

## PRESS RELEASE

9 March 2017

# Countrywide plc

('Group'/the 'Company')

## Preliminary statement of annual results for the year ended 31 December 2016

### Rapid response to challenging markets drives business transformation

Countrywide plc, the UK's largest integrated property services group, announces its results for the year ended 31 December 2016.

#### FINANCIAL HIGHLIGHTS

	2016	2015
• Total income	£737.0m	£733.7m
• Adjusted EBITDA*	£83.5m	£113.0m
• Operating profit	£28.9m	£53.8m
• Underlying PBT**	£52.7m	£85.8m
• Profit before taxation	£19.5m	£47.7m
• Basic EPS	8.0p	18.9p
• Adjusted basic EPS**	19.3p	32.2p

- Maintained income through market share gains, benefit of 2015 acquisitions
- Challenging residential market, investment to support future growth impacts profitability and cashflow
- Positive progress in Lettings, Financial Services and Surveying
- Key cost initiatives underway to underpin future profits
- 9.99% placing of share capital announced to reinforce balance sheet
- New dividend policy to pay out between 30 and 35% of earnings; no final dividend for 2016

\* Earnings before interest, tax, depreciation, amortisation, exceptional items, contingent consideration, share-based payments and share of losses from joint venture, referred to hereafter as 'EBITDA' (see note 4 for reconciliation)

\*\* Before exceptional items, amortisation of acquired intangibles, contingent consideration and share based payments (net of taxation impact)

#### OPERATIONAL HIGHLIGHTS

##### 2016: a year of unprecedented change

- Volatile residential property market
- Focus on key organic strategic initiatives
- Investment in foundations for future success
- Reassessing capital allocation
- Cost transformation

##### 2017 outlook:

- Sales market volatility likely to continue
- Expected headwinds from tenants' fees regulation and pressured landlord environment
- Focus on share gain through digital rollout, planned to be in 50% of branches by June 2017
- Delivery of next phases of cost transformation
- Accelerate organic growth in Financial Services
- Expect a resilient performance in 2017

##### Peter Long, Chairman at Countrywide plc, commented:

"In 2016, political uncertainty and stamp duty changes had a significant impact on the UK property market, making it a challenging year for Countrywide. We faced into these challenges - making difficult decisions quickly and acting decisively, streamlining the cost base and transforming our customer offer. In addition we have, today, announced plans to reinforce our balance sheet giving us a strong platform, going into 2017, to accelerate our transformation agenda."

**Alison Platt, Chief Executive, added:**

“Countrywide is evolving at pace, with a clear strategy to create a business with a cost base that better reflects market conditions and a differentiated, customer centric offer available to customers across the UK. Looking forward we expect difficult market conditions for the foreseeable future ensuring that the emphasis for 2017 will remain on our strong plans for change. Over the medium term our diverse revenues, nationwide footprint and portfolio of high quality brands gives us confidence that Countrywide can build on its leadership position and deliver sustainable, profitable growth.”

	<b>Number 2016</b>	Number 2015	Variance %
House sales exchanged			
- Retail	<b>50,891</b>	50,396	1
- London	<b>10,423</b>	12,094*	(14)
- B2B	<b>4,896</b>	5,187	(6)
Group total	<b>66,210</b>	67,677	(2)
Properties under management			
- Retail residential	<b>68,740</b>	60,272	14
- London residential	<b>22,404</b>	21,645*	4
- B2B corporate	<b>36,635</b>	32,049	14
Group total	<b>127,779</b>	113,966	12
Mortgages arranged	<b>90,262</b>	75,939	19
Value	<b>£15.7bn</b>	£12.2bn	29
Total valuations and surveys completed	<b>364,957</b>	357,033	2
Conveyances completed (excluding third party)	<b>33,053</b>	34,851	(5)

\*Restated from prior year

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## CHAIRMAN'S STATEMENT

### *Building for the Future*

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

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

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

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

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

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

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

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

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

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

Peter Long  
**Chairman**

**9 March 2017**

## CHIEF EXECUTIVE'S REVIEW

*Geographic and service diversification underpins performance in uncertain markets*

### **2016 – A year of unprecedented change**

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

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

Thanks to the diversity of our geographic footprint and service offer, despite these headwinds we maintained Group revenue at the same level as 2015. We increased our market share in Mortgages and Surveying, maintained our leading market share position in both Sales and Lettings, and took a significant step forward in our ability to grow the number of properties under management in our Lettings business. Our focus on delivering improved levels of service to our landlords and their tenants has been a core focus for Countrywide over the last year and the turnaround in performance is really pleasing.

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

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

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

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

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

Alison Platt  
Chief executive officer

9 March 2017

## SEGMENTAL RESULTS

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

## Retail

### Highlights

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

### Operating review

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

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

### Sales

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

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

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

### **Lettings**

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

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

### **Digital innovation**

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

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

### **Brand and branch efficiency**

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

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

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

### **Outlook**

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

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

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

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

### **Plans for 2017**

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

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

## **London**

### **Highlights**

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

### **Operating Review**

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

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

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

### **Sales**

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

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

### **Lettings**

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

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

### **Digital innovation**

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

### **Brand and branch efficiency**

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

### **International**

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

Building on firm foundations established in 2015, our international department continued to grow throughout 2016 with new partners in the Canary Islands, Switzerland, Ibiza and mainland Spain. Countrywide brands Hamptons International, John D Wood & Co. and Bridgfords now represent one of the largest international property portfolios in the UK.

### **Outlook**

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

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

### **Plans for 2017**

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

## **Financial services**

### **Highlights**

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

### **Operating review**

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

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

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

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

### Outlook

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

### Plans for 2017

As part of the Group's strategy we have worked tirelessly during the year to progress our transformation agenda, both with a series of strategic acquisitions to strengthen our specialist capability in specific markets (The Buy to Let Business, Mortgage Bureau and Capital Private Finance) and also through organic changes to our core proposition. Our most notable achievement in the core business was the deployment of our new point of sales technology, enabling us to provide high quality advice in a flexible, efficient and user-friendly way, whilst giving access to the full suite of premium protection and general insurance products from our partners.

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

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

### B2B

	2016 £000	2015 £000	Change %
Total income	222,475	219,051	2
EBITDA before exceptional items	30,791	32,302	(5)
Survey and valuation	68,672	66,295	4
Conveyancing	30,572	32,206	(5)
Other professional services	18,680	19,605*	(4)
Professional services	117,924	118,106	-
Land and new homes	28,146	27,736	1
Commercial	101,973	101,686	-
Total gross revenue generated by B2B clients	248,043	247,528	-
Income passed to other business units	(25,568)	(28,477)*	(10)
B2B net income	222,475	219,051	2

\*Restated to include the commission from asset management paid to our estate agency branches

## Highlights

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

## Operating review

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

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

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

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

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

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

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

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

Land and New Homes held its own during 2016 and delivered EBITDA growth of 15% despite lower new homes exchanges across the country, due to the acquisition of Lanes, a specialist land and new homes business in Hertfordshire. Performance in this sector was severely impacted by the EU referendum particularly in and around London. It took several weeks for developers to assess the longer term impact on price and during the third quarter we experienced a material number of cancellations as buyers pulled out nervous about the future. Whilst we have seen sales recovering

this was late into the fourth quarter. Our pipeline is some £700,000 lower as we move into 2017 and reflecting this we have removed some management heads to reduce costs.

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

### **Outlook**

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

### **Plans for 2017**

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

## **GROUP FINANCIAL REVIEW**

### **Introduction**

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

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

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

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

### **Results**

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

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

### **Depreciation and amortisation**

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

### Share-based payments

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

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

### Contingent consideration

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

### Exceptional items

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

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

offset by

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

### Finance charges

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

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

### Taxation

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

Countrywide's business activities operate predominantly in the UK. All businesses are UK tax registered apart from small operations in Hong Kong (which are in the process of closure), and Ireland. We act to ensure that we have a collaborative and professional relationship with HMRC and continue to enjoy a low risk rating. We conduct our tax compliance with a generally low risk approach whilst endeavouring to maintain shareholder value and optimise tax

liabilities. Tax planning is done with full disclosure to HMRC when necessary and being mindful of reputational risk to the Group. Transactions will not be undertaken unless they have a business purpose or commercial rationale.

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

#### **Cash flow**

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

#### **Capital expenditure**

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

#### **Net assets**

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

#### **Net bank debt**

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

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

#### **Committed bank facilities**

The Group's available bank facilities (excluding overdraft arrangements available) at 31 December 2016 comprised of a £340 million revolving credit facility repayable in March 2020. In February 2016, the Group increased its borrowing capacity to facilitate the strategic plans announced during 2015 and renegotiated our existing £250 million RCF, which was repayable in March 2018, to a £340 million RCF with the existing lenders and an accompanying £60 million accordion facility repayable in March 2020.

