million, has been recognised as a charge to earnings under Achieved Profits reporting for the year ended 31 December 2003. Accordingly, the embedded value of the Life Assurance group has also been written down by this amount.

The management is aware that a number of major insurers are presently engaged in initiatives which are intended to produce potential industry-wide solutions to the issues created by the EU directive. It is, however, not certain that these initiatives will produce robust solutions which will find broad acceptance within the insurance industry or, even if such solutions are forthcoming, that any agreement acceptable to Countrywide Assured will be reached with Guardian Assurance to mitigate the effects of the Regulations.

Key Retirement Solutions

	12 months 2003	12 months 2002
Income	**£4.3m**	£3.5m
Net (loss)/profit	**£0.2m**	(£0.1m)
Sales volumes (number of cases):		
– equity release products	**2,268**	1,683
– other financial services products	**499**	586
Total number of cases	**2,767**	2,269
Size of field salesforce	**26**	26

Key Retirement Solutions began trading in 1998 and was effectively in development phase up to 2002 whilst it established itself in the equity release marketplace.

The company became directly authorised by the FSA in December 2003.

Embedded Value

The embedded value set out below represents the value of the Life Assurance group's net assets attributable to shareholders, together with an estimate of the net present value of profits attributable to shareholders from the policies in-force.

As at 31 December	**2003**	2002
Net Worth	**£54.2m**	£63.2m
Value in Force	**£98.5m**	£135.9m
Embedded Value	**£152.7m**	£199.1m

No dividend was declared or payable at the end of 2002 or 2003.

The reduction in the embedded value reflects the strengthened provisions and revised modelling assumptions developed in anticipation of the planned demerger. As indicated in the Achieved Profit section above these provisions and assumptions have been developed in conjunction with Tillinghast, the Actuarial consultancy, and reflect the deterioration of experience during the year. This strengthening should, barring any unforeseen circumstances, underpin the emergence of surplus to fund future dividends

The Net Worth represents the items attributable to shareholders, being shareholders' capital, retained earnings and shareholders' interest in the undistributed surplus within the long-term business fund.

The Value in Force represents the discounted value of the future expected surpluses arising from the policies in force at each respective period end. These future surpluses are calculated by projecting future cash flows using realistic assumptions for each component of the cash flow.

The regulatory capital of life insurance companies in the UK has received significant publicity over the past year. The rules are designed to ensure that companies have sufficient assets to meet their liabilities in specified adverse circumstances. Historically Countrywide Assured has aimed to maintain a solvency margin of 150% of the required minimum margin. At the year end the Solvency cover was 177% of the required minimum margin with available assets of £9.9 million over the 150% target. Although the effect of EU solvency 1 Directive, which came into force on 1 January 2004, reduces the available assets by £4.0 million the cover remains above the target at 160%.

Returns to Shareholders

No dividend is to be paid to the Group holding company in respect of 2003, in order to ensure a robust opening solvency position for 2004 in the light of the prospective demerger, it is the Board's intention to maintain a minimum solvency margin of 150% and, barring unforeseen circumstances it is targeting an aggregate dividend payment of £10 million in 2004 (equating to approximately 3.0p per current Countrywide Assured Group share).

Dynamics of the Business

Following the substantial closure to new business and the pending demerger of the Life Assurance group the dynamics of the business have significantly changed. The management's focus will now be concentrated on maximising cash flows and shareholder returns through increased operating efficiency and policyholder retention whilst ensuring continued regulatory compliance.

The business operates in a highly regulated marketplace and compliance with the highest standards is key and will continue to command much management attention. The Life Company is exposed to fluctuations in investment market performance. As a largely unit-linked office, its solvency is not in question, but a return to negative investment returns could lead to increased policy lapses and misselling claims which may reduce future surpluses.

Investment for the Future

In mid 2003 the management invested a significant amount of time in reviewing the market for outsourcing of certain functions predicated on their concerns regarding the potential effects of fixed costs on a declining book of business. Various pricing options for the supply of services are available and in the main they require an element of up-front financing of migration of systems. During the demerger process this investigation has been largely suspended. It is management's intention to rekindle these investigations as soon as practically possible.

FINANCIAL REVIEW

Solvency

The regulatory capital of life insurance companies in the UK is calculated by reference to FSA prudential regulations and has received significant publicity over the past year, much of it relating to 'with profit' companies. The rules are designed to ensure that companies have sufficient assets to meet their liabilities in specified adverse circumstances. As such there is a restriction on the full transfer of surplus from the long-term business fund to shareholders funds and on the full distribution of reserves from the life company. In practice Countrywide Assured has aimed to maintain a solvency margin at 150% of the required minimum margin. Our with profits funds are wholly reassured and as a predominantly unit-linked office this area of regulation is not expected to be onerous.

As stated earlier the Life Assurance group is subject to forthcoming FSA and EU regulation. Currently, it is regulated in respect of its minimum solvency capital requirements at the level of its principal insurance subsidiary, Countrywide Assured plc. In its Consultation Paper 204, published in October 2003, the FSA has set out its plans for the implementation of the Financial Conglomerates Directive in the United Kingdom, which amends the Insurance Groups Directive and as a result of which the minimum solvency capital requirement of an insurance group will be calculated at the level of an insurer's parent undertaking (in addition to the "solo" calculation made at the level of an insurance subsidiary itself). The objective of these calculations is to test whether there is double gearing of capital arising from investments in other group insurance companies and financial firms, and whether there is excessive group leveraging due to the financial structure of a parent holding company. The main practical consequence for the Life Assurance group is likely to be that Countrywide Assured will be required to maintain a long-term capital structure which avoids significant long-term borrowings. This may adversely affect the ability to return profits to shareholders. The FSA has proposed that the new group capital adequacy requirements will be introduced as from financial years beginning in 2005.

Under rules made in September 2003, the United Kingdom is required to implement the EU Solvency I Directive and which took effect from 1 January 2004. Under this Directive, (inter alia) the minimum guarantee fund required to be maintained by long-term insurers has been increased to €3,000,000. In addition a further margin of solvency is introduced on permanent health insurance (class IV business) which is calculated by treating this business as though it were general business of class 2. The Directive also provides that the solvency

Operating and Financial Review

margin for unit-linked business (where the Company provides no investment or expense guarantees) is increased by the equivalent of 25 per cent. of the prior financial year's net administrative expenses pertaining to such business. The increase in the minimum guarantee fund is relevant to the Life Assurance group through the impact this has on the value which can be placed on its Guernsey registered subsidiary Premium Life International.

On 29 August 2003, the FSA published its Consultation Paper CP 195 on future capital requirements for life insurers, in which the FSA proposes to apply to life insurers a similar framework for individual capital adequacy standards to those envisaged by CP 190 for non-life insurers. This will entail the individual self-assessment by firms of their capital needs and the giving of individual capital guidance by the FSA. The FSA currently proposes to implement the new rules in the second half of 2004. It is possible that the FSA could indicate that the Life Assurance group should hold regulatory capital significantly in excess of the management's own assessment. In those circumstances the ability to return profits to shareholders by way of dividends will be deferred.

Capital Structure and Treasury Policy

The Life Assurance group's operations are financed through retained and working capital balances. It has no borrowings, and does not make use of financial instruments. There is no trading in any currencies other than sterling. Cash available for more than three months is usually transferred to Fund Managers for longer-term investment. Shorter term funds are actively managed and deposited with UK registered financial institutions to achieve attractive returns.

Cash Flows

Distributions of surplus are restricted by the requirement to maintain minimum margins of solvency within the long-term business fund and shareholders' funds in accordance with regulatory rules. Surplus arising, subject to the above, will be realised in the long-term business fund. This may then be used to transfer funds to the shareholders' fund and consequently to pay dividends to shareholders.

Harry D Hill
Group Managing Director

Michael C Nower
Group Finance Director

9 March 2004

Directors' Remuneration Report

The members of the Remuneration Committee who served during the year are:

C H Sporborg (Chairman)
J M G Andrews (Retired on 31 March 2003)
M J Gordon
A J Brown (Appointed 31 March 2003)

H D Hill, Managing Director, provided advice and recommendations to the Committee and attended the majority of meetings. M C Nower, Group Finance Director, provided the Committee with information to assist its deliberations. He also acted as Secretary to the Committee. On a number of occasions during the year, the Committee met without the above named Executive Directors. During the year, Members of the Committee attended various conferences and seminars relevant to remuneration matters.

With the exception of pension benefits detailed below, and main place of work, each of the Executive Directors has identical service contracts, the majority of which were entered into in October 1997. Further details are given on page 35. The main notice provisions of the contracts are: other than on change of control, either party may give six months' notice of termination, whereupon the Director is subject to restrictive covenants for six months; on change of control, the Executive Director may give three months' notice and the Director is subject to restrictive covenants for six months, whilst the Company must give twelve months' notice with no restrictive covenants; the Company may make payment in lieu of notice and/or require the Director to serve 'garden leave'. Dismissal by the Company may be immediate if for cause.

Each Non-Executive Director is appointed under a service agreement for a period of three years which is renewable. There are no notice provisions save that the Company may terminate the agreement for cause.

The objectives of the Remuneration Committee are to ensure that the Company's Executive Directors and senior executives are fairly rewarded for their individual contributions to the Company's overall performance, having due regard to the interests of shareholders and to the financial and commercial health of the Company, and except as set out below has followed the provisions of schedule A of the Combined Code.

The Remuneration Committee recommends the terms of employment and remuneration packages of each of the Executive Directors; formulates remuneration policy for other senior executive employees; approves all option and long term incentive schemes and allocations under these; and approves all Group pension arrangements. In framing its Remuneration Report the Committee has given full consideration to Schedule B of the Combined Code.

Non-Executive Directors' remuneration is determined by the whole Board.

The policy on remuneration of the Executive Directors and the senior executive group has remained unchanged for some years.

In common with other service companies, our people are our greatest asset. In estate agency, the competitive benchmark against which we measure our remuneration is the successful entrepreneur owning his own business. We must offer our

Directors' Remuneration Report

senior managers remuneration which rewards superior performance through speed of response and innovation, and which also recognises the fluctuations inherent in our market. We must also look to provide capital growth, not only to align our employees' interests with our shareholders' interests, but also to go some way to matching those gains which can accrue to our successful competitors.

The basic salary and benefits we offer our executive group of Directors and senior employees are assessed individually. Factors which we take into account for each individual are: the level of salary compared to the market; personal performance and responsibilities; internal relativities; the general award for the majority of our employees; and the Company's overall financial position.

The majority of senior employees throughout the Group have the opportunity to earn an annual bonus linked to subsidiary or Group performance. All the Executive Directors, and several members of the senior executive group, are subject to the same bonus scheme. In recommending the potential rewards to individuals under the Company's performance related schemes, the Committee has followed the provisions of Schedule A of the Combined Code, save that, as explained below, a portion of annual bonus may be pensionable. Bonuses are awarded as a percentage of salary on a sliding scale related to profit targets which are fixed annually, and can be significant where performance is outstanding, although they are subject to a percentage cap. This cap is the same for all Executive Directors, and those members of the senior executive group included in the same scheme. The performance targets to be achieved are considered to be relevant, stretching and designed to maximise profitability in the relevant year, taking into account past performance and actual and predicted market activity. The Committee consider this scheme to be entirely appropriate for the markets in which we operate.

The Company has operated executive share option schemes for the benefit of the Executive Directors, other senior executives and the management group below the Board. The Company has operated both an approved and a non-approved scheme, which was established in 1995 in order to preserve the tax status of the former. The objective has been to reward those individuals whose contribution is key to the Group or subsidiary's past and future performance; to attempt to match the capital rewards which can accrue to successful competitors and thus improve retention; and to ensure commonality of interest with shareholders. This group numbers approximately 300 including the Executive Directors, and grants of options have been phased and normally made annually, only to those individuals satisfying the above conditions. The criteria for exercise, which have been realistic but stretching, have been set by the Committee at the time of grant, taking into account such factors as the expected earnings per share, market conditions and outlook. The current performance criteria are set out in note 23. In selecting these criteria the Committee have been mindful of the degree to which the Company's earnings have been linked to the housing market, and the uncertainty this implies. Due to capacity constraints, there were no grants of options under these schemes in 2003.

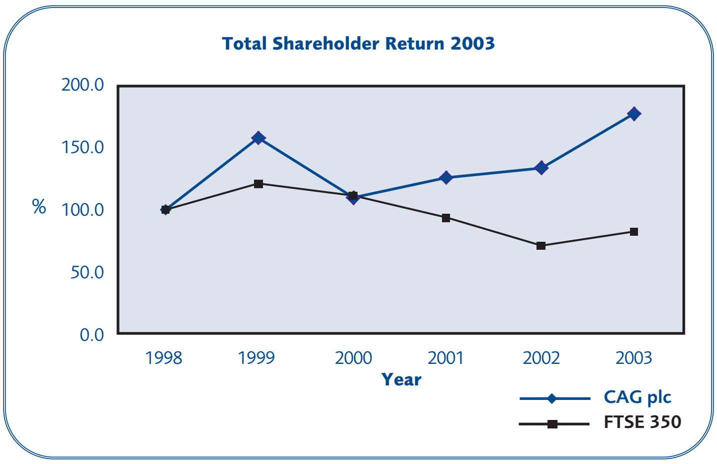
The number of shares over which options may be granted have been limited by the dilution limits contained in the institutional shareholder guidelines which are, in turn, reflected in the scheme rules. These limits on the number of shares which may be issued for the purposes of employee share schemes have operated to severely restrict the number of employees who can be motivated by the schemes, because since the introduction of share option schemes, the growth in the number of relevant employees has far outstripped the growth in the Company's issued share capital, which is the yardstick by which the restrictions operate. For example, since 1986 when the Company was formed, the total number of employees has increased by 9 times, whereas the number of shares in issue has only increased by 4 times.

In order to allow all employees the opportunity to participate in the Group's success, we have also operated a Savings Related Share Option Scheme. The Remuneration Committee has considered the adoption of an Inland Revenue Approved Share Incentive Plan, but feels that the SAYE scheme is more acceptable to most employees. The Committee was aware of the potential material impact on reported profits of FRS 20: Share Based Payments which will arise from SAYE option grants This is in total contrast to the accounting treatment of the capital growth that can accrue to senior managers and partners of the Group's unincorporated competitors.

The Group's pension scheme has operated two sections: the defined benefit section, which was established many years ago and which has been virtually closed to new entrants for some time. The defined contribution section, which has operated with different levels of company contribution according to the employee's status and his or her Group employer. Following the 2003 Triennial Valuation, which showed a substantial increase in the past service deficit, the defined benefit section was closed to future contributions with effect from 31 December 2003. On the closure of the defined benefit section to future service, the former members of this section were transferred for future service, on enhanced terms, to the defined contribution section. Further details of the scheme are given in note 32 on pages 82 to 85.

In both sections, in order to reflect the position of our successful competitors and the fluctuating nature of remuneration, annual bonuses, but not other benefits or share incentives, have been included in pensionable remuneration. However, both sections have upper limits to pensionable remuneration. All employees who have joined the Group since 1989 are subject to restrictions on the tax relief available on pension contributions. Some individuals have chosen to make their own arrangements for pension provision. In a few cases the Company contributes to the individual's personal pension fund at a similar rate to the equivalent company benefit.

