Countrywide

Preliminary results
Year ended 31 December 2017

8 March 2018

Countrywide plc

('Group'/the 'Company')

Preliminary statement of annual results for the year ended 31 December 2017

2017 A DISAPPOINTING YEAR
2018 MANAGEMENT CHANGE AND RECOVERY PLAN UNDERWAY

Year ended 31 December	Underlying[1]		Statutory	
	2017 £m	2016 £m	2017 £m	2016 £m
Income	671.9	737.0	671.9	737.0
Adjusted EBITDA[2]	64.7	83.5	n/a	n/a
Profit/(loss) for the year	19.5	42.0	(208.1)	17.5
EPS/(loss per share) (pence)	8.4	19.3	(89.6)	8.0

(1) Excludes exceptional items, amortisation of acquired intangibles, contingent consideration and share based payments (net of taxation impact for basic EPS)

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

2017 Results

- **Group:** Income for the full year was £671.9 million (2016: £737.0 million) while adjusted EBITDA was 23% lower at £64.7 million (2016: £83.5 million) driven by poor performance in Sales and Lettings.

- **Sales and Lettings:** adjusted EBITDA was down 45% at £26.4 million (2016: £48.4 million). Third consecutive year of under-performance in this core area.

- **Financial Services:** adjusted EBITDA of £19.7 million (2016: £22.7 million) with performance in traditional high street sales force impacted by less referred business from Sales and Lettings but encouraging growth in alternative Financial Services channels resulting in the value of total mortgages arranged up £2.0 billion to £17.7 billion.

- **B2B**: Strong performance across B2B with a 13% increase in adjusted EBITDA to £35.6 million (2016: £31.5million) driven by Surveying and our commercial business, Lambert Smith Hampton.

- **Cash flow and net deb**t: Operating cash flow of £58.1 million (2016: £27.9 million) benefited from focus on managing working capital and introduction of new capital disciplines in the second half. Net debt to adjusted EBITDA of 2.97x.

- **Loss after tax** of £208.1 million (2017: profit of £17.5 million) reflecting £225.9 million of principally non-cash exceptional charges for goodwill, intangible and other asset impairments.

- **Dividend**: The Board is not recommending a dividend for 2017 (2016: 5 pence per share).

2018 – The foundations for recovery

- Management changes and strategic reset: chief executive leaves the Group and Peter Long appointed executive chairman
- Promotion of industry veteran, Paul Creffield, to Group operations director
- Immediate priorities for the Group:
    - Back to basics in Sales and Lettings to regain market share and gradually return to profitable growth
    - Cost efficiency
    - Financial discipline and better cash flow conversion
- 2018 lay the foundations to restore profitable growth
- Detailed recovery plan to be presented at 2018 interims

Commenting, Peter Long, Executive chairman said:

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

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

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

Outlook:

We have entered 2018 with our pipeline significantly below that of 2017. We have begun to take steps to build back the pipeline to the 2017 level but this will take time. We therefore anticipate that in the first half of the year this will result in a reduction in adjusted EBITDA of around £10 million. At this time, it is unlikely that the shortfall in the first half will be recovered. We will provide full year guidance and a detailed recovery plan at the interim results."

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Conference call and Notes to Editors:

The Company will be hosting a teleconference at 9:00am (GMT) this morning to discuss the results with slides available by registering at http://cache.merchantcantos.com/webcast/webcaster/4000/7464/16532/99588/Lobby/default.htm. This will be available to listen into by dialling +44 (0)20 3003 2666 or 0808 109 0700. A recording of the webcast will be available for seven days by dialling +44 (0)20 8196 1988 – pass code: 2554112#. For further information on Countrywide plc, please visit our corporate website at www.countrywide.co.uk.

2018 – THE FOUNDATIONS FOR RECOVERY

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

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

Sales and Lettings - Back to basics

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cost efficiency

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

Our strategic priorities are:

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

Financial discipline and cash flow

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

Our strategic priorities are:

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

Outlook

We have entered 2018 with our pipeline significantly below that of 2017. We have begun to take steps to build back the pipeline to the 2017 level but this will take time. We therefore anticipate that in the first half of the year this will result in a reduction in adjusted EBITDA of around £10 million. At this time, it is unlikely that the shortfall in the first half will be recovered. We will provide full year guidance and a detailed recovery plan at the interim results.