#### **Dividend policy**

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

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

### Events after the balance sheet date

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

Jim Clarke  
Chief financial officer

9 March 2017

### APPROVAL

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

Alison Platt  
Chief executive officer  
9 March 2017

### PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of risks and uncertainties facing the business in the forthcoming financial year. The Board has reconsidered the risks and uncertainties listed below:

- Market risk
- Loss of a major business partner or outsourcing partner
- IT infrastructure and information security
- Professional indemnity exposure
- Financial misstatement and fraud risk
- Competitive landscape
- Regulatory compliance

These risks and uncertainties and mitigating factors are described in more detail on pages 21 to 23 of the Countrywide plc financial statements for the year ended 31 December 2015 (a copy of which is available on the Group's website).

Having reconsidered these, particularly in light of the proposed exit of the UK from the European Union following a referendum, the Board considers that they remain the principal risk areas facing the Group. The result of the EU referendum has increased the overall level of macroeconomic uncertainty, which could have an effect on property prices, mortgage approvals and volume of transactions as outlined under 'market risk'. Additionally, our continued focus on providing customers with the best property related advice has resulted in the identification of 'Attracting, developing and retaining excellent people' as a new principal risk for the forthcoming year.

### FORWARD-LOOKING STATEMENTS

This Report may contain certain "forward-looking statements" with respect to some of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause the Group's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. We refer you to the Group's financial statements as well as the Group's most recent Prospectus which can be downloaded from the Group's website: [www.countrywide.co.uk/investor-relations](http://www.countrywide.co.uk/investor-relations). These documents contain and identify important factors that could cause the actual results to differ materially from those indicated in any forward-looking statement.

## Consolidated income statement

For the year ended 31 December 2016

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

## Consolidated statement of comprehensive income

For the year ended 31 December 2016

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

## Consolidated statement of changes in equity

For the year ended 31 December 2016

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

## Consolidated balance sheet

As at 31 December 2016

	Note	2016 £'000	Reclassified <sup>1</sup> 2015 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	14(a)	471,749	471,626
Other intangible assets	14(b)	250,310	239,457
Property, plant and equipment	15	49,445	49,974
Investments accounted for using the equity method:			
Investments in joint venture	16(b)	2,292	2,305
Available-for-sale financial assets	16(c)	16,058	57,760
Deferred tax assets	24	9,250	10,645
<b>Total non-current assets</b>		<b>799,104</b>	<b>831,767</b>
<b>Current assets</b>			
Trade and other receivables	17	120,355	123,432
Cash and cash equivalents	18	45,326	24,336
<b>Total current assets</b>		<b>165,681</b>	<b>147,768</b>
<b>Total assets</b>		<b>964,785</b>	<b>979,535</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to the owners of the parent</b>			
Share capital	26	2,197	2,196
Share premium		211,838	211,839
Other reserves	28	(17,941)	25,482
Retained earnings		283,454	304,959
		479,548	544,476
Non-controlling interests		—	103
<b>Total equity</b>		<b>479,548</b>	<b>544,579</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	20	292,505	204,586
Derivative financial instruments	21	2,367	—
Net defined benefit scheme liabilities	25	3,663	415
Provisions	23	12,503	16,899
Deferred income	22	2,563	4,967
Trade and other payables	19	13,659	4,709
Deferred tax liability	24	38,694	40,669
<b>Total non-current liabilities</b>		<b>365,954</b>	<b>272,245</b>
<b>Current liabilities</b>			
Borrowings	20	721	4,662
Trade and other payables	19	95,072	128,503
Deferred income	22	3,890	4,111
Provisions	23	19,600	22,336
Current tax liabilities		-	3,099
<b>Total current liabilities</b>		<b>119,283</b>	<b>162,711</b>
<b>Total liabilities</b>		<b>485,237</b>	<b>434,956</b>
<b>Total equity and liabilities</b>		<b>964,785</b>	<b>979,535</b>

<sup>1</sup> See note 20

## Consolidated cash flow statement

For the year ended 31 December 2016

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

# Notes to the financial statements

## 1. General information

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

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

## 2. Basis of preparation

The preliminary announcement does not constitute full financial statements.

The results for the year ended 31 December 2016 included in this preliminary announcement are extracted from the audited financial statements for the year ended 31 December 2016 which were approved by the Directors on 9 March 2017. The auditor's report on those financial statements was unqualified and did not include a statement under Section 498(2) or 498(3) of the Companies Act 2006.

The 2016 annual report is expected to be posted to shareholders and included within the investor relations section of our website on 23 March 2017 and will be considered at the Annual General Meeting to be held on 27 April 2017. The financial statements for the year ended 31 December 2016 have not yet been delivered to the Registrar of Companies.

The auditor's report on the consolidated financial statements of Countrywide plc for the year ended 31 December 2015 was unqualified and did not include a statement under Section 498(2) or 498(3) of the Companies Act 2006. The financial statements for the year ended 31 December 2015 have been delivered to the Registrar of Companies.

### (a) Going concern

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

### (b) Accounting policies

In preparing this preliminary announcement the same accounting policies, methods of computation and presentation have been applied as those set out in the Countrywide plc annual financial statements for the year ended 31 December 2015. The accounting policies are drawn up in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as endorsed by the European Union.

The accounting policies adopted in the preparation of this preliminary announcement are consistent with those of the previous financial year, except as stated below:

#### *Derivative financial instruments and hedging activities:*

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

The fair values of derivative instruments used for hedging purposes are disclosed on the face of the balance sheet. The fair value of derivatives has been calculated by discounting all future cash flows by the market yield curve at the balance sheet date. Movements in the hedging reserve in other comprehensive income are shown in note 28. The full fair value of a hedging derivative is classified as a non-current liability when the remaining hedged item is more than 12 months from maturity. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'Finance cost'.

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

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

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

The new interpretation and annual improvements to existing standards which are mandatory for the Group for the first time for the financial year beginning on or after 1 January 2016 have had no material impact on the Group.

### 3. Critical accounting judgements and estimates

The preparation of the Group's consolidated financial statements under IFRS requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates, given the uncertainty surrounding the assumptions and conditions upon which the estimates are based.

The directors consider that the following estimates and judgements are likely to have the most significant effect on the amounts recognised in the Group's consolidated financial statements.

#### ***Impairment of goodwill and indefinite-lived intangible assets***

Determining whether goodwill and indefinite-lived intangible assets are impaired requires an estimation of the value in use of the cash generating units to which the assets have been allocated. Calculating the cash flows requires the use of judgements and estimates that have been included in our strategic plans and long range forecasts. In addition, judgement is required to estimate the appropriate interest rate to be used to discount the future cash flows. The data necessary for the execution of the impairment tests is based on management estimates of future cash flows, which require estimating revenue growth rates and profit margins.

#### ***Accounting for acquisitions***

The Group accounts for all business combinations under the purchase method. Under the purchase method, the identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair value at the acquisition date. Judgements and estimates are made in respect of the measurement of the fair values of assets and liabilities acquired and consideration transferred. Where necessary, the Group engages external valuation experts to advise on fair value estimates, or otherwise performs estimates internally. Further details of contingent consideration are set out in note 29.

#### ***Exceptional items***

Certain items are presented separately in the income statement as exceptional where, in the judgement of the directors, they need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance. Further details of material, non-recurring items the directors have disclosed as exceptional items, including the costs of restructuring the business, are provided in note 10.

#### ***Professional indemnity provisions***

When evaluating the impact of potential liabilities arising from claims against the Group, the Group takes legal and professional advice to assist it in arriving at its estimation of the liability taking into account the probability of the success of any claims and also the likely development of claims based on recent trends.

The Group has made provision for claims received under its professional indemnity insurance arrangements. The provision can be broken down to three categories:

- Reserves for known claims: These losses are recommended by our professional claims handlers and approved panel law firms who take into account all the information available on the claims and recorded on our insurance bordereaux. Where there is insufficient information on which to assess the potential losses, initial reserves may be set at an initial level to cover investigative costs or nil. Further provisions are also made for specific large claims which may be subject to litigation and the directors assess the level of these provisions based on legal advice and the likelihood of success.
- Provision for the losses on known claims to increase: It can take one to two years for claims to develop after they are initially notified to the Group. For this reason, the Group creates a provision based on historical loss rates for closed claims and average losses for closed claims.
- Provision for incurred but not reported (IBNR): The Group also provides for future liabilities arising from claims IBNR for mortgage valuation reports and home buyer reports performed by Surveying Services. This provision is estimated on a future projection of historical data for all claims received based on the number of surveys undertaken to date. This projection takes into account the historic claim rate, the claim liability rate and the average loss per claim. In view of the significant events in the financial markets and the UK property market in recent years, the directors have identified a separate sub-population of claims received which is tracked separately from the normal level of claims. This sub-population has been defined as claims received since 2009 for surveys carried out between 2004 and 2008.