The following graph charts the total cumulative shareholder interest of the company since 1 January 1998.



The index selected was the FT 350 as it was considered to be the most appropriate broad equity market index.

Directors' Remuneration Report

Interests in ordinary shares of the Company

	2003	2002
J M G Andrews (retired on 31.3.2003)	490,004†	490,004
A J Brown (appointed 31.3.2003)	20,000	–
A B Crew	58,300	58,300
A H Ekins	34,148	27,726
G R Fitzjohn	417,086	417,086
H D Hill	400,000[b]	384,400[a]
T Marris	110,150	87,628
P W Mason	10,000	10,000
M C Nower	263,510	263,195
C P Shaw	6,877	3,483
C H Sporborg	267,410	267,410

(a) including non-beneficial holding of 42,500 & (b) including non-beneficial holding of 142,500
† held at the date of retirement

There have been no other changes in the Directors' shareholding in the Company between 31 December 2003 and 9 March 2004.

The auditors are required to report on the information contained in this section of the report. Details of each Director's remuneration are as follows:

	Salary and fees £000	Bonuses £000	Incentive Payments £000	Benefits[a] £000	2003 Total £000	2002 Total £000
Executive Directors:						
H D Hill	276	352	–	22	650	554
M C Nower	154	197	1	23	375	322
G R Fitzjohn	144	176	3	23	346	291
T Marris	138	150	2	19	309	289
A H Ekins	121	155	–	28	304	260
A B Crew	110	137	2	20	269	232
C P Shaw	104	112	–	7	223	206
	1,047	1,279	8	142	2,476	2,154
Independent non-Executive Directors:						
C H Sporborg	73	–	–	–	73	74
J M G Andrews	10	–	–	–	10	23
P J Ford	–	–	–	–	–	17
P W Mason	23	–	–	–	23	23
M J Gordon	23	–	–	–	23	15
A J Brown	19	–	–	–	19	–
	1,195	1,279	8	142	2,624	2,306
Pension contributions					174	170
					2,798	2,476

(a) Benefits receivable consist of fully expensed car, healthcare insurance and Life Insurance on lump sum benefit. Messrs. Nower, Fitzjohn, Marris and Ekins also have unapproved Life Insurance Cover.

Details of each Director's pension benefits are as follows:

	Transfer value of accrued pension (note 3)		Increase in accrued pension including inflation		Transfer value of increase (note 2)		Total accrued pension at year end (note 1)		Company contribution to money purchase schemes	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000
H D Hill	**539**	451	**4**	4	**71**	57	**46**	43	**–**	–
G R Fitzjohn	**266**	207	**4**	2	**48**	17	**25**	22	**–**	–
M C Nower	**–**	–	**–**	–	**–**	–	**–**	–	**28**	29
T Marris (note 5)	**553**	439	**6**	6	**114**	71	**53**	47	**5**	18
A H Ekins	**377**	300	**4**	2	**65**	32	**26**	23	**–**	–
A B Crew	**449**	371	**4**	5	**60**	41	**45**	41	**–**	–
C P Shaw	**396**	304	**6**	3	**74**	13	**42**	36	**–**	–

Notes to pension benefits:

1. The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year.
2. The change in the transfer value includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as stock market movement. It is calculated after deducting the Directors' contribution. In the case of Mr Marris, it is calculated without deducting the Director's contribution.
3. The transfer values have been calculated on the basis of actuarial advice in accordance with version 8.1 of Actuarial Guidance Note GN11.
4. Members of the scheme have the option to pay Additional Voluntary Contributions, neither the contributions nor the resulting benefits are included in the above table.
5. These figures include the funded element, to which £4,866 was contributed, the value changing from £171,891 at the start of 2003 to £226,455 at the end of 2003.

From 31 December 2003, H D Hill, G R Fitzjohn, A H Ekins, C P Shaw and A B Crew agreed to cease entitlement to membership of the defined benefit section of the Countrywide Assured Group Pension Scheme and instead became entitled to membership of the defined contributions section of the Group pension scheme. However, for A H Ekins, the company has agreed to make contributions to a SIPP (self invested personal pension). M C Nower and T Marris both have personal pension plans to which the Company contributes. Included within the contributions to Mr Nower's pension scheme is the movement in the accrued contributions payable to his scheme on retirement: 2003: £5,392. (2002: £4,000). T Marris' pension scheme is designed to mirror the benefits under the Company defined benefit pension scheme and uses broadly the same assumption as the Company scheme. The latest actuarial valuation at 31 December 2003, indicated a deficit of £204,000. No pension contributions are made by the Company on behalf of the independent Non-Executive Directors.

Directors' Remuneration Report

The beneficial interests of the Directors, their families and connected persons in the Company's ordinary shares and rights under share option schemes were as follows:

Details of each Director's entitlement to share options are as follows:

Director	Number of options At 1 January 2003 or at appointment	Granted	Exercised	At 31 December 2003	Exercise price p	Market price at exercise p	from	to	Scheme
G R Fitzjohn	25,000			25,000	56.0		Mar 1999	Mar 2004	Deferred Incentive
	133,333			133,333	140.0		April 2001	April 2005	Executive (1996)
	275,000			275,000	131.0		Mar 2002	Mar 2006	Executive (1996)
	3,250			3,250*	0.0		May 2004	May 2006	Deferred Incentive (1996)
	36,165			36,165	140.0		April 2000	April 2005	Exec Share Bonus
	26,529			26,529	145.0		April 2001	April 2006	Exec Share Bonus
	6,985			6,985	74.4		Nov 2005	May2006	SAYE (1996)
	80,000			80,000	106.5		April 2004	April 2011	Executive (1996)
	175,000			175,000	151.0		April 2007	April 2009	Deferred Incentive (1996)
	175,000			175,000	151.0		April 2005	April 2012	Executive (1996)
	6,441			6,441	122.4		Nov 2007	May 2008	SAYE (1996)
H D Hill	133,333			133,333	140.0		April 2001	April 2005	Executive (1996)
	5,046		(5,046)	0	75.2	135.5	Nov 2003	May 2004	SAYE (1996)
	750,000			750,000	131.0		Mar 2002	Mar 2006	Executive (1996)
	7,500			7,500*	0.0		May 2004	May 2006	Deferred Incentive (1996)
	3,901			3,901	74.4		Nov 2005	May 2006	SAYE (1996)
	175,000			175,000	151.0		April 2007	April 2009	Deferred Incentive (1996)
	175,000			175,000	151.0		April 2005	April 2012	Executive (1996)
T Marris	30,000		(30,000)	0	0	91.0	Mar 2001	Mar 2003	Deferred Incentive (1996)
	133,333			133,333	140.0		April 2001	April 2005	Executive (1996)
	4,587		(4,587)	0	75.2	135.5	Nov 2003	May 2004	SAYE (1996)
	250,000			250,000	131.0		Mar 2002	Mar 2006	Executive (1996)
	2,500			2,500*	0.0		May 2004	Mar 2006	Deferred Incentive (1996)
	44,740			44,740	140.0		April 2000	April 2005	Exec Share Bonus
	5,171			5,171	74.4		Nov 2005	May2006	SAYE (1996)
	80,000			80,000	106.5		April 2004	April 2011	Executive (1996)
	100,000			100,000	151.0		April 2007	April 2009	Deferred Incentive (1996)
	100,000			100,000	151.0		April 2005	April 2012	Executive (1996)
	6,172			6,172	122.4		Nov 2007	May 2008	SAYE (1996)

Details of each Director's entitlement to share options continued:

Director	Number of options: At 1 January 2003 or at appointment	Granted	Exercised	At 31 December 2003	Exercise price p	Market price at exercise p	from	to	Scheme
M C Nower	5,230			5,230	75.2		Nov 2003	May 2004	SAYE (1996)
	133,333			133,333	140.0		April 2001	April 2005	Executive (1996)
	245,000			245,000	131.0		Mar 2002	Mar 2006	Executive (1996)
	5,050			5,050*	0.0		May 2004	May 2006	Deferred Incentive (1996)
	32,680			32,680	153.5		Mar 2002	Mar 2007	Exec Share Bonus
	6,622			6,622	74.4		Nov 2005	May 2006	SAYE (1996)
	80,000			80,000	106.5		April 2004	April 2011	Executive (1996)
	175,000			175,000	151.0		April 2007	April 2009	Deferred Incentive (1996)
	175,000			175,000	151.0		April 2005	April 2012	Executive (1996)
	5,099			5,099	122.4		Nov 2007	May 2008	SAYE (1996)
A H Ekins	6,422		(6,422)	0	75.2	135.5	Nov 2003	May 2004	SAYE (1996)
	133,333			133,333	140.0		April 2001	April 2005	Executive (1996)
	250,000			250,000	131.0		Mar 2002	Mar 2006	Executive (1996)
	2,500			2,500*	0.0		May 2004	Mar 2006	Deferred Incentive (1996)
	6,804			6,804	74.4		Nov 2005	May 2006	SAYE (1996)
	80,000			80,000	106.5		April 2004	April 2011	Executive (1996)
	100,000			100,000	151.0		April 2007	April 2009	Deferred Incentive (1996)
	100,000			100,000	151.0		April 2005	April 2012	Executive (1996)
A B Crew	133,333			133,333	140.0		April 2001	April 2005	Executive (1996)
	250,000			250,000	131.0		Mar 2002	Mar 2006	Executive (1996)
	2,500			2,500*	0.0		May 2004	May 2006	Deferred Incentive (1996)
	36,165			36,165	140.0		April 2000	April 2005	Exec Share Bonus
	9,344			9,344	74.4		Nov 2005	May2006	SAYE (1996)
	100,000			100,000	151.0		April 2007	April 2009	Deferred Incentive (1996)
	100,000			100,000	151.0		April 2005	April 2012	Executive (1996)
	6,172			6,172	122.4		Nov 2007	May 2008	SAYE (1996)
C P Shaw	133,333			133,333	140.0		April 2001	April 2005	Executive (1996)
	3,394		(3,394)	0	75.2	135.5	Nov 2003	May 2004	SAYE (1996)
	125,000			125,000	152.0		May 2002	May 2006	Executive (1996)
	100,000			100,000	151.0		April 2007	April 2009	Deferred Incentive (1996)
	100,000			100,000	151.0		April 2005	April 2012	Executive (1996)
	8,588			8,588	122.4		Nov 2007	May 2008	SAYE (1996)
Total	5,598,888	–	(49,449)	5,549,439					

Directors' Remuneration Report

Options by exercise price:

p	At 1 January 2003	Granted	Exercised	At 31 December 2003
0	53,300	0	(30,000)	23,300
56.0	25,000	0	0	25,000
74.4	38,827	0	0	38,827
75.2	24,679	0	(19,449)	5,230
106.5	320,000	0	0	320,000
122.4	32,472	0	0	32,472
131.0	2,020,000	0	0	2,020,000
140.0	1,050,401	0	0	1,050,401
145.0	26,529	0	0	26,529
151.0	1,850,000	0	0	1,850,000
152.0	125,000	0	0	125,000
153.5	32,680	0	0	32,680
Total	5,598,888	0	(49,449)	5,549,439

*In addition, further rights will be added to each individual's entitlement at such a time as each individual exercises options granted to him on 18 March 1999 under the Countrywide Assured Group plc Executive Share Option Scheme (1996). These additional rights will be calculated by reference to the improvement in the market value of the Company's 5p ordinary shares at the date of exercise.

The middle market price of the Company's shares at 2 January 2003 was 115p and at 31 December 2003 was 141.75p. The range during 2003 was 86.5p to 159p.

The aggregate of gains made on exercise of options in the year was £36,981 (2002: £210,296).

On 9 January 2004, Mr G R Fitzjohn exercised 25,000 options at 56p per share under the Deferred Incentive Scheme. On the same date, Mr M C Nower also exercised his 5,230 options at 75.2p per share under the Savings Related Share Option Scheme (1996).

Approved by the Board of Directors on 9 March 2004 and signed on its behalf by:

C H Sporborg

M C Nower

Corporate Governance

The Directors consider that the Company has complied throughout the year ended 31 December 2003 with Section I of the Combined Code of Principles of Good Governance established by the Committee on Corporate Governance ("the Combined Code"). Both Countrywide plc and Chesnara plc intend to fully comply with the Combined Code going forward from the proposed demerger of the Group.

Board of Directors

The Board of Directors meets frequently and its proceedings are governed by a written Code of Conduct. Its deliberations are assisted by detailed information concerning the Group's financial and operating results.

The Board is headed by a Non-Executive Chairman, has a nominated senior Independent Director and includes sufficient independent Non-Executive Directors as to ensure that due weight and consideration is given to all its decisions.

The Company's Articles of Association require that the Directors, with the exception of the Managing Director, submit themselves for re-election every three years. However, in line with the provisions of the Combined Code the Managing Director is subject to the Articles governing rotation of Directors.

The Independent Non-Executive Directors were appointed for an initial term of three years. The service contract of Mr J M G Andrews expired on 31 March 2003 and he retired on the same date. Mr M J Gordon's contract expires in 1 May 2005. Mr P W Mason's contract has been extended and expires in November 2005.

Mr A J Brown was appointed as Mr Andrews' replacement. Mr A J Brown's contract expires on 1 April 2006.

Nominations Committee

The Board has established a Nominations Committee, the majority of the members of which are Non-Executive. The duties of the Committee are to review all appointments to the Board to ensure that recruitment to the Board is conducted in a systematic, objective and consistent manner. All recommendations by the Nominations Committee are ratified by the Board.

Current members of the Committee are:
C H Sporborg (Chairman)
H D Hill
M J Gordon
A J Brown (appointed on 31 March 2003)

J M G Andrews (Retired on 31 March 2003)

Corporate Governance

Audit Committee

The Audit Committee is comprised only of independent Non-Executive Directors. The Committee meets four times a year. It reviews the half year report and the Annual Report and Accounts prior to their submission to the Board and considers any matters raised by the auditors. Its responsibilities include the consideration of the effectiveness of the Group's internal controls. Current members of the Committee are:

A J Brown (Chairman) (Appointed on 31 March 2003)
P W Mason
M J Gordon

J M G Andrews (Retired on 31 March 2003)

Investor Relations

Wherever appropriate, the Executive Directors and the Chairman meet with institutional investors to explain the Company's strategy and progress towards its goals. In addition, dialogue is maintained with the analyst community to assist with the interpretation of the Company's results and strategy. Both analysts and investors are encouraged to attend the Company's AGM which is held in an open fashion designed to encourage participation from the private investor. Investors are encouraged to visit the Company's website at www.cagroup.co.uk

Any enquiries from individuals on matters relating to their shareholdings and the Company business are welcomed and are dealt with in an informative and swift manner.

Combined Code Provisions

The Directors believe they have complied with the Code provisions set out in Section I of the Combined Code.

Internal Control

The Board is ultimately responsible for the Group's system of control and for reviewing its effectiveness. However such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Combined Code requires that the Directors' review the effectiveness of the Group's system of internal controls, including financial, operational, compliance and risk management. Guidance for Directors *Internal Control: Guidance for Directors on the Combined Code* (the Turnbull guidance) was published in September 1999.