SEGMENTAL RESULTS

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

[1] Earnings before interest, tax, depreciation, amortisation, exceptional items, employment-linked contingent consideration, share-based payments and share of profits from joint venture, referred to hereafter as 'adjusted EBITDA' (see note 4 for reconciliation)

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

UK SALES AND LETTINGS

Summary

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

Operating review

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

Sales

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

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

Lettings

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

LONDON SALES AND LETTINGS

Summary

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

Operating review

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

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

Sales

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

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

Lettings

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

FINANCIAL SERVICES

Summary

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

Operating review

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

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

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

TBTLB conducts our specialist business in the buy to let sector, and now also handles all customers who wish to transact by phone. The business relocated to larger premises during the year and has focused on growing its advisor numbers to meet increased demand. The business has experienced growth from both its strong existing customer relationships and reputation in the buy to let market, as well as from new telephony referrals from our Sales and Lettings branch network. As a result of the expansion and new streams of revenue, the business has increased its gross distribution to £1.5 billion (2016: £1.1 billion), an increase of 30% year on year.

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

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

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

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

B2B

Summary

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

Operating review

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

Surveying

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

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

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

Conveyancing

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

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

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

Land and New Homes and Asset Management

Our Land and New Homes business won key schemes throughout the year. Key to the success was the combined approach between Sales and our consultancy business, ikon, and the performance of Lanes New Homes and Preston Bennett.

Our Asset Management portfolio of businesses works closely with corporate clients by delivering services relating to sales, lettings, property management and emergency relocations. In 2017 the business continued to execute its growth strategy and delivered growth in adjusted EBITDA.

Lambert Smith Hampton (LSH)

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

GROUP FINANCIAL REVIEW

Introduction

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

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

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

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

Results

Our business units all reported a reduction in income as a result of continuing challenges in the trading environment exacerbated by the full year impact of branch closures and staffing changes made in the Sales and Lettings businesses. These changes most significantly affected the UK and London Sales and Lettings business units' income and profitability, with income reducing by 17% and adjusted EBITDA declining by 47% to £14.9 million. The Sales and Lettings business also refers business into Financial Services and B2B and their adverse performance has also impacted on Financial Services and B2B's Conveyancing operations through the reduced level of referrals and ability to drive a wider Group value from the network. Our Financial Services business revenue declined by 1% due to strong performance from The Buy to Let Business, Mortgage Bureau and Mortgage Intelligence but profitability suffered due to lower referrals from Sales and Lettings resulting in adjusted EBITDA of £19.7 million, down 13%. B2B has delivered adjusted EBITDA growth of 13% driven by the performance of our Surveying and Lambert Smith Hampton businesses. Our central costs were down 11% on the prior year and benefited from improved financial disciplines - notably from the recovery of circa £1m non-recurring benefit arising from collection of deferred consideration receivable in respect of a prior investment disposal which had been fully provided (within adjusted EBITDA) during 2016, and from circa £2.5 million in respect of retrospective rebates secured across a number of suppliers following the conclusion of external benchmarking exercises.

Income statement

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

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

Contingent consideration

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

Certain of this contingent consideration is also subject to performance conditions being satisfied, with target adjusted EBITDA levels which must be achieved in order to realise the full payment, with a reduced payment made if targets are not fully met. Accruals for contingent consideration are therefore reviewed at each period as future earn-out assumptions are revisited and any credits to the income statement in respect of downward revisions to estimates are reported in the same way.

Share-based payments

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

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

Depreciation and amortisation

Our depreciation and amortisation charge continues to be separated to indicate the depreciation and amortisation that relates to assets purchased for use in the business and amortisation arising on those intangible assets that have been recognised as a result of business combinations. The underlying depreciation and amortisation charge increased by £6.2 million to £27.7 million, the principal drivers of which were: a £3.0 million increase in amortisation of computer software as a result of increased levels of investments, accompanied by a £3.2 million increase in depreciation of tangible fixed assets.

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

Exceptional costs

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

Strategic and restructuring costs

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

Impairment charges

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

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

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

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

Professional indemnity provisions

During 2017 the Group received reduced numbers of professional indemnity valuation claims, in line with expectations, and achieved closure of a number of challenging cases. Estimating the liability for PI claims is highly judgemental and we updated our financial models to reflect the latest inputs and trends and took advice from our panel of lawyers in respect of open claims. The judgemental nature of the provision, and progress made during the year on some individually significant claims aligned with the low level of claims made, would have provided progress on unwinding the provision. However, an individually significant claim has resulted in the need to increase the provision by £1.8 million.