The estimate of these provisions by their nature is judgemental. The three key inputs, claim rate, claim liability rate and average loss, are very sensitive to any change in trends.

**Claim rate** – the number of claims received compared to the number of surveys performed.

Following our experience in 2015, the number of valuation claims continued to decline significantly throughout 2016 to historically low levels. In common with 2015, the majority of valuation claims related to surveys completed over six years old. While there is very little experience relating to old claims on which to base any future model, given our experience and the low volumes received, we do not foresee any reason to increase our rates. There is a possible risk that a significant rise in mortgage interest rates could lead to an increase in repossessions and potential losses being incurred by the lenders. While there is uncertainty around the future of the UK economy as the Government deals with Brexit, there are no macroeconomic indicators that this is a reasonable likelihood in the short term and the directors do not consider it appropriate to provide for additional claims due to macroeconomic changes. It should be

noted that a 5% increase in the claim rate (which is applied to all surveys performed between 2004 and 2008) could lead to a £3.5 million increase in the provision for future claims.

**Claim liability rate** – the number of claims closed with a loss compared to the number of closed claims.

Our claim handlers and panel lawyers robustly defend all our claims and as a result they have achieved a number of successes in 2016 where clients have withdrawn their claim. Consequently, we have not experienced any increase to the claim liability rate.

The liability rate is sensitive to changes in experience and therefore we have used the average liability rate for claims closed over two years as the most appropriate claim liability rate to estimate the provision for those claims already received. As the number of open claims at the end of the year and unreported claims anticipated is much lower than in previous years, a 10% increase in the average liability rate would impact the provision for claims already received by £0.6 million.

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

Overall, the average losses experienced over all claims have decreased 23%. This is primarily driven by the decrease of 12% in average loss on exceptional claims, being those with surveys carried out between 2004 and 2008, which account for the majority of losses experienced. This is the value used to estimate the further provision required for claims already received. Applying a further 10% increase in the average loss would increase the total provision required by £0.1 million, lower than in previous years owing to the reduced number of claims.

#### 4. Segmental reporting

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

The Executive Committee considers the business to be split into four main types of business generating revenue: Retail, London, Financial Services and Business to Business (B2B), and 'all other segments' comprising central head office functions. Whilst the executive teams for Retail and London have been brought together during 2016, these remain separate operating segments based on operating reports reviewed by the Executive Committee.

The Retail network combines estate agency and lettings operations. Estate agency generates commission earned on sales of residential and commercial property and Lettings earns fees from the letting and management of residential properties and fees for the management of leasehold properties. The London division revenue is earned from both estate agency commissions and lettings and management fees. The Financial Services division receives commission from the sale of insurance policies, mortgages and related products under contracts with financial service providers. Business to Business services comprise all lines of business which are delivered to corporate clients, including Surveying Services, Conveyancing Services and revenue from Lambert Smith Hampton. Surveying Services generates surveying and valuation fees which are received primarily under contracts with financial institutions with some survey fees being earned from home buyers. Conveyancing Services generates revenue from conveyancing work undertaken from customers buying or selling houses through our network. Lambert Smith Hampton's revenue is earned from commercial property consultancy and advisory services, property management and valuation services. Other income generated by head office functions relates primarily to sub-let rental income or other sundry fees.

The Executive Committee assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes the effects of exceptional items, share-based payment charges and related National Insurance contributions, contingent consideration and income from joint ventures. Finance income and costs are not allocated to the segments, as this type of activity is driven by the central treasury activities as part of managing the cash position of the Group.

The revenue from external parties reported to the Executive Committee is measured in a manner consistent with that in the income statement.

Revenue and other income from external customers arising from activities in the UK was £734,561,000 (2015: £732,099,000) and that arising from activities overseas was £2,394,000 (2015: £1,637,000).

The assets and liabilities for each operating segment represent those assets and liabilities arising directly from the operating activities of each division. Pension assets and liabilities, liabilities arising from the revolving credit facility and related derivative financial instrument are not allocated to operating segments, but allocated in full to 'All other segments' within the segmental analysis as they are managed by central Group functions. Non-current assets attributable to the UK of £798,266,000 (2015: £830,828,000) are included in the total assets in the tables on the following pages. Non-current assets of £838,000 (2015: £939,000) are attributable to the overseas operations. The equity investment in joint venture is disclosed within 'All other segments' and is £2,292,000 (2015: £2,305,000).

The available-for-sale financial assets are disclosed within 'All other segments' £16,058,000 (2015: £52,072,000) and Retail £Nil (2015: £5,688,000).

	2016					Total £'000
	Retail £'000	London £'000	Financial Services £'000	B2B £'000	All other segments £'000	
Revenue	240,681	153,707	82,667	246,537	378	723,970
Other income	3,535	3,070	1,629	1,506	3,245	12,985
Total income	244,216	156,777	84,296	248,043	3,623	736,955
Inter-segment revenue	18,059	3,631	3,878	(25,568)	—	—
Total income from external customers	262,275	160,408	88,174	222,475	3,623	736,955
<b>EBITDA before adjusting items</b>	<b>31,004</b>	<b>18,024</b>	<b>22,682</b>	<b>30,791</b>	<b>(18,953)</b>	<b>83,548</b>
Contingent consideration	—	(397)	(867)	(4,692)	(878)	(6,834)
Share-based payments	(307)	(197)	(220)	(391)	(1,362)	(2,477)
Depreciation and amortisation	(15,135)	(4,972)	(6,132)	(7,544)	911	(32,872)
Share of loss from joint venture	—	—	—	—	(13)	(13)
Exceptional income	2,530	—	—	2,910	30,274	35,714
Exceptional costs	(19,918)	(20,552)	(47)	(4,697)	(2,989)	(48,203)
Segment operating (loss)/profit	(1,826)	(8,094)	15,416	16,377	6,990	28,863
Finance costs						(9,672)
Finance income						304
Profit before tax						19,495
<b>Total assets</b>	<b>354,225</b>	<b>171,240</b>	<b>116,619</b>	<b>247,586</b>	<b>75,115</b>	<b>964,785</b>
<b>Total liabilities</b>	<b>433,247</b>	<b>127,733</b>	<b>211,455</b>	<b>260,165</b>	<b>(547,363)</b>	<b>485,237</b>
<b>Additions in the year</b>						
Goodwill	14,607	1,104	2,308	1,668	-	19,687
Intangible assets	11,612	172	9,064	4,027	2,048	26,923
Property, plant and equipment	11,623	1,057	1,405	1,144	5,449	20,678

	2015					Total £'000
	Retail £'000	London £'000	Financial Services £'000	B2B £'000	All other segments £'000	
Revenue	231,989	170,742	75,796	239,805	367	718,699
Other income	6,611	3,814	1,186	2,535	891	15,037
Total income	238,600	174,556	76,982	242,340	1,258	733,736
Inter-segment revenue	15,851	3,426	4,012	(23,289)	—	—
Total income from external customers	254,451	177,982	80,994	219,051	1,258	733,736
<b>EBITDA before adjusting items</b>	<b>43,343</b>	<b>34,162</b>	<b>20,709</b>	<b>32,302</b>	<b>(17,539)</b>	<b>112,977</b>
Contingent consideration	—	(1,096)	—	(7,730)	(121)	(8,947)
Share-based payments	(464)	(123)	(64)	(250)	(3,493)	(4,394)
Depreciation and amortisation	(13,252)	(4,284)	(6,009)	(6,477)	(1,336)	(31,358)
Share of loss from joint venture	—	—	—	—	(914)	(914)
Exceptional income	—	—	—	—	2,534	2,534
Exceptional costs	(844)	(6,768)	(393)	(1,079)	(7,049)	(16,133)
Segment operating profit/(loss)	28,783	21,891	14,243	16,766	(27,918)	53,765
Finance costs						(6,376)
Finance income						321
Profit before tax						47,710
<b>Total assets</b>	<b>335,495</b>	<b>198,067</b>	<b>110,621</b>	<b>249,566</b>	<b>85,786</b>	<b>979,535</b>
<b>Total liabilities</b>	<b>407,453</b>	<b>151,581</b>	<b>225,612</b>	<b>273,232</b>	<b>(622,922)</b>	<b>434,956</b>
<b>Additions in the year</b>						
Goodwill	30,789	16,676	—	5,665	—	53,130
Intangible assets	7,821	5,619	349	11,170	742	25,701
Property, plant and equipment	9,551	4,741	1,875	1,373	3,877	21,417

## Adjusted items

Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so in order to provide further understanding of the financial performance of the Group. They are material items of income or expense that, in the judgement of the directors, need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance. Examples of material and non-recurring items which may give rise to disclosure as exceptional items include costs of restructuring existing businesses, integration of newly acquired businesses, asset impairments, costs associated with acquiring new businesses and profit on sale of available-for-sale financial assets. The columnar presentation of our income statement separates exceptional items, amortisation of intangibles arising on business acquisitions, contingent consideration and share-based payments to illustrate consistently the Group's underlying business performance.

