Countrywide

Preliminary results
Year ended 31 December 2018

7 March 2019

Countrywide plc

('Group'/the 'Company')

Preliminary statement of annual results for the year ended 31 December 2018

2018 A YEAR OF RESET AND SIGNIFICANT OPERATIONAL PROGRESS

2018 was a year of reset for the Group. Significant progress was made on the implementation of our "back to basics" principle in Sales and Lettings first announced in early 2018 and the Company's recapitalisation, completed in August 2018, ensured that we have the right long-term capital structure in place to focus on our three-year turnaround plan.

Operational progress in building back industry expertise within Sales and Lettings has supported growth in the register(1) of properties available for sale, improved the pipeline(2) of agreed sales in the UK and increased income from complementary services:

- The build back of expertise is now largely complete with a full complement of staffing and separate sales and lettings expertise at regional and branch management level.
- The register of properties available for sale in UK Sales and Lettings was up 9% year on year.
- The pipeline of agreed sales awaiting exchange of contracts in UK Sales and Lettings was up 5% having begun the year with a 21% opening pipeline deficit.
- Income from complementary services for each £1 of estate agency income for the year was 44p (2017: 38p).

As a result, we are pleased to report the Group's underlying trading (excluding £2.2 million of net charges unrelated to current trading) was in line with the Board's expectations at £34.9 million with net debt of £70.7 million and net debt to adjusted EBITDA of 2.2x.

FINANCIAL RESULTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2018

- Group income for the full year was £627.1 million, down 7%. As previously reported, this was principally driven by the opening pipeline deficit in Sales.
- Group adjusted EBITDA(3) was £32.7 million, down 50% and includes £2.2 million of net charges, unrelated to current trading, resulting from a review of the carrying value of certain assets and liabilities.
- Loss after tax of £218.2 million (2017: £207.3 million(5)) reflecting £245.4 million of principally non-cash exceptional charges for goodwill, intangible and other asset impairments.
- Net debt: Net debt at 31 December 2018 was £70.7 million (2017: £196.4 million), with net debt to adjusted EBITDA of 2.2x (2017: 3.0x)

Year ended 31 December	**Underlying(4)**		**Statutory**	
£m	**2018**	2017(5)	**2018**	2017(5)
Income	**627.1**	672.8	**627.1**	672.8
Adjusted EBITDA(3)	**32.7**	65.6	**n/a**	n/a
Profit/(loss) for the year	**4.5**	20.2	**(218.2)**	(207.3)
Earnings/(loss) per share (pence)	**0.6**	8.7	**(30.8)**	(89.3)

Commenting on the results and outlook, Executive Chairman, Peter Long said:

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

We encountered market weakness in Q4 due to the further uncertainties surrounding Brexit which is affecting both our sector and consumer confidence as a whole. These headwinds have continued into 2019. As a result, we are experiencing further slow-down in residential and commercial property transactions particularly in London and the South, which will affect our H1 EBITDA by some £3 - £5 million. Whilst we expect full year EBITDA to be broadly in-line with 2018 (after mitigating the impact of the ban on tenant fees of £9 million), it is contingent on recovering the H1 shortfall in our traditionally stronger H2. As a Group we are in a stronger position than we have been for some considerable time with sound business fundamentals and, despite the difficult market conditions we are facing, we remain confident in delivering our turnaround."

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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:

https://webcast.merchantcantoscdn.com/webcaster/dyn/4000/7464/7467/111483/Lobby/default.htm. This will be available to listen into by dialling +44 (0)20 3003 2666 or 0808 109 0700, password Countrywide. A recording of the webcast will be available for seven days by dialling +44 (0)20 8196 1998 – pass code: 2308662#. For further information on Countrywide plc, please visit our corporate website at www.countrywide.co.uk.

This document contains certain statements that are forward-looking statements. They appear in a number of places throughout this document and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and, unless otherwise required by applicable law, the Company undertakes no obligation to update or revise these forward-looking statements. Nothing in this document should be construed as a profit forecast. The Company and its directors accept no liability to third parties in respect of this document save as would arise under English law.

(1) Register is the available number of properties for sale

(2) Pipeline represents the sum of the total future fees from agreed sales subject to contract in the hands of solicitors

(3) 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)

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

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

EXECUTIVE CHAIRMAN'S STATEMENT

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

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

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

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

Financial results

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

Income for the year reduced from £673 million to £627 million. Adjusted EBITDA at £33 million was £33 million lower than the prior year and includes £2 million of net charges, unrelated to current trading. The Group's underlying trading was £35 million. Loss for the year stood at £218 million (2017: £207 million) and adjusted earnings per share (EPS) was 0.6 pence versus 8.7 pence in 2017.