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

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

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

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

In addition to our corporation tax contribution, our businesses generate considerable tax revenue for the Government in the UK. For the year ended 31 December 2017, we will pay corporation tax of £1.4 million (2016: £5.2 million) on profits for the year, we collected employment taxes of £128.7 million (2016: £158.0 million) and VAT of £87.7 million (2016: £94.2 million), of which the Group has incurred £36.4 million and £3.0 million (2016: £44.3 million and £3.3 million) respectively. Additionally we have paid £11.8 million (2016: £12.8 million) in business rates and collected £38.7 million (2016: £41.7 million) of stamp duty land tax though our Conveyancing business.

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

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

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

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

Net debt

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

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

Net debt maturity and changes to committed bank facilities

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

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in our segmental reviews. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out above in our financial review, with further details of the borrowing facilities set out in note 20.

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

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

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

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

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

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

Dividend

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

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

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

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

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

In assessing future dividends, the Board will consider:

- The future investment in the business;
- Net debt to EBITDA leverage levels; and
- Reward to shareholders.

Other information

Tenant fees

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

Pensions

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

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

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

Tax strategy

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

Himanshu Raja
Chief financial officer
8 March 2018

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:

- Exposure to UK housing market trends
- Professional indemnity exposure
- Potential loss of a major business partner or outsourcing partner
- Resilience of IT infrastructure and cyber risk
- Securing and retaining excellent people
- Changing regulatory environment
- Increasing competition in the evolving markets that we operate in

These risks and uncertainties and mitigating factors are described in more detail on pages 19 to 21 of the Countrywide plc financial statements for the year ended 31 December 2016 (a copy of which is available on the Group's website).

Having reconsidered these, the Board considers that they remain the principal risk areas facing the Group.

Additionally, our continued focus on deleveraging the business has resulted in the identification of 'Financing and capital structure' as a new principal risk for the forthcoming year. The effective management of debt and access to finance is central to the Group's ability to achieve its strategic objectives and profitability. The Group has been supported by six banks since its IPO in 2013 through the provision of a revolving credit facility (RCF). The RCF expires in March 2020. The facility also contains covenant thresholds in relation to net debt/adjusted EBITDA and to the level of interest cover. The Group also needs to ensure that it has the funding required to deliver on its strategy and future growth plans and that it manages its debt and cash balances effectively.

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'.

APPROVAL

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

Peter Long
Executive chairman
8 March 2018

Consolidated income statement

For the year ended 31 December 2017

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

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

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

Consolidated statement of comprehensive income

For the year ended 31 December 2017

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

Consolidated statement of changes in equity

For the year ended 31 December 2017

	Note	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
		Attributable to owners of the parent						
Balance at 1 January 2016		2,196	211,839	25,482	304,959	544,476	103	544,579
Profit for the year		—	—	—	17,404	17,404	136	17,540
Other comprehensive income/(expense)								
Currency translation differences		—	—	136	—	136	—	136
Movement in fair value of available-for-sale financial assets	16(c)	—	—	2,132	—	2,132	—	2,132
Reclassification of gains on disposal of available-for-sale financial assets		—	—	(29,943)	—	(29,943)	—	(29,943)
Cash flow hedge: fair value losses	21	—	—	(2,367)	—	(2,367)	—	(2,367)
Cash flow hedge: deferred tax on losses		—	—	473	—	473	—	473
Actuarial loss on the pension fund	25	—	—	—	(4,783)	(4,783)	—	(4,783)
Deferred tax movement relating to pension	25	—	—	—	909	909	—	909
Total other comprehensive expense		—	—	(29,569)	(3,874)	(33,443)	—	(33,443)
Total comprehensive (expense)/income		—	—	(29,569)	13,530	(16,039)	136	(15,903)
Transactions with owners								
Issue of share capital		1	(1)	—	—	—	—	—
Share-based payment transactions	27	—	—	—	2,261	2,261	—	2,261
Deferred tax on share-based payments		—	—	—	(299)	(299)	—	(299)
Acquisition of non-controlling interest in subsidiary		—	—	—	29	29	(29)	—
Purchase of treasury shares	28	—	—	(18,100)	—	(18,100)	—	(18,100)
Utilisation of treasury shares for IPO options	28	—	—	4,246	(4,246)	—	—	—
Dividends paid	12	—	—	—	(32,780)	(32,780)	(210)	(32,990)
Transactions with owners		1	(1)	(13,854)	(35,035)	(48,889)	(239)	(49,128)
Balance at 1 January 2017		**2,197**	**211,838**	**(17,941)**	**283,454**	**479,548**	**—**	**479,548**
Loss for the year		-	-	-	(208,072)	(208,072)	-	(208,072)
Other comprehensive income/(expense)								
Currency translation differences		—	—	(30)	—	(30)	—	(30)
Movement in fair value of available-for-sale financial assets	16(c)	—	—	1,627	—	1,627	—	1,627
Cash flow hedge: fair value gain	21	—	—	2,030	—	2,030	—	2,030
Cash flow hedge: deferred tax on gain		—	—	(410)	—	(410)	—	(410)
Actuarial loss on the pension fund	25	—	—	—	(3,633)	(3,633)	—	(3,633)
Deferred tax movement relating to pension	25	—	—	—	690	690	—	690
Total other comprehensive income/(expense)		—	—	3,217	(2,943)	274	—	274
Total comprehensive income/(expense)		—	—	3,217	(211,015)	(207,798)	—	(207,798)
Transactions with owners								
Issue of share capital	26	216	—	36,634	—	36,850	—	36,850
Transfer of reserves	28	—	—	(36,634)	36,634	—	—	—
Share-based payment transactions	27	—	—	—	1,944	1,944	—	1,944
Deferred tax on share-based payments		—	—	—	(10)	(10)	—	(10)
Purchase of treasury shares	28	—	—	(1,397)	—	(1,397)	—	(1,397)
Transactions with owners		216	—	(1,397)	38,568	37,387	—	37,387
Balance at 31 December 2017		**2,413**	**211,838**	**(16,121)**	**111,007**	**309,137**	**—**	**309,137**