The Board confirms that procedures necessary to implement the Turnbull guidance have been in place throughout the year ended 31 December 2003 and up to the date of signing this report. Emphasis is placed throughout the Group on the importance of internal controls. The Board actively promotes a culture of quality and integrity and it has established straightforward organisational structures throughout the Group with clearly drawn lines of accountability, responsibilities and delegation of authority. To the extent that is appropriate without compromising the internal financial control system, all employees participate in the process of risk management.

Group management is responsible for the identification and control of key risks applicable to their areas of business. Through strategic plans, annual budgets, forecasts and regular reporting, the Directors consider the development of the Group and the risks it is exposed to. These risks may be associated with a variety of internal or external sources including control breakdowns, regulators' requirements, disruption in information systems and competition. The reporting process results in the identification and regular review of the key risks that the Group is exposed to, and includes reports of all breaches of internal control.

The Group has a comprehensive system for reporting financial results to the Board; each operating unit prepares monthly results with a comparison against budget. The Board reviews these for the Group as a whole and determines appropriate action. The Directors and head office senior management monitor the performances of individual subsidiaries.

Detailed control procedures exist throughout the Group, the effectiveness of which is monitored by individual subsidiary boards, senior head office management and, to the extent needed to support their audit opinion on the financial statements reviewed, the external auditors. Measures taken include physical controls, segregation of duties, management reviews and, in some areas, internal audit. The Board regularly considers the need for a group internal audit function but is currently satisfied that this is not necessary.

There are clear, consistent procedures in place for monitoring the system of internal controls. The Directors have reviewed the effectiveness of the internal controls during the year.The Audit Committee meets at least at least four times a year and, inter alia, reviews the effectiveness of the Group's system of internal financial controls.

Auditors

The Group undertakes a formal review every three years, subject to the shareholders' appointment of the auditors, and, in addition we also monitor the auditors' performance as part of an ongoing process. The auditors and the Audit Committee have put safeguards in place to avoid the possible compromise of the auditors' objectivity and independence. Our procedures in respect of other services provided by the auditors are as follows:

- Audit related services – This is work that in their capacity as auditors is best undertaken by themselves. These relate to formalities such as – shareholders and other circulars, borrowings, various regulatory reports and work on acquisitions and disposals.
- Tax consulting – we use the auditors when particularly relevant and all other significant tax consulting is put out to tender.
- General consulting – All sizeable projects are put out to tender. KPMG Audit plc may be invited to tender providing both parties were satisfied that the nature of the contract will not present a threat to the independent nature of the audit team. Before commencement of any works by KPMG Audit plc the Audit Committee first have to approve that the project would be best handled by KPMG Audit plc.

These safeguards have been approved by the Audit Committee, with regular reviews and updates when required in-light of internal developments. The Auditors report to both the Directors and the Audit Committee with regards to their compliance with professional and regulatory requirements and best practice. Note 5 on page 55 sets out the actual payments to KPMG Audit plc.

Directors' Report

The Directors present their report and the audited accounts of Countrywide Assured Group plc for the year ended 31 December 2003.

Results

The Group profit and loss statement for the year ended 31 December 2003 set out on page 46 shows:

	2003	2002
	£000	£000
Profit after tax	49,056	57,181

An interim dividend of 2.15p (2002: 2.05p) per ordinary share was paid on 1 October 2003. Your Directors are recommending the payment of a final dividend of 4.75p (2002: 4.1p) per share net, bringing the total dividend for 2003 to 6.90p.

Review of the business and significant events

The principal activities and a review of the Group's business and operations during the year, significant events, and future prospects is contained in the Chairman's Statement and in the Operating and Financial Review on pages 2 to 22

Directors

The present Directors are listed on page 4. All Directors served throughout the year, other than Mr J M G Andrews and Mr A J Brown. Mr Andrews retired from the board on 31 March 2003, on the same date he also relinquished his membership of the Remuneration Committee, Audit Committee, Nominations Committee and the Committee of the Employee Benefit Trust to the Company. Mr Brown joined the Board as an independent Non-Executive Director on 31 March 2003. On 31 March 2003 he was appointed as a member of the Remuneration Committee, Nominations Committee and the Committee of the Employee Benefit Trust to the Company. He is Chairman of the Audit Committee.

Mr Brown, a Chartered Accountant was Joint Chief Executive of Gartmore Investment Management plc and Finance Director of Hawkpoint Partners Limited.

Details of Directors' interests in the shares of the Company are set out on page 26.

Each of the following Directors entered into a service contract with the Company on 31 October 1997:

G R Fitzjohn
H D Hill
M C Nower
A H Ekins
A B Crew

T Marris entered into a service contract with Countrywide Assured Life Holdings Limited on 31 October 1997.

C P Shaw entered into a service contract with Countrywide Surveyors Limited on 28 March 2002.

No Director has a service contract of more than one year's duration.

P W Mason, G R Fitzjohn and C P Shaw, Directors, will retire by rotation at the Annual General Meeting and, being eligible offer themselves for re-election. Mr Fitzjohn, Director seeking re-election, has a service contract with the Company. Mr Shaw, Director seeking re-election, has a service contract with Countrywide Surveyors Limited.

A J Brown retires in accordance with Article 71 of the Company's Articles of Association and, being eligible, offers himself for election.

No Director had any material interests in any significant contract in any company of the Group during the year.

Substantial shareholdings

The following substantial interests in the Company's ordinary share capital at 31 December 2003 have been notified to the Company:

Name of Substantial Shareholders	No of beneficial interest in shares held	No of non-beneficial interest in shares held	Total No of shares held	Percentage of the issued share capital
Fidelity International Limited	–	32,498,353	32,498,353	9.87%
AXA. S.A.	22,835,967	13,359,923	36,195,890	11.00%
Prudential plc	14,168,898	–	14,168,898	4.31%
Barclays plc	–	13,995,094	13,995,094	4.25%
Aviva plc	10,380,057	2,878,948	13,259,005	4.03%

Subsequent to 31 December 2003, the following substantial shareholders have notified their changes in shareholding to the Company:

Date	Name of Substantial Shareholders	No of beneficial interest in shares held	No of non-beneficial interest in shares held	Total No of shares held	Percentage of the issued share capital
08.01.2004	AXA. S.A.	22,843,623	13,262,685	36,106,308	10.97%
09.01.2004	AXA. S.A.	22,843,623	13,356,275	36,199,898	11.00%
16.01.2004	Barclays plc	–	13,116,887	13,116,887	3.98%
21.01.2004	AXA. S.A.	22,843,623	12,968,898	35,812,521	10.88%
27.01.2004	Legal & General Group plc	9,838,866	–	9,838,866	2.99%
04.02.2004	Legal & General Group plc	10,391,945	–	10,391,945	3.16%
20.02.2004	AXA. S.A.	20,532,819	11,688,075	32,220,894	9.79%
23.02.2004	AXA. S.A.	18,262,819	11,454,336	29,717,155	9.03%
24.02.2004	Legal & General Group plc	15,110,570	–	15,110,570	4.59%

On 16 February 2004, Barclays plc no longer has a notifiable interest in the share capital of the Company.

The other substantial shareholders interests remain unchanged at 9 March 2004 and no other person holds 3% or more of the issued share capital of the Company.

There were no significant contracts with substantial corporate shareholders during the year.

Donations

During the year donations to charities by the Group totalled £51,000 (2002: £61,000). There were no UK or EU political contributions and no political expenditure was incurred.

Waivers of Dividends

SG Hambros Trust Company (Jersey) Limited, the Trustee of the Countrywide Assured Group Employee Benefit Trust, a shareholder of 2,471,648 Ordinary Shares of 5p in the Company, agreed to partially waive its right to receive the final dividend for 31 December 2002 of 4.1p per share net and instead received a dividend of 0.000001p per share net on its holdings which amounted to £0.02. The dividends waived amounted to £101,337.57 and the Trust's shareholding represented approximately 0.68% of the issued share capital of the Company at the record date, 14 March 2003.

In addition, the Trustees also partially waived their right to receive the interim dividend for 30 June 2003 of 2.15p per share net on their holding of 2,435,460 ordinary shares of 5p in the Company and received instead a dividend of 0.000001p per share net on their holding which amounted to £0.02. The dividends waived were £52,362.39 representing approximately 0.75% of the issued share capital of the Company at the record date, 22 August 2003.

The Trustees of the Company's Employee Benefit Trust, which was established by a Deed dated 21 January 1992, oversee the administrative work and also acquire shares with which to satisfy the options or rights granted under the Company's Deferred Incentive Schemes and Executive Share Bonus Schemes. Pursuant to the Deed dated 21 January 1992 as amended by a Deed of Variation dated 3 October, 1997, at the direction of the Company the Trustees are obliged to waive their right to receive all or any part of any dividend payable by any company whose shares are held by the Trustees.

The Trustees have, in addition, partially waived their right to receive a final dividend, if any, on their holdings and instead will receive 0.000001 pence per share net.

Purchase of Own Shares by the Company in 2002
As stated in the Report and Accounts 2002, for technical reasons, the share purchases between 29 August and 19 December 2002, totalling 35,744,096 shares were considered void. The Directors were advised to take the necessary steps to regularise this position in seeking shareholders approval at the Annual General Meeting held on 25 April 2003 to cancel and extinguish all 35,744,096 shares. Subject to obtaining the requisite shareholders consent at the Annual General Meeting, the Company intended to seek the confirmation of the Court for the cancellation and reduced such shares described above, as required by the Companies Act 1985.

At the Annual General Meeting held on 25 April 2003, shareholders approved the relevant special resolutions to cancel and extinguish all 35,744,096 shares. The Court Order confirming the reduction of the authorised and issued share capital of the Company by 35,744,096 shares was registered by Companies House on 11 June 2003 and the reduction, detailed below was therefore effective from 11 June 2003:

Prior to Court Order		**Subsequent to Court Order**	
Authorised Share Capital	**No of Ordinary 5p Shares**	**Reduced Authorised Share Capital**	**Reduced Number of Ordinary 5p Shares**
£21,500,000	430,000,000	£19,712,795.20	394,255,904
Issued Share Capital	**Number of Ordinary 5p Shares**	**Reduced Issued Share Capital**	**Reduced Number of Ordinary 5p Shares**
£18,118,029.65	362,360,593	£16,330,824.85	326,616,497

Personnel
The Group has a policy of keeping employees informed of Group affairs through news circulars and meetings involving Directors and staff. The Report and Accounts are made available to employees who are all encouraged to involve themselves in the performance of the Group. Employees are encouraged to discuss operational issues with their line management or to suggest ways to improve performance.The Company operates Executive Share Option Schemes in which certain employees of the Group are selected for participation. The Company also has a Savings Related Share Option Scheme for all employees and Directors. The Company has established an Employee Benefit Trust for the benefit of employees and Directors of the Company and its subsidiaries.

Equal Opportunities

The Group is committed to a policy of equal opportunity in employment and believes that this is essential to ensuring the success and growth of the organisation. To this end, the Group makes every effort to select, recruit, train and promote the best candidates based on suitability for the job; to treat all employees and applicants fairly regardless of race, sex, marital status, nationality, ethnic origin or disability; and to ensure that no employee suffers harassment or intimidation.

The Group Legal Department had held in-house training seminars last year to Directors and Managers on the law relating to equal opportunities and Managing dignity at work. They are to ensure that the Group's equal opportunities policy is put into practice within their companies.

Disabled Employees

It is the policy of the Group to provide employment for disabled persons wherever the requirements of the organisation will allow and if applications for employment are received from suitable individuals. If existing employees become disabled every reasonable effort will be made to ensure that their employment with the Group can continue on a worthwhile basis with career opportunities available to them.

Health, Safety and Welfare at Work

The Group place the greatest importance to the heath, safety and welfare of its employees. The Group sets its health and safety and welfare policies, group standards and procedures to identify and remove any hazardous areas, or reduce material risks of fire and of accidents or injuries to employees and visitors.

Health & Safety and Fire officers actively implement the Group's policies, standards and procedures in all branches in which the Group operates. The Officers report annually to the Group Health, Safety & Welfare officer on issues relating to the health, safety and welfare of the employees.These reports are reviewed by the Board and suitable enhancements or improvements are made. The Group Legal Department had also had in-house training seminars to Health & Safety Officers and on Health & Safety and fire issues, to re-inforce the Group's policies.

To this end, the Group makes every reasonable effort to provide safe and healthy working conditions in all its offices. Similarly, it is the duty of all employees to exercise responsibility and to do everything to prevent injury to themselves and to others. This policy standards and procedures are communicated to employees through contracts of employment, staff hand books, operating manuals, bulletins and notice boards as appropriate.

Social, Ethical and Environmental Issues

The Company takes its responsibility for social, ethical and environmental issues very seriously and recognises the importance of developing and maintaining high standards.

At the Company Head Office we have the following initiatives currently in place.

- Recycling of all paper, cardboard and related materials.
- Recycling of used printer cartridges and mobile phones for charity.
- The use of rechargeable batteries, rather than the disposable type.

We also encourage all our subsidiaries to do all they can to protect the environment and reduce waste.

While we are accountable to our shareholders, we take into account the interest of all our stakeholders including our employees, our customers and our suppliers as well as the local community, and the environment in which we operate.

Employees
We:
- Provide clear and fair terms of employment.
- Provide clean, healthy and safe working conditions.
- Have a fair remuneration policy everywhere we operate.
- Strive for equal opportunities for all present and potential employees.
- Encourage employees to develop skills and progress in their careers.
- Do not tolerate any sexual, physical or mental harassment of our employees.
- Do not discriminate on grounds of colour, ethnic origin, gender, age, religion, political or other option, disability or sexual orientation.
- Do not employ underage staff.

Customers
We:
- Seek to be honest and fair in our relationships with our customers.
- Provide the standards of product and service that have been agreed.
- Take all reasonable steps to ensure the safety and quality of products or services that we produce.

Suppliers
We:
- Seek to be honest and fair in our relationships with suppliers and subcontractors.
- Pay suppliers and subcontractors in accordance with agreed terms.
- Have a policy not to offer, pay or accept bribes or substantial favours.
- Encourage suppliers and subcontractors to abide by the principles of this policy.

Community and environment
We:
- Aim to make the communities in which we work better places to live and do business.
- Aim to be sensitive to the local community's cultural, social and economic needs.
- Endeavour to protect and preserve the environment where we operate.

Shareholders and other suppliers of finance
We:
- Are financially accountable to our shareholders.
- Communicate to shareholders all matters that are material to an understanding of the future prospects of the organisation.
- Aim to protect shareholders funds, manage risks and ensure funds are used as agreed.

Management commitment
- We will do all in our power to conform to the letter and spirit of this policy.

Being a financial services company and residential estate agency, the Directors believe that the activities of the Group do not materially contribute to pollution or cause material damage to the environment.

Even so, the Group commits itself to all available processes and practices that have the least impact on the environment. It also seeks to use all its resources carefully and with prudence. All employees are encouraged to conserve all types of energy, and to minimise waste and recycle waste products wherever possible. The Group also encourages its suppliers to minimise waste.

Creditor Payment Policy
It is not the Company's policy to specify any code of payment practice across the Group. Each of the Group's operating businesses is responsible for agreeing the terms under which transactions with suppliers are conducted. However, it is Group policy that payments to suppliers must be made in accordance with these terms, providing that the supplier is also complying with the agreed terms of business. The number of creditor days outstanding at 31 December 2003, based on the consolidated financial statements, was 28.0 (2002: 24.4) for the Group and 21.1 (2002: 35.6) for the Company.