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

Three-year recovery plan

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

Our strategy, comprising five pillars, outlined below, will be covered in greater detail within the Annual Report:

- "Back to basics" in Sales and Lettings: Having lost focus on what the Group had traditionally done well resulting in a significant loss of market share in Sales and Lettings, the Group has taken a range of actions to restore both market share and profitability;

- Increased sales of complementary services: This had reduced from 50p in the £1 at the time of flotation in 2013 to 38p in the £1 in the financial year 2017. The actions taken by the Group saw this increase to 44p at the end of the financial year and further growth is targeted in the three-year plan;

- Cost efficiency: This will be achieved through a number of measures including reduction in central functions, transformation of the Group's IT estate and investment in contact centre optimisation;

- Continued growth in B2B and Financial Services: The Group has strong positions within these markets which it will seek to expand and enhance as part of the three-year turnaround; and

- Financial discipline and cash flow: In addition to reduced interest costs, focus is on bringing a greater financial discipline to budgeting and the forecasting process coupled with a more rigorous approach to working capital management.

Board changes

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

Colleagues

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

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

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

Outlook

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

We encountered market weakness in Q4 due to the further uncertainties surrounding Brexit which is affecting both our sector and consumer confidence as a whole. These headwinds have continued into 2019. As a result, we are experiencing further slow-down in residential and commercial property transactions particularly in London and the South, which will affect our H1 EBITDA by some £3 - £5 million. Whilst we expect full year EBITDA to be broadly in-line with 2018 (after mitigating the impact of the ban on tenant fees of £9 million), it is contingent on recovering the H1 shortfall in our traditionally stronger H2. As a Group we are in a stronger position than we have been for some considerable time with sound business fundamentals and, despite the difficult market conditions we are facing, we remain confident in delivering our turnaround.

GROUP MANAGING DIRECTOR'S STATEMENT

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

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

We are clearly trading against a tough external environment that is well covered in the media, most notably coverage around house prices, transaction numbers and Brexit. All this results in uncertainty in people's minds, impacting on sentiment and causing some reticence amongst homebuyers and sellers. Against that backdrop, I am delighted that we have been able to build back our register of available stock and pipeline of fees in our UK Sales and Lettings business.

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

Our three-year recovery plan progress

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

1. "Back to basics" in Sales and Lettings

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

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

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

2. Income from complementary services

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

3. Cost efficiency

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

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

4. Continued growth in B2B and Financial Services

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

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

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

5. Financial discipline and cash flow

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

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

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

Summary

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

SEGMENTAL RESULTS

	Total income			Adjusted EBITDA[(1)]		
	2018	2017 (Restated[2])	Variance	**2018**	2017 (Restated[2])	Variance
	£'000	£'000	%	**£'000**	£'000	%
Sales and Lettings	**329,170**	361,479	(9)	**1,191**	27,424	(96)
Financial Services	**83,912**	87,324	(4)	**16,613**	19,660	(16)
B2B	**213,328**	220,656	(3)	**27,931**	35,487	(21)
Central Services	**661**	3,319	(80)	**(13,052)**	(16,984)	23
Total Group	**627,071**	672,778	(7)	**32,683**	65,587	(50)

[(1)]Earnings before interest, tax, depreciation, amortisation, exceptional items, employment-linked contingent consideration, share-based payments and share of profits from joint venture, referred to hereafter as 'adjusted EBITDA' (see note 4 for reconciliation)
[(2)]Restated from prior year following the adoption of IFRS 15 and the correction of a prior year error (see note 2)

SEGMENTAL VOLUMES

	Number 2018	Number 2017	Variance %
House sales exchanged			
- UK	**38,973**	45,286	(14)
- London	**4,796**	5,214	(8)
- B2B	**3,059**	3,707	(17)
Group total	**46,828**	54,207	(14)
Properties under management			
- UK	**64,718**	68,064	(5)
- London	**21,697**	21,313	2
- B2B	**38,599**	36,624	5
Group total	**125,014**	126,001	(1)
Mortgages arranged, number	**109,379**	96,030	14
Mortgages arranged, value	**£20.3bn**	£17.8bn	14
Total valuations and surveys completed	**381,393**	365,223	4
Conveyances completed (excluding third party)	**25,873**	26,870	(4)

SALES AND LETTINGS

Summary

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

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

Sales

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

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

Lettings

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

Income from complementary services

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

FINANCIAL SERVICES

Summary

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

Operating review

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

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

Mortgage Intelligence (MI) operates a network and club for third party Appointed Representatives (AR) and Directly Appointed (DA) mortgage brokers respectively. MI provides regulatory oversight for sales made by the network and assists both the network and the club through arranging mortgage and insurance deals with our panels of lenders and insurance providers. The network firms employ over 400 regulated individuals, all of whom are contracted to sell only the financial products arranged by MI. In 2018, MI generated £12.5 billion (2017: £10.2 billion) of gross mortgage distribution from the club and the network.

TBTLB conducts our specialist business in the buy to let sector, and now also handles customers who wish to transact by phone. The business has experienced growth from both its strong existing customer relationships and reputation in the buy to let market, as well as from new telephony referrals from our Sales and Lettings branch network and customer contact centre. As a result of the continued expansion, the business increased its gross distribution to £1.8 billion (2017: £1.5 billion), an increase of 2% year on year.