Consolidated balance sheet

As at 31 December 2017

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

Consolidated cash flow statement

For the year ended 31 December 2017

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

Notes to the financial statements

1. General information
Countrywide plc (‘the Company’), and its subsidiaries (together, ‘the Group’), is the leading integrated, full service residential estate agency and property services group in the UK, measured by both revenue and transaction volumes in 2017. It offers estate agency and lettings services, together with a range of complementary services, and has a significant presence in key areas and property types which are promoted through locally respected brands.

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

2. Accounting policies
The preliminary announcement does not constitute full financial statements.

The results for the year ended 31 December 2017 included in this preliminary announcement are extracted from the audited financial statements for the year ended 31 December 2017 which were approved by the Directors on 8 March 2018. The auditor’s report on those financial statements was unqualified and, without modification, draws attention to a material uncertainty relating to going concern by way of emphasis. It did not include a statement under Section 498(2) or 498(3) of the Companies Act 2006.

The 2017 annual report is expected to be posted to shareholders and included within the investor relations section of our website on 23 March 2018 and will be considered at the Annual General Meeting to be held on 25 April 2018. The financial statements for the year ended 31 December 2017 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 2016 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 2016 have been delivered to the Registrar of Companies.

(a) Going concern
These financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its liabilities when they fall due.

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

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

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

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

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

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

(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 2016. 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.

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

No new standards, amendments or interpretations effective for the first time for the financial year beginning on or after 1 January 2017 have had a material impact on the Group.

3. Critical accounting judgements and key sources of estimation uncertainty

In application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities and the disclosure of contingent assets and liabilities. These estimates and associated assumptions are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates, given the uncertainty surrounding the assumptions and conditions upon which the estimates are based.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both the current and future periods.

Critical judgements in applying the Group's accounting policies

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

Exceptional items

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

Going concern

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

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

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

- Recovery of the pipeline to 2017 levels;
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Key sources of estimation uncertainty

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

Impairment of goodwill and indefinite-lived intangible assets
Determining whether goodwill and indefinite-lived intangible assets are impaired requires an estimation of the value in use of the cash generating units to which the assets have been allocated. Calculating the cash flows requires the use of judgements and estimates that have been included in our strategic plans and long range forecasts. In addition, judgement is required to estimate the appropriate interest rate to be used to discount the future cash flows. The data necessary for the execution of the impairment tests is based on management estimates of future cash flows, which require estimating revenue growth rates and profit margins. Further details of impairment reviews are set out in note 14.

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

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

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

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

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

The number of valuation claims continued to decline significantly throughout 2017 to historically low levels. There is a possible risk that a significant rise in mortgage interest rates could lead to an increase in repossessions and potential losses being incurred by the lenders. While there is uncertainty around the future of the UK economy as the Government deals with Brexit, there are no macroeconomic indicators that this is a reasonable likelihood in the short term and the directors do not consider it appropriate to provide for additional claims due to macroeconomic changes. It should be noted that a 5% increase in the valuation claim rate applied to all surveys performed between 2004 and 2008 could lead to a £3.5 million increase in the provision for future claims.

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

Our claim handlers and panel lawyers robustly defend all our claims and as a result they have achieved a number of successes in 2017 where clients have withdrawn their claim. Consequently, we have not experienced any increase to the claim liability rate.