## 5. Other income

	2016 £'000	2015 £'000
Rent receivable	799	999
Dividend income on available-for-sale financial assets	491	325
Other operating income	11,695	13,713
	<b>12,985</b>	<b>15,037</b>

## 6. Employment costs

	2016 £'000	2015 £'000
Wages and salaries	366,513	360,374
Contingent consideration deemed remuneration (note 29)	6,834	8,947
Share options granted to directors and employees (note 27)	2,465	3,372
Defined contribution pension costs (note 25)	8,633	6,687
Defined benefit scheme costs (note 25)	377	193
Social security costs	40,334	39,010
	<b>425,156</b>	<b>418,583</b>

## 7. Other operating costs

	2016 £'000	2015 £'000
Rent	29,534	27,894
Advertising and marketing expenditure	21,171	19,932
Vehicles, plant and equipment hire	16,574	17,680
Other motoring costs	17,085	14,205
Repairs and maintenance	12,761	7,839
Trade receivables impairment	2,446	607
Profit on disposal of available-for-sale financial assets	-	(237)
Profit on revaluation of investment property	-	(400)
Other	137,991	127,997
<b>Total operating costs</b>	<b>237,562</b>	<b>215,517</b>

## 8. Finance costs

	2016 £'000	2015 £'000
Interest costs:		
Interest payable on borrowings	-	2
Interest payable on revolving credit facility	7,839	4,573
Interest arising from finance leases	269	665
Other interest paid	318	114
<b>Cash payable interest</b>	<b>8,426</b>	<b>5,354</b>
Amortisation of loan facility fee	1,236	868
Net interest costs arising on the pension scheme (note 25)	-	154
Other finance costs	10	-
<b>Non-cash payable interest</b>	<b>1,246</b>	<b>1,022</b>
<b>Finance costs</b>	<b>9,672</b>	<b>6,376</b>

## 9. Finance income

	2016 £'000	2015 £'000
Interest income	292	321
Net interest income arising on the pension scheme (note 25)	12	-
<b>Finance income</b>	<b>304</b>	<b>321</b>

## 10. Exceptional items

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

	2016 £'000	2015 £'000
<b>Exceptional income</b>		
Profit on disposal of available-for-sale financial assets	32,804	—
Release of professional indemnity provisions	2,910	—
Deferred income amortisation arising from fair valuation of Zoopla shares crystallised upon the merger in May 2012	—	2,534
	<b>35,714</b>	<b>2,534</b>
<b>Exceptional costs</b>		
<b>Restructuring costs</b>		
People-related restructuring costs	(8,109)	(3,767)
Consultancy costs	—	(3,288)
Profit on sale of leasehold property	—	836
Property closure costs	(15,813)	(1,211)
Impairment of goodwill	(19,564)	—
Impairment of brands	(1,358)	(6,126)
Marketing review and channel optimisation	(2,032)	—
Other costs	(400)	(669)
Total restructuring costs	(47,276)	(14,225)
Regulatory settlement costs (including legal fees)	—	(826)
Acquisition expenses	(927)	(1,082)
<b>Total exceptional costs</b>	<b>(48,203)</b>	<b>(16,133)</b>
<b>Net exceptional costs</b>	<b>(12,489)</b>	<b>(13,599)</b>

### 2016

#### Exceptional income

The £32,804,000 profit on disposal of available-for-sale financial assets relates entirely to the sale of the Group's residual interest in Zoopla Property Group plc.

During 2016 the Group received reduced numbers of professional indemnity valuation claims, in line with expectations, and achieved closure of a number of challenging cases. Estimating the liability for PI claims remains highly judgemental and we have updated our financial models to reflect the latest inputs and trends and taken advice from our panel of lawyers in respect of open claims. Despite the judgemental nature of the provision, the progress made during the year on individually significant claims, aligned with the low level of claims made, has resulted in the assessment of a £2,910,000 release in the provision.

#### Exceptional costs

##### Restructuring costs

During 2016 the Group undertook a significant branch restructuring, accelerating our transformation agenda and resizing the Retail estate, resulting in a number of exceptional, non-recurring costs in relation to the project and related restructuring costs. The principal elements are:

- £8,109,000 in respect of associated redundancy costs to achieve the appropriate organisational structure;
- £15,813,000 of property provisions, comprising: £4,162,000 dilapidation costs; £7,430,000 onerous contract costs in respect of closed premises; £3,084,000 associated asset write downs arising from rationalisation of our branch footprint; and £1,137,000 of other property closure costs;
- £19,564,000 of impairment charges from writing down goodwill associated with conveyancing operations (£1,083,000), and £5,016,000 and £13,465,000 respectively in relation to the Retail and London cash generating units following an assessment of the recoverable value against the carrying value of the goodwill (see note 14);
- £1,358,000 of impairment charges from writing down four brands which have been abandoned as part of our review of the Retail marketplace (see note 14); and

- £2,032,000 in respect of costs expensed during the year as part of the organisational redesign of our marketing function and revisions to our channels to market aligned with the launch of our digital offering.

#### Acquisition expenses

The Group incurred acquisition expenses of £927,000 across a number of transactions undertaken during the year (note 29).

### 2015

#### Exceptional income

This income arose from the continued amortisation of the deferred income in relation to Zoopla Property Group plc warrants which ceased unwind at 31 December 2015.

#### Exceptional costs

##### Strategic and restructuring costs

During 2015, the Group undertook the 'Building our Future' strategic review and incurred a number of exceptional, non-recurring costs in relation to the project and related restructuring costs. The principal elements are:

- Following an initial period of organisational design work, a number of redundancies were made throughout the year as the leadership structure evolved to meet the future needs of the Group. All redundancy costs directly related to this strategic review amounted to £3,289,000. This included the costs of redundancies which were communicated to the individuals prior to 31 December 2015, and settlements agreed, but whose employment ceased during 2016.
- The organisational redesign also resulted in the creation of a number of posts created to meet the revised needs of the Group. As a result, recruitment costs of £478,000 were incurred during 2015.
- As part of the strategic review, external agencies were involved where specialists skills were required. Consultancy costs of £3,288,000 were incurred in relation to a number of projects that included: strategic support and change management; IT transformation; organisational redesign; talent development and leadership skills training; and internal communication in support of specific strategic objectives identified.
- The Group decided to rationalise its property footprint in London to integrate the London and B2B teams into our existing commercial and corporate rented property in Oxford Street. As a result, the Group sold its existing leasehold premises in Grosvenor Square generating a profit on sale of £836,000 (net of legal costs). Offsetting this profit were costs in relation to exiting additional space in London that was surplus to requirements. As a result, costs of £1,211,000 were incurred in relation to dilapidation costs, onerous lease provisions and the rental costs of the additional Oxford Street space during the three-month period of refurbishment and relocation when costs were also being incurred in the original sites.
- Following the reorganisation of business units, an initial review of London brands was undertaken and as a result of this rationalisation of intended future brand use an impairment of £6,126,000 was identified (note 14).

Other costs directly related to the strategic review were collated and, whilst individually immaterial, these aggregated to a total cost of £669,000 and principally related to the costs of strategic sessions and leadership training.

#### Regulatory settlement costs

On 19 March 2015, the Competition and Markets Authority (CMA) concluded its investigation into an association of estate and lettings agents in Hampshire. Hamptons Estates Limited was one of three parties forming part of an association that admitted arrangements which had the object of reducing competitive pressure on estate agents and lettings agents' fees in the local area in and around Fleet in Hampshire in a period prior to the Group's ownership. The exceptional cost above reflects the penalty payable to the CMA and associated legal costs.

#### Acquisition expenses

The Group incurred acquisition expenses of £1,082,000 across a number of transactions.