Mortgage Bureau is our specialist new build mortgage brokerage. In 2018 Mortgage Bureau has focused on building its relationship with other Group new build businesses, as well as on independent growth from its direct relationships with new build developers. As a result, the business has increased its gross distribution to £0.9 billion (2017: £0.8 billion); an increase of 16% year on year.

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

[1] Source: Bank of England 2019

B2B

Summary

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

Operating review

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

Surveying

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

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

Conveyancing

The business continued to build on successes in prior years in improving customer service, and in 2018 saw another record year as measured by the customer through our Net Promoter Score (NPS) of +54 (up from +38 in 2017). In this regard the business celebrated another award winning year winning 5 awards, including the What Mortgage Award - Best Legal Services Provider, Best Conveyancing Service at the Money Facts Awards and the Best Conveyancer at the Mortgage Strategy Awards 2018.

Land & New Homes and Asset Management

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

Lambert Smith Hampton (LSH)

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

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

GROUP FINANCIAL REVIEW

Introduction

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

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

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

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

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

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

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

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

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

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

Summary of results

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

Income in our B2B businesses was £213.3 million, down 3% and adjusted EBITDA down 21% to £27.9 million, with another year of good performance in our surveying and valuations business and in conveyancing. The decline in profitability reflected in part non-current trading items of £1.1 million (from the net charges of £2.2 million noted above) relating to impairment of receivables and the effect of slower market for new homes and a slower commercial transactional property market in particular in the second half. Our land and new homes business finished the year with a register that was up 49% year on year and a stronger pipeline of properties sold subject to contract.

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

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

Income statement

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

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

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

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

Contingent consideration

Contingent consideration of £6.1 million (2017: £3.9 million) relates to previous acquisitions where the consideration arrangements require the vendors to remain in employment and as such have been treated as a post-combination employment expense; they are being accrued over the relevant periods specific to each of the agreements, with commitments extending out to 2021.

Certain elements of this contingent consideration are 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 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 £1.9 million (2017: £1.8 million) before National Insurance credit of £0.2 million (2017: £0.2 million) comprises: a decreased charge in respect of annual nil-cost option grants under the three year long term incentive plan (LTIP) to senior managers amounting to £0.2 million (2017: £0.8 million) as a result of aligning non-market conditions to underlying performance across grants; share incentive plan (SIP) charges of £0.9 million (2017: £0.9 million) arising from employee participation and new SAYE charges of £0.5 million incurred following implementation of the scheme from May 2018 after cessation of the SIP scheme; and deferred bonus share plan charges of £0.3 million (2017: £0.1 million).

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

Depreciation and amortisation

Our depreciation and amortisation charge continues to be separated to indicate the depreciation and amortisation that relates to assets purchased for use in the business and amortisation arising on those intangible assets that have been recognised as a result of business combinations. The underlying depreciation and amortisation charge decreased by £10.2 million to £17.5 million. This was principally due to the impairments in 2017 and June 2018 decreasing the value of assets giving rise to a charge. The depreciation charge was £10.2 million (2017: £17.2 million).

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

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

Exceptional costs
Significant operational progress has been made with the strategy and turnaround plan during the year. However, the continued subdued external environment and the effects of the weaker opening pipeline which became apparent after conclusion of the 2018 business planning process, have resulted in further impairment charges. Cash flows driving the current impairment review align to the latest three year strategy and turnaround plan that has been endorsed by the Board.

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

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

Professional indemnity provisions
During 2018 the Group received reduced numbers of professional indemnity valuation claims, in line with expectations, and achieved closure of challenging cases. Estimating the liability for PI claims is highly judgemental and we updated our financial models to reflect the latest inputs and trends and took advice from our panel of lawyers in respect of open claims. The progress made during the year on some individually significant claims, aligned with the low level of claims made, resulted in some unwinding of the provision.

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

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

The principal reason for the tax credit is the £214.3 million impairment of intangible and tangible assets which resulted in unwind of the related deferred tax liability.

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

In addition to our corporation tax contribution, our businesses generate considerable tax revenue for the Government in the UK. For the year ended 31 December 2018, we will pay corporation tax of £nil (2017: £1.4 million) on profits for the year; we collected employment taxes of £129.2 million (2017: £128.7 million) and VAT of £80.5million (2017: £87.7 million), of which the Group has incurred £38.8 million and £2.8 million (2017: £36.4 million and £3.0 million) respectively. Additionally we have paid £11.4 million (2017: £11.8 million) in business rates and collected £33.7million (2017: £38.7 million) of stamp duty land tax though our conveyancing business.

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

Profit for the year – underlying and statutory

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

Earnings per share

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

Cash flow

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

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

Capital expenditure has been focused primarily on computer software. During the first half of the year, the Group disposed of its interest in unlisted residential property fund units for proceeds of £15.8 million. Exceptional cash flows of £14.0 million mainly comprise: £4.2 million of redundancy costs; £6.7 million of transformation project consultancy charges and £5.0 million of payments for the restitution of trust funds offset by £2.1 million of professional indemnity claim settlement receipts.