Institutional Shareholders' Committee's Statement of Best Practice
The Company supports the aims of the Statement and has, where appropriate, adopted its recommendations.
Article 82 of the Company's Articles of Association contains restrictions to the borrowing powers of the Company. These are summarised as follows:

The borrowings of the Company and its subsidiaries for the time being (excluding inter-company borrowing) shall not at any time, without previous sanction of an ordinary resolution of the Company, exceed three times the aggregate of:

(a) The amount paid up on the issued share capital of the Company; and,
(b) The amount standing to the credit of the consolidated capital and revenue reserves of the Company and its subsidiaries (including retained earnings);

all as shown in the latest audited consolidated balance sheet of the Company and its subsidiaries.

Approval of the Directors Remuneration Report set out in the Annual Report (Resolution 3)
The Directors' Remuneration Report Regulation 2002, which came into force on 1 August 2002, stipulates the form of the Report. The Report is set out on pages 23 to 30 of the Annual Report. Shareholders will be asked to approve this Remuneration Report under Resolution 3.

Authority to Allot Relevant Securities (Resolution 9)
The Company will be asking shareholders to renew the existing authority which the Directors have to allot shares in respect of the authorised but unissued ordinary share capital. Resolution 9 seeks to renew this authority to issue shares up to an aggregate nominal amount of £3,258,031 representing approximately 19.80% of the issued share capital of the Company. The Directors have no present intention of allotting shares other than in relation to the exercise of options under the Company's share option schemes.

Disapplication of Pre-emption Rights (Resolution 10)
Resolution 10 will be proposed as a Special Resolution, renewing the Directors' authority to allot shares for cash other than to existing shareholders in proportion to their shareholding up to an aggregate nominal value of £822,738, representing 5% of the Company's issued share capital.

Both these authorities, if given, will expire at the conclusion of the next Annual General Meeting or 15 months after the passing of the resolution, whichever occurs first.

Power to purchase own shares (Resolution 11)
The Companies Act 1985 permits a public company to purchase its own shares in accordance with powers contained in its Articles of Association with the authority of a resolution of shareholders. The Company's Articles of Association were amended at the 1988 Annual General Meeting to give the Company the power to purchase its own shares. Such a power would expire at the conclusion of the next Annual General Meeting.

With effect from 1 December 2003, listed companies are able to buy their own shares and, instead of cancelling them, hold them in treasury and either sell them for cash or use them for cash or use them for an employee share scheme under the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003.

The aggregate nominal value of shares of any class held as treasury shares must not be at any time exceed 10% of the nominal value of the issued share capital of the shares in that class at that time.

Your Directors believe that the Company should continue to have the authority to purchase its own shares. However, this authority will only be exercised when the result would be an increase in earnings per share and in the best interests of the Company. Your Directors have no present intention to make use of this authority.

Resolution 11 will be proposed as a Special Resolution at the Annual General Meeting to give the necessary authority.

The Board confirms that, in the event of a significant change in the Company's issued share capital, it will consider the impact of such a change on the options granted under its various option schemes. Where appropriate, and where the scheme rules permit, option grants or exercise targets may be adjusted.

Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which show a true and fair view of the state of affairs of the Company and the Group and of the profit or loss in that period. In preparing those financial statements, the Directors are required to:

(a) select suitable accounting policies and then apply them consistently;
(b) make judgements and estimates that are reasonable and prudent;
(c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and,
(d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the provisions of the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated accounts of the group must comply with International Financial Reporting Standards (IFRS).

These financial statements have been prepared in accordance with UK accounting standards. The consolidated financial performance and financial position as disclosed in these financial statements may be significantly different if determined in accordance with IFRS. Major differences between UK accounting standards and IFRS identified to date as potentially having a significant effect on the consolidated financial statements may include: fair value accounting for all financial instruments, including derivatives; the requirement to provide for deferred taxation on potential capital gains calculated on the book value of revalued properties; recognition in the financial statements of actuarial gains and losses arising from defined benefit pension schemes; and accounting for the intrinsic fair value of the cost of share options granted to employees in the profit and loss account. The group has not quantified these differences.

This summary should not be taken as an exhaustive list of all the differences between UK accounting standards and IFRS that potentially have a significant impact on the consolidated financial statements. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

In addition, the bodies that establish UK accounting standards and IFRS have significant ongoing projects that could affect the potential differences and the impact of these differences on the future consolidated financial statements. The actual impacts on the consolidated financial statements of the adoption of IFRS will depend on the standards applicable and the particular circumstances prevailing on adoption of IFRS on 1 January 2005.

The Group is developing a framework as part of the IFRS conversion project being undertaken during 2004.

Going Concern
After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in the accounts.

Auditors
A resolution to appoint KPMG Audit Plc as the Company's auditors will be proposed at the Annual General Meeting.

Approved by the Board on 9 March 2004 and signed on its behalf by:

Gareth R Williams
Company Secretary

Independent Auditors' Report

To the members of Countrywide Assured Group plc
We have audited the financial statements on pages 46 to 85. We have also audited the information in the Directors' Remuneration Report that has been described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors
The Directors are responsible for preparing the Annual Report and the Directors Remuneration Report. As described on page 42, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' Remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 32 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained the Annual Report, including the Corporate Governance statement, and the unaudited part of the Directors' Remuneration Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluate the overall adequacy of the presentation of the information in the financial statement and the part of the Directors' Remuneration Report to be audited.

Opinion

- In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit of the Group for the year then ended: and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

9 March 2004

Group Profit and Loss Account

For the year ended 31 December

	Note	2003 £000	2002 £000
Turnover		**601,563**	655,265
Group operating costs		**522,776**	569,048
Group operating profit	2	**78,787**	86,217
Share of operating profit/(loss) in – joint ventures	12(b)	**160**	(242)
– associates	12(c)	**(2,735)**	(4,436)
		(2,575)	(4,678)
Amounts written off investment property	15	**(2,750)**	–
Net interest receivable and other similar charges	7	**760**	1,289
Profit on ordinary activities before tax		**74,222**	82,828
Tax on profit on ordinary activities	8	**(25,166)**	(25,647)
Profit for the financial year	9	**49,056**	57,181
Dividends	10	**(22,478)**	(20,428)
Retained profit for the year	22	**26,578**	36,753
Earnings per share	11	**14.40p**	15.89p
Adjusted earnings per share	11	**15.12p**	16.15p
Diluted earnings per share	11	**14.34p**	15.70p
Dividend per share	10	**6.90p**	6.15p

There is no material difference between the profit for the financial year and the result on an historic cost basis. All profits are derived from continuing operations.

Group Segmental Analysis

	Note	Turnover **2003** **£000**	 2002 £000	Operating profit **2003** **£000**	 2002 £000	Net Assets/ (liabilities) (excluding intra-Group funding) **2003** **£000**	 2002 £000
Business Segments							
Estate Agency		**253,585**	242,656	**33,580**	40,228	**33,585**	34,346
Financial Services		**72,911**	59,043	**21,894**	10,561	**(31,213)**	(25,158)
Surveying & Valuation		**108,040**	101,816	**31,866**	28,743	**(1,845)**	4,948
Conveyancing		**20,167**	18,668	**(1,484)**	1,834	**7,939**	3,196
Central		**276**	–	**(5,466)**	(5,551)	**46,819**	1,227
Total non-insurance operations	2	**454,979**	422,183	**80,390**	75,815	**55,285**	18,559
Life Assurance	16(a)16(b)	**146,584**	233,082	**(1,603)**	10,402	**87,454**	95,595
Total Group		**601,563**	655,265	**78,787**	86,217	**142,739**	114,154

All activities take place within the UK, with the exception of a small amount of Estate Agency business in Spain (2003: Turnover £1.7m) (2002: £nil).

Group Statement of Total Recognised Gains and Losses

	2003 **£000**	2002 £000
Profit for the financial year	**49,056**	57,181
Total recognised gains and losses since the last Annual Report	**49,056**	57,181

Group Balance Sheet

at 31 December

Fixed assets	Note	2003 £000	2003 £000	2002 £000	2002 £000
Intangible assets: Goodwill	13		**16,745**		18,832
Tangible fixed assets	14		**36,652**		31,915
Other investments	15		**63,089**		65,866
Investments in joint ventures					
Share of gross assets		**1,328**		1,367	
Share of gross liabilities		**(165)**		(364)	
	12(b)		**1,163**		1,003
Investments in associates					
Goodwill	13	**1,834**		4,250	
Share of net assets	12(c)	**914**		670	
			2,748		4,920
Total Investments			**67,000**		71,789
Total fixed assets			**120,397**		122,536
Policyholders assets to cover linked liabilities	16(g)		**472,413**		395,830
Policyholder other investments	16(i)		**234,133**		242,210
Policyholder net current assets			**11,603**		28,500
Deferred acquisition costs	16(f)		**16,134**		33,927
Current assets					
Debtors	17	**63,977**		53,290	
Cash at bank		**65,036**		32,386	
		129,013		85,676	
Current liabilities					
Creditors: amounts falling due within one year	18	**(113,431)**		(107,273)	
Net current assets/(liabilities)			**15,582**		(21,597)
Total assets less current liabilities			**870,262**		801,406
Creditors: amounts falling due after more than one year	19	**(7,270)**		(17,482)	
Policyholder technical provisions for linked liabilities	16(k)	**(471,626)**		(393,613)	
Policyholder long-term business provision	16(k)	**(234,188)**		(263,804)	
Provisions for liabilities and charges	20	**(14,439)**		(12,353)	
			(727,523)		(687,252)
Net assets			**142,739**		114,154
Capital and reserves					
Called up share capital	21		**16,455**		18,110
Share premium account	22		**26,493**		24,619
Capital redemption reserve	22		**3,256**		1,468
Other reserves	22		**670**		670
Profit and loss account	22		**95,865**		69,287
Equity shareholders' funds			**142,739**		114,154

Approved by the Board of Directors on 9 March 2004 and signed on its behalf by:

C H Sporborg M C Nower

Company Balance Sheet

at 31 December

	Note	**2003 £000**	**2003 £000**	2002 £000	2002 £000
Fixed assets					
Tangible fixed assets	14		**6,143**		1,352
Investment in subsidiaries	12(d)		**196,315**		195,199
Other Investments	15		**25,092**		22,627
Total Investments			**221,407**		217,826
Total fixed assets			**227,550**		219,178
Current assets					
Debtors	17	**89,306**		135,343	
Cash at bank and in hand		**39,430**		3,838	
		128,736		139,181	
Current liabilities					
Creditors: amounts falling due within one year	18	**(241,036)**		(248,235)	
Net current liabilities			**(112,300)**		(109,054)
Total assets less current liabilities			**115,250**		110,124
Provisions for liabilities and charges	20	**(1,580)**		(1,074)	
			(1,580)		(1,074)
Net assets			**113,670**		109,050
Capital and reserves					
Called up share capital	21		**16,455**		18,110
Share premium account	22		**26,493**		24,619
Capital redemption reserve	22		**3,256**		1,468
Revaluation reserve	22		**1,701**		1,701
Other reserves	22		**37,875**		37,875
Profit and loss account	22		**27,890**		25,277
			113,670		109,050

Approved by the Board of Directors on 9 March 2004 and signed on its behalf by:

C H Sporborg M C Nower

Group Cash Flow Statement

for the year ended 31 December

	Note	2003 £000	2003 £000	2002 £000	2002 £000
Cash inflow from operating activities	27		**85,226**		97,673
Returns of investment and servicing of finance					
Interest received		**807**		2,525	
Interest paid		**(181)**		(1,236)	
			626		1,289
Taxation			**(24,828)**		(15,059)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(13,783)**		(13,274)	
Proceeds from sale of fixed assets & property investment		**1,339**		1,554	
(Purchase) of non-Life investments		**(4,024)**		(7,678)	
Net cash (outflow) for capital expenditure and financial investment			**(16,468)**		(19,398)
Acquisitions	30		**(563)**		(15,961)
Initial payment from Friends Provident			–		24,339
Equity dividends paid			**(20,259)**		(19,711)
Cash inflow before use of liquid resources, financing and net portfolio investment			**23,734**		53,172
Financing					
Issue of shares		**2,027**		1,377	
Purchase of own shares		–		(51,711)	
Advance of term loans		**1,100**		5,900	
Cash transferred into Insurance cell	28	**(1,200)**		–	
Net cash (outflow)/inflow from financing			**1,927**		(44,434)
Net portfolio – Life Company shareholder investments	28		**5,151**		(6,219)
Increase in cash in the year	29		**30,812**		2,519

Notes to the Accounts

1. Accounting policies

(a) Basis of preparation

The consolidated accounts of the Group have been prepared under the historical cost convention, modified by the revaluation of certain freehold properties and in accordance with applicable accounting standards. The Group financial statements are prepared in accordance with Schedule 4 to the Companies Act 1985.

The Group has adopted the Statement of Recommended Practice in Accounting for Insurance Business and has consolidated the Life Assurance business on the Modified Statutory Solvency Basis.

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2003 (unless otherwise stated). The acquisition method of accounting had been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the Group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. The Group's share of the profits less losses of associate is included in the consolidated profit and loss account and its interest in their net assets, (other than goodwill), is included investments in the consolidated balance sheet.

A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of the profits less losses of joint ventures is included in the consolidated profit and loss account and its in their net assets, (other than goodwill), is included in investments in the consolidated balance sheet.

The accounts of the Company have been prepared under the historical cost convention, modified by the revaluation of certain investments in subsidiaries and in accordance with applicable accounting standards.

(b) Turnover

Turnover, which arises mainly in the United Kingdom, comprises commission, fees receivable and Life Assurance premium income.

Commission earned on sales of residential and commercial property is accounted for on the exchange of contracts for such sales. Survey, valuation and conveyancing fees are accounted for on completion of the service being provided. Commission earned on sales of insurance policies and related products is accounted for when the policies go on risk.

Premiums are accounted for on a receivable basis or, in the case of unit-linked business, when the liability is recognised. Premiums are stated gross of commissions, taxes and premium levies. Re-insurance premiums are charged when they become payable.

1. Accounting policies *continued*

(c) Fixed assets

Fixed assets are stated at cost or valuation less accumulated depreciation.

(i) Tangible assets

Tangible assets are depreciated, on a straight line basis, to their estimated residual value as follows:

Freehold buildings – 50 years;
Leasehold properties and improvements – over the period of the lease;
Office furniture and equipment – three to five years;
Motor vehicles – four to five years.

(ii) Finance Leases and Hire Purchase Contracts

Where assets are financed by leasing or hire purchase arrangements that give rights approximating to ownership finance leases') the assets are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as a lease obligation. Such assets are depreciated on the same basis and over the same estimated lives as other comparable assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged against profit as incurred.

(iii) Vacant leasehold properties

Provision is made for the best estimate of the present value of unavoidable lease payments on vacant leasehold properties.

(d) Pensions

The expected cost of pensions in respect of the Group's defined benefit pension schemes is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the schemes. In accordance with Statement of Standard Accounting Practice No.24 (Accounting for pension costs) variations from the regular cost are spread over the expected remaining service lives of current employees in the schemes. The pension cost is assessed in accordance with the advice of qualified actuaries. In respect of defined contribution schemes, contributions are charged to the profit and loss account in the year in which they became payable.