The liability rate is sensitive to changes in experience and therefore we have used the average liability rate for claims closed over two years as the most appropriate claim liability rate to estimate the provision for those claims already received. A 10% increase in the average liability rate applied to open claims at the end of the year and unreported claims anticipated would impact the provision for claims already received by £0.4 million.

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

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

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

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

4. Segmental reporting

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

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

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

The assets and liabilities for each operating segment represent those assets and liabilities arising directly from the operating activities of each business unit. Pension assets and liabilities, and liabilities arising from the revolving credit facility and related derivative financial instrument, are not allocated to operating segments but allocated in full to 'All other segments' within the segmental analysis as they are managed by central Group functions. Non-current assets attributable to the UK of £570,773,000 (2016: £798,266,000) are included in the total assets in the tables on the following pages. Non-current assets of £922,000 (2016: £838,000) are attributable to the overseas operations. The equity investment in joint venture is disclosed within 'All other segments' and is £2,982,000 (2016: £2,292,000).

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

	2017					
	UK £'000	London £'000	Financial Services £'000	B2B £'000	All other segments £'000	Total £'000
Revenue	**188,715**	**150,998**	**82,124**	**238,606**	**606**	**661,049**

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

	2016					
	UK* £'000	London* £'000	Financial Services £'000	B2B* £'000	All other segments £'000	Total £'000
Revenue	226,444	165,622	82,667	248,859	378	723,970
Other income	3,427	3,178	1,629	1,506	3,245	12,985
Total income	229,871	168,800	84,296	250,365	3,623	736,955
Inter-segment revenue	17,949	3,753	3,878	(25,580)	—	—
Total income from external customers	247,820	172,553	88,174	224,785	3,623	736,955
Adjusted EBITDA	27,846	20,551	22,682	31,498	(19,029)	83,548
Contingent consideration	—	(397)	(867)	(4,692)	(878)	(6,834)
Share-based payments	(303)	(200)	(220)	(397)	(1,357)	(2,477)
Depreciation and amortisation	(14,943)	(5,159)	(6,132)	(7,550)	912	(32,872)
Share of loss from joint venture	—	—	—	—	(13)	(13)
Exceptional income	2,530	—	—	2,910	30,274	35,714
Exceptional costs	(19,918)	(20,552)	(47)	(4,697)	(2,989)	(48,203)
Segment operating (loss)/profit	(4,788)	(5,757)	15,416	17,072	6,920	28,863
Finance costs						(9,672)
Finance income						304
Profit before tax						19,495
Total assets	336,327	189,138	116,619	247,586	75,115	964,785
Total liabilities	433,247	127,733	211,455	260,165	(547,363)	485,237
Additions in the year						
Goodwill	2,472	13,239	2,308	1,668	—	19,687
Intangible assets	5,849	5,935	9,064	4,027	2,048	26,923
Property, plant and equipment	11,623	1,057	1,405	1,144	5,449	20,678

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

As permitted by IAS 1 'Presentation and disclosure' certain items are presented separately in the income statement as exceptional where, in the judgement of the directors, they need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance. Examples of material and non-recurring items which may give rise to disclosure as exceptional items include costs of restructuring existing businesses, integration of newly acquired businesses, asset impairments, costs associated with acquiring new businesses and profit on sale of available-for-sale financial assets.

The columnar presentation of our income statement separates exceptional items as well as adjusting items, specifically amortisation of intangibles arising on business acquisitions, contingent consideration and share-based payments, to illustrate consistently the Group's underlying business performance.

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

- exceptional items (costs or income): these are specific items which are material by their nature, size or incidence and are highlighted, with further descriptions, in note 10 to the financial statements;
- amortisation of intangibles arising on acquisitions (excluding software): charges can vary significantly dependent on the level and size of acquisitions undertaken in each period, and the related customer relationships and contracts recognised (brands not being subject to amortisation). In addition, we do not believe the amortisation charge provides insight into the costs of running our business as these assets are supported and maintained by marketing costs which are reflected within our operating

costs. The directors note that the intangibles acquired in business combinations are used in the business to generate revenue, but that there is no equivalent adjustment made to eliminate this revenue;

- contingent consideration: charges can vary significantly dependent on the level and size of acquisitions undertaken and the associated performance criteria linked to the ongoing service requirement. We reassess the fair value of the resulting liabilities across these arrangements at each reporting period end, reflecting our best estimates of future performance. However, these estimates are inherently judgemental as we are required to look beyond our normal three year budgeting and planning cycle for the five year agreements in place. Remeasurement could cause material volatility in our reported results over the earn out periods which would not be reflective of the business' performance in the period; and
- share-based payments: The income statement has been subject to significant charges in respect of the IPO options up to and including 2016. As the Group is now in a turnaround situation, it is anticipated that the incentivisation of performance will be driven by award of future LTIPs which, provided Group performance meets these targets, will see the share-based payment charge continue to increase and re-introduce material volatility into the income statement.