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

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

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

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

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

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

Net debt maturity and changes to committed bank facilities
In August 2018 the Company agreed an amendment, extension and restatement agreement relating to its term and revolving credit facility with its lender partners which provides the Company with the financial flexibility to invest in the business as it takes action to restore the Sales and Lettings business back to profitable growth. The Group reduced its borrowing facility to a £125 million RCF repayable in September 2022.

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

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

Dividend
Given the scale of challenge required to turn around the Sales and Lettings business and the desire to invest in cost and growth initiatives to build a sustainable and profitable business for the long term, whilst remaining committed to reducing our leverage, the Board has decided that there will be a nil dividend recommendation for 2018 (2017: nil pence).

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

Other information

Tenant fees
The draft Tenant Fees Bill in November 2017 sets out the government's approach to banning lettings fees paid by tenants. This will take effect from 1 June 2019. We estimate that, after mitigation, this will have £9 million impact on adjusted EBITDA in 2019. The Group has an extensive programme of activity to ensure that we are fully compliant with the new legislation as well as plans to mitigate the effect of the ban.

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

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

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

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:

- Financing and capital structure
- 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
- Changing regulatory environment
- Increasing competition in the evolving markets that we operate in
- Securing and retaining excellent people

These risks and uncertainties and mitigating factors are described in more detail on pages 14 to 16 of the Countrywide plc financial statements for the year ended 31 December 2017 (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. In 2017 we had identified 'Financing and capital structure' as a new principal risk but the Board consider this risk to have been significantly reduced by the August 2018 capital refinancing.

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 7 March 2019 and signed on its behalf by:

Peter Long
Executive chairman
7 March 2019

Consolidated income statement

For the year ended 31 December 2018

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

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

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

Consolidated statement of comprehensive income

For the year ended 31 December 2018

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

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

Consolidated statement of changes in equity

For the year ended 31 December 2018

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

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

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

Consolidated balance sheet

As at 31 December 2018

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

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

Consolidated cash flow statement

For the year ended 31 December 2018

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

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

2 Net cash generated from operating activities includes £18,392,000 (2017: £6,060,000) of net cash expended on exceptional items. Cash flows from financing activities include £647,000 (2017: £Nil) of net cash expended on exceptional items, as discussed in note 10

3 Includes £10,094,000 of cash payments in respect of the restitution of trust funds (see notes 2 and 10)

Notes to the financial statements

1. General information
Countrywide plc ('the Company'), and its subsidiaries (together, 'the Group'), is the leading integrated, full service residential estate agency and property services group in the UK, measured by both revenue and transaction volumes in 2018. It offers estate agency and lettings services, together with a range of complementary services, and has a significant presence in key areas and property types which are promoted through locally respected brands.

The Company is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK (registered number: 08340090). The address of its registered office is Greenwood House, 1st Floor, 91-99 New London Road, Chelmsford, Essex CM2 0PP.

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

The results for the year ended 31 December 2018 included in this preliminary announcement are extracted from the audited financial statements for the year ended 31 December 2018 which were approved by the directors on 7 March 2019. The auditor's report on those financial statements was unqualified. It did not include a statement under S498(2) or 498(3) of the Companies Act 2006.

The 2018 annual report is expected to be posted to shareholders and included within the investor relations section of our website on 22 March 2019 and will be considered at the Annual General Meeting to be held on 30 April 2019.The financial statements for the year ended 31 December 2018 have not yet 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.

In assessing the Group's ability to continue as a going concern, the Board has reviewed the Group's cash flow and profit forecasts which have been stress tested with various assumptions regarding future housing market volumes. The Group's performance is dependent on a number of market and macroeconomic factors including the impact on customer confidence and transactional volumes in the UK housing market from interest rate changes and government policies which are inherently difficult to predict. Specifically, a range of assumptions underpin the profit and cash flow forecasts for the period to 31 December 2020, including: the continued build back of the Group's register of properties available for sale and the pipeline; mitigation of the potential impact of new government legislation banning lettings tenancy fees; and successful realisation of internal corporate cost saving initiatives currently underway.

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

(b) Accounting policies

In preparing this preliminary announcement the same accounting policies, methods of computation and presentation have been applied as those set out by Countrywide plc annual financial statements for the year ended 31 December 2017. The accounting policies drawn up in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as endorsed by the European Union.

The accounting policies adopted in the preparation of this preliminary announcement are consistent with those of the previous financial year, except for those referenced in 2(c) below.

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 to complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

(c) New standards, amendments and interpretations

Standards, amendments and interpretations effective and adopted by the Group
The following new standards effective for the first time for the financial year beginning on or after 1 January 2018 have had a material impact on the Group.

IFRS 9 'Financial instruments'

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

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

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

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

Impairment

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IAS 39. Under the impairment approach under IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses, which will be updated at each reporting date.

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

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

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

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

IFRS 15 'Revenue from contracts with customers'

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

Management has undertaken a detailed assessment of all contracts and revenue streams across all business units using the five-step approach specified by IFRS 15: identify the contract(s) with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) a performance obligation is satisfied.