(e) Long term business liabilities

For certain classes of business where policyholders participate in surpluses, the net premium calculation method has been used to calculate the Long Term Business Provision. The net premium is calculated such that it would be sufficient at the outset of the policy to provide only the discounted value of the original guaranteed death and maturity benefits. The provision is then calculated by subtracting the present value of the future net premiums from the present value of future benefits (including attaching bonuses). This method makes implicit allowance for both future expenses of maintaining the policy and sharing in future profits.

(f) Investments

All investments, including those classified as assets held to cover linked liabilities, but excluding investments in subsidiaries and associates, are stated at their current value.

Listed investments are valued on the basis of the market convention where they are primarily traded, which is either last traded or middle market price.

1. Accounting policies *continued*

(f) Investments *continued*

Investment properties are valued on an open market basis. Changes in market value are taken to the revaluation reserve unless a deficit (or its reversal) occurs on an individual property, whereby it is charged (or credited) to the profit and loss account. Valuations are undertaken by professional valuers at intervals of not more than three years. In the intervening years values are reviewed by the Directors and adjustments made to the financial statements as appropriate. This treatment may be a departure from the requirements of the Companies Act 1985, concerning the depreciation of fixed assets. However, the Directors consider this accounting policy is necessary for the financial statements to show a true and fair view, as the application of depreciation would be inappropriate.

Shares in the company held by the Countrywide Assured Group Employee Benefit Trust are shown at cost. The cost of acquiring the shares is charged to the profit and loss account over the five year period in which the shares are held in the trust.

(g) Operating leases

Leasing payments in respect of operating leases are charged against profit as incurred, other than relating to vacant leasehold properties as described in paragraph (c) (iii) above.

(h) Goodwill

Prior to 1 January 1998, when FRS 10: Goodwill and Intangible Assets was adopted, purchased goodwill arising on the consolidation of acquisitions (representing the excess of the fair value of the consideration and associated costs given over the fair value of the separable net assets acquired) was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life of no more than 20 years. Any impairment charge is included within operating profits.

Negative goodwill arising in respect of acquisitions since 1 January 1998 is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

On the subsequent disposal or termination of a business acquired since 1 January 1998, the profit and loss on disposal or termination is calculated after charging (crediting) the unamortised amount of any related goodwill (negative goodwill).

(i) Tax

The charge for tax is based on the profit and loss account for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax assets and liabilities are recognised in accordance with FRS 19: Deferred Taxation. The Group has chosen not to discount the deferred tax asset or liability, to reflect the time value of money, as permitted by FRS 19. Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except where FRS 19 requires different treatment. Deferred tax assets arising from unrelieved tax losses are only recognised to the extent that they will be relieved in the foreseeable future.

1. Accounting policies *continued*

(j) Capitalisation of internal software development costs
Internal costs that are incurred during the development of significant and separately identifiable computer software for use in the business are capitalised where the software is integral to the generation of future economic benefits. Internal costs that are capitalised are limited to incremental costs specific to the project. The software is depreciated once it is ready for use in the business.

(k) Distribution agreement with Friends Provident Life and Pensions Limited (FPLAP)
The initial payment of £25 million received in 2002 under the distribution agreement with FPLAP (as consideration for the Financial Services Division to sell only FPLAP products) has been deferred and will be recognised over the 15 year life of the agreement, except to the extent that costs have been incurred in reaching that agreement, or as a direct result of entering into that agreement. Income has been recognised immediately to offset the impact of such costs and is reflected in note 16 (e).

2. Profit on ordinary activities before tax

	Note	2003 £000	2002 £000
Turnover		**454,979**	422,183
Staff costs	3	**(240,306)**	(223,859)
Other operating costs	5	**(141,922)**	(132,092)
Profit before interest and other income		**72,751**	66,232
Other operating income	6	**7,639**	9,583
Operating profit: non-insurance		**80,390**	75,815
Operating profit: Life insurance	16(a)	**(1,603)**	10,402
Operating profit		**78,787**	86,217

3. Staff costs – non Insurance

	2003 £000	2002 £000
Salaries	**213,173**	199,576
Social security	**22,596**	20,050
Pension costs	**4,537**	4,233
	240,306	223,859

4. Employees

The average number of persons employed by the Group during the year was:

	2003 Number	2002 Number
Estate Agency	**5,408**	5,568
Financial Services	**1,288**	1,219
Surveying & Valuation	**1,233**	1,184
Conveyancing	**502**	438
Life Assurance	**300**	340
Head Office	**66**	67
	8,797	8,816

The costs of staff included within the Life Assurance activity above were accounted for within the technical account for long-term business – see note 16.

5. Other operating costs – non Insurance

	2003 £000	2002 £000
Group other operating costs include the following:		
Depreciation of tangible assets	**8,383**	5,982
Amortisation and impairment of goodwill in subsidiary companies	**2,097**	795
Auditor's remuneration – Group	**343**	348
Auditor's remuneration – Company	**58**	47
Non-audit fees paid to auditor and its associates	**18**	165
Operating lease rentals – Land & buildings	**19,556**	17,473
Operating lease rentals – Other	**15,025**	14,786

6. Other operating income

	2003 £000	2002 £000
Rent receivable	**2,027**	2,020
Other operating income	**5,612**	7,563
	7,639	9,583

7. Net interest receivable/(payable) and other similar charges

	2003 £000	2002 £000
Interest received on bank and other borrowings	**916**	2,525
Interest paid on bank and other borrowings	**(156)**	(1,236)
	760	1,289

8. Taxation

(a) Taxation on profit on ordinary activities

	Technical Account		Non-technical Account	
	2003	2002	**2003**	2002
Corporation tax at 30% (2002: 30%)	**£000**	£000	**£000**	£000
– Current tax for the year	**36**	631	**25,497**	22,774
– Adjustment in respect of prior years current tax	**125**	(216)	**109**	126
– Share of prior year associated company consortium relief	**–**	–	**–**	(453)
– Deferred tax charge relating to prior years	**4,200**	–	**–**	–
– Deferred tax (released)/charged in the year	**(5,143)**	1,433	**342**	1,352
	(782)	1,848	**25,948**	23,799
			(782)	1,848
			25,166	25,647

8. Taxation *continued*

(b) Reconciliation of actual tax charge to UK corporate tax rate

	Technical Account		Non-technical Account	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Profit on ordinary activities before tax	**(11,784)**	2,659	**86,006**	80,169
Tax at UK rate of 30 % (2002:30 %) on profit on ordinary activities	**(3,535)**	798	**25,802**	24,051
Effects of:				
Tax relief on contributions to QUEST/Share options	–	–	**(457)**	(40)
Share of tax losses from associated companies and joint ventures not surrendered by consortium relief	–	–	**48**	803
Capital allowances in excess of depreciation	–		**(196)**	(825)
Permanent depreciation and amortisation of goodwill	–	–	**2,116**	1,018
Cash contribution to employee benefit trust	–	–	–	(245)
Other permanent differences	–	–	**861**	175
Utilisation of trading losses	–	–	–	(104)
Utilisation of unprovided capital losses	–	–	**(618)**	(174)
UK tax bases of insurance profits	**3,571**	(167)	–	–
Adjustment in respect of losses arising from Friends Provident reinsurance treaty	–	–	**(2,927)**	(1,885)
Overseas trading losses not relieved	–	–	**868**	–
Reported current tax charge	**36**	631	**25,497**	22,774

(c) Deferred taxation

The components of the net deferred tax liability are as follows: The balances have not been discounted.

	Technical Account		Non-technical Account	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Liability provided/(asset recognised)				
Capital allowances	–	–	**(1,466)**	(1,713)
Short term timing differences	–	–	**453**	358
Deferred acquisition costs	**4,840**	4,938	–	–
Actuarial reserves	**(88)**	(108)	–	–
Other	–	865	–	–
	4,752	5,695	**(1,013)**	(1,355)
			4,752	5,695
			3,739	4,340

A potential tax asset of £31,173,000 (31 December 2002: £38,537,000) relating to realised losses has not been recognised (in line with FRS 19's recognition of deferred tax assets only to the extent that they will be relieved in the foreseeable future).

8. Taxation *continued*

(d) Reconciliation in movements in deferred tax

	2003 £000	2002 £000
Deferred tax liability at beginning of year	**4,340**	2,038
Transferred on acquisition	–	(483)
Deferred tax released/(charged) in profit and loss account for the year	**(4,801)**	2,785
Deferred tax charge in the profit and loss account relating to prior years	**4,200**	–
Deferred tax liability at end of year	**3,739**	4,340

(e) Factors that may affect future tax charges

The Group anticipates that the effective tax rate will not alter materially in future years.

9. Profit for the financial year after tax

The Company has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The Group profit for the year includes a profit before dividends of £25,091,000 (2002: Profit £93,251,000 restated) dealt with in the accounts of the Company.

10. Dividends

	2003 £000	2002 £000
Interim dividend paid 2.15p per share (2002: 2.05p)	**6,961**	7,130
Final dividend proposed 4.75p per share (2002: 4.10p)	**15,517**	13,298
Total dividend 6.90p per share (2002: 6.15p)	**22,478**	20,428

11. Earnings per share

The earnings per share based upon the profit for the year after tax of £49,056,000 (2002: £57,181,000) is calculated using the weighted average number of 340,605,028 ordinary shares of 5p each in issue during the year (2002: 359,895,928). Shares held by the Employee Benefit Trust are excluded from the calculation.

Adjusted earnings per share

During 2002 the Company bought back 35,744,096 shares which were not cancelled until 11 June 2003. These shares were not freely available on the market and the entitlement to dividend had been waived. The adjusted earnings per share is calculated excluding these shares, which has reduced the weighted average number of shares by 16,060,361 (2002: 5,807,329).

Diluted earnings per share

The diluted weighted average number of shares was 342,030,740 (2002: 364,235,408), the difference, compared to the basic earnings per share calculation representing the equivalent number of shares that would be issued for no consideration if all outstanding dilutive share options were exercised.

12. Investment in Group undertakings

The Company owns directly or indirectly the whole of the issued and fully paid ordinary share capital of its subsidiary undertakings, all of which are incorporated in Great Britain and whose operations are conducted in the United Kingdom, except as noted below.

(a) Principal subsidiary undertakings

Estate Agency

Countrywide Estate Agents (Incorporated with Unlimited Liability) trading as: Abbotts, Austin & Wyatt, Bairstow Eves, Beresford Adams, Bridgfords, Carson and Company, Constables, Countrywide North, Daniel Henry, Dixons, Faron Sutaria, Fulfords, H_2O Homes Overseas Countrywide, Hetheringtons, John D Wood & Co, King & Chasemore, Mann & Co., Miller, Palmer Snell, Chappell and Mathews, PKL, R A Bennett, Spencers, Taylors, Watson Bull & Porter, Countrywide Residential Lettings, Countrywide Residential Management, Countrywide Property Auctions, CAG Overseas Investments Limited, Countrywide Assured Leasing Limited and Countrywide Assured Franchising Limited.

Financial Services

Countrywide Assured Financial Services Limited
Countrywide Assured Mortgage Services plc
Countrywide Assured Insurance Services Limited
Countrywide Lending Solutions Limited

Surveying and Valuation

Countrywide Surveyors Limited, Countrywide Surveyors (1994).

Conveyancing

Countrywide Property Lawyers Limited

Life Assurance

Countrywide Assured plc (indirectly held)
Key Retirement Solutions Limited

(b) Joint Venture

rightmove.co.uk Limited (29% holding)

The 29% stake in rightmove.co.uk Limited is being treated as a joint venture because decisions on financial and operating policy essential to the activities and financial position of the venture require each joint venturer's consent.

For the year to 31 December 2003, the following share of rightmove.co.uk results and assets have been incorporated within the Group accounts.

	2003 £000	2002 £000
Turnover	**1,433**	936
Profit/(loss) before tax	**160**	(242)
Net assets	**1,163**	1,003

12. Investment in Group undertakings *continued*

(c) Associated companies

Netsquared Limited (30% holding)

For the year to 31 December 2003, the following share of Netsquared Limited's results and assets have been incorporated within the Group accounts.

	2003 £000	2002 £000
Turnover	**210**	194
Loss before tax	**(98)**	(56)
Net assets	**118**	156

TM Property Service Limited (46.77 % holding)

For the year to 31 December 2003, the following share of TM Property Service Limited's results and assets have been incorporated within the Group accounts.

	2003 £000	2002 £000
Turnover	**6,170**	2,088
Loss before tax	**(2,637)**	(4,380)
Net assets	**796**	514

Included in the loss before tax of the associates, there is £60,000 (2002: £60,000) goodwill amortised for Netsquared Limited and £2,356,000 (2002: £2,672,000) of goodwill amortised for TM Property Service Limited.

(d) Investment in Group undertakings

	£000
Company	
Cost or valuation	
At 1 January 2003	195,199
Additions	1,666
Write down	(550)
At 31 December 2003	**196,315**

13. Goodwill

	Goodwill in Subsidiaries £000	Goodwill in Associates £000	Total Goodwill £000
Group			
Cost			
At 1 January 2003	21,781	7,398	29,179
Additions	20	–	20
At 31 December 2003	**21,801**	**7,398**	**29,199**
Provisions for amortisation and impairment			
At 1 January 2003	2,959	3,148	6,107
Amortisation charges in year	1,120	516	1,636
Impairment	977	1,900	2,877
At 31 December 2003	**5,056**	**5,564**	**10,620**
Net book value			
As at 31 December 2003	**16,745**	**1,834**	**18,579**
As at 31 December 2002	18,832	4,250	23,072

Goodwill arising is being amortised over 10 to 20 years. An impairment review is undertaken in the first full year after acquisition as required by FRS 11, which may result in a subsequent write off of goodwill and a change in the period of amortisation in respect of some acquired businesses.

The impairment review is conducted by reference to the forecast cash flows of the business for the first five years post-acquisition. All cash flows are discounted at 15%. Cumulative goodwill written off to reserves prior to the adaption of FRS 10 : Goodwill, since the merger of Bairstow Eves. plc and Mann & Co. plc is £43,308,000 (2002: £43,308,000).