## 11. Taxation

### Analysis of charge in year

	2016 £'000	2015 £'000
Current tax on profits for the year	5,200	8,543
Adjustments in respect of prior years	(623)	(82)
<b>Total current tax</b>	<b>4,577</b>	<b>8,461</b>
Deferred tax on profits for the year		
Origination and reversal of temporary differences	(154)	1,196
Impact of change in tax rate	(2,308)	(3,483)
Adjustments in respect of prior years	(160)	(232)
<b>Total deferred tax (note 24)</b>	<b>(2,622)</b>	<b>(2,519)</b>
<b>Income tax charge</b>	<b>1,955</b>	<b>5,942</b>

	2016 £'000	2015 £'000
<b>Tax on items charged to equity</b>		
Deferred tax adjustment arising on share-based payments	(299)	(767)
<b>Tax on items credited/(charged) to other comprehensive income</b>		
Deferred tax adjustment arising on the pension scheme assets and liabilities	909	(650)
Deferred tax adjustment arising on cash flow hedge	473	-

The tax charge for the year differs (2015: differs) from the standard rate of corporation tax in the UK of 20.0% (2015: 20.25%). The differences are explained below:

	2016 £'000	2015 £'000
Profit on ordinary activities before tax	19,495	47,710
Profit on ordinary activities multiplied by the rate of corporation tax in the UK of 20% (2015: 20.25%)	3,899	9,661
Effects of:		
Profits from joint venture	3	185
Tax relief on contingent consideration	1,367	1,812
Other expenses not deductible	1,351	80
Permanent difference relating to depreciation not deductible	858	907
Tax relief on purchased goodwill	3,741	(152)
Tax relief on share-based payments charged to equity	(32)	(1,715)
Rate change on deferred tax provision	(2,308)	(3,510)
Income not subject to tax due to availability of unprovided losses	(6,294)	(1,128)
Adjustments in respect of prior years	(783)	(314)
Overseas losses	153	116
<b>Total taxation charge</b>	<b>1,955</b>	<b>5,942</b>

## 12. Dividends

	2016 £'000	2015 £'000
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2015 of 10.0 pence (net) per share (2014: 10.0 pence (net) per share)	21,963	21,963
– interim dividend for the year ended 31 December 2016 of 5.0 pence (net) per share (2015: 5.0 pence (net) per share)	10,817	10,981
<b>Total</b>	<b>32,780</b>	<b>32,944</b>

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2016.

## 13. Earnings per share

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

	2016 £'000	2015 £'000
Profit for the year attributable to owners of the parent	17,404	41,351
Weighted average number of ordinary shares in issue	216,683,218	218,447,386
Basic earnings per share (in pence per share)	8.03p	18.93p

For diluted earnings per share, the weighted average number of ordinary shares in existence is adjusted to include all dilutive potential ordinary shares arising from share options.

	2016 £'000	2015 £'000
Profit for the year attributable to owners of the parent	17,404	41,351
Weighted average number of ordinary shares in issue	216,683,218	218,447,386
Adjustment for weighted average number of contingently issuable share options	12,824	1,264,900
Weighted average number of ordinary shares for diluted earnings per share	216,696,042	219,712,286

Diluted earnings per share (in pence per share)	<b>8.03p</b>	18.82p
<b>Adjusted earnings</b>		
Profit for the year attributable to owners of the parent	<b>17,404</b>	41,351
Adjusted for the following items, net of taxation:		
Amortisation arising on intangibles recognised through business combinations	<b>6,365</b>	4,542
Contingent consideration	<b>6,834</b>	8,947
Share-based payments charge	<b>2,145</b>	3,628
Exceptional income	<b>(35,133)</b>	(2,534)
Exceptional costs	<b>44,285</b>	14,309
Adjusted earnings, net of taxation	<b>41,900</b>	70,243
Adjusted basic earnings per share (in pence per share)	<b>19.34p</b>	32.16p
Adjusted diluted earnings per share (in pence per share)	<b>19.34p</b>	31.97p

#### 14. Intangible assets

##### (a) Goodwill

	2016 £'000	2015 £'000
<b>Cost</b>		
At 1 January	<b>888,982</b>	835,852
Arising on acquisitions (note 29)	<b>19,687</b>	53,130
At 31 December	<b>908,669</b>	888,982
<b>Accumulated impairment</b>		
At 1 January	<b>417,356</b>	417,356
Charge for the year	—	—
Impairment (note 10)	<b>19,564</b>	—
At 31 December	<b>436,920</b>	417,356
<b>Net book amount</b>		
At 31 December	<b>471,749</b>	471,626

##### (b) Other intangible assets

	2016					Total £'000
	Computer software £'000	Brand names £'000	Customer contracts and relationships £'000	Pipeline £'000	Other intangibles £'000	
<b>Cost</b>						
At 1 January	<b>52,661</b>	<b>223,185</b>	<b>125,545</b>	<b>5,693</b>	-	<b>407,084</b>
Acquisitions through business combinations (note 29)	<b>419</b>	<b>8,830</b>	<b>5,687</b>	<b>513</b>	<b>403</b>	<b>15,852</b>
Additions	<b>11,071</b>	-	-	-	-	<b>11,071</b>
Disposals	<b>(1,564)</b>	-	-	-	-	<b>(1,564)</b>
Transfers*	<b>4,273</b>	-	-	-	-	<b>4,273</b>
At 31 December	<b>66,860</b>	<b>232,015</b>	<b>131,232</b>	<b>6,206</b>	<b>403</b>	<b>436,716</b>
<b>Accumulated amortisation and impairment losses</b>						
At 1 January	<b>38,730</b>	<b>39,970</b>	<b>83,300</b>	<b>5,627</b>	-	<b>167,627</b>
Charge for the year	<b>7,552</b>	-	<b>10,808</b>	<b>579</b>	<b>40</b>	<b>18,979</b>
Impairment (note 10)	<b>6</b>	<b>1,358</b>	-	-	-	<b>1,364</b>
On disposals	<b>(1,564)</b>	-	-	-	-	<b>(1,564)</b>
At 31 December	<b>44,724</b>	<b>41,328</b>	<b>94,108</b>	<b>6,206</b>	<b>40</b>	<b>186,406</b>
<b>Net book amount</b>						
At 31 December	<b>22,136</b>	<b>190,687</b>	<b>37,124</b>	-	<b>363</b>	<b>250,310</b>

\* Transfers from assets in the course of construction (note 15).

## 15. Property, plant and equipment

	2016					Total £'000
	Land and buildings £'000	Leasehold improvements £'000	Motor vehicles £'000	Furniture and equipment £'000	Assets in the course of construction £'000	
<b>Cost</b>						
At 1 January	1,926	41,464	799	65,073	6,031	115,293
Acquisition of subsidiaries (note 29)	-	228	140	234	-	602
Additions at cost	-	2,627	80	8,765	8,604	20,076
Disposals	(4)	(15,980)	(82)	(32,878)	-	(48,944)
Transfers*	-	5,912	-	2,496	(12,681)	(4,273)
At 31 December	1,922	34,251	937	43,690	1,954	82,754
<b>Accumulated depreciation</b>						
At 1 January	334	22,326	176	42,483	-	65,319
Charge for the year	21	5,634	236	8,002	-	13,893
Impairment	-	83	-	37	-	120
Disposals	(4)	(13,391)	(82)	(32,546)	-	(46,023)
At 31 December	351	14,652	330	17,976	-	33,309
<b>Net book amount</b>						
At 31 December	1,571	19,599	607	25,714	1,954	49,445

\* Transfers to computer software (note 14b).

Assets in the course of construction with a value of £1,954,000 relate principally to branch refurbishments in progress for which no depreciation has been charged. Depreciation commences when the asset enters operational use and the asset is transferred to the operational asset category.

### Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred, relating to 2016 and the three subsequent years, is as follows:

	2016 £'000	2015 £'000
Property, plant and equipment	2,590	4,437

## 16. Investments

### (a) Principal subsidiary undertakings of the Group

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

### (b) Interests in joint venture

#### TM Group (UK) Limited

At 31 December 2016 the Group had a 33% (2015: 33%) interest in the ordinary share capital of TM Group (UK) Limited (TMG), a UK company. TMG has share capital consisting solely of ordinary shares and is a private company with no quoted market price available for its shares. TMG is one of the largest companies in the provision of searches to the property companies sector (measured by completed searches). It delivers a range of property searches and data to land and property professionals in the UK, arranges for property searches directly with specific suppliers on behalf of its own customers, and supplies IT applications and products to UK mortgage lenders.

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

During the year, TMG was a joint venture company.