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

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

The adoption of IFRS 15 has impacted the financial statements as follows:

- B2B: Within the B2B business unit, Lambert Smith Hampton generates revenue from commercial property consultancy and advisory services, property management and valuation services. Work-in-progress (WIP) was previously recognised on specific types of contracts. Under IFRS 15, the performance obligations of certain contracts are deemed to be satisfied at a point in time. As a result, the Group no longer recognises WIP against these contracts. We continue to recognise WIP against other contracts where the performance obligations are satisfied over a period of time.
- Sales and Lettings: A proportion of revenue from lettings rent collection was previously recognised at the outset of the rent collection agreement, together with an appropriate clawback provision, based on historical experience. Under IFRS 15, revenue is now recognised over the life of the rent collection agreement in accordance with the satisfaction of the performance obligations. Subsequent to the Group's 2018 Interim Results for the period ended 30 June 2018, further information has identified that a

proportion of revenue earned from Tenant Introduction (or Tenant Renewal) was recognised over the life of the tenancy agreement. This revenue is now recognised when the underlying tenancy agreement commences (or is renewed) in accordance with the satisfaction of the performance obligations, together with a liability for future refunds, and has resulted in the amendment of the Group's opening transition adjustment.

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

New standards and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. None of these new standards or interpretations are expected to have a material impact on the consolidated financial statements of the Group, with the exception of the following:

IFRS 16 'Leases'

IFRS 16 'Leases' deals with the definition of a lease and recognition and measurement of leases and establishes principles for disclosures. The standard is effective for accounting periods beginning on or after 1 January 2019. The Group will adopt IFRS 16 for the year ending 31 December 2019.

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

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

As at 31 December 2018, the Group has non-cancellable operating lease commitments of £105,690,000. IAS 17 does not require the recognition of any right of use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in the full financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right of use asset and a corresponding liability in respect of these leases unless they qualify for low value or short term leases upon the application of IFRS 16.

The new requirement to recognise a right of use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated balance sheet. Whilst the IFRS 16 assessment is ongoing it is not practicable to quantify the impact. It is likely the Group will follow a modified transition approach.

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

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

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

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

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

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

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

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

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying the Group's accounting policies

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

Exceptional items

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

Key sources of estimation uncertainty

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

Impairment of goodwill and indefinite life intangible assets

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

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

Professional indemnity provisions

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

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

- Reserves for known claims: These losses are recommended by our professional claims handlers and approved panel law firms who take into account all the information available on the claims and recorded on our insurance bordereaux. Where there is insufficient information on which to assess the potential losses, initial reserves may be set at an initial level to cover investigative costs or nil. Further provisions are also made for specific large claims which may be subject to litigation and the directors assess the level of these provisions based on legal advice and the likelihood of success.

- Provision for the losses on known claims to increase: It can take one to two years for claims to develop after they are initially notified to the Group. For this reason, the Group creates a provision based on historical loss rates for closed claims and average losses for closed claims.
- 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 very low number of claims received for surveys conducted over eight years ago and the volatility that can impact on the size of the provision, the data set has been limited to surveys conducted within eight years. Since the data set is now limited to claims for surveys beyond the 2004 to 2008 period prior to the financial crisis, we no longer hold a sub-set of data for surveys conducted during that period, which is now more than 10 years ago.

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

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

The number of valuation claims continued to decline significantly throughout 2018 to historically low levels. There is a possible risk that a significant rise in mortgage interest rates could lead to an increase in repossessions and potential losses being incurred by the lenders. While there is uncertainty around the future of the UK economy as the Government deals with Brexit, there are no macroeconomic indicators that this is a reasonable likelihood in the short term and the directors do not consider it appropriate to provide for additional claims due to macroeconomic changes. During 2018 we experienced a modest decrease in the rate of claims received. It should be noted that a 10% increase in the valuation claim rate applied to all surveys could lead to a £0.4 million increase in the provision for future claims.

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

Our claim handlers and panel lawyers robustly defend all our claims and as a result they have achieved a number of successes throughout 2017 and 2018 where clients have withdrawn their claim. In 2018 we did see a modest increase to the claim liability rate but owing to the low volumes of claims this has not had a material impact on the overall provision.

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

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

Average losses on claims settled have reduced by 7% in 2018 versus prior year (based on weighted average across the various claim populations). Applying a 10% increase in the average loss to the open claims received would increase the total provision required for this population (the IBNER) by £0.1 million.

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

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

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

4. Segmental reporting

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

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

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

The Sales and Lettings network combines estate agency and lettings operations. Estate agency generates commission earned on sales of residential property and Lettings earns fees from the letting and management of residential properties and fees for the management of leasehold properties. The Financial Services division receives commission from the sale of insurance policies, mortgages and related products under contracts with financial service providers. Business to Business (B2B) services comprise all lines of business which are delivered to corporate clients, including Surveying Services, Conveyancing Services and revenue from Lambert Smith Hampton. Surveying Services generates surveying and valuation fees which are received primarily under contracts with financial institutions with some survey fees being earned from home buyers. Conveyancing Services generates revenue from conveyancing work undertaken from customers buying or selling houses through our network. Lambert Smith Hampton's revenue is earned from commercial property consultancy and advisory services, property management and valuation services. Other income generated by head office functions relates primarily to sub-let rental income or other sundry fees.