14. Tangible fixed assets

Group	Land & Buildings Freehold £000	Land & Buildings Short Leasehold £000	Motor Vehicles £000	Furniture and Equipment £000	Total £000
Cost or valuation					
At 1 January 2003	9,180	12,732	5,321	47,307	74,540
Additions	27	998	9	12,749	13,783
Disposals	(157)	(562)	(1,728)	(3,511)	(5,958)
At 31 December 2003	**9,050**	**13,168**	**3,602**	**56,545**	**82,365**
Depreciation					
At 1 January 2003	937	8,439	3,027	30,222	42,625
Charge for the year	111	1,072	838	6,362	8,383
Disposals	(17)	(507)	(1,521)	(3,250)	(5,295)
At 31 December 2003	**1,031**	**9,004**	**2,344**	**33,334**	**45,713**
Net book value					
At 31 December 2003	**8,019**	**4,164**	**1,258**	**23,211**	**36,652**
At 31 December 2002	8,243	4,293	2,294	17,085	31,915

Company	Land & Buildings Freehold £000	Land & Buildings Short Leasehold £000	Motor Vehicles £000	Furniture and Equipment £000	Total £000
Cost					
At 1 January 2003	1,174	165	–	410	1,749
Additions	–	–	–	4,874	4,874
Disposals	(7)	–	–	–	(7)
At 31 December 2003	**1,167**	**165**	**–**	**5,284**	**6,616**
Depreciation					
At 1 January 2003	65	36	–	296	397
Charge for the year	23	14	–	46	83
Disposals	(7)	–	–	–	(7)
At 31 December 2003	**81**	**50**	**–**	**342**	**473**
Net book value					
At 31 December 2003	**1,086**	**115**	**–**	**4,942**	**6,143**
At 31 December 2002	1,109	129	–	114	1,352

15. Fixed asset investments

	UK Listed Securities £000	UK Gov't Securities £000	Certificates of Deposit £000	Property & Other Investments £000	Shares in the Company £000	Total £000
Group						
At 1 January 2003	5,833	9,770	24,522	23,108	2,633	65,866
Additions	10,234	11,058	129,550	5,224	–	156,066
Disposals	(11,369)	(12,932)	(131,693)	(9)	(52)	(156,055)
Amounts written off investment property	–	–	–	(2,750)	–	(2,750)
Unrealised (losses)/gains	470	(337)	(213)	42	–	(38)
At 31 December 2003	**5,168**	**7,559**	**22,166**	**25,615**	**2,581**	**63,089**

The shares in the Company are held by the Countrywide Assured Group Employee Benefit Trust. At 31 December 2003 the Trust held 2,413,559 ordinary shares of 5p each in the Company (2002: 2,471,648). The cost of acquiring the shares for the Executive Deferred Incentive Scheme is charged to the profit and loss accounts of the Group companies which employ the participants over the five year period in which the shares are held by the Trust. The market value at 31 December 2003 was £3,388,771 (2002: £2,792,962). The investments in UK Government Securities and Certificate of Deposits are held at market value.

During the course of the year an independent valuation of 100 Cannon Street was commissioned and the carrying value reduced accordingly.

	Unlisted Investments £000	Property £000	Total £000
Company			
At 1 January 2003	19	22,608	22,627
Additions	1,200	4,023	5,223
Amounts written off investment property	–	(2,750)	(2,750)
Unrealised losses	(8)	–	(8)
At 31 December 2003	**1,211**	**23,881**	**25,092**

16. Life Assurance business

(a) Life Assurance profit and result arising on long term technical account

	Note	2003 £000	2002 £000
Earned premiums, net of reassurance	16 (b)	**142,325**	229,602
Investment income and gains	16 (c)	**82,981**	(66,319)
Claims incurred, net of reassurance	16 (d)	**(153,219)**	(134,369)
(Increase)/decrease in technical provisions, net of reassurance	16 (e)	**(34,034)**	19,308
		38,053	48,222
Commission paid		**1,346**	(15,749)
Expenses of management - staff costs		**(3,158)**	(7,551)
Expenses of management - other		**(5,683)**	(7,165)
Provision for reorganisation costs		**218**	(550)
Change in deferred acquisition costs	16 (f)	**(17,793)**	3,584
FSA pension review redress, net of PI insurance recovery		**1,250**	(1,951)
Complaints redress		**(11,246)**	(4,732)
Increase in provision for complaints redress	16 (e)	**(2,750)**	(5,000)
Increase in technical provisions arising from the impact of Friends Provident reinsurance treaty on renewal expenses	16 (e)	**(11,610)**	(5,903)
Amortisation of purchased in-force value		**(411)**	(546)
		(11,784)	2,659
Taxation		**782**	(1,848)
Result arising on long-term technical account		**(11,002)**	811
Operating profits arising in the Life Assurance activity			
Turnover		**4,259**	3,480
Staff costs		**(2,227)**	(1,889)
Other operating costs		**(3,759)**	(2,465)
		(1,727)	(874)
Other income and gains		**1,861**	2,207
		134	1,333
Result arising on long-term technical account before tax		**(11,784)**	2,659
Life operating profit before tax		**(11,650)**	3,992
Inter-company charges eliminated on consolidation		**289**	128
Losses arising on Friends Provident reinsurance treaty eliminated on consolidation		**9,758**	6,282
Life Division operating profit before tax		**(1,603)**	10,402

The non-technical profits/losses relate to the equity release IFA business and shareholder investment income and expenses.

16. Life Assurance business *continued*

(b) Analysis of turnover

	2003 £000	2002 £000
Periodic premiums	**145,985**	158,377
Single premiums	**27,720**	96,589
Outward reassurance premiums	**(31,380)**	(25,364)
Earned premiums net of reassurance	**142,325**	229,602
Turnover arising in IFA business	**4,259**	3,480
Total turnover Life Assurance activity	**146,584**	233,082

(c) Investment income and losses

	2003 £000	2002 £000
Income from investments	**29,224**	28,951
Losses on the realisation of investments	**(47,234)**	(21,958)
Unrealised gains/(losses) on investments	**100,991**	(73,312)
	82,981	(66,319)

(d) Claims incurred net of reassurance

	2003 £000	2002 £000
Claims paid		
Gross amount	**179,365**	151,134
Reassurers' share	**(27,464)**	(20,341)
	151,901	130,793
Increase in the provision for claims		
Gross amount	**4,037**	3,061
Reassurers' share	**(2,719)**	515
	1,318	3,576
	153,219	134,369

£70,394,000 (2002: £72,062,000) of net claims incurred relate to the maturity of guaranteed bonds.

16. Life Assurance business *continued*

(e) Change in technical provisions, net of reassurance

	2003 £000	2002 £000
Long-term business provision		
Gross amount – (decrease)/increase	(38,087)	31,946
Reassurers' share	8,468	1,045
	(29,619)	32,991
Technical provisions for linked liabilities		
Gross amount – increase/(decrease)	92,537	(62,928)
Reassurers' share	(14,524)	21,532
	78,013	(41,396)
	48,394	(8,405)
Analysed:		
– Increase/(decrease) in technical provisions net of reassurance	34,034	(19,308)
– Increase in technical provisions arising from impact of Friends Provident reinsurance treaty on renewal expenses	11,610	5,903
– Increase in provision for complaints redress	2,750	5,000
	48,394	(8,405)

(f) Change in deferred acquisition costs

	2003 £000	2002 £000
Balance at 1 January	33,927	30,343
Costs deferred on new business acquired in the year	453	27,000
Amortisation of acquisition costs previously deferred	(18,246)	(23,416)
Movement for the year	(17,793)	3,584
Balance at 31 December	16,134	33,927

16. Life Assurance business *continued*

(g) Long-term business net assets attributable to policyholders

	Note	2003 £000	2002 £000
Long-term business assets comprise:			
Policyholder assets held to cover linked liabilities		**472,413**	395,830
Policyholder other investments	16 (i)	**234,133**	242,210
Deferred acquisition costs	16 (f)	**16,134**	33,927
Net current assets excluding net cash/overdrafts	16 (j)	**(4,878)**	6,921
Cash balances net of overdrafts		**22,652**	22,678
Provisions for liabilities and charges		**(40)**	(1,099)
Policyholder net current assets		**17,734**	28,500
Deferred tax	8 (c)	**(4,752)**	(5,695)
		735,662	694,772

(h) Long-term business liabilities attributable to policyholders

	Note	2003 £000	2002 £000
Long-term business liabilities comprise:			
Policyholder technical provision for linked liabilities	16 (k)	**471,626**	393,613
Policyholder long-term business provision	16 (k)	**234,188**	263,804
Surplus retained within the long-term assurance fund		**29,848**	37,355
		735,662	694,772

(i) Policyholder other investments

	Market value		Cost	
	2003 £000	2002 £000	2003 £000	2002 £000
Debt securities and other fixed income securities	**217,595**	234,485	**220,830**	232,112
Deposits with credit institutions	**16,538**	7,725	**16,538**	7,723
	234,133	242,210	**237,368**	239,835

£217,595,000 (2002: £234,485,000) of the above market value amounts are listed on the London Stock Exchange.

16. Life Assurance business *continued*

(j) Net current assets excluding net cash/overdrafts

	2003 £000	2002 £000
Amounts owed by policyholders	**4,694**	5,065
Tax recoverable	**1,405**	1,258
Prepayments and accrued income	**5,974**	7,212
Other debtors	**2,849**	4,632
PI insurance recoverable	**3,933**	4,069
Present value of acquired in-force business	**1,963**	2,374
	20,818	24,610
Claims outstanding	**(10,498)**	(6,100)
UK corporation tax	**(1,064)**	(602)
Other creditors	**(14,134)**	(10,987)
	(4,878)	6,921

(k) Technical provisions

	Long term business provision £000	Technical provisions for linked liabilities £000
Gross amount		
At 1 January 2003	321,547	499,604
Movement in the long-term business technical account excluding bonuses	(38,084)	92,537
At 31 December 2003	**283,463**	**592,141**
Reassurers' share		
At 1 January 2003	57,743	105,991
Movement in the long-term business technical account	(8,468)	14,524
At 31 December 2003	**49,275**	**120,515**
Net technical provisions		
At 1 January 2003	263,804	393,613
Net movement in the long-term business technical account excluding bonuses	(29,616)	78,013
At 31 December 2003	**234,188**	**471,626**

£173,232,000 of the long term business provision at 31 December 2003 (2002: £220,911,000) relates to guaranteed bonds.

16. Life Assurance business *continued*

(k) Technical provisions *continued*

Technical Provision for Linked Liabilities
For those polices where benefits are linked to specific pools of assets, the Technical Provision for Linked Liabilities is calculated as the number of units attaching to each policy multiplied by the appropriate unit price at the balance sheet date. In addition, a cash flow projection, using prudent assumptions, is undertaken for each policy to establish whether or not future inflows are sufficient to cover future outflows (after allowing for an immediate fall in the value of the units).

If not, an additional provision is included in the Long Term Business Provision. The additional provision is sensitive to the assumed level of policy maintenance expenses and to the degree of the immediate fall in the units.

The principal assumptions underlying the calculation of the long-term business provision are:

			2003	2002
(i)	Rates of interest			
	Assurances			
	With profit		**3.25%**	3.25%
	Without profit	– annual premium	**3.50%**	3.50%
		– guaranteed income bonds	**4.20%**	3.90%
	Annuities			
	With profit	– deferred	**4.25%**	4.25%
	Without profit (linked)	– deferred	**4.00%**	3.95%
		– vested	**4.70%**	4.50%

(ii) Mortality tables

Assurances and deferred annuities	– 80% A67/70 ultimate (2002: 80% A67/70 ultimate)
Term Assurance	– 80% A67/70 ultimate (2002: 80% A67/70 ultimate)
Vested annuities	– 84% PM/FA 80 ultimate – 5 (2002: 87% PM/FA 80 ultimate – 5)

(iii) Bonuses

	2003 £000	2002 £000
The total bonuses attributable to the year are as follows:		
Gross period end declared bonuses, included in movement in long-term business provision	**1,325**	1,377
Reassurance	**(1,325)**	(1,377)
	–	–

17. Debtors

	2003 £000	2002 £000
Group		
Trade debtors	**35,553**	31,988
Other debtors	**16,994**	10,841
Taxation recoverable	**2**	224
Prepayments	**11,428**	10,237
	63,977	53,290

	2003 £000	2002 £000
Company		
Amounts owed by subsidiary undertakings	**75,239**	129,363
Taxation recoverable – group relief	**9,008**	712
Other debtors	**4,272**	4,594
Prepayments	**188**	123
Vat recoverable	**599**	551
	89,306	135,343

18. Creditors: amounts falling due within one year

	2003 £000	2002 £000
Group		
Bank overdrafts unsecured	**2,715**	877
Term loan secured	**15,600**	14,500
Trade creditors	**10,800**	9,614
Taxation and social security	**19,536**	16,373
Accruals and other creditors	**34,435**	38,250
Corporation tax	**14,275**	13,502
Dividends payable	**15,517**	13,298
Deferred income	**553**	859
	113,431	107,273

18. Creditors: amounts falling due within one year *continued*

	2003 £000	2002 £000
Company		
Bank overdraft unsecured	–	920
Term loan secured	15,600	14,500
Trade creditors	2,279	801
Amounts owed to subsidiary undertakings	199,990	209,456
Taxation and social security	526	422
Accruals and other creditors	7,124	8,838
Dividends payable	15,517	13,298
	241,036	248,235

The term loan represents amounts drawn down against a £15.6 million LIBOR facility which is secured on 100 Cannon Street, London and was repayable in December 2004. Following the year end the repayment date on this facility has been extended to 31 December 2005.

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

	2003 £000	2002 £000
Group		
Other creditors	–	607
Deferred income	7,270	16,875
	7,270	17,482

20. Provisions for liabilities and charges

	Deferred tax £000	Property rents £000	Property repairs £000	Clawback £000	Other £000	Total £000
Group						
At 1 January 2003	4,340	2,303	2,894	2,334	482	12,353
Utilised	–	(860)	(426)	(6,892)	(466)	(8,644)
Profit and loss account	(601)	546	292	8,809	1,608	10,654
Discounting	–	76	–	–	–	76
At 31 December 2003	**3,739**	**2,065**	**2,760**	**4,251**	**1,624**	**14,439**

20. Provisions for liabilities and charges *continued*

	Deferred tax £000	Property rents £000	Property repairs £000	Other £000	Total £000
Company					
1 January 2003	693	353	28	–	1,074
Profit and loss account	8	194	67	237	506
31 December 2003	**701**	**547**	**95**	**237**	**1,580**

The provision for property rents represents the estimated unavoidable costs of leasehold properties which have become surplus to the Group's requirements following the closure or relocation of operations. The provision is based on the present value of rentals and other unavoidable costs payable during the remaining lease period after taking into account rents receivable or expected to be receivable from sub-lessees.

Clawback represents the provision required for repayment to meet the estimated cost of repaying indemnity commission income received on life assurance policies that may lapse.

The provision for property repairs represents estimates of the cost to repair existing dilapidations under leasehold covenants, in accordance with FRS 12: Provisions, contingent liabilities and contingent assets.

Provisions are released when properties are assigned or sub-let.

21. Called up share capital

	Number	£000
Authorised share capital		
Ordinary shares of 5p each		
1 January 2003	430,000,000	21,500
Purchase of own shares	(35,744,096)	(1,787)
At 31 December 2003	**394,255,904**	**19,713**
Allotted and fully paid ordinary shares of 5p each		
1 January 2003	362,200,868	18,110
Exercise of share options	2,638,504	132
Purchase of own shares	(35,744,096)	(1,787)
At 31 December 2003	**329,095,276**	**16,455**

22. Reconciliation of movements in shareholders' funds

	Share Capital £000	Share Premium £000	Capital Redemption Reserve £000	Other Reserves £000	Profit & Loss Account £000	**2003 Total Share-holders' Funds £000**	2002 Total Share-holders' Funds £000
Group							
At 1 January	18,110	24,619	1,468	670	69,287	**114,154**	127,869
Profit for the year	–	–	1	–	49,056	**49,057**	57,181
Dividends	–	–	–	–	(22,478)	**(22,478)**	(20,428)
Exercise of share options	132	1,874	–	–	–	**2,006**	1,376
Contribution to QUEST	–	–	–	–	–	**–**	(133)
Purchase of own shares	(1,787)	–	1,787	–	–	**–**	(1,464)
Appropriation for future cancellation of shares	–	–	–	–	–	**–**	(50,247)
At 31 December	16,455	26,493	3,256	670	95,865	**142,739**	114,154

	Share Capital £000	Share Premium £000	Capital Redemption Reserve £000	Revaluation Reserve £000	Profit & Other Reserves £000	Loss Account £000	**2003 Total Share-holders' Funds £000**	2002 Total Share-holders' Funds £000
Company								
At 1 January	18,110	24,619	1,468	1,701	37,875	25,277	**109,050**	86,562
Profit for the year	–	–	1	–	–	25,091	**25,092**	93,251
Dividend	–	–	–	–	–	(22,478)	**(22,478)**	(20,428)
Exercise of share options	132	1,874	–	–	–	–	**2,006**	1,376
Purchase of own shares	(1,787)	–	1,787	–	–	–	**–**	(1,464)
Appropriation for future cancellation of shares	–	–	–	–	–	–	**–**	(50,247)
At 31 December	16,455	26,493	3,256	1,701	37,875	27,890	**113,670**	109,050

The Group profit and loss account reserves at 31 December 2003 include £29,848,000 (2002: £37,355,000) not presently available for distribution representing the Group's share of the surplus retained within the long-term assurance funds.