	2016 £'000	2015 £'000
At 1 January:		
– net assets excluding goodwill	825	1,739
– goodwill	1,480	1,480
	<b>2,305</b>	<b>3,219</b>
Share of losses retained	<b>(13)</b>	<b>(914)</b>
At 31 December:		
– net assets excluding goodwill	812	825
– goodwill	1,480	1,480
	<b>2,292</b>	<b>2,305</b>

**(c) Available-for-sale financial assets**

	2016 £'000	2015 £'000
At 1 January	57,760	33,290
Transferred from investment property	-	13,806
Zoopla shares purchased for cash	-	2,090
Disposal of Zoopla shares	(45,304)	(383)
Acquisition of shares in unlisted equity and debentures	1,504	348
Increase in fair value through income statement on the date of purchase	-	802
Movement in fair value	2,132	7,836
Amortisation	(34)	(29)
At 31 December	<b>16,058</b>	<b>57,760</b>

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

	2016 £'000	2015 £'000
Listed equity securities: Zoopla Property Group plc	-	42,856
Unlisted residential property fund units	14,139	14,455
Unlisted equity	1,797	353
Wimbledon debentures (acquired and amortised over the life of the debenture)	122	96
At 31 December	<b>16,058</b>	<b>57,760</b>

In June 2014, Zoopla Property Group plc listed on the London Stock Exchange and as a result crystallised some additional warrants into shares which were due under a further commercial agreement signed in 2014 to extend the listing period on the Zoopla website. The excess in the assessed fair value of these shares on initial recognition, over the nominal cost, has been treated as deferred income (£2,835,000) and is being released over the three-year period of the contract from 2016 to 2018 (see note 22).

The fair value hierarchy of the holding within the investment property fund has remained at Level 2, and is based on receipt of a net asset valuation statement from the trustees on a quarterly basis (see note 30).

**17. Trade and other receivables**

	2016 £'000	2015 £'000
<b>Amounts falling due within one year</b>		
Trade receivables not past due	44,964	51,361
Trade receivables past due but not impaired	35,090	29,400
Trade receivables past due but impaired	3,421	3,124
<b>Trade receivables</b>	<b>83,475</b>	<b>83,885</b>
Less: provision for impairment of receivables	(3,421)	(3,124)
<b>Trade receivables – net</b>	<b>80,054</b>	<b>80,761</b>
Amounts due from customers for contract work	3,368	2,241
Other receivables	15,542	19,413
Prepayments and accrued income	21,391	21,017
	<b>120,355</b>	<b>123,432</b>

## 18. Cash and cash equivalents

	2016 £'000	2015 £'000
<b>Cash and cash equivalents</b>		
Cash at bank and in hand	5,299	21,246
Short term bank deposits	40,027	3,090
	<b>45,326</b>	<b>24,336</b>

## 19. Trade and other payables

	2016 £'000	2015 £'000
Trade payables	16,333	13,261
Other financial liabilities	-	2,700
Deferred consideration	6,164	7,987
	<b>22,497</b>	<b>23,948</b>
Other tax and social security payable	26,253	31,577
Accruals and other payables	59,981	77,687
	<b>108,731</b>	<b>133,212</b>
Trade and other payables due within one year	95,072	128,503
Trade and other payables due after one year	13,659	4,709
	<b>108,731</b>	<b>133,212</b>

## 20. Borrowings

	2016 £'000	Reclassified 2015 £'000
<b>Non-current</b>		
Bank borrowings	290,000	200,000
Other loans	2,699	1,000
Capitalised banking fees	(3,223)	(1,872)
Finance lease liabilities	3,029	5,458
	<b>292,505</b>	<b>204,586</b>
<b>Current</b>		
Finance lease liabilities	721	4,662
	<b>721</b>	<b>4,662</b>
<b>Total borrowings</b>	<b>293,226</b>	<b>209,248</b>

The revolving credit facility (RCF) of £200 million was classified as current debt at 31 December 2015 based on the rolling utilisation request, but has been reclassified to non-current debt on the basis that no repayments are mandated before 20 March 2020 (2015: 20 March 2018).

### Analysis of net debt

	Reclassified At 1 January 2016 £'000	Cash flow £'000	Non-cash changes £'000	At 31 December 2016 £'000
Cash and cash equivalents	24,336	20,990	-	45,326
Capitalised banking fees	1,872	2,587	(1,236)	3,223
Other loans	(1,000)	-	(1,699)	(2,699)
Revolving credit facility due after one year	(200,000)	(90,000)	-	(290,000)
Finance leases due after one year	(5,458)	-	2,429	(3,029)
Finance leases due within one year	(4,662)	5,925	(1,984)	(721)
<b>Total</b>	<b>(184,912)</b>	<b>(60,498)</b>	<b>(2,490)</b>	<b>(247,900)</b>

### Borrowings and other loans

On 18 February 2016 the Company entered into an Amendment and Restatement Agreement relating to the term and revolving credit facility agreement, originally dated 20 March 2013, which is due to expire in March 2020. The facility is now a £340 million revolving credit facility (RCF), with no term loan elements, and an additional £60 million accordion facility, with any outstanding balance

repayable in full on 20 March 2020. Interest is currently payable based on LIBOR plus a margin of 2.75%. The margin is linked to the leverage ratio of the Group and the margin rate is reviewed twice a year (and can vary between 1.75% and 3.0%). The RCF is available for utilisation subject to satisfying fixed charge and leverage covenants and £90 million was drawn down during the period.

'Other loans' disclosed above comprise: £1 million of unsecured loan notes which are non-interest bearing, repayable in 2029, and arose on the purchase of Mortgage Intelligence Holdings Limited; and loan notes payable to The Buy to Let Group Limited joint shareholder (49%) and director of £1,590,000 capital and associated interest charges accruing at a rate of 8% per annum.

#### Finance lease liabilities

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

The present value of finance lease liabilities is as follows:

	2016 £'000	2015 £'000
No later than one year	721	4,662
Later than one year and no later than five years	3,029	5,458
	<b>3,750</b>	<b>10,120</b>

#### 21. Derivative financial instruments

Liabilities due after one year	2016 £'000	2015 £'000
Interest rate swaps – cash flow hedge	2,367	-

The full fair value of a hedging derivative is classified as a non-current liability when the remaining hedged item is more than twelve months from maturity.

On 1 June 2016 the Group entered into an interest rate swap to hedge the interest cash flows on the first proportion of the revolving credit facility in alignment with forecast drawdowns. The notional principal amount of the outstanding interest rate swap contract at 31 December 2016 was £217,500,000.

At 31 December 2016, the fixed interest rate was 0.766% and the main floating rate was 0.5%. There was no ineffectiveness to be recorded in the income statement. The loss of £2,367,000 on the interest rate swap contract has been recognised in the hedging reserve in equity (note 28) and will be continuously released to the income statement within 'Finance cost' in line with monthly interest settlements.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative liability in the balance sheet.

#### 22. Deferred income

Deferred income will unwind as follows:

	2016			2015
	Cash £'000	Non-cash £'000	Total £'000	Total £'000
Within one year	2,945	945	3,890	4,111
After one year:				
Between one and two years	975	945	1,920	4,022
Between two and three years	567	-	567	945
Between three and four years	76	-	76	—
	<b>1,618</b>	<b>945</b>	<b>2,563</b>	<b>4,967</b>
	<b>4,563</b>	<b>1,890</b>	<b>6,453</b>	<b>9,078</b>

The Group recognises deferred income as a result of cash received in advance in relation to certain sales distribution contracts and lease incentives relating to the Group's operating leases. The cash received is amortised over the life of the contracts to which they relate.

The non-cash proportion of deferred income relates to the unamortised income portion created on acquisition of shares in Zoopla Property Group plc. This deferred income is being amortised over the period of the commercial agreements which gave rise to these assets (2016 to 2018 – see note 16).

### 23. Provisions

	2016					Total £'000
	Onerous contracts £'000	Property repairs £'000	Clawback £'000	Claims and litigation £'000	Other £'000	
At 1 January	1,262	3,477	3,735	28,909	1,852	39,235
Acquired in acquisition (note 29)	-	-	274	-	-	274
Utilised in the year	(1,762)	(784)	(3,592)	(13,820)	-	(19,958)
Charged/(credited) to income statement	6,359	3,649	3,164	(688)	62	12,546
Unwind of discount rate	6	-	-	-	-	6
At 31 December	5,865	6,342	3,581	14,401	1,914	32,103
Due within one year or less	1,254	3,991	2,121	10,711	1,523	19,600
Due after more than one year	4,611	2,351	1,460	3,690	391	12,503
	5,865	6,342	3,581	14,401	1,914	32,103

The provision for onerous contracts relates to property leases and represents the estimated unavoidable costs of leasehold properties which have become surplus to the Group's requirements following the closure or relocation of operations. The provision is based on the present value of rentals and other unavoidable costs payable during the remaining lease period after taking into account rents receivable or expected to be receivable from sub-lessees, typically over a five-year period. Provisions are released when properties are assigned or sub-let.