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

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

Revenue and other income from external customers arising from activities in the UK was £624,810,000 (2017: £670,407,000) and that arising from activities overseas was £2,261,000 (2017: £2,371,000).

The assets and liabilities for each operating segment represent those assets and liabilities arising directly from the operating activities of each business unit. Pension assets and liabilities, and liabilities arising from the revolving credit facility and related derivative financial instrument, are not allocated to operating segments but allocated in full to 'All other segments' within the segmental analysis as they are managed by central Group functions. Non-current assets attributable to the UK of £334,595,000 (2017: £571,848,000) are included in the total assets in the tables on the following pages. Non-current assets of £825,000 (2017: £922,000) are attributable to the overseas operations. The equity investment in joint venture is disclosed within 'All other segments' and is £1,464,000 (2017: £2,982,000).

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

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

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

	2017				
	Sales and Lettings (Restated)[1 2] £'000	Financial Services £'000	B2B (Restated)[2] £'000	All other segments £'000	Total (Restated)[1 2] £'000
Additions in the year					
Intangible assets	2,291	1,786	2,916	584	7,577
Property, plant and equipment	4,330	371	1,270	5,047	11,018

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

Disaggregation of total segment revenue

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

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

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

5. Other income

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

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

6. Employees and directors

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

1 The columnar approach of our income statement separates £7,785,000 in respect of employee benefit costs comprising: £6,089,000 contingent consideration from the table above; and £1,696,000 of share-based payment costs (see note 4). The share-based payment costs are detailed in note 27 and comprise: £1,897,000 of charges (as detailed above) net of £201,000 credit in relation to National Insurance (reported within social security costs in the table above)

7. Other operating costs

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

8. Finance costs

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

9. Finance income

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

10. Exceptional items

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

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

1 Reported within finance costs (see note 8)

2018

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

Exceptional income

Professional indemnity

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

Estimating the liability for professional indemnity claims is highly judgemental and we updated our financial models to reflect the latest inputs and trends and took advice from our panel of lawyers in respect of open claims. Despite the judgemental nature of the provision, the progress made during the year on individually significant claims, aligned with the low level of claims made, resulted in the assessment of a £1,103,000 release in the provision.

Exceptional costs

Strategic and restructuring costs

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

- £4,234,000 relating to redundancy costs, principally arising from the restructuring of head office functions undertaken following our announcement on 8 March 2018, and changes to the leadership structure that occurred during the year to progress the achievement of the appropriate organisational structure;
- £7,069,000 in respect of restructuring costs, including the write-down of assets related to curtailed projects, third party consultancy costs arising from a number of different projects undertaken to tackle cost optimisation targets, including IT transformation consultancy, and related strategic initiatives which are being project managed centrally and routinely reporting progress to the Group Executive Committee; and
- £1,453,000 of property closure costs, all relating to closed property provisions in respect of the London office that was identified for closure and communicated to impacted individuals prior to the 30 June period end. The closed property provision covers the onerous commitment for the costs from the period from the office vacation date at 31 October 2018 until the end of the lease term.

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

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

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

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

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

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

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

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

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

Financing costs

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

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

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

2017

Exceptional costs

Strategic and restructuring costs

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

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

Impairment charges

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

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

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

Professional indemnity provisions

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

11. Taxation

Analysis of (credit)/charge in year

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

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

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

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

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

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

12. Dividends

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

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

13. Earnings per share

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

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

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

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

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

14. Intangible assets

(a) Goodwill

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

Goodwill impairment charges of £14,045,000 (2017: £151,295,000), £30,770,000 (2017: £40,958,000) and £1,021,000 (2017: £Nil) have been made in relation to the UK, London and B2B-Commercial cash generating units respectively following an assessment of the recoverable value against the carrying value. These charges have been included within exceptional items (note 10).

(b) Other intangible assets

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

1 The columnar approach of our income statement separates £4,946,000 from total depreciation and amortisation. This is in respect of amortisation of acquired intangibles as detailed in the table above

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

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

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

15. Property, plant and equipment

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

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

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

In 2017, an assessment of the recoverable values of CGUs against their carrying values resulted in an impairment of £116,000 against tangible fixed assets held within the UK CGU and an impairment of £734,000 against tangible fixed assets held within the London CGU (see note 10).