23. Share option schemes

(i) Executive Share Option scheme
Options to subscribe for ordinary shares of 5p each outstanding at 31 December 2003 under the Company's Executive Share Option Scheme were:

No. of Shares	Subscription Price	Exercisable up to
42,500	65.5p	April 2004

(ii) Executive Share Option Scheme (1995)
Options to subscribe for ordinary shares of 5p each outstanding at 31 December 2003 under the Company's Share Option Scheme (1995) were:

No. of Shares	Subscription Price	Exercisable up to
22,500	71.0p	June 2006
476,500	124.5p	April 2007
198,750	112.5p	September 2007
902,500	152.0p	May 2009
10,000	151.0p	May 2012

(iii) Executive Share Option Scheme (1996)
Options to subscribe for ordinary shares of 5p each outstanding at 31 December 2003 under the Company's Executive Share Option Scheme (1996) were:

No. of Shares	Subscription Price	Exercisable up to
52,000	124.5p	April 2004
1,599,996	140.0p	April 2005
100,000	92.0p	September 2005
2,020,000	131.0p	March 2006
1,238,750	152.0p	May 2009
2,520,000	106.5p	April 2011
2,025,000	151.0p	April 2012

At the Annual General Meeting held on 5 May 1999 the option period of the Executive Share Option Scheme (1996) was extended from seven to ten years.

Options issued under the Executive Share Option Schemes (1995) and (1996) may be exercised between three and ten years after the date of grant only if performance criteria are satisfied. In summary, this requires that the average earnings per share of the Group for the three years prior to the date on which exercise takes place (the 'Performance Period') has improved compared to the three year period ending one year earlier than Performance Period. For these purposes, a three year Performance Period will run to the Group's reporting date of 31 December or 30 June, whichever is closest to the exercise date.

If the Group is loss making at the time of exercise, exercise will still be permitted, but only if the average loss per share in the Performance Period is less than the average loss per share in the previous three year period.

23. Share option schemes *continued*

(iv) SAYE Scheme (1996)

Options to subscribe for ordinary shares of 5p each outstanding at 31 December 2003 under the Company's SAYE Scheme (1996) were:

No. of Shares	Subscription Price	Exercisable up to
195,586	75.2p	May 2004
2,708,372	74.4p	May2006
4,802,982	122.4p	May 2008

(v) Executive Deferred Incentive Scheme

Options to purchase ordinary shares of 5p each held by the Trustee of the Employee Benefit Trust outstanding at 31 December 2003 under the Company's Executive Deferred Incentive Scheme were:

No. of Shares	Option Price	Exercisable up to
25,000	56.0p	March 2004

(vi) Executive Deferred Incentive Scheme (1996)

Rights to purchase ordinary shares of 5p each held by the Trustee of the Employee Benefit Trust outstanding at 31 December 2003 under the Company's Executive Deferred Incentive Scheme (1996) were:

No. of Shares	Option Price	Exercisable up to
23,300[a]	0p	May 2006
1,275,000	151.0p	April 2009

[a] Further rights will be added to each individual's entitlement as such time as each individual exercises options granted to him on 18 March 1999 under the Company's Executive Share Options Scheme (1996). These additional rights will be calculated by reference to the improvement in the market value of the Company's ordinary shares of 5p each at the date of exercise. These rights are exercisable from 12 May 2004 to 12 May 2010.

(vii) Executive Share Bonus Scheme

Rights to purchase ordinary shares of 5p each held by the Trustee of the Employee Benefit Trust outstanding at 31 December 2003 under the Company's Executive Share Bonus Scheme were:

No. of Shares	Option Price	Exercisable up to
36,728	0p	May 2004
213,806	140.0p	April 2005
67,535	145.0p	April 2006
46,670	153.5p	March 2007

The SAYE Schemes have been in place for a number of years and the Company has therefore taken advantage of the exemption offered by UITF 17 (revised) Employee Share Schemes.

24. Capital expenditure commitments

	2003 £000	2002 £000
Capital expenditure commitments not provided for in the accounts		
Group		
Authorised and contracted	**5,146**	6,407
Authorised but not contracted	**1,140**	2,844
Company		
Authorised and contracted	**3,143**	3,852
Authorised but not contracted	**–**	–

25. Operating lease commitments

At 31 December 2003 the Group had the following annual commitments under non-cancellable operating leases:

	2003 £000	2002 £000
Group		
Land and buildings with commitments expiring:		
within one year	**2,601**	2,606
between two and five years inclusive	**6,010**	6,012
after five years	**9,467**	9,776
Other operating leases with commitments expiring:		
within one year	**4,066**	3,322
between two and five years inclusive	**10,930**	10,588
	33,074	32,304

	2003 £000	2002 £000
Company		
Land and buildings with commitments expiring within one year:	**176**	193
between two and five years inclusive	**–**	176
after five years	**707**	260
Other operating leases with commitments expiring:		
within one year	**45**	9
between two and five years inclusive	**145**	183
	1,073	821

26. Client monies

At 31 December 2003, client monies held by subsidiaries in approved bank and building society accounts amounted to £55,445,000 (2002: £32,679,000). Neither this amount nor the matching liability to the clients concerned are included in the Group balance sheet.

27. Reconciliation of operating profit to net cash flow from operating activities

	Note	2003 £000	2002 £000
Group operating profit		**78,787**	86,217
Depreciation and amortisation		**10,470**	6,777
Result on long-term technical account	16(a)	**11,784**	(2,659)
Transfer (to)/from the long-term technical account		**(3,500)**	15,000
Loss on disposal of investments		**(22)**	(221)
Loss on sale of tangible fixed assets & property investment		**(675)**	(223)
Increase in debtors		**(4,826)**	(5,351)
Decrease in creditors		**(9,477)**	(1,716)
Increase/(decrease) in provisions		**2,685**	(151)
Net cash inflow from operating activities		**85,226**	97,673

The Group cash flow statement only includes cash flows of the Life Assurance business to the extent that cash been transferred and is available to meet obligations of the Company or the Group as a whole.

28. Analysis of net funds and portfolio investment

	Note	1 January 2003 £000	Cash flow £000	Changes in market value £000	**31 December 2003 £000**
Non-Insurance Group:					
Cash at bank		24,254	37,002	–	**61,256**
Overdrafts		(747)	(1,968)	–	**(2,715)**
		23,507	35,034	–	**58,541**
Term loans		(14,500)	(1,100)	–	**(15,600)**
Non-Insurance net funds		9,007	33,934	–	**42,941**
Life Assurance Group:					
Cash at bank		8,132	(4,352)	–	**3,780**
Overdrafts		(130)	130	–	**0**
Life Assurance net funds		8,002	(4,222)	–	**3,780**
Total Group:					
Cash at bank		32,386	32,650	–	**65,036**
Overdrafts		(877)	(1,838)	–	**(2,715)**
	29	31,509	30,812	–	**62,321**
Term loans	29	(14,500)	(1,100)	–	**(15,600)**
Total funds		17,009	29,712	–	**46,721**
Insurance Cell	29	–	1,200	–	**1,200**
Life portfolio investments:					
UK Listed Securities		5,833	(1,136)	471	**5,168**
UK Government securities		9,770	(1,873)	(338)	**7,559**
Certificates of deposit		24,522	(2,142)	(214)	**22,166**
Other		481	–	51	**532**
Total portfolio investments	29	40,606	(5,151)	(30)	**35,425**
Total funds and portfolio investments	29	57,615	25,761	(30)	**83,346**

29. Reconciliation of net cash flow to movement in net debt and portfolio investment

	2003 £000	2002 £000
Increase in cash for the year	**30,812**	2,519
Cash (inflow)/outflow from increase in term loans	**(1,100)**	(5,900)
Cash (inflow)/outflow from increase in insurance cell	**1,200**	–
Cash (inflow)/outflow from increase/(decrease) in portfolio investments	**(5,151)**	6,219
Change in net debt and portfolio investments resulting from cash flows	**25,761**	2,838
Changes in market value	**(30)**	660
Net debt and portfolio investment at 1 January	**57,615**	54,117
Net debt and portfolio investment at 31 December	**83,346**	57,615

30. Acquisition and disposal of subsidiaries, associated undertakings and joint ventures

	2003 Acquisitions £000	2002 Acquisitions £000
Fixed assets	–	6,255
Interest in associated undertakings	**563**	
Debtors	–	4,816
Cash at bank and in hand	–	6,054
Creditors due within one year	–	(7,628)
Net assets	**563**	9,497
Goodwill	–	12,518
Total consideration	**563**	22,015
Effects on Group cash flow:		
Cash consideration	**563**	22,015
Cash balances on acquisition	–	(6,054)
Net cash outflow	**563**	15,961

The acquisition relates to capital amounts injected into TM Property Service Ltd, the associated company disclosed in note 12 (c).

31. Financial instruments

(a) Liquidity

The maturity of all financial liabilities is shown in the following tables:

	Debt £000	**Other financial liabilities £000**	**2003 Total £000**
Financial liabilities maturing:			
in one year or less or on demand	**18,315**	**553**	**18,868**
in more than one year but not more than two years	**–**	**676**	**676**
in more than two years but not more than five years	**–**	**2,494**	**2,494**
after five years	**–**	**4,100**	**4,100**
	18,315	**7,823**	**26,138**

	Debt £000	Other financial liabilities £000	2002 Total £000
Financial liabilities maturing:			
in one year or less or on demand	15,377	859	16,236
in more than one year but not more than two years	–	1,166	1,166
in more than two years but not more than five years	–	2,877	2,877
after five years	–	13,439	13,439
	15,377	18,341	33,718

(b) Undrawn committed borrowing facilities

Undrawn borrowing facilities are available to the Group with the maturities as set out in the following table. The conditions precedent to the availability of these facilities are all satisfied at the balance sheet date.

	2003 £000	2002 £000
Expiring in one year or less	**14,400**	15,500
Expiring between two and five years	**–**	–
	14,400	15,500

31. Financial instruments *continued*

(c) Interest rate risk profile of financial liabilities

The following analysis sets out the interest rate risk of the Group's financial liabilities. There are no financial liabilities in currencies other than sterling, and no hedges are used.

	2003 £000	2002 £000
Floating rate	**18,315**	15,377
Non interest bearing	**7,823**	18,341
	26,138	33,718

The floating rate financial liabilities comprise bank loans and overdrafts bearing interest at rates based on individual bank base rates or LIBOR depending upon which facility is used.

(d) Interest rate risk profile of financial assets

The following analysis sets out the interest rate risk of the Group's financial assets. No derivative instruments are held as hedges to manage the currency of such financial assets as stated on page 14 of the Operating and Financial Review:

	2003 £000	2002 £000
Floating rate	**65,036**	32,386
Fixed rate	**29,728**	34,292
Non interest bearing	**7,748**	8,466
	102,512	75,144
Fixed rate financial asset weighted averages		
Interest rate	**4.88%**	5.30%
Time for which rate is fixed (years)	**1.96**	1.60

The floating rate financial assets comprise bank deposits earning interest at rates based on individual bank base rates or LIBOR depending upon which type of deposit facility is used.

(e) Currency risk

The functional currency of all of the Group's operations is sterling.

31. Financial instruments *continued*

(f) Fair values

The following table sets out the book values and estimated fair values of the Group's financial instruments:

	2003		2002	
	Book value £000	**Fair value £000**	Book value £000	Fair value £000
Primary financial instruments:				
Investments	**37,476**	**38,284**	42,758	42,918
Cash at bank and in hand	**65,036**	**65,036**	32,386	32,386
Term loan secured	**(15,600)**	**(15,600)**	(14,500)	(14,500)
Debt	**(2,715)**	**(2,715)**	(877)	(877)
Other creditors due after more than one year	**–**	**–**	(607)	(607)

The following criteria have been used to assess the fair values of the Group's financial instruments:

(i) debtors, creditors, debt and provisions due after more than one year are based upon discounted cash flows at prevailing interest rates.

(ii) cash at bank and in hand are short-term investments approximate to their book values due to their short maturity period:
and

(iii) long-term investments are stated at market value.

An explanation of the Board's objectives, policies and strategies for holding and issuing financial instruments is set out in the Financial Review on page 16 under the heading 'Financial Instruments'.

Short-term debtors and creditors as defined in FRS 13, have been omitted from all of the financial instruments disclosures, save of those relating to currency risk.

The assets and liabilities relating to policyholders are excluded from the analysis of financial instruments.

32. Pension arrangements

The Group offers membership of the Countrywide Assured Group Pension Scheme to eligible employees. The Scheme has two sections of membership, defined contribution and defined benefit, which is closed to new entrants and future accrual.

The pension cost charge for the Group's defined contribution pension arrangements represents contributions payable by the Group and amounted to £3,398,718 (2002: £3,756,000). There were no outstanding or prepaid contributions at the year end.

Whilst the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension Costs', under FRS 17 'Retirement Benefits' the following transitional disclosures are required.

32. Pension arrangements *continued*

The pension cost of the defined benefit section of the Scheme was £1,218,000 (2002: £1,170,000). The pension cost relating to this section is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. A full actuarial assessment of the section was carried out at 5 April 2003 which showed a deficit in the defined benefit section of £21,162,000. This has been updated by a qualified independent actuary, taking into account actual investment returns achieved, contributions and benefits paid over the period to 31 December 2003 and the closure of the scheme to future accrual, giving an estimated deficit at 31 December 2003 of £13,715,000. The group plans to develop a funding program to recover the deficit over the next ten years.

The additional disclosures required under FRS17 are as follows:

Age	31-40	6%
	41-50	40%
	51-60	48%
	61-65	6%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, which due to the timescale covered, may not necessarily be borne out in practice.