The provision for property repairs represents estimates of the cost to repair existing dilapidations under leasehold covenants, in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets'. The average unexpired lease length of properties against which a provision has been made is two years.

Clawback represents the provision required to meet the estimated cost of repaying indemnity commission income received on life assurance policies that may lapse in the two years following issue.

Claims and litigation provisions comprise the amounts set aside to meet claims by customers below the level of any professional indemnity insurance excess, the estimation of IBNR claims and any amounts that might be payable as a result of any legal disputes. The provisions represent the directors' best estimate of the Group's liability having taken professional advice. In addition to the claims provisions recognised, the Group also provides for future liabilities arising from claims (IBNR) for mortgage valuation reports and home buyer reports provided by the Surveying Services division. The basis for calculating this provision is outlined further in note 3. While there are many factors which determine the settlement date of any claims, the expected cash flows are estimated based on the average length of time it takes to settle claims in the past, which is around two years.

Other provisions mainly comprise items relating to operational reorganisation including some business closure costs and some IT transition expenses which are expected to be utilised over the next three years.

### 24. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17%–20% (2015:18%–20%).

The movement on the deferred tax account is shown below:

	2016 £'000	2015 £'000
Net deferred tax liability at 1 January	(30,024)	(28,643)
Credited to income statement	2,622	2,519
Acquired on acquisition of subsidiary (note 29)	(3,125)	(2,483)
Credited /(charged) to other comprehensive income	1,382	(650)
Charged to equity	(299)	(767)
Net deferred tax liability at 31 December	(29,444)	(30,024)
Deferred tax asset	9,250	10,645
Deferred tax liability	(38,694)	(40,669)
Net deferred tax liability at 31 December	(29,444)	(30,024)
Deferred tax asset expected to unwind within one year	1,839	43
Deferred tax asset expected to unwind after one year	7,411	10,602
	9,250	10,645
Deferred tax liability expected to unwind within one year	(1,975)	(1,826)
Deferred tax liability expected to unwind after one year	(36,719)	(38,843)
	(38,694)	(40,669)

## 25. Post-employment benefits

The Group offers membership of the Countrywide plc Pension Scheme ('the Scheme') to eligible employees, the only pension arrangements operated by the Group. The Scheme has two sections of membership: defined contribution and defined benefit.

### Defined contribution pension arrangements

The pensions cost for the defined contribution scheme in the year was £8,633,000 (2015: £6,687,000).

### Defined benefit pension arrangements

In the past the Group offered a defined benefit pension arrangement; however, this was closed to new entrants in 1988 and subsequently closed to further service accrual at the end of 2003. Members of the defined benefit arrangements earned benefits linked to final pensionable salary and service at the date of retirement or date of leaving the scheme if earlier. The average duration of the defined benefit pension scheme is 15 years.

The defined benefit pension arrangements provide pension benefits to members based on earnings at the date of leaving the scheme. Pensions in payment are updated in line with the minimum of 4% or retail price index (RPI) inflation. The Scheme is established and administered in the UK and ultimately overseen by the Pensions Ombudsman. The regulatory framework requires the Group to fund the scheme every three years and for the Group to agree the valuation with the trustees. As such, the funding arrangements were reviewed as part of the recent valuation (as at 5 April 2015). The Group is responsible for ensuring that pension arrangements are adequately funded and the directors have agreed a funding programme to bring down the deficit in the defined benefit scheme over the next four years. During the year, the Group paid £1.9 million (2015: £1.9 million) to the defined benefit scheme. During the year which commenced on 1 January 2017, the employer is expected to pay contributions of £2.0 million (2016: £1.9 million). Further contributions of £2.0 million will be made in each of the next four years.

The amounts recognised in the balance sheet are as follows:

	2016 £'000	2015 £'000
Present value of funded obligations	(57,203)	(47,850)
Fair value of plan assets	53,540	47,435
Net liability recognised in the balance sheet	(3,663)	(415)

The movement in the defined benefit obligation over the year is as follows:

	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000
At 1 January 2016	(47,850)	47,435	(415)
Expected return on scheme assets	—	1,747	1,747
Actuarial gain	—	4,782	4,782
Employer contributions	—	1,900	1,900
Service cost	(377)	—	(377)
Interest cost	(1,735)	—	(1,735)
Actuarial loss from changes in financial assumptions	(9,565)	—	(9,565)
Benefits paid	1,947	(1,947)	—
Expenses	377	(377)	—
<b>At 31 December 2016</b>	<b>(57,203)</b>	<b>53,540</b>	<b>(3,663)</b>

## 26. Share capital

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

	Number	£'000
At 1 January 2016	219,641,834	2,196
Share capital issued	51,138	1
<b>At 31 December 2016</b>	<b>219,692,972</b>	<b>2,197</b>

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

The Company acquired 4,534,655 of its own shares through purchases on the London Stock Exchange throughout February to June 2016. The total amount paid to acquire the shares was £16,524,000. The shares were held as 'treasury shares'. The Company then reissued 1,162,683 of these shares in March 2016 and May 2016 in respect of the IPO option vesting. All shares issued by the Company were fully paid. An additional 51,138 shares were issued at nominal value to complete the satisfaction of the IPO options crystallising in March 2016 as insufficient treasury shares were held at that point in time.

Where the Employee Benefit Trust purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders

until the shares are cancelled or reissued. At the year end, 908,886 shares (2015: 449,172 shares), costing £3,723,609 (2015: £2,241,000), were held in relation to matching shares of the SIP scheme.

## 27. Share-based payments

The Group operates a number of share-based payment schemes for executive directors and other employees. The Group has no legal or constructive obligation to repurchase or settle any of the options in cash. The total cost recognised in the income statement was £2,465,000 in the year ended 31 December 2016 (2015: £3,372,000), comprising £2,261,000 (2015: £3,226,000) of equity-settled share-based payments, and £204,000 (2015: £146,000) in respect of cash-settled share-based payments for the dividend accrual associated with those options. Employer's NI is being accrued, where applicable, at the rate of 13.8% which management expects to be the prevailing rate at the time the options are exercised, based on the share price at the reporting date. The total NI charge for the year was £12,000 (2015: £1,022,000).

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

	Outstanding at 31 December			
	2016		2015	
	Charge £'000	Number of options (thousands)	Charge £'000	Number of options (thousands)
IPO plan	322	—	3,288	1,221
Long term incentive plan	1,252	3,225	(510)	2,033
Deferred share bonus plan	128	123	78	59
Share incentive plan	763	909	516	449
	<b>2,465</b>	<b>4,257</b>	<b>3,372</b>	<b>3,762</b>

A summary of the main features of each scheme is given below. The schemes have been split into two categories: executive schemes and other schemes.

### Executive schemes

#### IPO plan

At the time of the flotation in March 2013, the Company granted nil-cost share options to executive directors and designated senior management as one-off awards in recognition of the loss of rights under a management incentive package that terminated prior to, and as a result of, the flotation.

50% of the IPO options granted to the executive directors became exercisable on the second anniversary of the date of granting the IPO option; the remaining 50% of the IPO options became exercisable on the third anniversary of the date of granting the IPO option. IPO options granted to other participants became exercisable on the second anniversary of the date of granting the IPO option. The number of options that vested in March 2015 was subject to the performance criterion based on EBITDA for 2014 as well as continued service and the vesting level achieved was 83%. The same criterion applied to the options that vested in March 2016.

#### Long term incentive plan (LTIP)

The LTIP is open to executive directors and designated senior management, and awards are made at the discretion of the Remuneration Committee. Awards are subject to market and non-market performance criteria and generally vest over a three-year period.

#### Deferred share bonus plan (DSBP)

The Group operates a DSBP for executive directors and other senior employees whose bonus awards are settled partly in cash and partly in nil-cost share options at the discretion of the Remuneration Committee. The number of options that will vest is subject to market performance criteria over a three-year period and continued service.

### Other schemes

#### Share incentive plan (SIP)

An HMRC approved share incentive plan was introduced in October 2013. Under the SIP, eligible employees are invited to make regular monthly contributions into a scheme operated by Capita. Ordinary shares in the Company are purchased at the current market price and since May 2016 an award of two matching shares is made for every three shares acquired by an employee, subject to a vesting period of three years from the date of each monthly grant. Prior to May 2016, the award comprised one matching share for every two shares acquired by an employee.