Capital commitments
Capital expenditure contracted for at the end of the reporting period but not yet incurred, relating to 2018 and the subsequent year, is as follows:

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

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

(b) Interests in joint venture
TM Group (UK) Limited
At 31 December 2018 the Group had a 33% (2017: 33%) interest in the ordinary share capital of TM Group (UK) Limited (TMG), a UK company. TMG has share capital consisting solely of ordinary shares and is a private company with no quoted market price available for its shares. TMG is one of the largest companies in the provision of searches to the property companies sector (measured by completed searches). It delivers a range of property searches and data to land and property professionals in the UK, arranges for property searches directly with specific suppliers on behalf of its own customers, and supplies IT applications and products to UK mortgage lenders.

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

During the year, TMG was a joint venture company.

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

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

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

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

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

(d) Financial assets at fair value through profit or loss

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

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

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

	2018 £'000	2017 £'000
Unlisted equity	**153**	—
At 31 December	**153**	—

17. Trade and other receivables

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

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

18. Cash and cash equivalents

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

19. Trade and other payables

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

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

20. Borrowings

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

Analysis of net debt

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

Borrowings and other loans

At the year end, the facility was a £125 million revolving credit facility, with any outstanding balance repayable in full on 30 September 2022. Interest was payable based on LIBOR plus a margin of 3.0%. The margin is linked to the leverage ratio of the Group and the margin rate is reviewed twice a year (and can vary between 1.75% and 3.0%). The RCF is available for utilisation subject to satisfying fixed charge, interest cover and leverage covenants and £125 million was repaid during the year (against a facility of up to £340 million at 31 December 2017, revised to £275 million at 2 February 2018 and revised to £125 million at 2 August 2018).

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

'Other loans' disclosed above comprise: £1 million of unsecured loan notes which are non-interest bearing, repayable in 2029, which arose on the purchase of Mortgage Intelligence Holdings Limited; and loan notes payable to The Buy to Let Group Limited joint shareholder (49%) and director of £1,590,000 capital and associated interest charges accruing at a rate of 8% per annum repayable in 2019.

Finance lease liabilities

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

The present value of finance lease liabilities is as follows:

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

21. Derivative financial instruments

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

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

22. Deferred income

Deferred income will unwind as follows:

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

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

23. Provisions

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

1 See exceptional 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, and additionally in 2018 in respect of loss making branches. The provision is based on the present value of rentals and other unavoidable costs payable during the remaining lease period after taking into account rents receivable or expected to be receivable from sub-lessees, on a case-by-case basis. In relation to closed or relocated operations, these costs are typically incurred over an average of a two-year period. Provisions are released when properties are assigned or sub-let. With regard to the loss making branches, these costs unwind over periods up to 2026. Provisions will be unwound in line with the losses being reported within operating results, or released in full when a branch reaches profitability on turnaround, or ceases to become an onerous contract due to other circumstances, for example if a branch is sub-let or a lease is renegotiated so that cashflows become positive.

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

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

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

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

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

24. Deferred tax

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

The movement on the deferred tax account is shown below:

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

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

2 Change in accounting policy following adoption of IFRS 9 (see note 2)

25. Post-employment benefits

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

Defined contribution pension arrangements

The pensions cost for the defined contribution scheme in the year was £9,761,000 (2017: £8,182,000).

Defined benefit pension arrangements

In the past the Group offered a defined benefit pension arrangement; however, this was closed to new entrants in 1988 and subsequently closed to further service accrual at the end of 2003. Members of the defined benefit arrangements earned benefits linked to final pensionable salary and service at the date of retirement or date of leaving the Scheme if earlier. The weighted average duration of the defined benefit pension scheme is 13 years.

The defined benefit pension arrangements provide pension benefits to members based on earnings at the date of leaving the Scheme. Pensions in payment are updated in line with the minimum of 4% or UK Retail Price Index (RPI) inflation. The Scheme is established and administered in the UK and ultimately overseen by the Pensions Regulator. The regulatory framework requires the Group to fund the Scheme and every three years the Group needs to agree a valuation with the trustees. The funding arrangements are being reviewed as part of the current valuation being carried out as at 5 April 2018. The Group (with the trustees of the Scheme) are responsible for ensuring that pension arrangements are adequately funded and the directors will need to agree a funding programme with the trustees to bring down the deficit in the defined benefit scheme over an appropriate period. During the year, the Group paid £2.0 million (2017: £2.0 million) to the defined benefit scheme. During the year which commenced on 1 January 2019, the Group is expected to pay contributions of £2.0 million (2018: £2.0 million). Further contributions of £2.0 million will be made in each of the next two years, although this is subject to review as part of the current valuation as at 5 April 2018 that is being carried out.

The amounts recognised in the balance sheet are as follows:

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

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

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

26. Share capital

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

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

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

At 31 December 2018, 3,273,590 (2017: 3,371,972) of the shares disclosed above have been subject to share buy-back and were held in treasury.

Where the Employee Benefit Trust purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. At the year end, 1,939,064 shares (2017: 1,811,951 shares), costing £4,317,000 (2017: £5,103,000), were held in relation to matching shares of the SIP scheme.