The major assumptions used by the actuary were:

	2003	2002	2001
Rate of increase in salaries	**n/a**	4.4%	4.4%
Rate of increase in pensions payments			
On benefits earned prior to 1 December 1999	**4.0%**	4.0 %	4.0 %
On benefits earned after to 1 December 1999	**2.8%**	2.4 %	2.4 %
Discount rate	**5.4%**	5.5 %	5.8 %
Inflation assumption	**2.8%**	2.4 %	2.4 %

32. Pension arrangements *continued*

(a) Scheme Assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long-term rate of expected return at 2003	Long-term rate of Value at 2003 £000	Long-term rate of expected return at 2002	Value at 2002 £000	expected return at 2001	Value at 2001 £000
Equities	**6.3%**	**19,747**	7.5%	17,268	7.8%	19,169
Bonds	**3.8%**	**7,013**	5.0%	5,487	5.3%	5,854
Cash	**2.8%**	**237**	–	–	–	–
Property	**4.8%**	**–**	6.0%	–	6.3%	–
Total market value of assets		**26,997**		22,755		25,023
Present value of scheme liabilities		**(45,868)**		(40,262)		(35,279)
Deficit in the scheme		**(18,871)**		(17,507)		(10,256)
Related deferred tax asset		**5,661**		5,252		3,077
Net pension liability		**(13,210)**		(12,255)		(7,179)

(b) Analysis of the amount that would be charged to operating profit

	2003 £000	2002 £000
Service cost	**737**	396
Past service cost	**–**	–
Total operating charge that would be charged to operating profit	**737**	396

(c) Analysis of net return on pension scheme

	2003 £000	2002 £000
Expected return on pension scheme assets	**1,599**	1,831
Interest on pension liabilities	**(2,224)**	(2,045)
Net return	**(625)**	(214)

32. Pension arrangements *continued*

(d) Analysis of the amount that would be recognised in statement of total recognised gains and losses

	2003 £000	2002 £000
Actual return less expected return on assets	**1,797**	(4,806)
Experience gains and losses on liabilities	**3,962**	(914)
Changes in assumptions	**(6,979)**	(2,049)
Actuarial loss that would be recognised in statement of total recognised gains and losses	**(1,220)**	(7,769)
Adjustment due to surplus cap	**–**	–
Net loss that would be recognised in statement of total recognised gains and losses	**(1,220)**	(7,769)

(e) Movement in surplus during the year

	2003 £000	2002 £000
Deficit in scheme at beginning of year	**(17,507)**	(10,256)
Movement in year:		
Current service cost	**(737)**	(396)
Contributions	**1,218**	1,128
Past service cost	**–**	–
Net return on assets/(interest cost)	**(625)**	(214)
Actuarial loss	**(1,220)**	(7,769)
Deficit in scheme at end of year	**(18,871)**	(17,507)

(f) History of experience gains and losses

	2003	2002
Difference between expected and actual return on scheme assets:		
amount (£ 000)	**1,797**	(4,086)
percentage of scheme assets	**7%**	–21%
Experience gains and losses on scheme liabilities:		
amount (£ 000)	**3,962**	(914)
percentage of scheme liabilities	**9%**	–2%
Total amount recognised in statement of total recognised gains and losses:		
amount (£ 000)	**(1,220)**	(7,769)
percentage of scheme liabilities	**–3%**	–19%

33. Related Party Transactions

There were no material related party transactions during the year.

Five Year Financial Record

Profit and loss account summary
Year ended 31 December

	1999 £000	2000 £000	2001 £000	2002 £000	**2003 £000**
Turnover					
Estate Agency	175,987	169,528	197,003	242,656	**253,585**
Financial Services	50,911	45,046	49,681	59,043	**72,911**
Surveying & Valuation	91,716	82,592	93,061	101,816	**108,040**
Conveyancing	9,658	10,494	15,180	18,668	**20,167**
Life Assurance	189,876	223,529	186,780	233,082	**146,584**
Central Costs	–	–	–	–	**276**
	518,148	531,189	541,705	655,265	**601,563**
Profit before taxation					
Estate Agency	11,755	4,905	18,981	40,228	**33,580**
Financial Services	8,192	(434)	3,909	10,561	**21,894**
Surveying & Valuation	22,085	16,218	24,566	28,743	**31,866**
Conveyancing	(1,445)	(555)	1,343	1,834	**(1,484)**
Life Assurance	13,508	10,632	14,592	10,402	**(1,603)**
Gain/(loss) on disposal of associates or subsidiary	–	(276)	–	–	**–**
Share of loss in associates and joint venture	–	(525)	(3,075)	(4,678)	**(2,575)**
Amounts written off Investment Property	–	–	–	–	**(2,750)**
Central costs and interest	(6,192)	(4,965)	(4,026)	(4,262)	**(4,706)**
	47,903	25,000	56,290	82,828	**74,222**
Taxation	(7,192)	(6,446)	(15,081)	(25,647)	**(25,166)**
Profit after taxation	40,711	18,554	41,209	57,181	**49,056**
Dividends	(16,026)	(16,123)	(18,856)	(20,428)	**(22,478)**
Retained profit	24,685	2,431	22,353	36,753	**26,578**
Earnings per share (pence)	11.42	5.19	11.49	15.89	**14.40**
Dividends per share net (pence)	4.50	4.50	5.25	6.15	**6.90**

Financial highlights for 1999 to 2001 have been restated following the adoption of the Modified Statutory Solvency Basis for reporting Life Assurance business.
Financial highlights for 2001 have been restated following the application of FRS 19: Deferred taxation.

Five Year Financial Record

	1999 £000	2000 £000	2001 £000	2002 £000	**2003** **£000**
Balance Sheet					
Goodwill	7,759	7,544	7,099	18,832	**16,745**
Tangible fixed assets	21,087	19,536	18,907	31,915	**36,652**
Investments	39,592	39,770	52,546	65,866	**63,089**
Investment in joint venture	–	911	793	1,003	**1,163**
Investment in associates	–	809	9,348	4,920	**2,748**
	68,438	68,570	88,693	122,536	**120,397**
Policyholder assets to cover linked liabilities	384,727	435,724	434,384	395,830	**472,413**
Policy holder other investments	182,223	233,670	237,927	242,210	**234,133**
Deferred acquisition costs	37,333	26,297	18,977	28,500	**16,134**
Policyholder other net current assets	20,589	19,513	30,343	33,927	**11,603**
Net current (liabilities)/assets	(60,711)	(6,964)	2,805	(21,597)	**15,582**
Creditors due after one year	(3,634)	(38)	(9,509)	(17,482)	**(7,270)**
Policyholder technical provisions for linked liabilities	(373,637)	(424,820)	(435,009)	(393,613)	**(471,626)**
Policyholders long-term business provision	(187,742)	(244,607)	(230,813)	(263,804)	**(234,188)**
Provisions for liabilities and charges	(9,495)	(9,342)	(9,879)	(12,353)	**(14,439)**
Net assets	58,091	98,003	127,919	114,154	**142,739**
Cash Flow					
Cash inflow from operating activities	72,830	24,381	57,635	97,673	**85,226**
Interest (paid)/received	(918)	(491)	196	1,289	**626**
Taxation	(2,955)	(4,784)	(3,694)	(15,059)	**(24,828)**
Capital expenditure and financial investment					
Net purchase of tangible fixed assets	(4,972)	(969)	(3,582)	(11,720)	**(12,444)**
Purchase of non-life investments	(2,767)	4,613	(15,052)	(7,678)	**(4,024)**
Acquisitions and disposals	(1,415)	2,492	(9,056)	8,378	**(563)**
Equity dividends paid	(14,269)	(16,052)	(17,024)	(19,711)	**(20,259)**
	45,534	9,190	9,423	53,172	**23,734**
Issue of shares	449	1,245	244	1,377	**2,027**
Purchase of own shares	(2,260)	(3,030)	–	(51,711)	**–**
Advance/(repayments) of term loans	3,163	(3,562)	8,600	5,900	**1,100**
Cash transferred into Insurance cell	–	–	–	–	**(1,200)**
Net portfolio-life company shareholder investments	(17,933)	(4,800)	1,297	(6,219)	**5,151**
	28,953	(957)	19,564	2,519	**30,812**

Five Year Financial Record

	1999	2000	2001	2002	**2003**
Share capital					
Authorised share capital					
Ordinary shares of 5p each					
	430,000,000	430,000,000	430,000,000	430,000,000	**394,255,904**
£000	21,500	21,500	21,500	21,500	**19,713**
Allotted and fully paid Ordinary shares of 5p each					
1 January	360,987,254	360,265,468	361,653,329	361,954,210	**362,200,868**
Exercise of share options	778,214	3,317,648	300,881	1,191,658	**2,638,504**
Purchase of own shares	(1,500,000)	(1,929,787)	–	(945,000)	**(35,744,096)**
31 December	**360,265,468**	**361,653,329**	**361,954,210**	**362,200,868**	**329,095,276**

	£000	£000	£000	£000	**£000**
1 January	18,049	18,013	18,083	18,098	**18,110**
Exercise of share options	39	166	15	59	**132**
Purchase of own shares	(75)	(96)	–	(47)	**(1,787)**
31 December	**18,013**	**18,083**	**18,098**	**18,110**	**16,455**

	1999	2000	2001	2002	**2003**
Operating Statistics					
Number of life assurance policies arranged by sales force	40,392	35,414	42,395	49,662	**43,587**
Number of life assurance policies arranged directly	2,083	1,974	927	2,832	**1,000**
New annual regular premium income (£ million)	32.0	23.3	19.9	20.9	**17.3**
Single premiums (£ million)	62.8	82.4	46.1	92.3	**21.2**
Number of mortgages arranged (panel lenders)	39,516	37,258	42,001	46,586	**50,773**
Value of mortgages arranged (panel lenders) (£ million)	2,487	2,502	2,898	3,600	**4,560**
Number of house sales exchanged	91,736	79,818	86,069	93,442	**84,765**
Average price of house sales (£)	88,900	99,400	110,700	132,700	**149,755**
Average estate agency commission rate	1.84%	1.80%	1.80%	1.74%	**1.76%**
Staff numbers (average)	7,934	8,050	7,775	8,816	**8,797**
Number of estate agency offices including franchises (year end)	725	723	738	857	**880**

Notice of Annual General Meeting

Countrywide Assured Group plc
Notice is hereby given that the Annual General Meeting of the Company will be held at the offices of Pinsents, 1 Gresham Street, London EC2V 7BU on 28 April 2004 at 10.00am for the following purposes:-

Ordinary Business

Resolution 1
To receive and adopt the accounts for the year ended 31 December 2003 together with the Reports of the directors and Auditors thereon.

Resolution 2
To declare a final dividend

Resolution 3
To approve the Directors' Remuneration report set out in the Annual Report.

Resolutions 4 to 6
To re-elect the following Directors who retire by rotation:-
4 Mr P W Mason
5 Mr G R Fitzjohn
6 Mr C P Shaw

Resolution 7
To elect the following Director who retires under Article 71 of the Articles of Association.
7 Mr A J Brown

Resolution 8
That KPMG Audit Plc be and are hereby appointed as Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which the accounts are laid before the Company at a remuneration to be fixed by the Directors.

Resolution 9
That the Directors be and are hereby generally and unconditionally authorised, pursuant to Section 80 of the Companies Act 1985 (the Act) to exercise all the powers of the Company to allot relevant securities (as defined in Section 80 of the Act) provided that:-

(i) nominal value of relevant securities allotted pursuant to this authority shall not exceed £3,258,031;

(ii) this authority shall expire on the date of the Annual General Meeting to be held in 2005 or fifteen months after the passing of this resolution whichever occurs first; and

(iii) the company may make an offer or agreement before the expiry of this authority which would or might require relevant securities to be allotted after this authority has expired and the Directors may allot relevant securities in pursuance of any such offer or agreement as if this authority has not expired; this authority to replace the existing like authority which is hereby revoked with immediate effect.

To consider and, if thought fit, pass Resolutions 10 and 11 as Special Resolutions.

Resolution 10
That the Directors be and they are hereby empowered, pursuant to Section 95 of the Companies Act 1985 (the Act), to allot equity securities (as defined in Section 94 of the Act) pursuant to the authority contained in the foregoing Resolution numbered 9 as if Section 89(1) of the Act did not apply to such allotment, save that this power shall be limited to:

(i) the allotment of equity securities in connection with a rights issue of other pre-emptive offer in favour of Ordinary Shareholders where the equity securities respectively attributable to the interests of all Ordinary Shareholders are proportionate (as nearly as may be) to the respective numbers of Ordinary Shares held by them subject to such exclusions or arrangements as the Directors may deem necessary or desirable to deal with fractional entitlements otherwise arising or legal or practical problems under the laws of regulations of any regulatory authority in any territory;

(ii) the allotment of equity securities pursuant to the terms of any share scheme for employees approved by the members in General Meetings; and

(iii) the allotment of equity securities for cash (otherwise than as mentioned in sub-paragraphs (i) and (ii) above) provided that the maximum nominal value of equity securities allotted does not exceed £822,738 representing approximately 5% of the issued share capital of the Company; and shall expire on the date of the Annual General Meeting of the Company to be held in 2005 or fifteen months after the passing of this resolution whichever occurs first except to the extent that the same is renewed or extended prior to or at such Meeting save that the Company may make an offer or agreement before the expiry of this power which would or might require securities to be allotted after it has expired and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired.

Resolution 11
That the Company be and is hereby authorised to make market purchases (within the meaning of Section 163 (3) of the Companies Act 1985) of Ordinary Shares of 5p each in the capital of the Company provided that:

(i) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 32,909,527;

(ii) the minimum price which may be paid for such Ordinary Shares is 5p per share;

(iii) the maximum price (exclusive of expenses) which may be paid for such Ordinary Shares is not more than 5% above the average of the middle market quotations for the Ordinary Shares derived from the Daily Official List of the London Stock Exchange for the five business days before the purchase is made;

(iv) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company; and

(v) the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

Notes

1. Any Member entitled to attend and vote at this Meeting may appoint a proxy or proxies to attend and on a poll, vote instead of him. A proxy need not be a Member of the Company. A form of proxy for this Meeting is enclosed, and if used should be lodged with the Company's Registrars, Capita Registrars at The Registry, P. O. Box 25 34 Beckenham Road, Beckenham, Kent, BR3 3BR not less than 48 hours before the time appointed for the holding of the Meeting, The appointment of a proxy will not preclude a shareholder from attending and voting at the Meeting.

2. There is no Directors' service contract of more than one year's duration with any Director.

3. The Register of Directors' shareholdings and transactions and copies of the Directors' service contracts will be available for inspection at the registered office of the Company during normal business hours each business day and at the place of the Annual General Meeting for at least 15 minutes prior to and during the Meeting.

By Order of the Board

G R Williams
Company Secretary
9 March 2004

Registered Office and Group Head Office
Countrywide House
Perry Way
Witham
Essex CM8 3SX

Pinsents Office
1 Gresham Street
London EC2V 7BU

Group Head Office and Registered Office
Countrywide House
Perry Way
Witham
Essex CM8 3SX
Tel: 01376 533700
Fax: 01376 520758
www.cagroup.co.uk

Bankers
Fortis Bank
National Westminster Bank Plc

Stockbrokers
Panmure Gordon Limited
(a division of Lazard & Co. Limited)
HSBC Investment Bank plc

Solicitors
Campbell Hooper
Pinsent Curtis
Wortley Byers
Ashurst

Auditors
KPMG Audit Plc

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Public Relations
The Wriglesworth Consultancy

Financial Calendar

10 March 2004
Results announced for the year to 31 December 2003

28 April 2004
Annual General Meeting

21 May 2004
Dividend record date

25 May 2004
Ex dividend date

11 June 2004
Dividend payment date

August 2004
Interim results announced for the six months to 30 June 2004

Registered Number: 1837522