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

5. Other income

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

6. Employees and directors

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

7. Other operating costs

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

8. Finance costs

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

9. Finance income

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

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

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

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

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

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

- £192,253,000 in respect of goodwill associated with: the UK cash generating unit of £151,295,000 and the London cash generating unit of £40,958,000 following an assessment of the recoverable value against the carrying value (see note 14);

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

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

Professional indemnity provisions
During 2017 the Group received reduced numbers of professional indemnity valuation claims, in line with expectations, and achieved closure of a number of challenging cases. Estimating the liability for PI claims is highly judgemental and we updated our financial models to reflect the latest inputs and trends and took advice from our panel of lawyers in respect of open claims. The judgemental nature of the provision, and progress made during the year on some individually significant claims, aligned with the low level of claims made, would have provided progress on unwinding the provision. However, an individually significant claim has resulted in the need to increase the provision by £1,821,000. This has been treated as an exceptional cost given the materiality of the item.

2016
Exceptional income
The £32,804,000 profit on disposal of available-for-sale financial assets relates entirely to the sale of the Group's residual interest in ZPG Plc.

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

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

- £8,109,000 in respect of associated redundancy costs to achieve the appropriate organisational structure;
- £15,813,000 of property provisions, comprising: £4,162,000 dilapidation costs; £7,430,000 onerous contract costs in respect of closed premises; £3,084,000 associated asset write downs arising from rationalisation of our branch footprint; and £1,137,000 of other property closure costs;
- £19,564,000 of impairment charges from writing down goodwill associated with conveyancing operations (£1,083,000), and £5,016,000 and £13,465,000 respectively in relation to the UK and London cash generating units following an assessment of the recoverable value against the carrying value of the goodwill (see note 14);
- £1,358,000 of impairment charges from writing down four brands which have been abandoned as part of our review of the UK marketplace; and
- £2,032,000 in respect of costs expensed during the year as part of the organisational redesign of our marketing function and revisions to our channels to market aligned with the launch of our digital offering.

Acquisition expenses
The Group incurred acquisition expenses of £927,000 across a number of transactions undertaken during the year.

11. Taxation

Analysis of (credit)/charge in year

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

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

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

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

12. Dividends

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

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

13. Earnings per share

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

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

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

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

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

14. Intangible assets

(a) Goodwill

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

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

(b) Other intangible assets

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

All amortisation and impairment charges are treated as an expense in the income statement. Brand names are treated as having an indefinite-life, as a result of the fact that the Group will continue to operate these brands into perpetuity, and are therefore subject to annual, or more frequent, impairment reviews if events or changes in circumstances indicate potential impairment.

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

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

15. Property, plant and equipment

	2017					
	Freehold land and buildings £'000	**Leasehold improvements £'000**	**Motor vehicles £'000**	**Furniture and equipment £'000**	**Assets in the course of construction £'000**	**Total £'000**
Cost						
At 1 January	**1,922**	**34,251**	**937**	**43,792**	**1,954**	**82,856**
Additions at cost	**—**	**962**	**6**	**7,859**	**2,191**	**11,018**
Disposals	**—**	**(210)**	**(746)**	**(256)**	**—**	**(1,212)**
Reclassification*	**—**	**(4,271)**	**—**	**4,271**	**—**	**—**
Transfers	**—**	**4,006**	**—**	**139**	**(4,145)**	**—**
At 31 December	**1,922**	**34,738**	**197**	**55,805**	**—**	**92,662**
Accumulated depreciation					**—**	
At 1 January	**351**	**14,652**	**330**	**18,078**	**—**	**33,411**
Charge for the year	**16**	**6,186**	**150**	**10,828**	**—**	**17,180**
Impairment (note 10)	**—**	**18**	**—**	**832**	**—**	**850**
Disposals	**—**	**(27)**	**(478)**	**(72)**	**—**	**(577)**
Reclassification*	**—**	**(4,271)**	**—**	**4,271**	**—**	**—**
At 31 December	**367**	**16,558**	**2**	**33,937**	**—**	**50,864**
Net book amount					**—**	
At 31 December	**1,555**	**18,180**	**195**	**21,868**	**—**	**41,798**

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

Assets in the course of construction with a value of £Nil (2016: £1,954,000) relate principally to branch refurbishments in progress for which no depreciation has been charged. Depreciation commences when the asset enters operational use and the asset is transferred to the operational asset category.