27. Share-based payments

The Group operates a number of share-based payment schemes for executive directors and other employees. The Group has no legal or constructive obligation to repurchase or settle any of the options in cash. The total cost recognised in the income statement was £1,897,000 in the year ended 31 December 2018 (2017: £1,828,000), comprising £1,888,000 (2017: £1,944,000) of equity-settled share-based payments, and £9,000 (2017: credit of £116,000) in respect of cash-settled share-based payments for the dividend accrual associated with those options. Employer's NI is being accrued, where applicable, at the rate of 13.8%, which management expects to be the prevailing rate at the time the options are exercised, based on the share price at the reporting date. The total NI credit for the year was £201,000 (2017: credit of £205,000).

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

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

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

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

Executive schemes

Long term incentive plan (LTIP)

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

Deferred share bonus plan (DSBP)

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

Other schemes

Save As You Earn plan (SAYE)

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

Share incentive plan (SIP)

An HMRC approved share incentive plan was introduced in October 2013. Under the SIP, eligible employees were invited to make regular monthly contributions into a scheme operated by Link Asset Services. Ordinary shares in the Company were purchased at the current market price and since May 2016 an award of two matching shares had been made for every three shares acquired by an employee, subject to a vesting period of three years from the date of each monthly grant. Prior to May 2016, the award comprised one matching share for every two shares acquired by an employee. The SIP scheme ended in April 2018.

28. Other reserves

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

	Merger reserve £'000	Hedging reserve £'000	Foreign exchange reserve £'000	Available-for-sale financial assets reserve £'000	Treasury share reserve £'000	Total £'000
Balance at 1 January 2017	—	(1,894)	(292)	340	(16,095)	(17,941)
Currency translation differences	—	—	(30)	—	—	(30)
Share placing	36,634	—	—	—	—	36,634
Transfer of reserves	(36,634)	—	—	—	—	(36,634)
Movement in fair value of available-for-sale financial assets	—	—	—	1,627	—	1,627
Cash flow hedge: fair value gain	—	2,030	—	—	—	2,030
Cash flow hedge: deferred tax on gain	—	(410)	—	—	—	(410)
Purchase of treasury shares	—	—	—	—	(1,397)	(1,397)
Balance at 31 December 2017	—	(274)	(322)	1,967	(17,492)	(16,121)
Change in accounting policy[1]	—	—	—	(1,967)	—	(1,967)
Balance at 1 January 2018	—	(274)	(322)	—	(17,492)	(18,088)
Currency translation differences	—	—	10	—	—	10
Cash flow hedge: fair value gain	—	337	—	—	—	337
Cash flow hedge: deferred tax on gain	—	(63)	—	—	—	(63)
Purchase of treasury shares	—	—	—	—	(499)	(499)
Utilisation of treasury shares for DSBP options	—	—	—	—	49	49
Balance at 31 December 2018	**—**	**—**	**(312)**	**—**	**(17,942)**	**(18,254)**

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

29. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: cash flow and fair value interest rate risk; liquidity risk; counterparty credit risk; and price 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 2017. There have been no changes in the operation of risk management policies since the year end.

Liquidity risk

The revolving credit facility available for utilisation was revised during the year from a £340 million facility at 31 December 2017, to a £275 million facility in February 2018 and revised again to a £125 million facility in August 2018 and extended to September 2022 (see note 20). There has been no further material change in the financial liabilities since the prior year end.

Fair value estimation

There are no material financial assets carried at fair value and classified within available-for-sale financial assets (2017: £15.8 million). The 2017 unquoted residential property fund units (£15.8 million) were disposed of during the year.

Fair value measurements using significant unobservable inputs and valuation process

The fair value of financial assets and liabilities approximate to their carrying amount. In 2017, the fair value of the residential property fund units had been arrived at on the basis of a valuation carried out by CRBE Limited, independent valuers not connected with the Group. The valuation conformed to International Valuation Standards. The fair value was determined based on comparable market transactions on arm's length terms and was based on the Market Rent valuation technique. The fair value hierarchy of the investment property was deemed to be Level 2.

30. Related party transactions

Trading transactions

		Transaction amount		Balance (owing)/owed	
Related party relationship	Transaction type	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Joint venture	Purchases by Group	**(2,232)**	(2,057)	**(158)**	(156)
Joint venture	Rebate received/receivable	**3,279**	918	**1,968**	42
The Buy To Let Group – Subsidiary	Loan payable	**153**	141	**1,993**	1,840
Oaktree Capital Management	Director's fee paid	**40**	40	**10**	10

These transactions are trading relationships which are made at market value. There is a loan payable within The Buy To Let Group Limited of £1,590,000 (and associated interest) that is payable to the joint shareholder and director in 2019 with interest payable at 8% per annum. The Company has not made any provision for bad or doubtful debts in respect of related party debtors nor has any guarantee been given during 2018 regarding related party transactions.

31. Events after the balance sheet date

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

Company information

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Brokers

Jefferies Hoare Govett

Barclays Bank plc, acting through its investment bank

Solicitors

Slaughter and May

Financial calendar

AGM	30 April 2019
Interim results	July 2019

***Shareholder enquiries**

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

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

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

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