## 28. Other reserves

The following table provides a breakdown of 'other reserves' shown on the consolidated statement of changes in equity.

	Capital reorganisation reserve £'000	Hedging reserve £'000	Foreign exchange reserve £'000	Available-for- sale financial assets reserve £'000	Treasury share reserve £'000	Total £'000
Balance at 1 January 2015	92,820	—	(173)	20,552	(14,516)	98,683
Currency translation differences	—	—	(255)	—	—	(255)
Realisation of capital reorganisation reserve on liquidation of Countrywide Holdings, Ltd	(92,820)	—	—	—	—	(92,820)
Disposal of fair value of available-for-sale financial assets	—	—	—	(237)	—	(237)
Movement in fair value of available-for-sale financial assets	—	—	—	7,836	—	7,836
Utilisation of treasury shares for IPO options	—	—	—	—	20,035	20,035
Purchase of treasury shares	—	—	—	—	(7,760)	(7,760)
<b>Balance at 1 January 2016</b>	—	—	(428)	28,151	(2,241)	25,482
Currency translation differences	—	—	136	—	—	136
Disposal of fair value of available-for-sale financial assets	—	—	—	(29,943)	—	(29,943)
Movement in fair value of available-for-sale financial assets	—	—	—	2,132	—	2,132
Cash flow hedge: fair value losses	—	(2,367)	—	—	—	(2,367)
Cash flow hedge: deferred tax on losses	—	473	—	—	—	473
Utilisation of treasury shares for IPO options	—	—	—	—	4,246	4,246
Purchase of treasury shares	—	—	—	—	(18,100)	(18,100)
<b>Balance at 31 December 2016</b>	—	<b>(1,894)</b>	<b>(292)</b>	<b>340</b>	<b>(16,095)</b>	<b>(17,941)</b>

## 29. Acquisitions during the year

During the year the Retail business unit acquired four businesses as part of its targeted acquisition strategy to expand in certain under-represented geographical areas. The total consideration in respect of these acquisitions was £23.9 million, the most significant of which was on 1 March 2016, when the Group acquired 100% of the equity share capital of Finders Keepers for the consideration noted in the table below. The London business unit acquired two businesses as part of its targeted acquisition strategy to expand in certain under-represented geographical areas, for a consideration of £1.5 million. The Financial Services business unit acquired two businesses, The Buy to Let Business and Mortgage Bureau, as part of its targeted acquisition strategy to expand the Group's financial services offering, particularly in niche areas such as buy to let mortgaging and remortgaging, for a total consideration of £9.8 million. The B2B business unit acquired two businesses as part of its targeted acquisition strategy to expand the Group's commercial offering, for a consideration of £4.6 million.

	The Buy to Let				Total £'000
	Finders Keepers £'000	Business Mortgage Bureau £'000	Other £'000		
Intangible assets	5,994	5,056	2,470	2,332	15,852
Property, plant and equipment	333	34	33	202	602
Trade and other receivables	2,515	47	623	1,821	5,006
Cash at bank	3,118	898	1,037	1,357	6,410
Trade and other payables	(1,882)	(312)	(348)	(1,029)	(3,571)
Corporation tax	(105)	(82)	(253)	(392)	(832)
Deferred tax	(1,210)	(949)	(497)	(469)	(3,125)
Provisions	-	-	(274)	-	(274)
Net assets	8,763	4,692	2,791	3,822	20,068
Goodwill	12,136	854	1,454	5,243	19,687
Consideration	20,899	5,546	4,245	9,065	39,755
Settled by:					
Initial consideration	19,649	3,358	4,245	8,560	35,812
Deferred consideration	1,250	2,188	-	505	3,943
	20,899	5,546	4,245	9,065	39,755
Cash paid	19,649	3,358	4,245	8,560	35,812
Cash at bank	(3,118)	(898)	(1,037)	(1,357)	(6,410)
Net cash flow arising from acquisitions	16,531	2,460	3,208	7,203	29,402
Revenue post-acquisition	9,841	3,509	2,770	4,683	20,803
Profit post-acquisition	2,215	689	352	1,026	4,282
Proforma revenue to 31 December 2016	11,414	4,050	3,633	5,652	24,749
Proforma profit to 31 December 2016	2,755	802	344	1,233	5,134

The acquired receivables for all acquired businesses are all current and their fair value is not materially different. There are no contractual cash flows that are not expected to be collected. The goodwill recognised by the Group upon acquisition has no impact on tax deductions. No other contingent liabilities, not included in the net assets above, have been identified on these acquisitions.

The goodwill of £19.7 million arises from a number of factors including expected synergies, cost reductions from purchasing and processing efficiencies, and unrecognised assets such as the assembled workforces.

The deferred consideration noted above is payable over a period of up to three years as fixed payments at specified times in line with the purchase agreements. In addition, contingent consideration arrangements arising on four of the acquisitions made during the year require the Group to pay in cash a potential undiscounted maximum aggregate amount of £19.2 million.

Each of these contingent consideration arrangements require the vendors to remain in employment and as such have been treated as a post-combination employment expense, excluded from the consideration noted above, and are being accrued over the relevant periods of one to five years specific to each of the agreements. £19.2 million of this contingent consideration is also subject to performance conditions being satisfied. These are target EBITDA levels which must be achieved in order to realise the full payment, with a reduced payment made if targets are not fully met. Accruals for contingent consideration will be reviewed at each period end as future earn-out assumptions are revisited and any credits to the income statement in respect of downward revisions to estimates will be treated in the same way.

The costs of these acquisitions amounted to £0.9 million (2015: £1.1 million) and have been written off to profit and loss.

### 30. Financial risk management and financial instruments

#### Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including cash flow interest rate risk), counterparty credit risk and liquidity risk.

The preliminary announcement does not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 December 2015. There have been no changes in the operation of risk management or in any risk management policies since the year end.

#### Liquidity risk

There has been no material change in the financial liabilities (see note 20) or in the terms of borrowing applicable since the prior year end, as disclosed in note 20.

#### Fair value estimation

The financial assets carried at fair value, and classified within available-for-sale financial assets, are unquoted residential property fund units held at £14.1million (2015: £14.4 million in investment property).

#### Fair value measurements using significant unobservable inputs and valuation processes

The fair value of the residential property fund units at 31 December 2016 has been arrived at on the basis of a valuation carried out at that date by CBRE Limited, independent valuers not connected with the Group. The valuation conforms to International Valuation Standards. The fair value was determined based on comparable market transactions on arm's length terms and has been based on the Market Rent valuation technique. The fair value hierarchy of the investment property has been deemed to be Level 2.

The fair value of all other financial assets and liabilities approximate to their carrying amount.

### 31. Related party transactions

#### Trading transactions

Related party relationship	Transaction type	Transaction amount		Balance (owing)/owed	
		2016 £'000	2015 £'000	2016 £'000	2015 £'000
Joint venture	Purchases by Group	(2,415)	(2,567)	(169)	(192)
Joint venture	Rebate received/receivable	2,165	2,792	1,134	1,441
The Buy To Let Group - subsidiary	Loan payable	109	—	1,699	—
Oaktree Capital Management	Director's fee paid	40	40	10	10

These transactions are trading relationships which are made at market value. There is a loan payable within The Buy To Let Group Limited of £1,590,000, and associated interest, that is payable to the joint shareholder and director in February 2019 with interest payable at 8% per annum. The Company has not made any provision for bad or doubtful debts in respect of related party debtors nor has any guarantee been given during 2016 regarding related party transactions.

### 32. Events after the reporting period

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

Chief Executive officer Alison Platt  
Chief Financial officer Jim Clarke  
Company Secretary Gareth Williams  
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**Independent auditors**  
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**Brokers**  
Jefferies Hoare Govett  
Barclays Bank Plc, acting through its investment bank

**Bankers**  
Royal Bank of Scotland plc  
Lloyds Banking Group  
HSBC plc  
Abbey National Treasury Services plc  
Barclays Bank Plc  
Allied Irish Banks plc

**Solicitors**  
Slaughter and May

**Financial calendar**  
AGM 27 April 2017  
Interim results 27 July 2017

**\*Shareholder enquiries**

The Company's registrar is Capita Asset Services. They will be pleased to deal with any questions regarding your shareholding or dividends. Please notify them of your change of address or other personal information. Their address details are above.

Capita Asset Services is a trading name of Capita Asset Services Limited.

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Shareholders are able to manage their shareholding online and facilities included electronic communications, account enquiries, amendment of address and dividend mandate instructions.