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

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

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

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 2017 the Group had a 33% (2016: 33%) interest in the ordinary share capital of TM Group (UK) Limited (TMG), a UK company. TMG has share capital consisting solely of ordinary shares and is a private company with no quoted market price available for its shares. TMG is one of the largest companies in the provision of searches to the property companies sector (measured by completed

searches). It delivers a range of property searches and data to land and property professionals in the UK, arranges for property searches directly with specific suppliers on behalf of its own customers, and supplies IT applications and products to UK mortgage lenders.

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

During the year, TMG was a joint venture company.

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

(c) Available-for-sale financial assets

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

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

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

17. Trade and other receivables

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

18. Cash and cash equivalents

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

19. Trade and other payables

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

20. Borrowings

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

Analysis of net debt

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

Borrowings and other loans

At the year end, the facility was a £340 million revolving credit facility agreement (RCF), with no term loan elements, and an additional £60 million accordion facility, with any outstanding balance repayable in full on 20 March 2020. Interest was currently payable based on LIBOR plus a margin of 3.0%. The margin is linked to the leverage ratio of the Group and the margin rate is reviewed twice a year (and can vary between 1.75% and 3.0%). The RCF is available for utilisation subject to satisfying fixed charge, interest cover and leverage covenants and £80 million was repaid during the period.

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

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

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

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:

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

21. Derivative financial instruments

Liabilities due after one year	2017 £'000	2016 £'000
Interest rate swaps – cash flow hedge	**337**	2,367

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

On 1 June 2016 the Group entered into an interest rate swap to hedge the interest cash flows on the first proportion of the revolving credit facility in alignment with forecast drawdowns. The notional principal amount of the outstanding interest rate swap contract at 31 December 2017 was £240,000,000.

At 31 December 2017, the fixed interest rate was 0.799% and the main floating rate was 0.498%. There was no ineffectiveness to be recorded in the income statement. The gain of £2,030,000 on the interest rate swap contract has been recognised in the hedging reserve in equity (note 28) and will be continuously released to the income statement within 'Finance cost' in line with monthly interest settlements. The maximum exposure to credit risk at the reporting date is the fair value of the derivative liability in the balance sheet.

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

22. Deferred income

Deferred income will unwind as follows:

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

23. Provisions

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

*See exceptional charges in note 10.

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

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

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

Claims and litigation provisions comprise the amounts set aside to meet claims by customers below the level of any professional indemnity insurance excess, the estimation of IBNR claims and any amounts that might be payable as a result of any legal disputes. The provisions represent the directors' best estimate of the Group's liability having taken professional advice.

In addition to the claims provisions recognised, the Group also provides for future liabilities arising from claims (IBNR) for mortgage valuation reports and home buyer reports provided by the Surveying Services division. The basis for calculating this provision is outlined further in note 3. While there are many factors which determine the settlement date of any claims, the expected cash flows are estimated based on the average length of time it takes to settle claims in the past, which is around two years.

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

24. Deferred tax

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

The movement on the deferred tax account is shown below:

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

25. Post-employment benefits

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

Defined contribution pension arrangements

The pensions cost for the defined contribution scheme in the year was £8,182,000 (2016: £8,633,000).

Defined benefit pension arrangements

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

The defined benefit pension arrangements provide pension benefits to members based on earnings at the date of leaving the Scheme. Pensions in payment are updated in line with the minimum of 4% or UK Retail Price Index (RPI) inflation. The Scheme is established and administered in the UK and ultimately overseen by the Pensions Ombudsman. The regulatory framework requires the Group to fund the Scheme every three years and for the Group to agree the valuation with the trustees. As such, the funding arrangements were reviewed as part of the recent valuation (as at 5 April 2015). The Group is responsible for ensuring that pension arrangements are adequately funded and the directors have agreed a funding programme to bring down the deficit in the defined benefit scheme over the next three years. During the year, the Group paid £2.0 million (2016: £1.9 million) to the defined benefit scheme. During the year which commenced on 1 January 2018, the employer is expected to pay contributions of £2.0 million (2017: £2.0 million). Further contributions of £2.0 million will be made in each of the next three years.

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

The amounts recognised in the balance sheet are as follows:

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

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

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

26. Share capital

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

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

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

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

Where the Employee Benefit Trust purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. At the year-end, 1,811,951 shares (2016: 908,886 shares), costing £5,102,590 (2016: £3,723,609), were held in relation to matching shares of the SIP scheme.

27. Share-based payments

The Group operates a number of share-based payment schemes for executive directors and other employees. The Group has no legal or constructive obligation to repurchase or settle any of the options in cash. The total cost recognised in the income statement was

£1,828,000 in the year ended 31 December 2017 (2016: £2,465,000), comprising £1,944,000 (2016: £2,261,000) of equity-settled share-based payments, and a credit of £116,000 (2016: charge of £204,000) in respect of cash-settled share-based payments for the dividend accrual associated with those options. Employer's NI is being accrued, where applicable, at the rate of 13.8%, which management expects to be the prevailing rate at the time the options are exercised, based on the share price at the reporting date. The total NI credit for the year was £205,000 (2016: charge of £12,000).

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

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

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

Executive schemes

Long term incentive plan (LTIP)

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

Deferred share bonus plan (DSBP)

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

Other schemes

Share incentive plan (SIP)

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

28. Other reserves

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

	Merger reserve £'000	Hedging reserve £'000	Foreign exchange reserve £'000	Available-for-sale financial assets reserve £'000	Treasury share reserve £'000	Total £'000
Balance at 1 January 2016	—	—	(428)	28,151	(2,241)	25,482
Currency translation differences	—	—	136	—	—	136
Disposal of fair value of available-for-sale financial assets	—	—	—	(29,943)	—	(29,943)
Movement in fair value of available-for-sale financial assets	—	—	—	2,132	—	2,132
Cash flow hedge: fair value losses	—	(2,367)	—	—	—	(2,367)
Cash flow hedge: deferred tax on losses	—	473	—	—	—	473
Utilisation of treasury shares for IPO options	—	—	—	—	4,246	4,246
Purchase of treasury shares	—	—	—	—	(18,100)	(18,100)
Balance at 1 January 2017	**—**	**(1,894)**	**(292)**	**340**	**(16,095)**	**(17,941)**
Currency translation differences	—	—	(30)	—	—	(30)
Share placing	36,634	—	—	—	—	36,634
Transfer of reserves	(36,634)	—	—	—	—	(36,634)
Movement in fair value of available-for-sale financial assets	—	—	—	1,627	—	1,627
Cash flow hedge: fair value gain	—	2,030	—	—	—	2,030
Cash flow hedge: deferred tax on gain	—	(410)	—	—	—	(410)
Purchase of treasury shares	—	—	—	—	(1,397)	(1,397)
Balance at 31 December 2017	**—**	**(274)**	**(322)**	**1,967**	**(17,492)**	**(16,121)**

29. 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 2016. 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 £15.8 million (2016: £14.1 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 2017 has been arrived at on the basis of a valuation carried out at that date by CBRE Limited, independent valuers not connected with the Group. The valuation conforms to International Valuation Standards. The fair value was determined based on comparable market transactions on arm's length terms and has been based on the Market Rent valuation technique. The fair 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.

30. Related party transactions

Trading transactions

Related party relationship	Transaction type	Transaction amount 2017 £'000	Transaction amount 2016 £'000	Balance (owing)/owed 2017 £'000	Balance (owing)/owed 2016 £'000
Joint venture	Purchases by Group	**(2,057)**	**(2,415)**	**(156)**	**(169)**
Joint venture	Rebate received/receivable	**918**	**2,165**	**42**	**1,134**
The Buy To Let Group – Subsidiary	Loan payable	**141**	**109**	**1,840**	**1,699**
Oaktree Capital Management	Director's fee paid	**40**	**40**	**10**	**10**

These transactions are trading relationships which are made at market value. There is a loan payable within The Buy To Let Group Limited of £1,590,000 (and associated interest) that is payable to the joint shareholder and director in February 2019 with interest payable at 8% per annum. The Company has not made any provision for bad or doubtful debts in respect of related party debtors nor has any guarantee been given during 2017 regarding related party transactions.

31. Events after the balance sheet date

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

Executive chairman	Peter Long
Chief financial officer	Himanshu Raja
Company secretary	Gareth Williams
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Registered in England: 08340090

Corporate advisers

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	25 April 2018
Interim results	26 July 2018

***Shareholder enquiries**

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

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

Link shareholder helpline:	0871 664 0300 (calls cost 12p per minute plus network extras) (Overseas: +44 371 664 0300)
Email:	enquiries@linkgroup.co.uk
Share portal:	www.signalshares.com

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